Petroleum news

page 17 Shell's Slaiby says company still plans OCS drilling; preparing plans

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April Mining News inside

The April issue of North of 60 Mining News is enclosed

Straddling the 49th Parallel; Exxon tops Fortune 500 list

HERE'S ONE FOR THE ODDITY FILE: an American fighting for Canada in Washington.

That's roughly where Tom Huffaker finds himself these days.

After serving as United States consul general for Alberta, Saskatchewan and the Northwest Territories and about to join the Washington-based National War College (a U.S. government program for training military and foreign-service staff), his career path veered in another direction.

Huffaker has landed a job as vice president, policy and environment, with the Canadian Association of Petroleum Producers, the industry's chief lobby group, which represents 130 companies.

His broad assignment will be strategic policy develop-

see **INSIDER** *page 27*

BREAKING NEWS

LAND & LEASING

Think again on OCS

Court tells DOI to reconsider lease sale program environmental analysis

By ALAN BAILEY

Petroleum News

The court decision does not affect current outer continental shelf leases in the Beaufort Sea — MMS issued those leases as part of an earlier five-year lease sale program.

On April 17, like a bolt from the blue descending on an oil industry already engaged in a vigorous debate about Secretary of the Interior Ken Salazar's recent road trip, gathering input on what to do about the proposed program of oil and gas lease sales on the outer continental shelf from 2010 to 2015, a panel of three judges in the United States Court of Appeals for the District of Columbia issued an opinion upholding an appeal against the U.S. Minerals Management Service's previous OCS lease sale program, the program covering the years 2007 to 2012. The court requires that the Department of the Interior withdraw and reconsider the lease sale program because of what the court says are deficiencies in the associated environmental analysis.

The 2007 to 2012 program includes the February 2008 Chukchi Sea lease sale that attracted $2.6 billion in high bonus bids. Shell and ConocoPhillips, leaseholders from that sale, have conducted seismic surveys and have been doing site surveys, in preparation for Chukchi Sea drilling.

see **OCS** *page 27*

NATURAL GAS

Bringing the gas home

Legislature provides $7M for in-state work, partially funding Palin's plans

By ERIC LIDJI

Petroleum News

The state is scheduling some two months for this work. Following a public review of the results of the comparison study, the ANGDA board of directors will meet this July to choose which route to follow, according to an April 17 letter from Joe Balash to members of the House Finance Committee.

The 26th Legislature sought to bring natural gas home.

With the Alaska Gasline Inducement Act and a revised production tax structure, the 25th Legislature focused on delivering North Slope oil and gas to markets outside the state.

This year, focus shifted to bringing new gas supplies to communities from Fairbanks to Anchorage after a summer of record oil prices hit pocketbooks in the Interior, and continuing declines in Cook Inlet production and deliverability worried Southcentral.

Before the end of the session on April 19, lawmakers gave some $7 million to the office of Gov. Sarah Palin to coordinate various efforts to build a gas pipeline to serve Alaska markets, work headed

see **GAS DELIVERY** *page 25*

SAFETY & ENVIRONMENT

Canada faces alignment

Panel calls for national policy to make consumers, industry pay for emissions

By GARY PARK

For Petroleum News

"I think we have to be realistic in terms of the momentum that's building of a protectionist nature which just happens to have the environment as a tool to use here."

—National Round Table on the Environment and the Economy Chairman Bob Page

What little hope the Canadian petroleum industry and producing provinces may have held that a move toward carbon capture and storage technology would appease the formidable U.S. push to tough climate-change measures is now close to evaporating.

When President Barack Obama ended his one-day visit to Canada in February, there was a fleeting sense that his agreement with Prime Minister Stephen Harper to cooperate in developing CCS methods might have slowed the headlong plunge into a carbon tax.

The advocates of CCS as a leading tool in the greenhouse gas fight are rapidly finding themselves pushed to the sidelines.

A National Round Table on the Environment and the Economy, a panel of Canadian business leaders and environmentalists, issued a new report April 16 calling for a unified national approach.

It called on the Canadian government to move

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contents

Petroleum News *A weekly oil & gas newspaper based in Anchorage, Alaska*

● NATURAL GAS

TransCanada pre-files with FERC

By KRISTEN NELSON
Petroleum News

TransCanada pre-filed April 23 with the Federal Energy Regulatory Commission for its Alaska gas pipeline project.

The news came from Sen. Lesil McGuire, R-Anchorage, who said in a release that FERC officials told her TransCanada had just submitted an electronic request to pre-file for its natural gas pipeline project. McGuire, chair of the Alaska Senate Energy Committee, was in Washington, D.C., for meetings with energy officials.

Tony Palmer, TransCanada Alaska president, confirmed the pre-filing.

TransCanada "pre-filed this morning," Palmer told Petroleum News April 23.

TransCanada Alaska received the Alaska Gasline Inducement Act license for its project from the state last year and Palmer said the schedule in the AGIA license the company received last year showed a 2011 pre-filing date.

"That has been moved up to today," he said, but other dates in the schedule remain unchanged.

Denali, the BP-ConocoPhillips gas pipeline proposal, has already pre-filed, and FERC has been pressing TransCanada to do the same.

Palmer has told legislators that TransCanada was concerned about incurring additional costs through pre-filing before open season, which is when pre-filing is typically done.

Palmer said April 23 that TransCanada has worked closely with FERC over the last several months and thinks a solution has been reached "that meets their requirements and satisfies ours as well."

He said TransCanada has had an ongoing dialogue with FERC since it received the AGIA license last year and believes the pre-filing program that was developed supports FERC's role as lead agency for the project and will improve TransCanada's dialogue with regulators and the public.

Palmer told legislators at hearings in early April that TransCanada was discussing the issue with FERC, and hoped to reach resolution soon.

FERC spokeswoman Tamara Young-Allen told Petroleum News that the application has been given a docket number and will be reviewed by FERC's director of energy projects. Once a determination has been made to grant the pre-filing application, TransCanada will have to file environmental and engineering information with FERC, she said. ●

● FINANCE & ECONOMY

CPAI profits fall in 1st quarter

Company earns $244 million in Alaska, down 60 percent from 2008; taxes lower on prices

By ERIC LIDJI
Petroleum News

ConocoPhillips earned $244 million in Alaska in the first three months of the year, down nearly 60 percent from the $603 million the company earned in the first quarter last year.

The drop reflects lower oil prices, but those lower prices also meant lower taxes in Alaska, helping the company turn a profit in the United States. ConocoPhillips reported a loss of $71 million from first-quarter exploration and production work in the Lower 48.

Companywide, ConocoPhillips reported earning $840 million in net income on $30.7 billion in revenues. The company produced 2.36 million barrels of oil equivalent.

ConocoPhillips earned $456 million in Alaska in the fourth quarter of 2008.

The figures come from financial filings released April 23.

The drop in earnings follows a volatile year for oil, where prices peaked near $150 per barrel, only to fall to around $30 per barrel and eventually level off around $50 per barrel.

ConocoPhillips reported a price of $41.75 per barrel for Alaska North Slope crude oil delivered to West Coast markets during the first quarter of this year, down from $64.13 in the fourth quarter of 2008 and $95.47 per barrel in the first quarter of last year.

But while oil prices in Alaska fell with those around the world, natural gas prices rose.

ConocoPhillips reported selling Alaska natural gas for an average price of $7.69 per thousand cubic feet during the first quarter of the year, up from a price of $4.31 per mcf in the first quarter of last year and a price of $4.90 per mcf in the last quarter of 2008.

By comparison, the average natural gas price in Alaska during the first three months of the year was more than double the price of $3.76 per mcf reported in the Lower 48.

The Cook Inlet natural gas market is isolated from the rest of the country. Contracts with local distributors last for years, and prices are approved, though not set, by state regulators.

One of the local contracts is indexed to summer oil prices, which accounts for the jump in natural gas prices in Alaska even as natural gas prices fell across the rest of the country.

Almost half of ConocoPhillips' Cook Inlet natural gas is liquefied and shipped to the Far East. The company sold its Alaska LNG for an average price of $6.29 per mcf in the first quarter of the year, down from $8.65 per mcf in the last quarter of 2008 and $6.72 in the first quarter of 2008. ConocoPhillips recently extended its sales contract with two Japanese utilities through March 2011, Bloomberg reported in January.

The drop in oil prices created a smaller tax burden for ConocoPhillips year over year.

A new production tax system implemented in Alaska in recent years is based on a formula that increases the tax rate when prices rise and decreases it when prices fall.

"Consistent with the lower price environment, we had a benefit of $153 million on production taxes, primarily in Alaska," John Carrig, president and chief operating officer of ConocoPhillips said during a conference call with analysts on April 23.

ConocoPhillips reported producing an average of 254,000 barrels of crude oil per day in Alaska during the first quarter of 2009, equal to the first quarter of last year, but down slightly from the 258,000 bpd produced in the last quarter of 2008.

The company produced 92 million cubic feet per day of natural gas in Alaska in the first quarter of the year, down from 100 million cubic feet produced in the first quarter of last year, but up from 88 million cubic feet produced during the last quarter of 2008.

The company sold 43 million cubic feet per day as liquefied natural gas from its facility on the Kenai Peninsula in the first quarter of the year, down from 63 million cubic feet sold in the first quarter of 2008 and 74 million cubic feet sold in the last quarter of 2008.

The company spent $34 million on "exploration charges" in Alaska the first quarter of the year, up from $11 million in the first quarter of last year, but down from $45 million in the fourth quarter of 2008. The company budgeted $832 million for 2009 capital projects in Alaska, part of a $9.5 billion capital program the company doesn't expect will change.

That spending plan had been around 20 percent higher before prices fell. Asked where ConocoPhillips might cut this year if needed, Carrig said, "We'd take a rigorous look across the board and would cut — without getting in to where — we would cut where we thought it made the most sense. I don't want to try to pre-judge that at this moment." ●

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● NATURAL GAS

Seeking more clarity on Cook Inlet gas

RCA wants input on the scope of a standard gas supply contract and on the question of regulating Cook Inlet gas storage facilities

By ALAN BAILEY
Petroleum News

Faced with increasing concerns about the future sustainability of Cook Inlet utility gas supplies for Southcentral Alaska residents, the Regulatory Commission of Alaska is trying to clarify a couple of key regulatory issues that impact the challenges of bringing new natural gas online from the Cook Inlet basin. One of the issues concerns the contractual terms, especially for gas pricing, that the commission will accept in new utility gas supply agreements; the other issue is the question of whether the commission will regulate gas storage facilities.

To address the question of acceptable contracts, the commission is considering specifying contract language and terms that would spell out the form of contract that the commission would approve. And as a starting point in investigating the question of gas storage regulation, the commission has sought legal advice from the state Attorney General's office.

On April 2 the commission posted two notices on its Web site, inviting public comments on what it has determined so far. Comments on either notice must be submitted to RCA by 4 p.m. on May 1.

Regulatory impasse

The standard gas supply contract concept stems from years of wrangling over new Cook Inlet utility gas supply agreements, with no end in sight over broad consensus on what constitutes a reasonable utility gas price level for Southcentral Alaska, and with no new supply contracts approved for several years.

"I think it's fair to say that the approach that has been used (to date) has not resulted in a satisfactory result at all when you consider the fact that there has been no gas supply agreement approved by the commission since 2001 that is currently supplying gas to utility customers," said RCA Chairman Robert Pickett at a March 25 RCA public meeting.

Regulated public utilities that supply gas or electrical power to Southcentral Alaska consumers have to obtain RCA approval of their tariffs, including approval of the prices charged to consumers for energy supplies. The cost of natural gas that the utilities buy from Cook Inlet gas producers forms the dominant component of those prices. And RCA has a duty to ensure equable price levels for consumers.

But RCA does not regulate the gas producers. So, when a utility needs a new source of gas, the utility has to go through a tortuous process in which it first negotiates new supply contracts with producers and then seeks RCA approval for the tariff changes that result from those contracts. Thus, an RCA approval hearing for any new supply contracts has become the norm as a prerequisite for commission approval of the tariff changes.

If the commission rejects the contracts, the utility has to negotiate new contracts and then try again for approval, a process that can take several years to unfold and which can end up costing many millions of dollars. And because there is no spot market to determine an equilibrium gas price in the small Cook Inlet utility gas market, a market dominated by medium- or long-term supply contracts involving a relatively small number of producers, no one can agree on an equitable price level.

Gas war

The situation, recently characterized by RCA Commissioner Kate Giard as the "Cook Inlet Gas War," has reached an impasse, with various price formulas involving North American gas market price indexes proposed, but none of these formulas succeeding in bridging the gap in price expectations between those who produce the gas and those who need the gas or regulate the prices.

At the March 25 RCA meeting Commissioner Janis Wilson said that, although it would be possible to continue using the existing procedure involving commission approval of the gas supply contracts, there are three alternatives that might help break the regulatory impasse: Craft a regulation in the form of a standard supply contract, to provide clarity on contract terms acceptable to the commission; defer utility tariff approval until the pricing from new contracts flows through into the cost of utility energy; or persuade the Alaska Legislature to enact a statute specifying the standard of review and acceptance criteria for gas supply agreements.

The deferral of tariff approval would place regulatory risk firmly on the shoulders of the utilities, while a supply-agreement statute could not now be enacted until the 2010 legislative session, Wilson said. And the commissioners agreed to move forward on the option of developing a standard contract.

Hence the April 2 notice on the commission's Web site.

Scoping document

The notice introduces a document, also published on the Web site, which outlines the background to the standard contract proposal and describes some of the scoping issues that the public may

see CLARITY page 6

● EXPLORATION & PRODUCTION

All is not quiet on the oil sands front

Total's hostile bid for UTS seizes attention; unclear whether it is 'final and best' offer; host of other proponents gear up

By GARY PARK

For Petroleum News

The slowdown in Canadian oil sands activity shouldn't be mistaken for nothing taking place.

While some companies take a breather to reconsider future moves, there's also a persistent buzz as the sector prepares for what is generally expected to be its eventual recovery.

The transfixing event over recent weeks has been a heated tug of war over startup company UTS Energy.

But it's only one of several events that have contributed to a rise of about 10 percent by energy listings on the Toronto Stock Exchange this year and maneuvering by companies to keep prospective investors awake.

For Total, the pattern of its hostile bid for UTS has become all too familiar.

The French major's opportunistic attempt to corral the junior company is starting to sound like a replay of its eventual success in 2005 when it bought out Deer Creek Energy and took control of the Joslyn project.

That started out with a scorned offer of C$20.50 a share and rose in two stages to the final price of C$31 after Royal Dutch Shell entered the contest.

This time, Total started out at C$1.30, then hiked its all-cash offer for UTS to C$1.70, still well short of the targeted range set by some analysts of C$2.10 to C$2.25, although there is a feeling within the investment community that Total will this time stick with its extended deadline of April 27 for tendering shares.

Some ambiguity

Michael Borrell, president of Total's Canadian unit, said his company does not "see a scenario where we would increase further this offer," although he somewhat ambiguously told the Calgary Herald his remarks should not be interpreted as the final offer.

In an interview with the Globe and Mail he refused to classify the latest bid as Total's "best and final" offer.

Tristone Capital analyst Chris Feltin said the revised bid of C$830 million was not a surprise for his firm.

"Our conviction of this happening again is not as strong," he wrote to clients.

William Lacey, an analyst with FirstEnergy Capital, said there is "still the potential for Total to revise its bid again."

The response from UTS officials and its largest shareholders has been angry and unyielding.

They have accused Total of making an offer that is less than the value of cash UTS has on hand and the value of other undeveloped oil sands properties, or rising oil prices.

UTS Chairman Dennis Sharp said Total's revised bid "in no way reflects improving industry fundamentals."

Total plans investments

Total, which has indicated it plans to invest C$15 billion to C$20 billion over the next decade in the oil sands assets it already owns, sees no reason to raise an offer critics have called an "insult."

Borrell said the UTS assets, notably the 20 percent stake in Petro-Canada's Fort Hills project, are "not a key or critical element to the long-term strategy that we have in the oil sands. Fort Hills would be a nice addition, but not an essential addition."

He said shareholders have the choice of tendering to the current offer by April 27, or watching Total be "unsuccessful" and if that happens "I'd just look at where the (UTS) share price was trading prior to this process starting."

Greg Boland, chief executive officer of West Face Capital, which holds a 13 percent interest, said UTS is a "very strategic asset for Total, without which they have very few options in the oil sands, as most of their other projects have been delayed."

In addition to Fort Hills, UTS is a joint-venture partner with zinc miner Teck Cominco in the Frontier and Equinox projects, tentatively planned to yield 210,000 barrels per day from combined contingent resources of 1.88 billion barrels. As well, they share the Lease 421 area, where 49 of 59 drill holes have "encountered rich oil sands," with resources present in more than 15,000 acres.

Total has challenges

Total faces some challenges in other projects, including its 74 percent stake in the planned C$9 billion Joslyn project, targeting an initial 100,000 bpd.

It has delayed a corporate decision until 2010 and suspended in-situ development, indicating it is prepared to mothball or remove assets from the property.

The Mikisew Cree First Nation, whose land is in the area of the Joslyn lease, has raised concerns with a joint environmental review panel over what it says is Total's plan to amend its application in a way that increases the prospect of "more toxic lakes in the area. … We suspect that an entirely new set of applications may be required."

Total has also confused observers by selling 15 percent of its Northern Lights project to China's Sinopec for an undisclosed sum, leaving each company with a 50 percent interest.

As well, Total is having problems shaking off a continuing court battle stemming from its Deer Creek acquisition.

In a new filing with an Alberta appeals court, New York hedge fund Paulson & Co. has asked for a new trial after losing its initial argument that Total did not pay a fair price for its 12 percent stake — a claim Total flatly dismisses.

In other oil sands action:

Tamarack still viable

Ivanhoe Energy said its Tamarack project remains eco-

see **OIL SANDS** page 7

NATURAL GAS

B.C. First Nations get LNG stake

By GARY PARK

For Petroleum News

First Nations in northern British Columbia will get C$32 million from the provincial government to gain an equity stake in the proposed C$1.2 billion Pacific Trail LNG project.

B.C. Energy Minister Blair Lekstrom said the venture could generate millions of dollars in economic development benefits along with significant job opportunities for First Nations along the 280-mile route from Summit Lake to the planned natural gas liquefaction export terminal near Kitimat.

The project is a joint venture between Pacific Northern Gas and Galveston LNG, the parent company of Kitimat LNG, which is seeking support from gas producers in northeastern B.C. for a possible C$4.2 billion terminal to handle up to 5 million metric tons a year of LNG.

As an incentive to ratify the agreement, the government will provide an additional C$3 million lump sum to the First Nation Limited Partnership which will distribute the money to individual First Nations, 15 of which have so far ratified the deal.

Pacific Northern Gas Vice President Greg Weeres said that with the government agreement in place his company is now negotiating pacts with the First Nations that will establish their equity stake in the pipeline.

Share of economic value

"When the First Nations make their investment in Pacific Trail Pipelines, they will become a partner just like any other partner and they will receive their share of the economic value created through the ongoing operation of the pipeline," he said.

The First Nations have "channeled their right to use and occupation of land into nation-building investments in the mainstream economy."

—David Luggi, tribal chief of the Carrier Sekani

Haisla First Nation chief councilor Steve Wilson said it has taken 30 months to reach the agreement, which defines the relationship between First Nations, the B.C. government and the companies.

The deals are "the start of a new beginning that is based on time tested values expressed in a modern context," he said.

David Luggi, tribal chief of the Carrier Sekani, said the First Nations have "channeled their right to use and occupation of land into nation-building investments in the mainstream economy."

He said investment in Pacific Trail is proof that industry, First Nations and government can "work together on projects that will result in financial returns, gainful employment and associated opportunities" that will benefit First nations' people for "generations to come."

Wilson said the progress so far is a "great example of collaboration on interests (and) a testament to what can be achieved through leadership and the willingness to find solutions to difficult issues." ●

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CLARITY

want to comment on. Issues include whether to only specify contract language for some of the more important contract components, rather than develop a complete standard contract; the merits of different gas pricing formulas; and whether gas pricing should be unbundled into different prices for different service levels, such as providing peak gas supplies during cold winter weather.

And during the March 25 meeting the commissioners reflected on some of the broader issues relating to the feasibility of the standard contract proposal. For example, although the commissioners envisage a process in which a new gas supply contract would be approved without a hearing if the contract complies with terms of the standard contract, there is no guarantee that anyone will actually agree to the terms in the standard contract.

"I have no illusions … in that we may never see somebody come in with … a standard form contract with the pricing, but at least we have established something on a broader record," said Commissioner Anthony Price. Companies will be able to use the standard contract as a basis and then argue the case for any divergence from it, he said.

And by developing the standard contract as part of a regulation docket rather than going through a contract approval hearing, businesses will not be deterred from participation in the docket by the threat of legal discovery, Price said. Hopefully the utilities, the gas producers and the state would all provide input.

The state, in the role of land proprietor and royalty owner, has never participated in the gas supply contract hearings, Wilson commented.

Gas storage

And, while approved gas supply contracts and their pricing formulas are keys to ensuring adequate future Cook Inlet gas supplies, the operation of gas storage is also critically important.

As old Cook Inlet gas fields deplete, causing gas supplies to come more into line with gas demand, gas storage enables businesses to store excess gas produced during low summer demand for use when demand climbs during the winter. Current storage facilities operating in the Cook Inlet basin are owned by gas producers who use the facilities to store their own gas, so that individual producers can meet their contractual commitments for winter gas deliveries.

But Alaska's Division of Oil and Gas has been discussing with some businesses the possibility of opening new storage facilities that could offer gas storage services to third-party entities, thus increasing market flexibility and creating new market opportunities that might encourage more producers to enter the Cook Inlet natural gas industry.

Regulation?

But should RCA regulate new storage facilities, to ensure appropriate access for all would-be users, along the same lines as the regulation of a gas pipeline operated for public use? That is a key question for any business considering setting up a gas storage facility.

The April 2 gas storage notice published on the RCA Web site requests public comments on preliminary opinions on storage regulation presented by Robert Stoller and Stuart Goering, state assistant attorneys general, during the March 25 RCA public meeting.

Stoller and Goering said that, although storage operated by a public utility would likely come under regulation, storage operated under other circumstances might or might not be regulated, depending on the exact situation. For example, RCA would not in general have jurisdiction over a storage facility at the upstream end of a pipeline system, where a gas producer operates the storage for its own use and does not hire out any of the storage capacity. On the other hand, a storage facility would likely be regulated if it is operated by a pipeline company at the downstream end of a pipeline to ensure continuity of gas supplies in the event of a pipeline shutdown.

Potential complications include any land-lease stipulations requiring third-party access to the facilities. ●

GOVERNMENT

Risk assessment workshop, meetings set

The Alaska Department of Environmental Conservation has scheduled a public workshop and public meetings on the Alaska Risk Assessment of oil and gas infrastructure.

The public workshop will be May 5 from 10 a.m. to 4 p.m. in the second floor public conference room at the Z.J. Loussac Library in Anchorage.

Risk assessment contractors will present a briefing on the proposed risk assessment methodology, including a walk through of the methods with examples of how the methods will apply to specific facilities.

There will be facilitated discussion following the presentation and DEC said the Anchorage workshop is targeted "for people with a high interest in the project that are willing to take the time to read and understand the proposed methodology report" in advance of the meeting.

The report is available online at www.dec.state.ak.us/spar/ipp/ara/documents.htm.

Public meetings are scheduled in other locations to allow the public to drop in and learn more about the Alaska Risk Assessment program. Meetings are from 4-7:30 p.m., with short briefings at 4:30 and again at 6:30:

- May 11, Challenger Learning Center, Kenai;
- May 12, Valdez Civic & Convention Center;
- May 13, UAF Wood Center, Fairbanks; and
- June 9, Barrow at a location to be determined.

—PETROLEUM NEWS

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OIL SANDS

nomically viable even with oil at US$45 per barrel, using its proprietary heavy-oil upgrading technology, which allows thick heavy oil to be upgraded into light oil on site instead of having to transport it to a refinery or building a costly upgrader.

It is now seeking strategic partners to help finance all of its projects after an independent evaluation gave a best-estimate for its Tamarack contingent resources of 441 million barrels of bitumen, up 81 percent since it acquired the asset from Talisman Energy last year for C$90 million. Based on those numbers, the project ultimately would be capable of producing 50,000 bpd for more than 30 years, Ivanhoe said.

The block adjoins leases held by ExxonMobil, Laricina Energy and E-T Energy.

The Vancouver-based company is hoping to file a regulatory application for a multiphase integrated project after a drilling program is completed in 2010.

Tristone Capital analyst Chris Feltin expects Ivanhoe will sign a deal with an Asian oil company, with producers in China, Japan, Korea and Taiwan the likeliest candidates.

'Interesting' time for investment

David Krieger, managing director of the global private equity firm Warburg Pincus, told an oil sands conference earlier this year that the economic climate makes this an "interesting" time to invest in the oil sands.

Over the past five years, the company has invested C$150 million and is the largest shareholder in MEG Energy, a startup company that has plans to produce an initial 25,000 bpd in northeastern Alberta.

He said the downturn in oil prices and the financing concerns create an appearance that oil sands companies are "trading as if they had significantly higher levels of risk than they do simply because of the current economic environment.

"We think the market may be undervaluing the optionality of having a 40-year reserve life. These are scarce resources as we all know," Krieger said.

BP looking at options

BP is examining a range of options to advance the 200,000 bpd Sunrise project with partner Husky Energy, including integrating carbon capture and storage to reduce the environmental impact, BP Chairman Peter Sutherland told the annual meeting of shareholders.

The supermajor said two months ago it was slowing down Sunrise because it expected costs to come down during the pullback from oil sands spending.

Sutherland assured an investor that BP is "still committed" to Sunrise, although he cautioned the project will "take considerable time to bring to fruition."

Shell to file

Royal Dutch Shell said it plans to use steam-drive technology rather than the cyclic steam stimulation it has been testing over several years at its proposed 80,000 bpd Carmon Creek bitumen operation in northwestern Alberta.

The company is now working towards filing a new regulatory application by the end of 2009 and expects that process will take at least 18 months, allowing an investment decision in 2011 and a production startup after 2014.

The shift in technology to vertical wells, although it will require more steam, should raise the recovery of bitumen in place to 50 percent from about 20 percent with horizontal cyclic steam stimulation wells, a spokeswoman said.

Imperial Kearl decision

Imperial Oil expects to decide within the next two months whether to proceed with its C$8 billion Kearl project, having missed a late March target date while it resolves some issues relating to financial commitments.

It is the only major to increase oil sands capital spending this year and has been advertising career openings for Kearl, a joint-venture with its sister company ExxonMobil Canada.

Kearl is planned to come on stream at 100,000 bpd and grow to 300,000 bpd.

Enerplus halting work

Enerplus Resources Fund is halting work on its 10,000 bpd Kirby project, initially scheduled for the first quarter of 2012, blaming "current cost structures, commodity price environment and our cost of capital."

It will wrap up current activities and "position the project to be re-evaluated and potentially re-initiated at a later date."

An updated resource estimate will be finished this summer based on new seismic data. The first phase development was expected to draw from contingent resources of 400 million barrels. ●

● SAFETY & ENVIRONMENT

Changing Arctic challenges the whalers

Spring ice has become more dangerous for subsistence hunters, while storms and high winds can lead to rough seas in the fall

By ALAN BAILEY

Petroleum News

As the bowhead whales migrate north in the spring from the Bering Sea, through the Chukchi Sea and east across the Beaufort Sea to their summer feeding grounds, and then return south in the fall ahead of the expanding winter ice floes, the subsistence hunters of Alaska's North Slope have for millennia hunted the whales in the spring and the fall, as the whales transit the region.

But climate change and, with it, changing ice and weather conditions, appears to be having an impact on that annual whale hunting ritual.

Spring ice

The spring sea ice near Barrow has become thinner than it used to be a few years ago and that has caused hunters from Barrow and other communities to become more dependent on hunting in the fall in some years, Harry Brower, chairman of the Alaska Eskimo Whaling Commission, told the National Marine Fisheries Service Arctic Stakeholder Open-water Workshop on April 6.

In the past thick, solid spring ice enabled whale hunting in the ice leads, but now the sea ice tends to be thinner and the shore-fast ice less stable than they used to be.

"Spring whaling is becoming more difficult for everyone," Brower said. "… We've had close calls about people falling through the ice. … It's a very dangerous situation."

> *"Spring whaling is becoming more difficult for everyone. … We've had close calls about people falling through the ice. … It's a very dangerous situation."*
>
> **—Harry Brower, chairman of the Alaska Eskimo Whaling Commission**

But severe storms in the fall are making the sea increasingly rough and causing broken ice to be present in the offshore waters. And more open water is resulting in heavy swells in the Beaufort Sea to the east of Barrow, causing the Barrow whalers to seek more sheltered water on the west side of Point Barrow, the long, narrow spit that juts into the sea at the northwest end of the North Slope.

Fall hunt

North Slope Borough wildlife biologist Robert Suydam told the workshop that although Chukchi Sea villagers are finding it increasingly difficult to hunt for whales in the spring, historical records suggest that a rise in the bowhead whale population may present more whaling opportunities in the Chukchi Sea in the fall. Suydam came to this conclusion from an analysis of the logs of the Yankee whalers that operated in the 1800s and early 1900s, a time when the bowhead population was likely higher than it is now.

"As the current population continues to grow it seems very likely that the bowheads will again start to be occupying these same areas in the same numbers that they used to 100 years ago," Suydam said.

Appear later

George Noongwook, vice chairman of the AEWC, a resident of Savoonga on St. Lawrence Island in the northern Bering Sea, on the bowhead whale migration route nearly 700 miles to the southwest of Barrow, told the workshop about changes in the timing of bowhead hunting by St. Lawrence Island whalers over the past decade.

The whalers used to land bowheads in April. Then, around 1990, the whales started appearing in November. Now much of the bowhead whale hunt occurs in November, December or even January, Noongwook said.

And weather conditions appear to be becoming more extreme in the northern Bering Sea, with Savoonga now experiencing winds of well over 100 miles per hour in February, he said.

Brower questioned whether oil industry wildlife monitoring plans are taking into account the changing pattern of subsistence hunting. He also cautioned that companies operating offshore need to be prepared to deal with the impacts of increasingly strong storms in Arctic waters. ●

● PIPELINES & DOWNSTREAM

‘I think I can, I know I can …’

Canada’s largest railroad promotes oil sands’ express to US Gulf, B.C. coasts; says it can provide cheaper, faster transportation than pipelines

By GARY PARK
For Petroleum News

Consigned to the outbox four years ago, the idea of shipping oil sands production from Alberta to the U.S. Gulf Coast is again doing the rounds, as Canadian National Railways touts an initiative called “Pipeline on Rails.”

Rejected in early 2005 by an industry group and the Alberta government as too costly, the concept is back on the table, with CN claiming it could carry 4 million barrels per day faster and cheaper than pipelines.

Matching that increase in capacity to the Gulf Coast would cost C$25 billion and take years to complete, CN claims.

“Not enough pipeline capacity exists today to move bitumen, diluted bitumen or synthetic crude,” CN Executive Vice President Jim Foote told Financial Post columnist Diane Francis.

Rejected in early 2005 by an industry group and the Alberta government as too costly, the concept is back on the table, with CN claiming it could carry 4 million barrels per day faster and cheaper than pipelines.

“We can get those products to market today using the concept of a pipeline on rail and move it directly into the U.S. or to the West Coast (for tanker shipment to Asia), which creates the flexibility. It means smaller producers are not just tied to a refinery in Texas.”

Earlier this year, Randy Meyer, CN’s manager of oil sands sales, told a conference the railway’s analysis showed that carrying pure bitumen by rail is cheaper than moving diluted bitumen by pipeline, although he declined to disclose per-barrel costs because of ongoing discussions with various oil sands producers.

Citing the advantages of rail transport, he said it can be built to meet current demand and easily expanded to meet future demand.

Meyer said small and intermediate producers could ship as little as 5,000 bpd by rail, a significantly lower barrier to entry than the threshold needed to access pipelines, without changing market access.

He said CN would not require producers to contract for set volumes for a particular time or face a penalty.

Cost in railcars

Instead CN would meet its customers’ timing based on their business requirements, “not the other way around.”

Rail service would allow producers to ramp up production quickly and cheaply and yield immediate cash flow rather than waiting years for approvals and construction of upgraders and pipelines.

In contrast with the C$4 billion projected cost of a 525,000 bpd Enbridge pipeline from Alberta to the deepwater port at Kitimat on the British Columbia coast, CN believes it could deliver 2.6 million bpd to the B.C. coast by just adding 20,000 railcars to its fleet.

Meyer estimated rail deliveries from Alberta to the Gulf Coast would take eight to 10 days, compared with 40 to 50 days by pipeline.

Fiona Murray, CN’s assistant vice president of petroleum and petrochemicals, told reporters at the same conference that testing and proving the rail option does not need a sophisticated system, or even hot bitumen, which is required to move the produce by pipeline.

CN has indicated it expects to start shipping about 10,000 bpd of stranded production later this year.

Direct refinery access

The railway has direct access to Louisiana refineries and partner Kansas City Southern has transportation access to a combined total of 750,000 bpd of coking capacity on the Gulf Coast. Connections with Burlington Northern Santa Fe open up access to the Houston area.

Meyer said Canada’s largest railway is already challenging the wisdom of thinking only about pipelines to transport oil, noting that CN moves the equivalent of 210,000 bpd of coal out of Alberta and British Columbia, while Suncor Energy has used rail service from northern Alberta to carry sulfur produced at its oil sands upgrader.

The industry would face some capital investment to fully use the CN network, including about C$100,000 for each railcar with capacity of up to 600 barrels of bitumen, or a cost of C$10 million for 100 railcars to transport 60,000 barrels. Terminals and loading racks would also be needed.

CN acquired Alberta line

In late 2007, CN paid C$25 million to acquire the 200-mile Athabasca Northern Railway in northeastern Alberta based on what it said at the time were long-term traffic volume commitments it negotiated with Suncor, OPTI Canada and Nexen and has spent another C$60 million of C$135 million allocated over three years to improve transit times and service consistency.

Connacher Oil and Gas is open to considering rail service for its 10,000 bpd Great Divide project based on its own experience of moving refined products to its refinery at Great Falls, Mont.

Glen Perry, senior vice president of Altex Energy, which has proposed a 425,000 bpd pipeline from Alberta to the Gulf Coast, told the conference that rail transportation might bridge the gap between conventional pipelines and new pipeline technologies which will eliminate the need for much of the diluent used to improve the pipeline flow of bitumen.

But he estimated the operating cost of Altex’s new technologies would be about US$10 per barrel, a saving of one-half to one-third of the current transport costs. ●

● EXPLORATION & PRODUCTION

INCORRECT INFORMATION: STORY PULLED

In partial ruling, Stowers says 2008 [illegible] Alaska Venture Capital Group over TG World

By ERIC LIDJI
Petroleum News

A State Superior Court judge recently ruled that a 2008 contract between two North Slope explorers is "binding and effective," despite the protests of one of the companies.

[illegible] Stowers sided [illegible] Venture Capital [illegible] iate Brooks Range Petroleum Corp. on April 9, saying the 2008 contract did n[illegible] require the companies to meet certain co[illegible]ditions in order for the agreement [illegible] become effective.

The dispute and ruling is part of a larger case between Kansas-based AVCG and Calgary-based TG World Energy Corp., a partner with AVCG in a four-company joint venture.

The sm[illegible] dispute revolved around whether a [illegible] contract should guide the work of the partnership, or whether a 2008 contract e[illegible]ly replaced the original contract.

The co[illegible] are called Joint Operating Agreements [illegible] set out the workload, ownership shares and financial responsibilities of the companies in the joint venture.

AVCG [illegible] TG World Energy are in court-ordered mediation, but have a trial scheduled [illegible] next year in case mediation fails. [illegible] asked [illegible] quicker ruling on th[illegible] calling it "a core issue [illegible] in this case" and saying "early [illegible] greatly in [illegible] of the matter."

AVCG [illegible] the 200[illegible] agreement is binding b[illegible] Cliff[illegible], president and chief [illegible] officer of TG World Energy, s[illegible] the docume[illegible] on Oct. 21, 2008.

"There is not any p[illegible] of the 2008 JOA prov[illegible] that TGWE's signature is effective [illegible] on the [illegible] of certain specified conditions," Edgar Dunne, a managing [illegible] for [illegible] and BRPC, wrote in a[illegible] April 9.

TG World believes the 2006 contract is still valid, [illegible] James' signature on the 2008 contract was "[illegible]atively withdrawn" when AVCG f[illegible] meet certain conditions.

Stowe[illegible] that t[illegible] of the 2008 contract effectively [illegible] any conditions.

A question of conditions

The c[illegible] cit[illegible] TG World Energy i[illegible] a s[illegible]parate contract, a 2006 Joint [illegible] forming the partnership [illegible] TG World and AVCG.

In add[illegible] AV[illegible] TG World Energy, the joint vent[illegible] Nabors subsidiary [illegible] Inc. and Calgary-b[illegible] Valley Energy Ltd., an independent [illegible] currently in the process of selling its [illegible] stocks to another independent c[illegible].

The fo[illegible] formed the joint venture in [illegible] and also signed the first operating [illegible] among the companies around th[illegible] time. The agreements required the companies to complete a follow-up [illegible] agreement within 10 days, Dun[illegible].

Dunne [illegible] negotiations on the new operating [illegible] took two years. Representatives from the companies ultimately signed the 2008 contract in September and October 2008.

On Oct. 23, two days after signing the contract, James sent an e-mail to Bo Darrah and Jim Winegarner, executives with AVCG and BRPC respectively, saying the contract wouldn't become effective "unless all parties executed a mutually acceptable First Amendment" to a Joint Venture Agreement signed by the companies back in 2006.

[illegible]

In an e-mail to James the next day, Darrah wrote "I am not sure what you [illegible] for Expenditures) this year for drilling. If you are not going to drill, what else is there to agree upon?"

In a Nov. 25 letter to all four members of the joint venture, James said the 2006 joint operating agreement remained binding until the four companies met various conditions.

James also said TG World Energy had not yet agreed to form a unit at North Shore, the Gwydyr Bay prospect where the joint venture has drilled several wells in recent years.

James also asked about a deal where Bow Valley would sell its interest in Gwydyr Bay leases to AVCG, saying [illegible]

James said TG World would start legal proceedings if it didn't get an answer by [illegible]

The c[illegible] ments given to the court by AVCG. As of April 22, TG World Energy had not filed new documents in response to AVCG and BRPC.

Claims and counterclaims

On Nov. 26, 2008, TG World issued a press release saying it was postponing its participation in "drilling and development programs" planned for this winter.

Brooks Range filed suit against TG World for breach of contract on Dec. 4. TG World filed a counter claim against AVCG and BRPC in January, refuting the claim.

[illegible] threatens to cancel plans for next winter as well if the companies can't resolve the [illegible] before fall.

[illegible] companies originally planned on drilling two wells this winter in Gwydyr Bay.

Superior Court Judge Craig Stowers ordered mediation back in February. ●

Contact Eric Lidji at 907-522-9469 or elidji@petroleumnews.com

INCORRECT INFORMATION: STORY PULLED

INCORRECT INFORMATION: STORY PULLED

● FINANCE & ECONOMY

Alberta fund buys Precision Drilling stake

AIMCo offers C$280 million in debt, equity financing for land drilling contractor; Precision acquired Grey Wolf in late 2008

By GARY PARK
For Petroleum News

An investment arm of the Alberta government is taking up to a 19 percent ownership position in Precision Drilling Trust by way of a lifeline to keep one of the world's largest land drilling contractors from being sucked into a debt bog.

Through the Alberta Investment Management Corp., AIMCo, which runs C$70 billion in public-sector financial assets, the province is offering C$280 million in debt and equity financing and could acquire 15 million purchase warrants for another C$48 million.

Duane Mather, president of rival Nabors Canada, offered a blunt assessment, despite assurances from AIMCo and Finance Minister Iris Evans that the government was in no way directly involved in the deal.

> *"You always invest when nobody else thinks it's a great idea, because things look really black."*
> **—AIMCo Chief Executive Officer Leo de Bever**

"It smells to high heaven," Mather said, arguing Precision's balance sheet is weaker than most other companies in the business.

"They've got a public venture that is there to rescue them," he told the Globe and Mail. "You bet it bothers me."

He said Nabors may now turn to AIMCo for money to build two or three C$17 million horizontal drilling rigs it has been unable to finance through traditional lending sources.

Political criticism

There was also a wave of political criticism, with the opposition Liberal Party's energy spokesman Kevin Taft asking how the government planned to manage energy resources "now that they are the regulator; they own the resource and they're investing in companies exploiting the resource."

Brian Mason, leader of the New Democratic Party, said he did not accept that the investment was appropriate for AIMCo which is responsible for managing provincial pension and endowment funds.

"What you want is secure investments, not bailouts of threatened companies," he said.

AIMCo, by way of private placement, will buy C$105 million in trust units to take a 15 percent stake in precision and lend the company C$175 million in unsecured notes at 10 percent interest.

Precision has been paying 17 percent interest on a C$296 million bridge loan it incurred last year in a mistimed US$2 billion acquisition of Grey Wolf, adding 122 rigs to its fleet, which includes 151 land units in Canada, another 29 in the U.S., two in Mexico and one in Chile, with a combined payroll of 7,200 employees.

The Grey Wolf deal closed last December "under the most challenging credit markets of the past several years" and resulted in "punitively high financing costs," Precision Chief Executive Officer Kevin Neveu told a conference call April 20.

Cash distributions suspended

Precision announced two months ago it was indefinitely suspending its cash distributions in response to falling commodity prices and tight credit markets to focus on paying down debt from the Grey Wolf deal.

Neveu said at the time that the North American outlook for oil and gas development over the next few quarters would be "depressed," although the decline in activity could result in a supply challenge when the economy recovered.

He said April 20 that AIMCo sees value in Precision's "strategy to provide high-value, high-performance drilling and well services globally."

With some critics accusing the government of being ready to "privatize profits and socialize losses," AIMCo Chief Executive Officer Leo de Bever said acquiring a stake in Precision is an investment "not an aid project."

"You always invest when nobody else thinks it's a great idea, because things look really black," he said.

He said AIMCo is taking an opportunity to help Precision re-structure its balance sheet and position itself for "what we see as the next upturn two or three years from now."

De Bever said Evans was told of the investment April 17 after the decision had been made, reinforcing the government's own decision last year to keep AIMCo investments independent of the political process.

Evans told the Alberta legislature that if either she or the government were "calling the political shots on investments, the people of Alberta would have the right to revolt." ●

● SAFETY & ENVIRONMENT

NOAA asks for Cook Inlet beluga info

Inlet population declared endangered last year; agency now seeking information in making its determination of critical habitat

By KRISTEN NELSON

Petroleum News

NOAA Fisheries has published an advanced notice concerning critical habitat for Cook Inlet beluga whales, the National Oceanic and Atmospheric Administration's Alaska regional office said April 14.

"We aren't yet proposing a rule on critical habitat for the Cook Inlet beluga whales, but we will," Doug Mecum, acting administrator for the Alaska region of NOAA Fisheries said in a statement.

Mecum said the advanced notice "is an effort to get as much information as possible early in the process."

Comments and information are due May 14.

The Cook Inlet beluga whale was listed as an endangered species Oct. 22, 2008.

NOAA is required under the Endangered Species Act to designate critical habitat for threatened and endangered species. NOAA said the secretary of Commerce has discretion to exclude any area from critical habitat if the benefits of such exclusion outweigh the benefits of inclusion, but he may not exclude areas that will result in extinction of the species.

Critical habitat significance

NOAA said in its April 14 Federal Register notice that once critical habitat is designated, ESA requires federal agencies "to ensure they do not fund, authorize or carry out any actions that will destroy or adversely modify that habitat," in addition to ensuring that their actions "do not jeopardize the continued existence of listed species."

In designating critical habitat the agency considers:

- Areas occupied by the species at the time of listing;
- Physical and biological features essential to species' conservation;
- Special management considerations or protection needed;
- Areas outside those currently occupied that are essential for conservation;
- Benefits to species of critical habitat designation;
- Economic and other relevant impacts of a critical habitat designation;
- Appropriate geographic scale for weighing benefits of exclusion and benefits of designation; and
- Whether failure to designate any particular areas as critical habitat would result in extinction of species.

Cook Inlet belugas

Cook Inlet beluga whales are one of five distinct stocks recognized in Alaska, with the other stocks occurring in the Beaufort Sea, eastern Chukchi Sea, eastern Bering Sea and Bristol Bay.

Cook Inlet belugas reside in the inlet year round, concentrating in the upper inlet at rivers and bays in the summer and fall and dispersing into deeper waters in mid-inlet locations in the winter.

NOAA said traditional ecological knowledge of Alaska Natives and systematic aerial survey data document a contraction of the summer range of Cook Inlet belugas: Once abundant in the lower inlet during the summer they are now primarily concentrated in the upper inlet.

"This constriction is likely a function of a reduced population seeking the highest quality habitat that offers the most abundant prey, most favorable feeding topography, the best calving areas, and the best protection from predation," NOAA said.

Cook Inlet belugas are "opportunistic feeders," the agency said, focusing on seasonally abundant prey — eulachon (hooligan or candlefish) in the early spring, salmon in the summer and in the fall species found in nearshore bays and estuaries such as cod and flatfishes.

NOAA said available information suggests belugas move throughout much of the inlet in the winter months, concentrating in deeper waters in the mid-inlet past Kalgin Island. The agency said ice cover does not appear to limit beluga movements in the winter and their winter distribution does not appear to be associated with river mouths as it is during summer months.

"The spatial dispersal and diversity of winter prey likely influence the wider beluga winter range," the agency said.

State suing

The State of Alaska gave notice in January that it intended to sue over the listing of the Cook Inlet beluga whale as endangered, citing violations of the Endangered Species Act and the Administrative Procedure Act.

The state said the Department of Commerce and NOAA were seeking improperly to list a distinct population segment of the beluga whale in Cook Inlet as in danger of extinction throughout its range. The state said that in using the term distinct population segment it did not necessarily agree with the finding of the National Marine Fisheries Service that beluga whales in Cook Inlet are a distinct population segment.

The state said the final rule failed to properly consider substantial regulation by the state and its political subdivisions "of beluga habitat and food supply covering nearly every aspect of the environment affecting beluga whales in Cook Inlet, including water quality, oil and gas development, coastal and upland development, prey species management, cruise ship regulation and port development,

see BELUGAS page 14

On the Web

See previous Petroleum News coverage:

"Next steps for the Cook Inlet beluga," in Feb. 1, 2009, issue at www.petroleumnews.com/pnads/638011815.shtml

"CI belugas on the endangered list," in Oct. 26, 2008, issue at www.petroleumnews.com/pnads/36334619.shtml

LAND & LEASING

Potential Alaska state and federal oil and gas lease sales

Agency	Sale and Area	Proposed Date
DNR	Alaska Peninsula Areawide	May 20, 2009
DNR	Cook Inlet Areawide	May 20, 2009
DNR	Beaufort Sea Areawide	October 2009
DNR	North Slope Areawide	October 2009
DNR	North Slope Foothills Areawide	October 2009
DNR	Alaska Peninsula Areawide	May 2010
DNR	Cook Inlet Areawide	May 2010
DNR	Beaufort Sea Areawide	October 2010
DNR	North Slope Areawide	October 2010
DNR	North Slope Foothills Areawide	October 2010
MMS	Sale 209 Beaufort Sea	2010*
MMS	Sale 211 Cook Inlet	2010*
MMS	Sale 212 Chukchi Sea	2010*
MMS	Sale 217 Beaufort Sea	2011*
MMS	Sale 214 North Aleutian basin	2011*
MMS	Sale 219 Cook Inlet	2011*
MMS	Sale 221 Chukchi Sea	2012*

Agency key: BLM, U.S. Department of the Interior's Bureau of Land Management, manages leasing in the National Petroleum Reserve-Alaska; DNR, Alaska Department of Natural Resources, Division of Oil and Gas, manages state oil and gas lease sales onshore and in state waters; MHT, Alaska Mental Health Trust Land Office, manages sales on trust lands; MMS, U.S. Department of the Interior's Minerals Management Service, Alaska region outer continental shelf office, manages sales in federal waters offshore Alaska.

**On April 17, 2009, the U.S. Court of Appeals for the District of Columbia issued an opinion requiring Interior to withdraw and reconsider the MMS 2007-12 oil and gas lease sale program for the outer continental shelf.*

continued from page 13

BELUGAS

among many others. These laws, when considered together with existing federal regulations, ensure that beluga whales in Cook Inlet are well protected."

The state said NMFS found "existing conservation efforts do not provide sufficient certainty of effectiveness to substantially ameliorate the level of assessed extinction risk for Cook Inlet beluga whales," but said the agency did not document that it "adequately considered" laws and regulations in Alaska. "Because NMFS did not document for the final rule that such conservation efforts were adequately considered, the final rule should be withdrawn," the state said.

The state also said NMFS did not meet federal regulatory requirements that it adequately inform state agencies of the basis for actions not in agreement with the recommendations of those agencies.

DPS an issue

ESA does not define the term "distinct population segment," the state said, and NMFS and the U.S. Fish and Wildlife Service have jointly adopted a policy statement guiding that evaluation considering two factors: discreteness of the population segment in relation to the remainder of the species to which it belongs and significance of the population segment to the species to which it belongs.

The state said NMFS relied on two of four non-exclusive factors in finding the Cook Inlet population to be discrete, but did not adequately document the determinations in the final rule. NMFS said the ecological setting is unique and the loss of the discrete population segment would result in a significant gap in the range of the species.

The State of Alaska gave notice in January that it intended to sue over the listing of the Cook Inlet beluga whale as endangered, citing violations of the Endangered Species Act and the Administrative Procedure Act.

These determinations are inadequately documented in the final rule, the state said.

The court in a 2007 decision in Northwest Ecosystem Alliance v. U.S. Fish and Wildlife Service said that uniqueness of the habitat should be tied to some feature of importance for the species.

"Here, NMFS essentially asserts that Cook Inlet is important because it contains the southernmost beluga population, is an incised glacial fjord, and experiences large tidal exchanges in a true estuary. But NMFS does not explain how the geological setting interacts either with important characteristics of the beluga whale or is significant for the survival and recovery of the beluga whale," the state said.

The state also said NMFS does not explain why the loss of the Cook Inlet population might create a significant gap in the species' range, noting that "significant" in this contest has the commonly understood meaning of "important." While the Cook Inlet beluga whale population is "an isolated, peripheral population at the southern portion of the subspecies' range that alone may not mean that its loss creates a significant gap in the range of the species," the state said. ●

● PIPELINES & DOWNSTREAM

RCA clears ways for discontinuing berths

Opening docket to intervening parties and public hearing; without opposition, construction work on tanker berths could start in May

By ERIC LIDJI
Petroleum News

State regulators have cleared the way for the owners of the trans-Alaska oil pipeline to discontinue two Valdez Marine Terminal berths for loading crude oil onto tankers.

The five companies with ownership interests in the pipeline made the request at the end of last year, saying declining throughput on the 800-mile pipeline has meant fewer tankers traveling through Prince William Sound, making the berths unnecessary.

The owners said the berths have been idle for years. Berth 1 hasn't been used for loading oil since February 2001, while Berth 3 hasn't been used for loading oil since June 2002.

The owners also said upgrading the two berths to meet federal environmental regulation would cost around $40 million. These upgrades have been made to the remaining berths.

With final regulatory approval, the owners will start a five-month construction project to boost the integrity of the piping system around the two tanker berths, according to filings.

The work is scheduled to run between May and September. The workload involves removing "dead-leg" pipeline, or sections of the system where oil remains stagnant, and removing "meter sets," or various pieces of equipment used to measure flowing oil.

Berth 1 is the only floating berth at the marine terminal. It measures 390 feet long and 96 feet wide, and weighs 3,250 tons. The owners said Berth 1 "may be sold and relocated."

Berth 3 is one of three fixed berths. It measures 122 feet long and 46 feet wide. The companies have said it "will continue to be used and useful as a layover berth where tankers and other vessels can be moored for purposes other than loading crude oil."

Berths 4 and 5 remain in normal operation. Although an opening for a Berth 2 has been around since the construction of the pipeline, the berth was never actually constructed.

Discontinuing the tanker berths is a new issue in the history of the pipeline and originally the owner companies were not entirely sure they needed regulatory approval.

The pipeline moved more than 2 million barrels of oil daily at its peak in 1988, but currently moves less than 700,000 barrels per day and throughput continues to decline.

BP Pipelines (Alaska), ConocoPhillips Transportation Alaska, Exxon Mobil Pipeline Co., Koch Alaska Pipeline Co. and Unocal Pipeline Co. all own shares of the pipeline.

The pipeline moved more than 2 million barrels of oil daily at its peak in 1988, but currently moves less than 700,000 barrels per day and throughput continues to decline.

Tesoro concerned about DR&R

The work on the two berths is expected to cost between $5.8 million and $7.2 million.

The owners believe around half the cost of the project, or between $3.2 million and $4.05 million worth of work, could be considered part of retiring the marine terminal facilities.

As a result, the owners could fund part of the work using "dismantlement, removal and restoration" funds, a portion of the fees paid by companies moving oil down the pipeline.

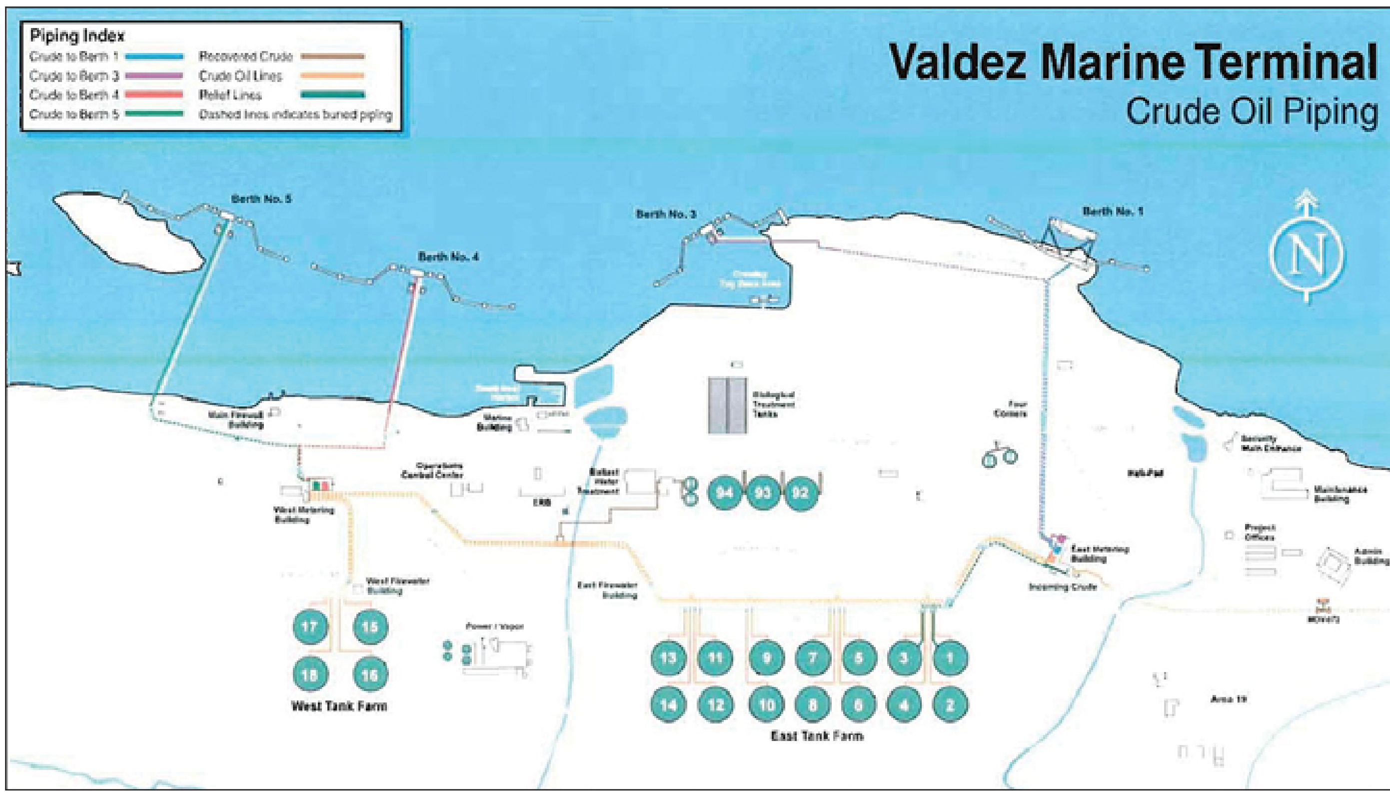
The owners said the work would lead to "no substantial change or modification" to the shipping rates, but the filing still drew concern from one perennial pipeline customer.

Tesoro, which operates a refinery in Nikiski, said the proposal to use retirement funds opens up larger questions about how these funds are collected and how they will be used in the future as the pipelines gets closer to the inevitable day when it is no longer needed.

The Regulatory Commission of Alaska decided not to consider those issues in this case.

The RCA is accepting petitions from those with an interest in the case through May 15, after which a decision will be made whether to issue a construction permit for the work. ●

Contact Eric Lidji at 907-522-9469 or elidji@petroleumnews.com



ALYESKA PIPELINE SERVICE CO.

A map of the Valdez Marine Terminal. The two berths on the right are slated to be discontinued.

● LAND & LEASING

BP expanding PBU, contracting Northstar

By KRISTEN NELSON

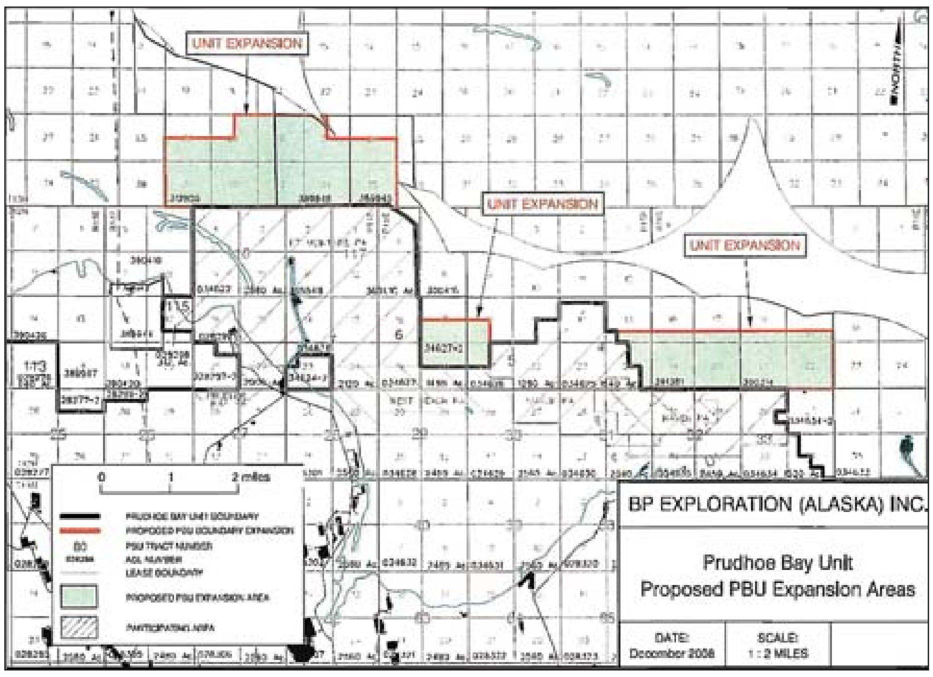
Petroleum News

BP Exploration (Alaska), the Prudhoe Bay unit operator, has applied to expand the Prudhoe Bay unit and contract the Northstar unit, which BP also operates.

BP told the Alaska Department of Natural Resources Division of Oil and Gas in a March application that inclusion of the expansion area within the Prudhoe Bay unit would enable timely appraisal and development of the Point McIntyre reservoir by facilitating sharing of existing Prudhoe Bay unit facilities.

The tracts in the enlargement unit have been "reasonably determined to have the potential to contain producible hydrocarbons in the Ivishak, Sag River or Kuparuk" reservoirs, portions of which are in the Prudhoe Bay unit, the company said.

The proposed expansion areas are on the northern boundary of the unit, between Northstar and Prudhoe Bay on the west and north of the Duck Island unit (Endicott) to the east.



BP has been working Prudhoe Bay "for a long time and we've learned more about this area up along the margin and are looking for opportunity to assess that potential and develop those resources," BP Exploration (Alaska) spokesman Steve Rinehart told Petroleum News April 21.

He said BP is "encouraged by steadily increasing knowledge of the oil field," which includes some remapping of the subsurface and some reprocessing of earlier information.

"We saw some potential and so we want to expand the unit so we can assess that potential," Rinehart said.

BP said in its application that the enlargement area includes some 9,818 acres: 1,320 acres are portions of leases presently within the Prudhoe Bay unit and held by production; some 2,579 acres are currently committed to the Northstar unit; and 5,919 acres not currently held by either the Northstar unit or the Prudhoe Bay unit.

Addition of the proposed areas to the Prudhoe Bay unit would expand it to some 257,295 acres.

The expansion is in three areas all on the north-central to northeastern borders of the unit.

The area requested for contraction out of the Northstar unit is on the southeastern border of that unit, and is outside of the existing Northstar participating area — the area from which Northstar production comes.

The proposal is out for public comment, which closes May 18.

Rinehart said BP has done some recent drilling in the small central expansion area and has that identified.

The company plans to drill at least one well into each of the other expansion areas to get a clear idea of what's there, he said. ●

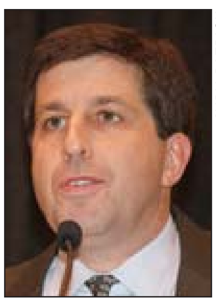
● EXPLORATION & PRODUCTION

Slaiby: Shell still plans OCS drilling

Company is preparing new exploration plans and hopes for resolution of the problem court has cited in MMS lease sale program

By ALAN BAILEY
Petroleum News

Undaunted by an appeal against approval of its Beaufort Sea exploration plan, another appeal against its drillship air quality permit and an April 17 court decision rescinding the current U.S. Minerals Management Service outer continental shelf lease sale program, Shell still hopes to drill on the Arctic Alaska outer continental shelf within the next couple of years.


JUDY PATRICK
PETE SLAIBY

"We still have every intention of pursuing a drilling program in 2010 in both the Beaufort and the Chukchi (Seas)," Pete Slaiby, Shell's Alaska general manager, told the Anchorage Chamber of Commerce on April 20.

Slaiby said that, in addition to impacting Shell's Chukchi Sea leases that cost $2.1 billion in bonus bids, the April 17 court decision impacts $6.5 billion in Shell leases in the Gulf of Mexico. But the question over the individual environmental impacts of a lease sale program that the court had raised in its decision has been an issue in the past, he said.

"If there are some structural issues with the way that the five-year lease plan was put together, we're hopeful that they can be addressed," Slaiby said.

New plans

And, reflecting on a March 6 announcement by the U.S. Court of Appeals for the 9th Circuit that the court is reconsidering its decision on an appeal against MMS approval of Shell's Beaufort Sea exploration plan, Slaiby said that Shell is "proceeding with new plans of exploration for other areas in the Beaufort and Chukchi."

The exploration plan that is the subject of the 9th Circuit appeal includes a plan for drilling at the Sivulliq prospect, a known oil pool on the west side of Camden Bay, offshore the eastern end of the North Slope. But Shell has a substantial portfolio of leases across the Arctic Alaska OCS.

"We have a very robust portfolio," Slaiby said.

In the past three years Shell has conducted seismic surveys in the Beaufort and Chukchi Seas and the company "likes what it has seen," Slaiby said.

At the same time, the company does not think that its seismic program has caused problems for subsistence hunters from North Slope communities.

"We've gotten what we have needed out of the program and we believe that the subsistence hunt and the subsistence lifestyle have not been adversely impacted in the North Slope Borough and the Northwest Arctic (Borough)," Slaiby said.

And, if offshore development proves viable, Shell is confident that purpose-designed, gravity-based platforms that sit on the seafloor could withstand the ravages of sea ice, given that the water is less than 150 feet deep in most of the Beaufort and Chukchi Sea areas that the company is interested in. Platforms in challenging regions such as Sakhalin and the North Sea have demonstrated the ruggedness of the gravity-based structures, Slaiby said.

Need to drill

But a development program cannot move forward until some wells have been drilled and lawsuits have stymied Shell's drilling plans since 2007, Slaiby said.

At the same time, drilling at remote Arctic offshore locations requires a major logistical operation entailing costs that build at the rate of tens of millions of dollars per month, a cost build-up that requires a go or no-go decision around Jan. 1 for drilling in the coming summer open water season. And, with lawsuits still unresolved, Shell decided several months ago not to drill in 2009.

On the other hand, Shell has used the hiatus in its drilling plans to continue discussions with people in North Slope communities who are stakeholders in OCS activities — many North Slope residents worry about the potential impact of offshore oil and gas development on subsistence activities, particularly the

see SHELL page 18

NATURAL GAS

DGGS schedules ROW geology meeting

The Alaska Department of Natural Resources' Division of Geological and Geophysical Surveys invites organizations involved in natural gas pipeline corridor issues to a meeting on geological data acquired by DGGS over the last four field seasons from Delta Junction to the Canadian border.

DGGS personnel and contractors will provide brief descriptions of current and future work related to: surficial geology; bedrock geology; engineering geology; permafrost; active faulting and tectonics; and geophysics.

The agency said the informal meeting is being held in response to requests from agencies and organizations about geology and geohazards along the proposed natural gas pipeline corridor.

The meeting will be May 7 from 9 a.m. to 3 p.m. at the DGGS office at 3354 College Road in Fairbanks.

Please RSVP to Trent Hubbard at 907-451-5009 or trent.hubbard@alaska.gov.

—PETROLEUM NEWS

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SHELL

hunting of bowhead whales.

"Stakeholders have legitimate concerns about what we're doing and what we're coming into," Slaiby said. "They see this as a huge potential impact to their way of life. We've spent a lot of time on the slope and in the Northwest Arctic Borough, listening to what stakeholders have been telling us. And as a result of that we've really changed a lot of what our program was going to look like."

Changes to Shell's plans include using just one drilling rig, rather than two rigs; delaying any delineation drilling until after 2011; and postponing any further seismic work until after 2010, Slaiby said.

"We make no bones about it," Slaiby said. "We're looking to try to wedge open the door, to prove that we can go up there and work, prove that we can continue to reflect on the success we've had on our seismic activity up there. … And we're really trying to work ourselves into a place where the stakeholders can be comfortable that we are doing the right thing and, more importantly, acknowledge that their needs are being addressed with Shell's programs."

Regulatory challenges

Slaiby also reflected on the regulatory challenges involved in obtaining the multiplicity of permits required to explore in the offshore. There are problems both with the capacity of agencies to deal with the permitting workload and with the litigation that tends to follow permit issuance, he said.

"At the end of the day I think you have to have some really hard conversations. Does the nation want to see energy? … You've got to start from the desire that you are going to see development move forward in certain instances, with certain realistic and prudent controls."
—Pete Slaiby, Shell's Alaska general manager

"The logical termination for every permit we put out there is that we will be challenged in court," Slaiby said. "That creates a lot of anxiety with the people who write the permits. It creates a lot of anxiety for us. And we obviously have a huge problem in deciding how we're going to go ahead and launch our programs."

Shell supports the need for regulation and the need to comply with regulations, Slaiby said.

"But we have to recognize that the regulators are experts. The NEPA process has been in place since the early 1970s. It's robust. It's managed by professionals," Slaiby said. "… At the end of the day I think you have to have some really hard conversations. Does the nation want to see energy? … You've got to start from the desire that you are going to see development move forward in certain instances, with certain realistic and prudent controls." ●

EXPLORATION & PRODUCTION

Nabors rig in place at Point Thomson

By KRISTEN NELSON
Petroleum News

Nabors rig 27E has reached Point Thomson — and ExxonMobil has provided pictures illustrating that fact.

The rig has been modified for drilling the high-pressure wells at the Point Thomson field on Alaska's eastern North Slope.

ExxonMobil said in an April 21 release that it had mobilized the drilling rig for the Point Thomson project.

The company said the rig was moved from Deadhorse to the drilling site in modules, some weighing more than 1 million pounds.

Work on the rig has been ongoing at Deadhorse while ice road permits were secured following an agreement reached between ExxonMobil, the Point Thomson operator, and the Alaska Department of Natural Resources, which had terminated the unit and taken back the leases.

Based on a commitment by ExxonMobil and the other Point Thomson owners to complete two wells by the end of 2010 and begin production by the end of 2014, DNR Commissioner Tom Irwin provisionally returned ownership of two leases to the companies and removed DNR's objection to ice road permits.

The first word that the rig was in motion came April 10 from Alaska Gov. Sarah Palin, who said at the end of a press conference that she had received word that there was "equipment rolling down the ice road today and the big rig following that equipment" on the way to Point Thomson.

Haymes: work on schedule

"We are moving forward with drilling and development activities at Point Thomson, for the mutual benefit of Alaskans and the Point Thomson unit working interest owners," Craig Haymes, Alaska production manager for ExxonMobil, said in the company's statement.

Haymes said state and federal agencies "have worked tirelessly to process permits necessary to allow drilling to begin."

"We are on schedule to begin production at Point Thomson by year-end 2014 and look forward to working with the State to resolve the remaining Point Thomson issues to ensure the project schedule is not impacted," he said.

Haymes said construction crews recently completed final installation of camps and support facilities at the existing gravel pad.

More than 250 people will work on the drilling operations, he said, with an average of more than 500 people at year-end 2014, when production is expected to begin.

ExxonMobil said that Fairweather E&P Services Inc. and Nanuq/AFC constructed more than 30 miles of ice roads so heavy equipment and materials could be moved to Point Thomson. Most of the ice road follows the shore line along the Beaufort Sea, the company said.

ExxonMobil had struck a deal to use the ice road built by Savant for its winter drilling work at Badami, cutting in half the mileage that had to be built to Point Thomson.

The initial phase of the project will process approximately 200 million cubic feet per day of Point Thomson gas in order to produce approximately 10,000 barrels per day of liquid condensate into the trans-Alaska oil pipeline by year end 2014, the company said, with the remaining gas recycled into the Point Thomson reservoir. The Point Thomson unit working interest owners committed $120 million to the drilling and development activities in 2008, with additional investments of about $250 million expected in 2009.

In addition to ExxonMobil, the other major Point Thomson owners participating in the current drilling and development activity include BP Exploration (Alaska) Inc. and ConocoPhillips Alaska Inc. ●


EXXONMOBIL PRODUCTION CO.

Nabors rig 27E, shown at the Point Thomson drill site.

ExxonMobil said that Fairweather E&P Services Inc. and Nanuq/AFC constructed more than 30 miles of ice roads so heavy equipment and materials could be moved to Point Thomson. Most of the ice road follows the shore line along the Beaufort Sea, the company said.

EXXONMOBIL PRODUCTION CO.

The sea-ice road to Point Thomson enabled the transportation of heavy equipment and materials for drilling operations while protecting the North Slope environment.

US moves toward climate change rules

The U.S. Environment Protection Agency on April 17 declared that carbon dioxide and five other greenhouse gases sent off by cars and many industrial plants "endanger public health and welfare," setting the stage for regulating them under federal clean air laws.

The action by EPA marks the first step toward requiring power plants, cars and trucks to curtail their release of climate-changing pollution, especially carbon dioxide from the burning of fossil fuels.

EPA Administrator Lisa Jackson said while the agency is prepared to move forward with regulations under the Clean Air Act, the Obama administration would prefer that Congress addressed the climate issue through "cap-and-trade" legislation limiting pollution that can contribute to global warming.

In announcing the proposed finding, Jackson said the EPA analysis "confirms that greenhouse gas pollution is a serious problem now and for future generations" and warrants steps to curtail it.

The April 17 action by the EPA triggered a 60-day comment period before the agency issues a final endangerment ruling. That would be followed by a proposal on how to regulate the emissions.

Six gases listed

The agency said in its finding that "in both magnitude and probability, climate change is an enormous problem" and that carbon dioxide and five other gases "that are responsible for it endanger public health and welfare within the meaning of the Clean Air Act."

The EPA concluded that the science pointing to man-made pollution as a cause of global warming is "compelling and overwhelming." It also said tailpipe emissions from motor vehicles contribute to climate change.

The EPA action was prompted by a Supreme Court ruling two years ago that said greenhouse gases are pollutants under the Clean Air Act and must be regulated if found to be a danger to human health or public welfare.

The Bush administration strongly opposed using the Clean Air Act to address climate change and stalled on producing the so-called "endangerment finding" demanded by the high court in its April 2007 ruling.

The court case, brought by the state of Massachusetts, focused only on emissions from automobiles. But it is widely assumed that if the EPA must regulate emissions from cars and trucks, it will have no choice but to control similar pollution from power plants and industrial sources.

In addition to carbon dioxide, a product of burning fossil fuels, the EPA finding covers five other emissions that scientists believe are warming the earth when they concentrate in the atmosphere: Methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF_6).

—THE ASSOCIATED PRESS

● SAFETY & ENVIRONMENT

US Congress weighs global warming bill

EPA says April 17 it will use Clean Air Act to address 6 gases; congressional hearings begin on revolutionary environmental bill

By DINA CAPPIELLO

Associated Press Writer

The last time Congress passed major environmental laws, acid rain was destroying lakes and forests, polluted rivers were on fire and smog was choking people in some cities.

The fallout from global warming, while subtle now, could eventually be even more dire. That prospect has Democrats pushing legislation that rivals in scope the nation's landmark anti-pollution laws.

Lawmakers began hearings the week of April 20 on an energy and global warming bill that could revolutionize how the country produces and uses energy. It also could reduce, for the first time, the pollution responsible for heating up the planet.

If Congress balks, the Obama administration has signaled a willingness to use decades-old clean air laws to impose tough new regulations for motor vehicles and many industrial plants to limit their release of climate-changing pollution.

The Environmental Protection Agency on April 17 said rising sea levels, increased flooding and more intense heat waves and storms that come with climate change are a threat to public health and safety. The agency predicted that warming will worsen other pollution problems such as smog.

> *"The Clean Air Act was not designed to address carbon emissions, and is, at best, a very blunt instrument. I'm disappointed the administration has chosen to act on its own."*
>
> —Sen. Lisa Murkowski, R-Alaska

"The EPA concluded that our health and our planet are in danger. Now it is time for Congress to create a clean energy cure," said Rep. Ed Markey, D-Mass., one of the sponsors of the American Clean Energy and Security Act.

Sen. Lisa Murkowski, R-Alaska, opposed action by EPA, saying in an April 17 statement: "The Clean Air Act was not designed to address carbon emissions, and is, at best, a very blunt instrument. I'm disappointed the administration has chosen to act on its own."

She said American families were likely to pay several thousand dollars a year in higher energy costs through a mandatory cap, and said climate change should be tackled through an open and delibera-

see BILL page 21

continued from page 20

BILL

tive congressional process.

"Congress should be given the time to thoroughly consider the benefits and risks of legislation to curb emissions," Murkowski said.

First major recent law

If passed, it would be the first major environmental protection law in almost two decades. In addition to attempting to solve a complex environmental problem associated with global warming, the bill also seeks to wean the nation off foreign oil imports and to create a new clean-energy economy.

"It's a big undertaking," said the chairman of the House Energy and Commerce Committee, Rep. Henry Waxman, D-Calif. Waxman and Markey presented their 648-page bill in March.

From 1969 to 1980, Congress passed more than a dozen environmental bills tackling everything from air and water pollution and garbage, as well as protections for fisheries, marine mammals and endangered species. In 1990, the Clean Air Act was overhauled to address the problem of acid rain created by the sulfur dioxide released from coal-burning power plants.

"We had two decades of extraordinary legislation and almost two decades of nothing," said Richard Lazarus, a Georgetown University law professor and author of "The Making of Environmental Law." "If this one passes, it will certainly be an outburst."

There are many reasons why Congress' chances to succeed in passing global warming legislation are improved this year, but by no means assured.

Pent up demand

After President George W. Bush did little about global warming in his two terms, there is "a lot pent up demand" for action on climate, said William Ruckelshaus, the first administrator of the Environmental Protection Agency.

Both the Democratic-controlled Congress and President Barack Obama agree that legislation is needed to limit emissions of greenhouse gases and radically alter the nation's energy sources. They want to pass a bill by the end of the year.

"For the first time ever, we have got the political actors all aligned," said Lazarus. "That is not enough to get a law passed, but that is a huge start. We haven't been close to that before."

Unlike the 1970s, when the first environmental laws passed nearly unanimously, Republicans are opposed. They question whether industry and taxpayers can afford to take on global warming during an economic recession.

But the problems are not as apparent as they were in the 1970s, or even the early 1990s, when Congress addressed acid rain and depletion of the ozone layer.

Then there is the question whether the public will have the appetite to accept higher energy prices for a benefit that will not be seen for many years. Climate change ranks low on many voters' priority lists.

Every year since 2001 has been among the 10 warmest years on record. Sea ice in the Arctic and glaciers worldwide are melting.

Issues now are subtle

But the problems are not as apparent as they were in the 1970s, or even the early 1990s, when Congress addressed acid rain and depletion of the ozone layer.

"If carbon dioxide were brown, we wouldn't have the same problem," said Gus Speth, who organized the Natural Resources Defense Council in 1970. "But it's a subtle issue. ... The problems are chronic not acute, and it is largely invisible to people unless they're reading the newspaper or checking the glaciers or going to the South Pole."

In 1969, oil and debris in the Cuyahoga River in Cleveland burst into flames, an incident that led to the passage of the Clean Water Act. That same year, a blowout at an offshore oil platform off Santa Barbara, Calif., spilled millions of gallons of oil onto beaches. And long before that, a smog episode in Donora, Pa., in 1948 killed 20, sparking a crusade against air pollution.

"There was so much evidence — sort of smell, touch and feel kind of evidence — that the environment was really in trouble," said Ruckelshaus. "We had real problems, real pollution problems that people could see on the way to work. And there were rivers catching on fire and terrible smog events."

With climate, "you are asking people to worry about their grandchildren or their children," he said. "That is why it will be so tough to get something like this through." ●

—Petroleum News contributed to this story

Petroleum news

Business Spotlight

Doyon Universal Services LLC

Doyon Universal Services LLC was created in 1992 through the bringing together of two companies with a collective 80 years of experience in Alaska. DUS is the premier integrated facility management contractor and full spectrum security services provider for both urban and remote sites throughout Alaska and Colorado.

Cindy Marshall

FORREST CRANE

Cindy Marshall, CPCE, Catering and New Business Development Director

Joining the Operations Team as Director of Catering and New Business Development, Cindy Marshal has been with Doyon for 10 years, holding several management positions. Cindy moved from California in 1991 and has been selected Caterer of the Year in Alaska seven times over the last 15 years, is a member of the chamber, ACVB, Toastmasters International and NACE, holding board positions nationally and locally. She is a self-professed "education junkie," believing that you never stop learning. Cindy enjoys spending time with her husband Kurt and two children, Sean and Kyrstin.

—MARTI REEVE

William Sola

FORREST CRANE

William Sola, Operations Director

Recently promoted to Operations Director, William Sola joined Doyon in 1997 as the purchasing lead, keeping the food supply chain full through typical Alaska challenges. He has a bachelor's degree in business from Washington State University and has lived in Anchorage for nearly 30 years, enjoying a wonderful network of friends and business contacts. His knack for being at the right places at the right times and getting great results working with fellow Alaskans, here or abroad, helps keep Doyon's clients satisfied.

—MARTI REEVE

Companies involved in Alaska and northern Canada's oil and gas industry

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Petroleum News Oil Patch Bits


COURTESY CROWLEY

Crowley receives new Alaska Tug Nachik

Crowley said April 8 that it has taken delivery of the Nachik, a newly designed shallow draft tug, from Diversified Marine in Portland, Ore.

The Nachik, which means "hair seal" in the native Inupiaq language, will be deployed in Alaska and is the third new vessel to be handed off to Crowley in less than two weeks. The Nachik is a triple-screw diesel-powered tug equipped to safely propel petroleum and freight barges in river systems throughout Alaska.

Its sister vessel, the Sesok, which means "beluga whale," is scheduled to be delivered in late May.

"Continued reinvestment in new equipment, like the Nachik, is important to Crowley and our customers as we ensure safe and environmentally sound transportation throughout Alaska's pristine waterways. We look forward to christening the Nachik next month in Seward and the Sesok shortly after," said Craig Tornga, Crowley's vice president of petroleum distribution in Anchorage, Alaska.

For more information visit www.crowley.com.

North Slope Telecom has new Web site

North Slope Telecom Inc. said April 9 it has a new Web site.

"The Web site focuses on the customer and what NSTI can do for them," said Jon Laprise, project and engineering manager for North Slope Telecom. "It also allows our customers to view the large offering of telecommunication products and services that we provide."

NSTI is recognized throughout Alaska for its expertise in voice and data communications infrastructure via satellite, microwave and fiber optics to urban and remote locations. With a staff of electrical engineers, installers, technicians and material specialists, NSTI is uniquely suited to perform telecommunications design and installation projects in the state of Alaska, as well as other extreme, remote locations and climates.

For more information visit www.nstiak.com.

Lynden companies receive Green Star award

The Lynden family of companies said April 10 that it was recently presented with a Green Star award for environmental programs in Alaska. The nonprofit Green Star organization encourages businesses to practice waste reduction, energy conservation and pollution prevention through education and the voluntary "green business" certification program.

Lynden's award will be officially presented next month at an Anchorage Chamber of Commerce meeting.

"Green Star is Alaska's leading organization recognizing waste reduction, energy conservation and pollution prevention," said Jon Burdick, Lynden president. "Lynden has always been 'green,' working toward leaner, more productive and efficient ways of serving our customers, and we're pleased to receive this award."

Lynden said it strives to operate in the most efficient manner with the highest regard for the health and safety of its employees and protection of the environment, while helping its customers solve a variety of transportation problems.

For more information visit www.lynden.com.

Editor's note: Expanded versions of these news items will appear in the next Arctic Oil & Gas Directory, which will be released in July.

● NATURAL GAS

AGIA funding, reports an issue in Juneau

Administration agrees to provide reports to legislators at end of April, October; unspent FY 09 AGIA funding goes to in-state line

By KRISTEN NELSON
Petroleum News

AGIA, the Alaska Gasline Inducement Act, was not formally on the agenda in the Alaska Legislature this year, but Gov. Sarah Palin's plan to jumpstart a natural gas pipeline from the North Slope to markets was not forgotten.

Reps. Jay Ramras, R-Fairbanks, and Craig Johnson, R-Anchorage, sponsored House Concurrent Resolution 12 and House Resolution 11, asking for updates on the TransCanada Alaska project which received the AGIA license.

And the Legislature failed to allow the administration to carry over monies voted for AGIA last year, but not spent in this fiscal year because legislators delayed issuance of the AGIA license to TransCanada.

HCR 12 actually asked for a good deal more than just updates: It called on the governor and the attorney general to review and re-evaluate the license issued to TransCanada in light of the global economic recession's potential risks for project financing.

Administration — just ask

The administration defended the AGIA license at a press conference in mid-March.

Gov. Sarah Palin said "AGIA is a contract," and that just as the state expects the oil and gas industry to abide by its agreements with Alaska, the state also needs to abide by its agreements.

Palin said her interpretation of HCR 12 was that it was a call for double checking and triple checking. The administration is happy to do that she said, but doesn't believe the resolution is necessary.

Commissioner of Revenue Pat Galvin told the House Special Committee on Energy in mid-March at a hearing on HCR 12 that he believed the TransCanada AGIA project remained economic and he said the administration was evaluating information as TransCanada proceeds.

"You don't need to present a resolution," Galvin said: "Just ask us to present information."

Ramras asked for resolution changes from the administration that would produce quarterly reports on progress; Galvin said he would work with the sponsors on changes. The Energy Committee held HCR 12; the resolution was withdrawn by the sponsors April 18.

see **AGIA FUNDING** *page 24*

continued from page 23

AGIA FUNDING

House Resolution 11

In mid-April Ramras and Johnson introduced House Resolution 11, which requested biannual reports on the TransCanada project licensed under AGIA, but not a re-evaluation of the project.

The resolution referenced an April 10 letter from the governor to the sponsors, and to the House Special Committee on Energy, agreeing that biannual reports on the AGIA-licensed project would "serve the public interest in monitoring the progress of the licensed project."

While HR 11 said the administration had agreed to submit biannual reports, Ramras and Johnson still introduced the resolution, asking for biannual reports covering project reimbursement status; project progress and major achievements; project assessments by third-party consultants; and Alaska workforce assessment.

Ramras said on the House floor April 19 that he had received "satisfactory correspondence" on that day from the administration and was withdrawing the resolution.

He said reports would be prepared by the administration on April 30 and Oct. 31, with a statutorily required report due Jan. 1.

The appropriation issue

At an end-of-session press conference April 19 the governor said both AGIA and an in-state gas line "are very important for the future of Alaska and they're not mutually exclusive and that's why energy overall is our priority and we become energy secure with the AGIA line and with an in-state line."

Asked about the failure of legislators to allow re-appropriation of AGIA implementation money for fiscal year 2009, the governor said it "was disappointing that Revenue will not receive this go-around some of the requests that we had there."

"You know AGIA had a fiscal note attached to it and we have an obligation to fulfill all aspects of that law including the fiscal note," Palin said.

Joe Balash, the governor's special assistant for oil and gas, noted the administration requested $15 million in last year's appropriation bill which would have covered five years of AGIA. Legislators wanted to allocate money year-by-year, Balash said, so $5.5 million was appropriated for FY 09, but for one year only.

This year the administration asked for FY 10 money, which was appropriated, Balash said.

But an extended lapse date for the FY 09 money, which would have allowed it to be used in FY 10, did not materialize in any of the appropriations bills, although, Balash said, the administration had been led to believe the date would be extended.

The monies were not expended as expected because the Legislature delayed issuance of the AGIA license until the end of 2008.

Sen. Gene Therriault, R-North Pole, raised the issue on the Senate floor April 19. He said the $2.7 million was needed for AGIA work, including audits of TransCanada reimbursement requests and reports requested by legislators and argued that if the administration did not have access to those funds the AGIA effort would suffer.

Sen. Bert Stedman, R-Sitka, co-chair of Senate Finance, responded by saying those funds had been allocated to the governor's in-state gas priority due to pressures on the state budget. ●

● SAFETY & ENVIRONMENT

Inlet platforms may be idle for months

Redoubt volcano remains potentially explosive; Drift River won't be restarted soon; Chevron looks for other ways to move oil

By RICHARD MAUER
Anchorage Daily News

With Redoubt volcano still active and potentially explosive, officials have given up trying to restart the nearby Drift River oil terminal anytime soon, indefinitely idling about 10 oil platforms in Cook Inlet.

"It will take as long as Mother Nature decides," said a Coast Guard spokeswoman, Petty Officer Sara Francis. It's unlikely Drift River can reopen before early fall, she said.

The owner of the Chevron-operated facility, Cook Inlet Pipeline Co., is studying other ways of getting oil from the west side of Cook Inlet to market, Francis said. But so far, officials have not come up with a bypass plan, she said.

None of the production or pipeline employees have been furloughed yet, but contractors have been idled, according to Francis and Chevron spokeswoman Roxanne Sinz. Drift River employees have been working on other projects, Francis said. Chevron, which operates the platforms, is evaluating its workforce needs, Sinz said.

The state is losing about $45,000 a day in missed royalty payments.

The Drift River facility, a storage and transit way station between the offshore wells and refineries, was evacuated the day after Redoubt began its current eruption cycle March 22.

Thirty years ago, when Cook Inlet was in its prime and producing far more oil than could be consumed in Alaska, the facility sent oil as far away as Taiwan to be refined. Now all its crude travels to the Tesoro refinery in Nikiski, just a few miles by boat.

An effort to restart operations and deliver oil to a tanker on April 4 was scrubbed by another major blast from Redoubt.

Both explosions sent massive floods of mud and water down Drift River. A dike built in 1990 spared tanks containing 6.2 million gallons of crude, but the facility's airstrip was inundated, as were some buildings and mechanical facilities.

The sobering effect of the April 4 explosion, with workers forced to take shelter in an emergency safe house above projected high water levels and the tanker fleeing an ash fall, led officials to give up trying to operate the terminal during eruption lulls.

On April 7, the tanker returned to the terminal's offshore dock and took on as much oil from the facility as workers could pump — 3.7 million gallons. The remaining 2.5 million gallons was below the pump inlets and contained a mix of crude, sludge, sand and other gunk that Tesoro couldn't process. Before the tanker left, it pumped millions of gallons of seawater back into the tanks to increase their weight and reduce the possibility of them floating off their foundations if the terminal were flooded.

A joint command of the Coast Guard, Alaska Department of Environmental Conservation and Cook Inlet Pipeline has been meeting weekly to monitor the situation and decide how to proceed.

While some workers have made day forays to the site, there's been little activity at the terminal since the tanker's departure, Francis said. When it's safe, they will return to clear the quicksand-like mud off the runway, a job estimated to take 20 days.

It may be possible to suck out some of the water and sludge remaining in the two

see **DRIFT RIVER** *page 27*

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GAS DELIVERY

up by former Natural Resources Commissioner Harry Noah.

The administration wasted no time, opening bidding on a contract on April 20.

The Palin administration requested $9 million for the work plan, but some lawmakers contested the request, saying they didn't learn about it until final budget deliberations.

Spending guidance a concern

Those lawmakers worried, in particular, that the appropriation didn't include enough guidance as to what it would and would not be used for and ultimately, the $7 million appropriation came with language attached designed to focus the use of the money.

Noah's work will most likely build on efforts by the Alaska Natural Gas Development Authority and Enstar Natural Gas, two groups studying separate pipeline projects.

The administration plans to collect engineering, permits and rights of way, and sell the package of information to a private sector company to actually construct the pipeline.

Legislative leaders noted that state lawmakers, by constitutional requirement, would have the authority to determine the terms of sale and the buyer for that package of goods.

ANGDA worried about funding

Throughout much of the latter part of the session, ANGDA worried the administration work might siphon funding or interest from its own work. Harold Heinze, chief executive officer of ANGDA, and Noah reached some terms of agreement in the final days of the session.

Ultimately the Legislature funded the $312,100 operating budget of ANGDA, but not the capital budget requested to fund specific projects relating to its spur line project. ANGDA plans to meet soon to discuss how to continue its work in light of its financial situation.

Enstar, a private company, did not request funding from the Legislature this year.

However, one bill before lawmakers was designed to alleviate potential concerns of a pipeline builder about protecting shippers on the pipeline. That bill, HB 164, received considerable time in committees, but did not reach the floor during the first session.

The bill would provide some guarantees that initial shippers on the pipeline would not have their shipments prorated if new customers came along in subsequent years.

Although ANGDA did not get the financial support it wanted, the agency is still moving forward on contracts and other plans related to its efforts on the in-state gas pipeline.

Contracts ready (already)

With the session complete, focus is now shifting to the summer work season.

The Department of Natural Resources is budgeting between $5 million and $6 million for a contract to gather enough information to decide whether to sanction a "bullet" line from gas fields in northern Alaska to the Southcentral distribution grid, through Fairbanks.

The work includes deciding the best route for the pipeline, gathering early permits and estimating the shipping costs on the pipeline, as well as finding a source of natural gas to fill the pipeline and finding industrial and large commercial customers to buy that gas.

The potential residential demand for gas along the road system of Alaska is not believed to be enough to support an 800-mile pipeline projected to cost $4 billion or more.

The contract runs through June 30, 2011, with milestones to be completed along the way.

The first step is comparing four scenarios: two routes for a bullet line from the North Slope and two routes for a spur off a proposed mainline from Prudhoe Bay into Alberta.

A spur line could take advantage of the scale of a big pipeline to possibly lower costs to consumers. But the uncertain timing of a big pipeline, combined with declining gas production in Cook Inlet, has turned some sights toward building an independent bullet line.

Enstar is studying a bullet line from the Brooks Range Foothills to Anchorage down the Parks Highway. ANGDA is studying a spur line from Delta Junction to Anchorage down the Richardson and Glenn Highways that could be extended to the North Slope if needed.

The contractor will analyze a bullet line and spur line option for each of the two routes.

The state is scheduling some two months for this work. Following a public review of the results of the comparison study, the ANGDA board of directors will meet this July to choose which route to follow, according to an April 17 letter from Joe Balash, Palin's special assistant for oil and gas issues, to members of the House Finance Committee.

ANGDA prepping workload

Although ANGDA did not get the financial support it wanted, the agency is still moving forward on contracts and other plans related to its efforts on the in-state gas pipeline.

The board of directors planned a special meeting on April 23 to prioritize contracts in the wake of its limited funding. The meeting occurred after Petroleum News went to print, but was also scheduled to discuss the relationship between ANGDA and Noah's efforts.

ANGDA has some money on hand, funding unspent from previous budget cycles.

Some of the work on the table includes a study of the resources available in Cook Inlet and petroleum engineering review of an exploration well drilled near Glennallen.

At an April 20 meeting, ANGDA announced plans to host a workshop in Fairbanks at the end of May where various in-state gas players could discuss the issue before the public.

An early invitee list included ANGDA and Enstar; Anadarko Petroleum, which is exploring for gas in northern Alaska; the Alaska Gasline Port Authority; representatives from various communities on the road system; the Governor; and key legislative leaders. ●

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ALIGNMENT

with haste to make consumers and industry pay for greenhouses gases in order to protect the economy and fight potential international tariffs and duties on Canadian products.

The advisory panel said Canada must accept that the U.S. will launch a wave of protectionism under the banner of environmental action.

Protectionist challenge

Panel Chairman Bob Page said that, for Canadian companies, "It is the most serious, protectionist challenge that we've had to face.

"There is an urgency in terms of compatibility, not uniformity, but compatibility between Canadian programs and American programs, just to allow us to continue the existing (North American Free Trade Agreement) trading relationship between Canada and the United States."

He said the oil sands resources of Alberta and Saskatchewan were particularly at risk.

Environment Minister Jim Prentice had previously said that to head off any trade-related consequences he is working to ensure that Canadian rules are comparable to those in the U.S.

His office said the advisory panel's recommendations will get serious attention from Prentice as part of his ongoing efforts to develop a GHG-reduction plan.

"As the minister expressed, the economic downturn and the commitment of the U.S. president to move quickly requires that we fine tune our approach to tackling climate change," a spokesman said.

The NRTEE's report, entitled "Achieving 2050: A Carbon Pricing Policy for Canada," insists that "now is exactly the time to seize the opportunity before us ... and lay the groundwork for a truly effective long-term climate change policy framework through a nationally collaborative approach to a unified carbon-pricing policy in Canada and an internationally harmonized approach in North America."

National price on carbon

The panel suggests that Canada should impose a national price on carbon of about C$100 per metric ton by 2020 or sooner, rising to C$200 by 2050, to reduce carbon emissions by 20 percent below current levels by 2020 and 65 percent by 2050.

Reaching those targets means Canada has to adopt a "fast and deep" plan to make sure carbon prices strike deep into the economy.

The NRTEE estimates its blueprint would add C$1,000 to the annual cost of living for the lowest-income Canadians who are making C$28,258 per year, rising to C$4,000 a year for households averaging C$248,672 per year unless "mitigating action is taken."

Among other items, the panel estimates new annual spending of C$3.4 billion would be needed to improve energy efficiency or reduce energy consumption and compliance costs would run to C$1.9 billion.

In addition, Canada would need to impose new tariffs on imports to ensure foreign suppliers were not evading Canada's carbon pricing regime.

Page said such a drastic course of action is essential based on his discussions with U.S. officials and politicians in Washington, who have made it clear the U.S. is ready to go it alone.

"I don't think we have a hope in hell of fighting them," he told the Globe and Mail.

He said Canadians tend to exaggerate their ability to wield influence in the U.S. Congress, when key U.S. senators and representatives have told him "Canada will play no role in terms of the development of a very complex piece of legislation. …"

"I think we have to be realistic in terms of the momentum that's building of a protectionist nature which just happens to have the environment as a tool to use here," said Page.

Report says no choice

The NRTEE report said Canada has no choice but to introduce climate-change policies this year that are more aggressive and sweeping than those announced so far.

The report said an effective plan must target the entire economy and not just heavy industry and should start with the Canadian government phasing out its plan for "intensity-based" GHG reductions tied to units of production, turning instead to a national cap-and-trade system that sets absolute limits on GHG emissions, regardless of how much production increases.

The panel also said the federal government should avoid the patchwork of climate-change policies being introduced by provincial governments and work on a single national system.

The report estimated that a cap-and-trade system would "trickle down," adding 21 cents per liter to the price of gasoline by 2020.

Canada's Council of Chief Executives welcomed the recommendations, endorsing the call for a unified policy across Canada — an objective that would be certain to encounter stiff resistance and perhaps a constitutional showdown between the federal government and the provinces of Alberta and Saskatchewan.

U.S. legislation introduced

The sense of urgency stems from a bill introduction in April in the House of Representatives that would establish U.S. national emission caps and impose border duties on imports from countries deemed to have lax climate-change rules.

A further push came April 17 when the U.S. Environmental Protection Agency said six GHGs, including carbon dioxide, are a threat to public health and welfare, possibly allowing the agency to impose the first mandatory controls on GHGs under the federal Clean Air Act.

The finding is subject to a 60-day comment period. Public hearings are scheduled for May 18 and May 21, although Rep. Ed Markey, D-Mass., said Congress will choose to legislate curbs on GHGs rather than allow the agency to impose regulations.

Jack Gerard, president of the American Petroleum Institute, said the agency finding endangers the U.S. economy and every family if it results in "complex, costly requirements" on business and institutions.

Charles Drevna, president of the National Petrochemical and Refiners Association, said "such a regulation would have an enormous impact on every facet of the economy" and constitute the agency's "single largest and potentially most complex assertion of authority over the U.S. economy."

Debate mirrored in B.C.

The debate that lies ahead in Canada over the best course to take is mirrored in British Columbia, which is in the midst of a campaign leading to a May 12 provincial election.

Standing alongside Premier Gordon Campbell at a drill site in northeastern B.C. on April 16, Richard Dunn, EnCana's vice president for external relations, said that "if a price is put on carbon" by the B.C. government, EnCana "supports all consumers paying equally."

He was reacting to promises by the opposition New Democratic Party that it would scrap the Liberal government's carbon tax on transportation and home heating fuels, saying it is costing jobs and causing economic hardship.

Under leader Carole James, the NDP would instead tax fossil fuels at their source and raise another C$400 million over three years from a new tax on gas flaring.

Premier Gordon Campbell said the NDP plan would stifle future investment in B.C., where the oil and gas industry pumped C$3.6 billion into provincial coffers last year, making it the province's largest single revenue generator.

Dunn said EnCana — which expects to invest C$1 billion in B.C. this year and provide 7,000 jobs — paid C$4 million to C$5 million last year in carbon taxes, which he viewed as a fair way to price carbon, allowing his company to plan because the tax rates increase predictably over time.

Asked what he thought of the NDP proposal for a flare tax, he said, "We're always looking at the investment opportunities and the need for competitiveness."

Without being more specific, Dunn seemed to be indirectly pointing to EnCana's own decision to transfer more of its capital spending to B.C. after Alberta introduced its new royalty regime. ●

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OCS

Other Alaska lease sales under the program, in the Beaufort Sea, the North Aleutian basin and the lower Cook Inlet, have not yet been held.

Economic value

The oil industry and many Alaska elected officials say that offshore oil and gas development will help reduce U.S. dependence on foreign oil, that it is critical to Alaska's economic future and that offshore development and production can be done in a way that protects the environment.

"Alaska's OCS is America's energy storehouse and it needs to be developed with sensitivity to climate change and marine life, but I am troubled that the groups behind this litigation are engaging in the too-familiar tactic of suing on every possible issue, no matter the legal merits," said Sen. Lisa Murkowski. "… Whether this case is appealed again or if the Department of Interior restructures the five year plan, I am hopeful that a good faith effort to advance a responsible and efficient program for our OCS resources in Alaska and elsewhere will be a priority for all three branches of government. The world's environment, as well as our nation's security and economy, depend on our leadership on this issue."

Caroline Cannon, president of the Native Village of Point Hope Tribal Council, the federally recognized tribal government for the Chukchi coast village of Point Hope, expressed a different perspective. Many North Slope residents are concerned about the potential impact of an offshore oil and gas industry on subsistence hunting.

"This is a historical event for our tribe and tribal members," Cannon said in a statement following the court decision. "Drilling would cause irreversible damage to our ocean and sea animals and would severely impact our cultural traditions. We look forward to working with Secretary Salazar to protect our waters. We hope our children do not have to fight the same issue. This comes at a right time because our community is preparing for whaling and it means a lot to our people."

5-year cycle

MMS schedules lease sales in five-year cycles for the various OCS planning areas open to oil and gas leasing around the U.S. In doing this, the Secretary of the Interior is required to consider a variety of factors raised by the prospect of oil and gas exploration and development, including economic, environmental and social issues.

The DOJ investigation needs to take into consideration such questions as the status of the leases issued in the 2008 Chukchi Sea lease sale and what might be involved in salvaging the remainder of the sales in the 2007 to 2012 program.

The publication of a five-year lease sale program involves two public review periods, requires the development of an environmental impact statement under the terms of the National Environmental Policy Act and requires a review of the program by the President and Congress before final approval by the Secretary of the Interior.

In 2007, not long after final publication of the 2007 to 2012 lease sale program, the Native Village of Point Hope, the Center for Biological Diversity, the Alaska Wilderness League and Pacific Environment appealed the DOI approval of the program, on the grounds that the program did not take into account the impact of oil and gas leasing on climate change; was approved without adequate baseline biological research and without adequate Endangered Species Act consultation; and was irrational in relying on an insufficient environmental sensitivity assessment by the National Oceanographic and Atmospheric Administration.

Upheld

And, following oral arguments held in October 2008, the court has now upheld the claim that the environmental sensitivity rankings in the lease sale program are irrational, and has thus required that the lease sale program be vacated for reconsideration. However, the court has dismissed the other grounds for appeal.

In the court's written opinion, Chief Judge David Sentelle said that, whereas the Outer Continental Shelf Lands Act requires agencies to consider the relative environmental sensitivity of different areas of the OCS, DOI had only used a NOAA analysis of the environmental sensitivity of shoreline areas to oil spills to satisfy this requirement for lease sale program approval.

"Interior's use of the NOAA study runs afoul of this provision because it assesses only the effects of oil spills on shorelines," Sentelle said. "Interior provides no explanation for how the environmental sensitivity of coastal shoreline areas can serve as a substitute for the environmental sensitivity of OCS areas, when the coastline and proposed leasing areas are so distant from each other."

The Secretary of the Interior must conduct a more complete comparative analysis of the environmental sensitivity of different areas of the OCS and then determine whether the results of this analysis warrant the exclusion of any proposed leasing areas from the lease sale program. Then the Secretary must reassess the timing and location of the lease sale program "so as to obtain a proper balance between the potential for environmental damage, the potential for the discovery of oil and gas, and the potential for adverse impact on the coastal zone," Sentelle said.

Determining implications

The U.S. Department of Justice, on behalf of DOI, is now determining the full implications of the court decision.

"We're working with the Department of Justice to review it and decide how to respond," DOI spokesman Frank Quimby told Petroleum News April 22.

The DOJ investigation needs to take into consideration such questions as the status of the leases issued in the 2008 Chukchi Sea lease sale and what might be involved in salvaging the remainder of the sales in the 2007 to 2012 program. It is not clear how long this investigation will take.

"We are reviewing the Court's decision and no determination has been made as to the government's next step in this matter," Andrew Ames from the DOJ Office of Public Affairs told Petroleum News April 22.

The court decision does not affect current outer continental shelf leases in the Beaufort Sea — MMS issued those leases as part of an earlier five-year lease sale program. ●

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DRIFT RIVER

active tanks later this month. A propeller at the bottom of each tank — kind of like the blade in a food processor — can mix the material and suspend it in the water to some degree, she said.

But before normal operations can resume, the tanks must be completely cleaned. Under non-volcanic conditions, that means bringing a vacuum truck to the facility to suck out the sludge, then sending workers into the tank to scrub it clean. Start to finish is normally a four-month, 24-hour-a-day operation, she said.

"It's going to take all summer to clean those tanks," Francis said.

And that's if Redoubt cooperates. Scientists with the Alaska Volcano Observatory said Redoubt appears to be building a massive, unstable dome from lava emerging through the vent. Two likely scenarios, according to the AVO's Chris Waythomas:

- The dome blows up from a buildup of gas rising through the vent;
- A portion of the dome collapses down the flank of the volcano from the pull of gravity, weakening the structure and allowing internal pressure to blast through.

Either event could trigger another massive flood down Drift River, Waythomas said.

Francis said Cook Inlet Pipeline Co. officials are considering adding another 5 feet of height to the 1990 dike system, which already rises about 25 feet. ●

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INSIDER

ment in a grab bag of areas, such as climate change, environment, federal regulatory reform, fiscal matters, safety and environmental stewardship and aboriginal affairs.

While based in Calgary he will travel to Washington frequently "working on files that are central to the oil and gas industry's ability to contribute to Canada's economic resiliency and long-term growth, provide a safe and secure energy supply and find ways to provide policy leadership on critical environmental issues."

"The industry is facing a complex range of issues in a rapidly changing economic and political environment and I have a great respect for the people at CAPP today and those who've come before me," he said in a release.

Huffaker believes strongly that "there is a tremendous alignment between the interests of the Canadian oil and gas industry and the long-term best interests

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of the U.S."

He will be "very happy to argue in the halls of Washington that while we need to make progress on climate change, we need to be very careful about not doing it in a way that injures America's largest energy relationship … with people in Canada who are reliable, who keep their promises, who follow through on the environmental commitments they make."

Huffaker will head up a team that will closely track policy developments in both countries, paying especially close attention to where the administration of President Barack Obama moves on energy and environmental legislation and making sure the Canadian industry's viewpoint is understood as U.S. lawmakers enter the climate-change debate.

CAPP President David Collyer said Huffaker brings a "well-informed and unique set of skills, understanding and experience to policy development during a period of significant transition for our industry. …"

He said Huffaker's experience on both sides of the border will help Canadians move forward on three fronts: environment, energy and the economy.

—GARY PARK

Exxon Mobil tops 2009 Fortune 500 list

EXXON MOBIL CORP. UNSEATED Wal-Mart Stores Inc. in the 2009 Fortune 500 list, shrugging off the oil price bubble and weathering what the magazine called the worst year ever for the country's largest publicly traded companies.

Fortune's closely watched list, released April 19, ranked companies by their revenue in 2008. Irving, Texas-based Exxon took in $442.85 billion in revenue last year, up almost 19 percent from 2007. The company also raked in the biggest annual profit, earning $45.2 billion.

Bentonville, Ark.-based Wal-Mart had held the top spot for six of the last seven years but fell to No. 2 this year. Still, the retail giant's 2008 revenue climbed 7 percent to $405.6 billion, as the battered economy sent more consumers searching for bargains. The world's largest retailer took in $13.4 billion in annual profit, an increase of about 5 percent.

Although it may have been a good year for Exxon and Wal-Mart, 2008 was far from rosy for most of remaining companies on the list. Overall earnings plunged 85 percent to $98.9 billion from $645 billion in 2007, the biggest one-year decline in the 55-year history of the Fortune 500 list.

"America is getting used to the sound of bubbles bursting," Fortune said.

Energy companies continued to dominate many of the top positions, as last summer's skyrocketing oil and gas prices more than compensated for their plunge later that fall. Chevron Corp. held on to third place with $263.16 billion in revenue, up 25 percent. ConocoPhillips climbed one place to fourth, with $230.76 billion in revenue.

Telecom giant AT&T Inc. moved up two notches to take eighth place.

Engineering and construction company URS Corp. moved the most up the list, leaping 185 spots to No. 264. But the title of "biggest loser" went to AIG Corp. The insurer, which has received more than $180 billion in government bailout aid since last fall, fell 232 spots to 245 in this year's ranking.

—THE ASSOCIATED PRESS

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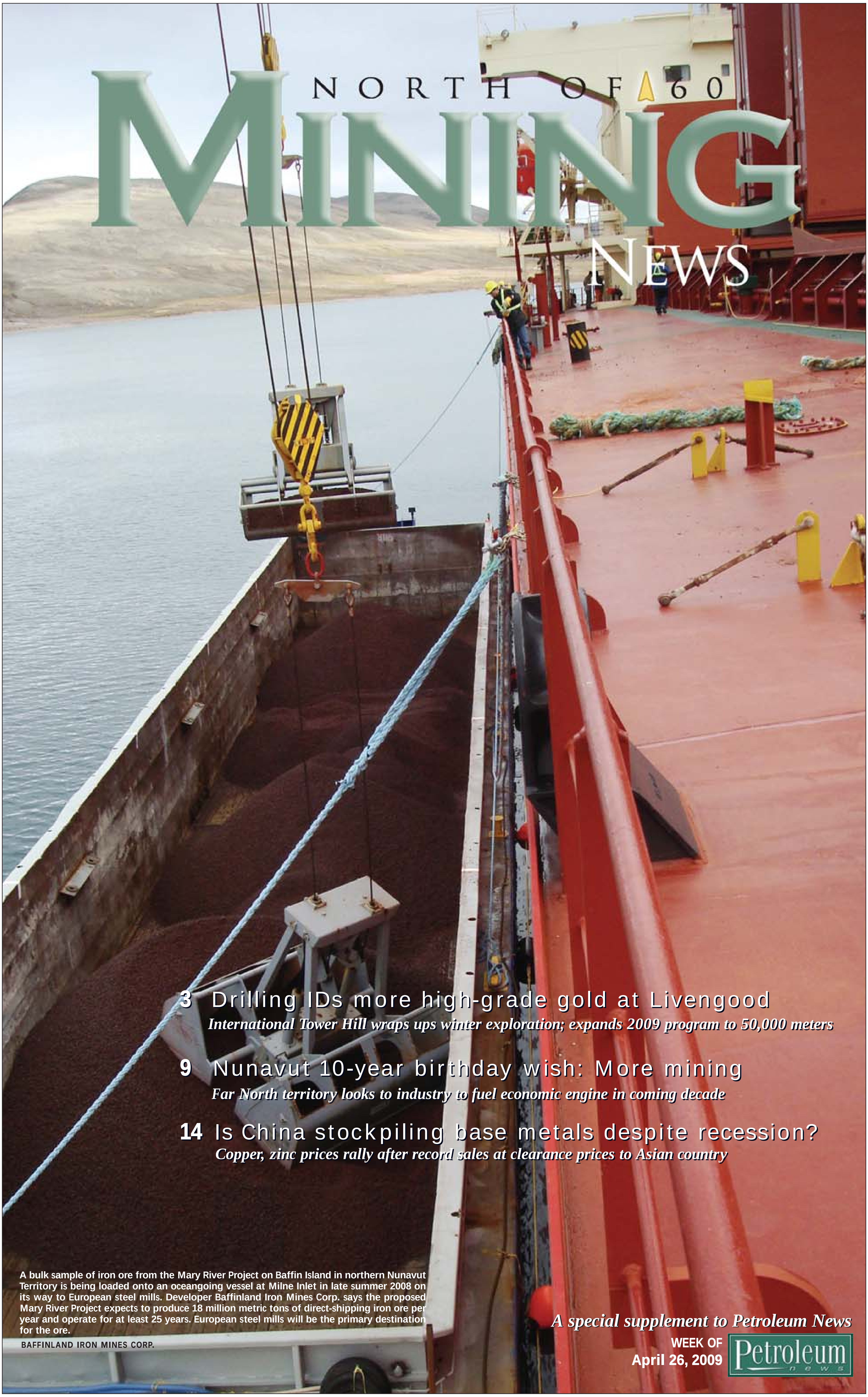
MINING NEWS



3 Drilling IDs more high-grade gold at Livengood

International Tower Hill wraps ups winter exploration; expands 2009 program to 50,000 meters

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Far North territory looks to industry to fuel economic engine in coming decade

14 Is China stockpiling base metals despite recession?

Copper, zinc prices rally after record sales at clearance prices to Asian country

A bulk sample of iron ore from the Mary River Project on Baffin Island in northern Nunavut Territory is being loaded onto an oceangoing vessel at Milne Inlet in late summer 2008 on its way to European steel mills. Developer Baffinland Iron Mines Corp. says the proposed Mary River Project expects to produce 18 million metric tons of direct-shipping iron ore per year and operate for at least 25 years. European steel mills will be the primary destination for the ore.

BAFFINLAND IRON MINES CORP.

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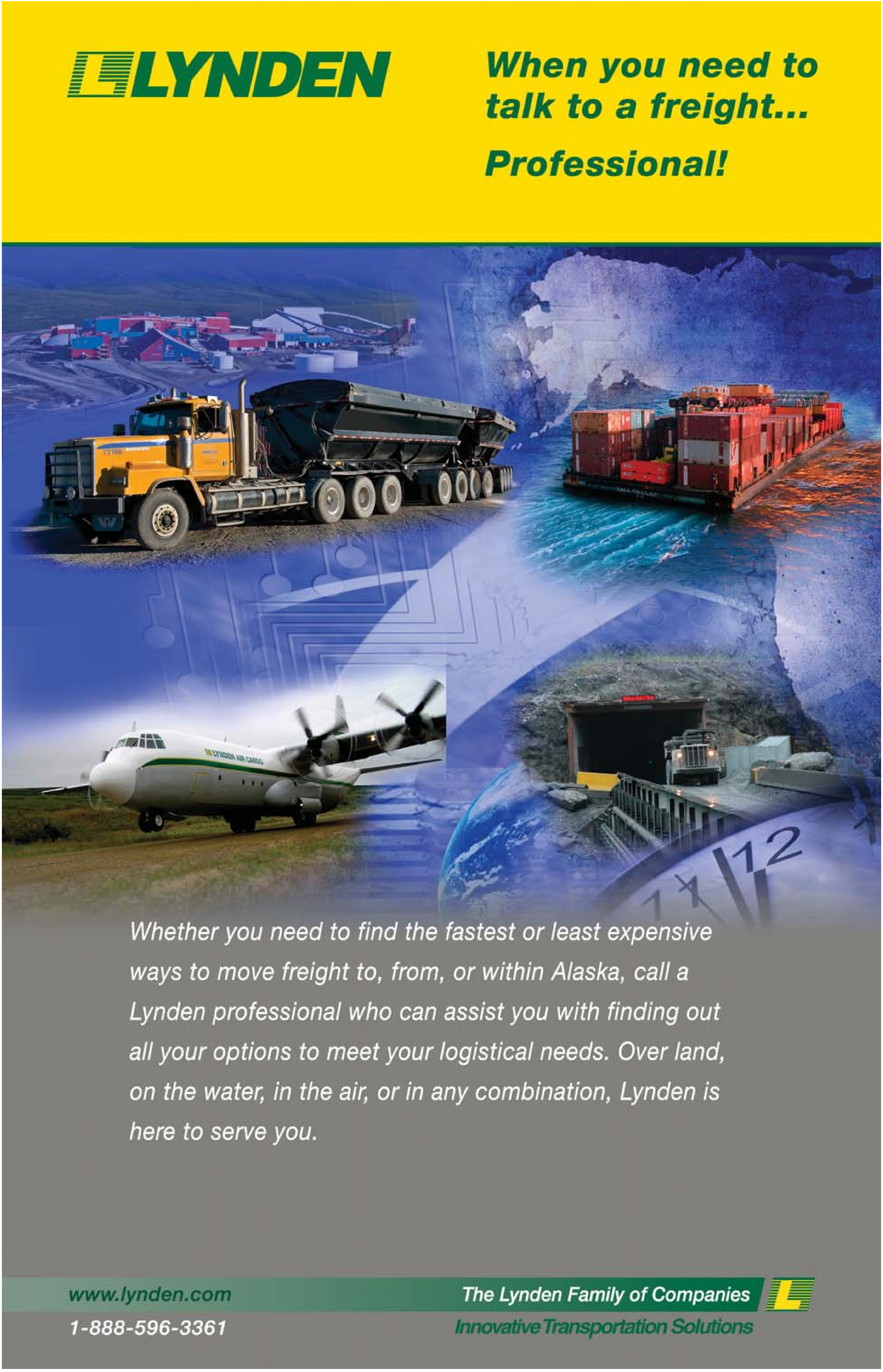
Petroleum news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● ALASKA

Junior wraps up winter work at Livengood

International Tower Hill's 10,000-meter drill program hits unexpected zone of high grade ore; metallurgy points to adding a mill

By SHANE LASLEY
Mining News

International Tower Hill Mines Ltd. wrapped up a winter drill program at the Livengood gold project about 70 miles north of Fairbanks April 20. The 10,000-meter program that began in February encountered an unexpected area of higher-grade mineralization to the southwest of the 6.7 million-ounce gold resource outlined by previous drilling.

"We are having some good luck in the southwest extension of the deposit. We have run into another higher-grade portion of the deposit," International Tower Hill Mines President and CEO Jeff Pontius told Mining News April 20. "The whole southwest area was a real surprise to us in the fact that we ran into significantly higher-grades than we hit in most of the rest of the deposit with the exception of our Core zone.

Continued encouraging news has prompted the junior explorer to expand its 2009 program at the Interior Alaska gold deposit.

"The tremendous resource growth we achieved in 2008, coupled with numerous highly prospective expansion targets, has fueled the need for an expanded program," Pontius said. "Our primary goals for 2009 will be to maximize the expansion of the Livengood gold deposit, initiate testing of other district-scale targets at the project area and commence initial drill testing of high-grade feeder zone targets at depth."

Higher-grades in the southwest

The previously unexplored Southwest zone, which is easier to drill during the winter months, was the primary focus of the 35-hole winter program at Livengood. International Tower Hill has received assay results from 14 of the 20 holes drilled into the southwest extension of the deposit, revealing an area of higher-grade mineralization that rivals the deposit's Core zone.

MK-RC-0115, the initial hole drilled into the Southwest zone, intersected 68.58 meters grading 1.12 grams per metric ton of gold. The highest grade assay result came from hole MK-RC-0118, which intersected 35.05 meters grading 3 g/t gold and included a 3.05-meter layer that assayed at 24.86 g/t gold. MK-RC-0120, drilled 600 meters south and 400 meters west of the nearest reported 2008 resource hole, intersected 45.7 meters with an average grade of 2.11 g/t gold.

COURTESY OF INTERNATIONAL TOWER HILL MINES LTD.

Crews discovered a new zone of higher-grade mineralization during a 10,000-meter drill program this winter at International Tower Hill's Livengood gold project in Interior Alaska.

"There is no question that these holes represent a major expansion of the deposit, with grades as good as or better than those found in the Core zone defined last year," said International Tower Hill Vice President of Exploration Russell Myers.

Drill crews also completed 5 infill drill holes to bring continuity to the main ore body and drilled an additional 10 holes in the Northeast zone, an area that the company believes has the potential to greatly expand the size of the deposit. Assay results from the Northeast zone are still pending.

Expanded summer program

Geologists at Livengood have identified about 250 priority targets that they would like to see drilled during the summer program. Pontius said the junior could only drill about half that many with current plans. The CEO, who had just returned from a visit to the project site, is working on yet another expansion of the 2009 exploration program.

"We are looking at possibly increasing the drilling this summer, and we are working on a plan for that now," he said.

Pontius told Mining News that the company plans to add another 5,000 meters to its summer drill program. This expansion would be above and beyond a 5,000-meter expansion that International Tower Hill had announced in early April. It will boost total drilling for 2009 to about 50,000 meters, marking the fourth time the explorer expanded the drill program.

The goal of the 40,000-meter summer program at Livengood, according to Pontius, is to define the deposit's size and to test the extent of its higher-grade component.

The company believes that the higher-grade mineralization encountered in the Southwest zone is on a northeast trend and this suggests that this mineralization will intersect the south end of the currently defined ore body and continue on to the east. Pontius told Mining News that 40 or 50 holes drilled this summer will be in this area.

The company plans to have two or three reverse circulation drills expanding the breadth of the gold deposit, while a single core drill explores for higher-grade feeder zones, which geologists believe will be found at depth.

Metallurgy looks good for a mill

The junior also is excited about metallurgical results coming from the Livengood deposit. On April 15, International Tower Hill reported the latest results to tests which used a combination of grinding, gravity concentration and cyanide leaching of the tails to increase average recoveries to about 89 percent.

The metallurgy results, in combination with discovery of large, higher-grade zones of mineralization, bode well for the possibility of including a mill in the processing circuit. A mill would improve gold recoveries and the economics of the rapidly expanding gold project.

"It certainly looks like, considering the higher-grade component of the deposit, that we will have a milling component to the processing circuit," Pontius said. "That is a positive thing for us because we can get better gold recoveries from the processing circuit."

The ITH President said he estimates about a 0.7 g/t gold cutoff for ore that would be run through the mill, but those numbers will be more definite when the preliminary economic assessment for the Livengood project is complete. The assessment, due in July, will include an updated resource estimate that incorporates results from the winter program, Pontius added. ●

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● ALASKA

Red Dog tops EPA toxic release inventory

Federal regulator's annual report reflects scale of the world's largest lead-zinc mine, not its outstanding environmental record

By SHANE LASLEY
North of 60 Mining News

In its largely misunderstood and frequently misrepresented Toxic Release Inventory report, the U.S. Environmental Protection Agency ranked the Red Dog zinc mine in Northwest Alaska as the largest entity in the nation in releases of TRI reportable materials.

The EPA report, released in March 2009, reported that the world's largest zinc mine released 533.4 million pounds of primarily zinc and lead compounds into the environment in 2007 (the latest figures available), down 81.9 million pounds from comparable discharges in 2006.

The EPA ranked Green Creek Mine second in Alaska in the toxic release inventory with 44.09 million pounds; the Fort Knox Mine, No. 3 with 3.6 million pounds; and the Pogo Mine, No. 4 with 1.96 million pounds. The Agrium fertilizer plant in Kenai was ranked No. 5 with 892,941 pounds in toxic releases.

"It is important to make this information available to Alaskans. The public wants to know what wastes are being generated or discharged in our state," said Alaska Environmental Conservation Commissioner Larry Hartig. "It is also important to understand that most of the reported wastes are being managed in permitted, engineered facilities."


COURTESY OF TECK COMINCO LTD.

The EPA's Toxic Release Inventory report is an observation that the world's largest zinc mine moves incredibly large amounts of rock containing TRI reportable materials such as zinc, lead and silver.

TRI does not portray environmental quality

Mining opponents often mistakenly cite Red Dog's top ranking in the annual EPA report as an example of the detrimental effects of large-scale mining on Alaska's environment.

The confusion and subsequent misrepresentation begins with the name of the report. Toxic release implies that the materials being reported are environmental pollution. In reality, more than 99 percent of chemicals reported in the Toxic Release Inventory are handled and stored legally.

"TRI data reflect only the amounts of the chemicals that have been disposed, released, or otherwise managed, not whether or to what degree the public has been exposed," explained Brook Madrone, EPA Region 10 TRI Coordinator. "The large releases reported annually by metal mines in Alaska are due to the reporting of minerals that are listed as TRI chemicals – primarily zinc and lead – remaining in waste rock. This waste rock is disposed of in onsite impoundments. The more rock a mine processes, the more zinc and lead-containing waste rock is released. Teck Cominco's Red Dog Mine, the world's largest zinc mine, is no exception."

About 99.95 percent, or 533.2 million tons, of TRI reportable materials at Red Dog are waste rock and tailings that state and federal permits allow the mine to safely manage.

"The total pounds of 'releases' do not at all reflect an accurate picture of Alaska's environmental quality. The waste rock from Alaska mines is well engineered, contained and regulated by state and federal agencies," said former DEC Commissioner Kurt Fredriksson. "Alaska's environment continues to be clean, healthy and productive."

Report reflects scale of mining

The EPA's annual report on toxic releases is not a commentary on Red Dog's environmental record, but an observation that the world's largest zinc mine moves incredibly large amounts of rock containing TRI reportable "toxins" such as zinc, lead and silver.

"Red Dog has the largest releases to land of trace metals that are listed as TRI toxics. The trace metals that are released are located primarily in the waste rock and in the tailings impoundment," Madrone told Mining News. "Red Dog, being the largest zinc mine in the U.S., has the largest volume of toxic metals released to the rock piles and tailings impoundment. In addition, the concentration of these metals in the waste rock piles and impoundment is higher than in many other mines because of the quality of the ore."

Meeting water standards improves creek quality

While the minerals could be a cause of concern if released into the air or water in amounts above those permitted by federal and state environmental standards, this is not the case at Red Dog. More than 20 years after production startup in 1989, environmental protocols at the mine have reduced the mineralization of Red Dog Creek to levels lower than naturally existed before the mine was built.

Prior to mining, the enormous zinc-lead deposit leached large amounts of metals into the creek naturally. An independent analysis of the pre-mining water chemistry showed that about 250,000 pounds of zinc compounds flowed with natural runoff into Red Dog Creek annually. The naturally occurring high-metal content made the creek an unsuitable habitat for fish.

In 2007, Red Dog Mine released 559 pounds, or a fraction of 1 percent of the natural runoff, into the creek, according to EPA's TRI data.

Since mining has begun at Red Dog, the same inhospitable areas of the creek now support Arctic Grayling and Dolly Varden.

In processing water discharged from the mine, dissolved metals are removed until extremely low levels are reached — water discharged from the mine contains fewer metals than the City of Anchorage's residential drinking water. The improved water quality is due to changes to the creek's hydrology and a state-of-the-art water collection and treatment system at the mine.

DEC technical engineer, Pete McGee added, "Alaska has very stringent water quality standards designed to protect public health and the environment. We ensure those standards are met by minimizing any discharges and ensuring adequate treatment of all wastes to prevent pollutants from impacting downstream users." ●

● GUEST COLUMN

Rough days may be ahead for mining

Experts: Raising venture capital will be industry's biggest challenge in 2009, while juniors lacking cash on hand will fade away

By CURT FREEMAN
For Mining News

Last month we talked about economic impacts of the Alaska mining industry. This month, the world mineral exploration industry is in our crosshairs.

Halifax-based **METALS ECONOMICS GROUP** reported that 2008 worldwide nonferrous mineral exploration reached $13.2 billion, more than 2.5 times the previous peak exploration spending level reached in 1997. Add uranium exploration expenditures, and the total expands to $14.4 billion.

Exploration spending would have been even higher were it not for the global economic meltdown that started in September 2008. As expected, spending by major companies increased in 2008 versus 2007 while spending by junior companies decreased to less than 50 percent of the total spent around the world. In a sign of things to come, 2008 saw a $6 billion decrease in venture capital financings for junior exploration companies, the first such year-on-year decrease since the dark days of 2001.

MEG speculated that venture capital will be even harder to raise in 2009, and junior explorers with money will have to trim their expenditures significantly while junior companies "without cash will simply disappear." Destinations du jour for exploration in 2008 were about the same as in recent years – South America with 25 percent of the expenditures followed by Canada with 19 percent, Africa with 15 percent, Australia with 14 percent and the United States with 7 percent. Not unexpectedly, MEG suggests that exploration expenditures in politically unstable countries will drop in 2009 by a more significant proportion than cuts in more stable parts of the world. Given the precipitous drop in base metal prices and the relative stability of gold prices in the last 6 months, it is hard to understand how base metal exploration overtook gold as the leading commodity being sought worldwide in 2008. Base metal exploration accounted for 40 percent of funds spent in 2008, while gold accounted for 39 percent of comparable spending last year.

As expected, the global economic downturn quickly translated to over-supply of industrial-use metals, such as copper, nickel, zinc, lead, palladium and molybdenum, while fears of inflation, deflation, stagflation and other poorly understood "flations" sent investors rushing back to gold as a preferred hedge against the uncharted economic waters of 2009 and beyond.

The author


CURT FREEMAN

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MEG foresees gold easily regaining its place as the top commodity for exploration in 2009, a conclusion that seems inevitable from our vantage point today. So how does all this translate into Alaska-centric terms? Pretty simple, pretty ugly: Grassroots exploration, where much of Alaska's exploration occurs, will decline dramatically in 2009. Mine-site exploration and advanced project exploration will be the focus of most exploration efforts with the major and intermediate producing companies accounting for most of this work. Gold will take center stage as virtually the only metal of interest for Alaska-bound explorers; however recent increases in the price of copper suggest it may lead other base metals as worldwide supply and demand fundamentals return to something like normal. On the bright side, labor, fuel, drilling rates, helicopter costs and virtually every other cost item related to mineral exploration have already decreased dramatically over 2004-2008 rates. In short it is a buyer's market out there for those capable of "buying straw hats in the winter!"

Western Alaska

TECK COMINCO AMERICAN has announced that it is considering selling the 2.5 million ounces of silver it produces each year at its Red Dog mine as part of its companywide debt reduction plan. The silver sale, rumored to be going to **SILVER WHEATON CORP.**, is part of a series of measures designed to bring in more than $2 billion in asset sales and significantly reduce the company's $9.4 billion debt load.

NOVAGOLD RESOURCES provided an update on its Donlin Creek and Rock Creek projects as part of its first-quarter 2009 financial summary. The company indicated that it is completing a technical report for the Donlin Creek project based on a feasibility study that was completed on behalf of the Donlin Creek LLC April 1. The company expects to release the results of the feasibility study by the end of April. The report will provide a detailed project description, outline the project economics and provide an additional resource

MEG foresees gold easily regaining its place as the top commodity for exploration in 2009, a conclusion that seems inevitable from our vantage point today.

increase. At Rock Creek, the company is working with regulatory agencies to complete a revised water management plan and is also assessing the possibility of using wind cogeneration for a portion of the project's power needs, reducing both environmental impact and operating costs. A recent resource update for the project expanded the deposit's resources by 24 percent, bringing total project resources to nearly 3 million ounces of gold. The company indicated that it is deciding whether to resume start-up activities when the market becomes more favorable, bring in an operating partner or possibly sell the property. The remaining care and maintenance budget at Rock Creek for 2009 is about $7 million.

FREEGOLD VENTURES announced preliminary results from geophysical surveys completed at its Vinasale gold project under lease from **DOYON LTD.** Following airborne geophysics conducted in 2007, the 2008 program consisted of ground-based induced polarization/resistivity surveys to the north and northeast of the known mineralized zone. Results of the survey suggest that the anomaly associated with resources at the Central Zone continues to the north and north-east where widely spaced drill holes have encountered gold mineralization. These areas have potential for expanding the known gold mineralization. Plans for 2009 were not released.

NORTHERN DYNASTY MINERALS LTD. announces that the **PEBBLE LIMITED PARTNERSHIP** (Northern Dynasty and partner Anglo American plc) has awarded grants in the aggregate amount of $1 million to 33 Alaska community groups. The Pebble Fund was established in February 2008 as a five-year, $5 million commitment to support community-led initiatives that enhance the health of Bristol Bay fisheries and contribute to a sustainable economic future in southwest Alaska. The fund is administered by the nonprofit Alaska Community Foundation. Grant criteria and awards were determined by an independent advisory board of citizens representing communities from throughout the Bristol Bay region. In total, some 50 nonprofit community organizations in southwest Alaska applied for grants in 2009 for projects related to community development, education, energy and fisheries.

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FREEMAN

The Pebble Fund board selected 33 successful applicants, including 26 small grants (less than $25,000) and seven large grants (greater than $25,000). Projects receiving small grant awards include a community greenhouse development in Ugashik, alternative energy and wind development projects in the City of Chignik and Chignik Lagoon, and a vocational training program for clean diesel technology in the Bristol Bay School District. Large grant awards will fund fisheries enhancement and education projects in Pilot Point and Ivanoff Bay, a renewable energy development project in Iguigig and a broad-based job internship program for students in the Lake and Peninsula School District.

Eastern Interior

FREEGOLD VENTURES announced preliminary results from bulk sampling completed in 2008 at its Golden Summit project in the Fairbanks District. Exploration during 2007 and 2008 consisted of a mix of rotary air blast drilling (80,642 feet in 2,026 holes) and core drilling (10,061 feet in 26 holes) covering a mineralized, open-ended area about 1,900 meters by 275 meters in size. A bulk sampling program was also undertaken over the past two years to determine whether bulk mining would be a possibility for the project and to determine average grades over larger volumes. The bulk samples were processed through a gravity recovery plant. Although problems with the plant configuration and over-grinding of the material led to the recovery of only about 400 ounces of gold in 2008, preliminary assaying suggests that the bulk sampling program confirmed the existence of bulk minable mineralization at potentially economic grades. Due to the shortfall in gold collected, the company was unable to cover a significant portion of the costs of the bulk sampling program, and vendor debts totaling $2.6 million have now been accumulated. Final assaying of the sampled material was halted in the fall, and the company expects to be able to release its final bulk sampling results shortly after and subject to the receipt of new funding.

TECK COMINCO announced its intention, long talked about on the Tundra Telegraph, of selling its 40 percent stake in the Pogo mine (Sumitomo Metal Mining owns the other 60 percent). The sale is part of a series of measures designed to bring in more than $2 billion in asset sales and significantly reduce the company's $9.4 billion debt load. The Tundra Telegraph has indicated that something like 20 companies have already signed the deal to acquire Pogo. One, or none, of the rumored 20 companies may have acquired Teck's interest, so until the real buyer is announced, we'll keep the Tundra Telegraph rumors under wraps!

INTERNATIONAL TOWER HILL MINES LTD. announced additional drilling results from its winter 2009 program at its Livengood gold project. In the previously undrilled southwest zone, hole MK-RC-0115 encountered 68.6 meters grading 1.1 grams of gold per metric ton, hole MK-RC-0116 returned 15.2 meters grading 2.1 grams of gold per metric ton and hole MK-RC-0118 returned 35 meters grading 3.0 grams of gold per metric ton. These holes are spaced 100 meters apart and represent a step out of approximately 300 meters to the southwest from the nearest existing holes. Mineralization in the southwest sector occurs in all units of the stratigraphy and at depths ranging from the surface to 300 meters. In the northeastern sector, new assays from hole MK-RC-0112 have redefined the upper zone of mineralization, which now has 41 meters grading 1.7 grams of gold per metric ton on top of the previously reported 100 meters grading 1.1 grams of gold per metric ton. Once all the assays are back from the winter drilling program a new resource estimate will be calculated and a preliminary economic assessment completed. The main phase drilling program will recommence in June, when two RC drills and a core drill will begin drilling out the eastern and northeastern areas of the deposit. A total of 45,000 meters of drilling is planned for 2009. The company also announced results of additional metallurgical tests which utilized a combination of grinding, gravity concentration and cyanide leaching of the tails to increase average recoveries by 15 percent in the oxide/transition rock and by 30 percent in the un-oxidized rock. The resulting global average gold recovery was 89 percent. The increase in gold recovery indicates the economics of the deposit could be greatly enhanced by a high recovery milling operation for the higher grade ore and a heap leach operation for the lower grade material.

Southeast Alaska

UCORE URANIUM announced mineralogical studies of uranium and rare earth element mineralization at its Bokan Mountain project near Ketchikan. The three Bokan Mountain samples assayed 1,700 to 20,000 parts per million uranium (0.2 to 2.3 percent U_3O_8) and averaged 0.13 percent light rare earth oxides, 0.27 percent heavy rare earth oxides, and 1.27 percent yttrium oxide (total of 1.67 percent rare earth oxides). Mineralogical testing identified coffinite and uranothorite as the dominant uranium-bearing minerals, and tombarthite, limoriite, synchisite, and bastnaesite as the dominant REE-bearing minerals. Liberation of the rare earth minerals ranged from 49 percent to 83 percent at minus-30 microns. You won't find most of these rare earth minerals in your average mineralogy text book, but if you are interested in their chemical compositions, they are all out there on the web.

CBR GOLD CORP. announced a 457,000-metric-ton expansion to resources at its Niblack massive sulfide deposit on Prince of Wales Island. The updated resource incorporates 19 new underground drill holes completed in 2008 within the Lookout 1 (L1) and Lookout 2 (L2) mineralized zones. Revised indicated resources now stand at 2,272,000 metric tons grading 2.42 grams of gold per metric ton, 34.66 grams of silver per metric ton, 1.27 percent copper and 2.36 percent zinc and an inferred resource of 1,502,000 metric tons grading 2.22 grams of gold per metric ton, 34.62 grams of silver per metric ton, 1.68 percent copper, and 3.43 percent zinc, based on a block cut-off grade of $50 per metric ton Net Smelter Return Royalty. Highlights of the new resource base include upgrade of inferred resource metric tons to an indicated resource category, a 457,000-metric-ton expansion of the Lookout zone resources, expansion of indicated resources to 60 percent of the total resource, increased copper and zinc grades within the indicated and inferred resource categories and increased copper, zinc, gold and silver grades within the inferred resource category. The 2009 resource estimate is based on 42,520 meters of drilling in 174 diamond drill holes.

BRAVO VENTURE GROUP reported that it has agreed to issue 200,000 shares of its stock at a deemed price of $0.375 per share to pay advance minimum royalty payments to Petersburg-based Olympic Resources for advance royalties due on the Woewodski Island project near Petersburg. Bravo has fulfilled all obligations to earn title to the claims which are now owned by Bravo's Alaska subsidiary subject to a continuing obligation to pay annual minimum royalty payments of $50,000. Bravo is planning a 2009 exploration program consisting of two to three drill holes for approximately 1000 meters at an estimated cost of $400,000. The program is designed to test the basal portion of the East Lake "paleo-graben," where 3-D induced polarization geophysics and recent drilling suggest a radical re-interpretation of the published geological setting. The new geologic model interprets surface exposures and previous drill intercepts of volcanogenic massive sulfide-style base and precious metal mineralization. This mineralization is thought to be hosted by an argillite unit occurring along the northern and southern margins of an east-west-oriented paleo-graben. The center of that graben, where the thickest accumulations of massive sulfide are expected to occur, has not yet been tested by drilling. The mineralization at East Lake is hosted by the same package of Triassic-age rocks that host the Greens Creek mine on Admiralty Island. ●

● GUEST COLUMN

Legal review prompts cry of 'liar, liar'

Misrepresentation and misinformation about the hazards of mining will likely propel mining law reform legislation through Congress

By J. P. TANGEN
For Mining News

In high school civics we all learned about separation of powers and the concept that under our system of government Congress enacted the law, the Executive Branch carried out the law and the Supreme Court interpreted the law. Where the education system failed many of us is in leaving us with the impression that the judiciary is independent of the other two branches. Although the Supreme Court is nominally independent, the inferior courts (please note that I use the word "inferior" guardedly) are creatures of statute and their jurisdiction extends only as far as Congress allows.

While, over time, the Congress has grown in response to the needs of an evolving nation, the size and role of the judiciary has been stifled, especially in contrast to the relentless bloating of the executive bureaucracy. Some may envision the courts as having a responsibility to stand between the government and the people, but the reality is that, even if the judiciary were so inclined, its power is frustrated by statutes such as the Administrative Procedures Act, which requires slavish compliance with asinine regulatory requirements promulgated to implement ill-conceived statutes with total disregard to costs in terms of time and money to the government or the citizen.

Mining & the law


J.P. TANGEN

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The government gets to say and do as it pleases, and only the most affluent and relentless challengers have even a modest chance of a successful appeal. The federales are not an amorphous mass but rather a collection of individuals, each of whom has a personal agenda (some more palatable than others); nonetheless, few of us escape the whimsical application of the law.

Most recently this hypocritical reality was called to my attention when reviewing pending legislation concerning mining law reform. Mining law reform has always been lubricated by misrepresentation and misinformation – mines are unsafe, mines are unclean, miners are greedy, miners rape and ruin the countryside, etc. – all charges that are demonstrably untrue, especially in the modern era. Chief among the complaints by critics of the industry is that there exists throughout 13 western states a huge number of abandoned hardrock mine sites with features that pose significant public and safety hazards.

The government gets to say and do as it pleases, and only the most affluent and relentless challengers have even a modest chance of a successful appeal.

In a recent statement presented to the Subcommittee on Energy and Mineral Resources of the U.S. House of Representatives, Robin M. Nazzaro, director for Natural Resources and Environment in the U. S. Government Accountability Office pegged the number of such features at between 332,557 and 348,557, with Idaho, Oregon and South Dakota not reporting and Montana reporting an estimate between 6,000 and 22,000. (Apparently, Montanans have a hard time differentiating between mines and naturally-occurring topographical features.)

Bringing the focus closer to home, according to Mr. Nazzaro's statement, there are approximately 235 such "features" in Alaska, allegedly based on state data, that may pose "physical safety hazards, such as open shafts or unstable or decayed mine structures, [or] have degraded the environment by, for example, contaminating surface and ground water or leaving arsenic-contaminated tailings piles." Ironically, neither the Alaska Miners Association nor personnel within the Alaska Department of Natural Resources, Division of Mining, when queried, can readily produce the list of these hazardous 235 sites.

The representation that there is a large number of hazardous abandoned mine sites scattered across the West has been an albatross around the neck of the mining industry for at least half a century. It will be this bugaboo, more than any other, which may ultimately force mining law reform through Congress and onto the desk of the President. Yet it is based on falsehood. Certainly there are abandoned mines in various locations; certainly there are hazards associated with some of them; and certainly all such hazards should be rectified. But a blatant, inflated misrepresentation as to the quantity should not be the basis for shuttering an industry or driving needed jobs offshore.

Bureaucrats such as Mr. Nazzaro point to the misrepresentations of other bureaucrats to advance their personal agendas. Congress relies upon these cascaded edifices to pass laws. The administration uses such laws to steamroll businesses and individuals. What resources does the citizen-victim have? Tell it to the judge. Oh, but that assumes an independent judiciary. Never mind. ●

● ALASKA

Donlin achieves promise of Native hire

Residents of nearby villages provide nearly 90 percent of gold mine project's work force; partners prepare training for future jobs

By SHANE LASLEY
Mining News

While many people are familiar with the 30-million-ounce-plus gold deposit discovered at Donlin Creek in Southwest Alaska, the world-class gold resource boasts another less known but equally impressive statistic.

Nearly 90 percent of the 200-plus people working at the Donlin Project are shareholders of the Calista Corporation, the Native regional corporation that owns the land where the deposit is located.

"Calista Corp. has had great success with Barrick (Gold Corp.) and NovaGold (Resources Inc.) in the shareholder-hire program at the Donlin Creek project. No other exploration project in the world has had a better shareholder hire program," Calista Chairman Art Heckman wrote in the corporation newsletter in March.

Some 86 percent of the 210 people who worked at the Donlin Creek Project in 2008 were Calista shareholders, according to a recent economic report.

This high percentage of Native hire also carried into management positions, where nine of 10 crew supervisors are Alaska Natives, according to "The Economic Benefits of Alaska's Mining Industry," a report prepared by the McDowell Group in January 2009.

The Donlin Creek project – operated by the Donlin Creek LLC, a 50-50 partnership between NovaGold and Barrick – is in transition from primarily an exploration project to a development project with construction targeted to begin in 2012 and production in 2015.

During the project's construction phase, the need for skilled labor is expected to swell to 1,500 to 2,000 jobs, and once in production, Donlin Creek LLC plans to employ 600 to 800 people during the projected 20-year mine life.


COURTESY OF NOVAGOLD RESOURCES INC.

The driller pictured above is one of about 180 Calista shareholders who worked at the Donlin Creek Project in 2008.

Training for the future

To maintain a high rate of employment of people from the Yukon-Kuskokwim region, Donlin Creek will need to train Calista shareholders for additional skill sets and jobs that the project will require as it advances into construction and production.

Anticipating the need of a work force of more than 1,000 people if the project wins its permits to operate, the Donlin developers are beginning to open facilities to train Calista shareholders.

Bill Bieber, who spearheaded the local-hire effort for Placer Dome in the early days of the project and is currently operations manager for Donlin Creek LLC, told Mining News that the company is presently helping develop three training sites in the Calista region to train shareholders in skills that the mine will need. The main facility will be in Bethel, with two satellite facilities in St. Mary's and Aniak.

The facilities will initially provide training for the construction phase at Donlin. Bieber said electrical, plumbing, carpentry, welding and heavy equipment operation are examples of the initial training that will be provided.

A work force development committee is currently organizing to work out details of the training program, Bieber said. The committee will include directors of the three training facilities, representatives of the Alaska Department of Labor and Workforce Development and the University of Alaska, along with Bieber and Mary Nelson, who will represent Donlin Creek.

The committee, once formed, will decide the scope of the curriculum to be taught at each facility and the class sizes needed to meet the work force needs.

Donlin Creek LLC is not currently engaged in drilling at the project and many of the drillers that explored Donlin are currently working on other projects.

Challenging past

The local hire program at Donlin was first implemented by Placer Dome in 1996, in an effort to provide stable jobs and develop the skills of the Native people of the Yukon-Kuskokwim area.

The early years of the preferential hire program were challenging. During the first year of the program, Placer Dome hired 152 employees in order to keep 48 full-time positions filled. During that first year, the overall employee turnover rate was 318 percent. The program also experienced a high injury rate – about half of the people hired under the program failed drug screenings and about 70 percent of the locals who were hired quit after only a short time.

Undaunted by the challenges, Placer Dome – later acquired by Barrick Gold – continued to pursue its commitment to employ Calista shareholders. It became clear to the Donlin team that in order to succeed in their local-hire efforts, they would need to understand the reason for the failures and retool the program, according to Bieber.

Understanding the people

To gain a deeper understanding of the social, cultural and economic obstacles that the employees were facing, the Donlin Creek team implemented a cross-cultural outreach plan. Wassillie Kameroff, a well respected leader within the Alaska Native community, was hired as program coordinator. He was well-known in the seven village areas where the majority of employees lived, and he played an important role in developing a solid working relationship between villages and the project.

Kameroff organized regular visits by project managers to more than 47 villages where employees lived with their families while not at the camp worksite.

"We were there to listen and learn, and it was an eye-opening experience," Bieber recalled. "We found that even though the substance abuse problem was so pronounced, there were no support systems or treatments available locally."

Based on what was learned from the outreach program, a new action plan for the local-hire program was put into motion. Among aspects of the new plan:

The company's drug policy was redrafted to include hard and fast penalties, and yet provide for a period in which employees could re-apply for employment following a violation, provided they met certain milestones. This change meant employees could hope to improve their performance and be supported by incentives to remain drug-free and alcohol-free.

An onsite professional counselor was hired, specializing in substance abuse, family counseling, workplace counseling, and stress management.

Worker rotations were adjusted from 20 days on - 10 days off to a two week on - two week off rotation, 12 hours per day. This rotation allowed for more time at home, a good monthly wage, and time for traditional subsistence activities.

Cultural sensitivity training was conducted for both Native and non-Native employees. This gave everyone at Donlin an opportunity to learn about each others' values, supporting open dialogue and creating a desire to work together.

Since Native villages in Alaska always include large gathering places, camp dining and recreational rooms were constructed to allow for more traditional, open interaction in a family-like setting. This open environment keeps non-Native employees from segmenting themselves off and encourages interaction between all groups of people.

The adjustments to the company's local-hire outreach helped to create a highly successful Native work force at Donlin. Not only has the program succeeded in its goals for Calista shareholder-hire, but today the project boasts less than a five percent employee turnover rate as a result of substance abuse violations and an overall turnover rate of less than 10 percent.

Keys to success

June McAtee, vice president of Calista's land department, told Mining News that the key to the success of the shareholder-hire program at Donlin Creek was twofold: Calista's ownership of the land encompassing the Donlin Creek deposit, and Placer Dome, Barrick Gold and NovaGold's ongoing commitment to hiring and training shareholders at the project.

Because Calista owned the land, when the corporation negotiated the lease with Placer Dome, one of the terms of that agreement was that the mine developer would train and hire Calista shareholders whenever possible.

"There has been a continual process of hiring and training shareholders from the very beginning. Even though the original company (Placer Dome) isn't there any more, the companies that came after it believed in those same concepts and did more than just pay it lip service. They actually acted on that, and took the lead, in fact, in the hiring and training," McAtee said.

"The success of this thing has been the collaborative effort between the companies, the Calista Corp., The Kuskokwim Corp., and all of the village entities," Bieber said.

Because Calista owned the Donlin Creek property, the Calista shareholders employed at Donlin Creek also have a vested interest in seeing the project succeed.

"The people who have worked on the project have a sense of proprietorship," McAtee said. "They are in a way, as shareholders of the corporation, partial owners of the project. They have a vested interest that is personal to them in making the project go. They don't look at it as some outside company. For 90-plus percent of the people, it is their relatives and neighbors and people they have known all their life. That makes a big difference." ●

● NUNAVUT TERRITORY

Top of the world territory turns 10

A decade after its creation, Canada's Nunavut hopes to build a sustainable economy, largely on the strength of hardrock mining

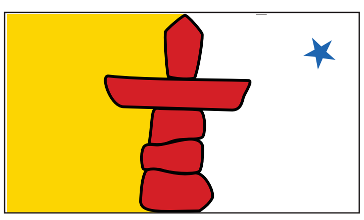
By ROSE RAGSDALE

For Mining News

As mineral-rich Nunavut Territory celebrates its 10th anniversary, Canadians and others are assessing changes made in the past decade and debating what the future will hold for Canada's newest territory.

Nunavut, which means "our land," is a vast, frozen expanse of tundra laced with lakes, inlets and bays in the eastern Arctic. Spanning three time zones, it covers 1.9 million square kilometers, or one fifth the land mass of Canada. It also dwarfs Alaska by nearly 200,000 square miles.

The territory is home to only 31,000 people living in 25 small, scattered communities with neither road nor rail connecting them to each other or the outside world. Of the relatively young population, 85 percent are Inuit and represent the largest concentration of aboriginal citizens of Canada.



NUNAVUT: 10 years later

Nunavut has a distinctive Inuit Qaujimajatuqangit (Inuit traditional knowledge, language and culture) and a mixed land- and wage-based economy as well as a dramatic landscape and extreme climate.

The Nunavut Land Claims Agreement signed in 1993 is the largest Aboriginal land claim settlement in Canadian history and precursor to creation of the territory on April 1, 1999. Thus, Nunavut is the only jurisdiction in Canada where all aboriginal land claims have been settled.

The NLCA gives title to 350,000 square kilometers, or 135,136 square miles, of land in Nunavut, including about 35,000 square kilometers, or 13,514 square miles, with mineral rights, to the territory's Inuit. Nunavut is in the process of negotiating with the federal government for the devolution of provincial-type responsibilities to the Government of Nunavut in order for the territory to gain more control of its resources.

Nunavut is divided into three regions: Kitikmeot, Kivalliq and Qikiqtani, where Cambridge Bay, Rankin Inlet and Iqaluit are the regional centers, respectively. Each region has a designated Inuit organization that represents the interests of Inuit residents of that region and ensures that commitments of certain provisions of the NLCA are implemented.

Wanted: A viable economy

Creating and running the vast territory is costly, requiring more than C$1 billion, or C$32,373 per capita, in federal transfers in Canada's most recent fiscal year. These funds pay for schools, health centers and territorial bureaucracy.

A recent economic report written for the territorial government cited several possible sources of public revenue, including large-scale mining and building up Nunavut's offshore fishing industry.

But mineral resource development, most observers say, offers substantial long-term economic potential for Nunavut. In the past decade, mining investment in the territory has grown ten-fold to exceed $300 million in 2008. Though successful mine development has been slow out of the starting gate, a large, open-pit gold mine is scheduled to begin commercial production in early 2010 and at least five more major mine projects are working toward startup within the next five years.

However, experts point to Nunavut's education system as a major impediment to the territory's ability to create and sustain a thriving mining sector.

Researchers report that nearly three-quarters of Nunavut's working-age population does not meet minimum requirements to participate in a modern knowledge-based economy. They say the territory's population is younger, less healthy and poorer than other Canadians; in other words, demographically similar to the population of most of Canada in the early 1900s.

In addition to lower living standards, the territory is plagued with high crime and school dropout rates as well as other social ills. Inuit males aged 16 to 25 have the world's highest suicide rate, approaching 1 percent annually.

Slow progress, but high hopes

Terry Audla, executive director of the Qikiqtani Inuit Association – the designated

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● GUEST COLUMN

A look at Nunavut 10 years later

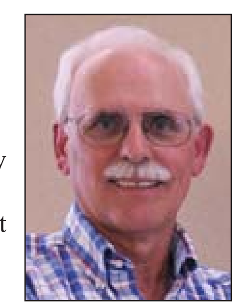
Anniversary presents opportunity to renew our commitment to high employment and successful businesses in territory's communities

By MIKE VAYDIK

Special to Mining News

To understand Nunavut today, we must look back a bit further than 10 years. We must recall the settlement of the Nunavut Land Claim in 1993; where Nunavut was conceived before its birth on April 1, 1999.

The claim was a far-reaching document, but I will look mainly at the provisions that relate to exploration and mining. Probably one of the most significant aspects of the claim was that it gave Inuit ownership of vast tracts of known mineral potential. This land was carefully chosen by the Inuit for its socioeconomic potential after tough negotiations with the federal government. The Inuit negotiators of the day received some good geological advice that has put the Inuit, through their corporation, Nunavut Tunngavik Inc., at the center of the development in Nunavut. The story of the negotiations is told in an excellent book, "New Owners in Their Own Land," by Robert MacPherson, one of the geologists who advised the Inuit negotiators during land selection.



MIKE VAYDIK

Industry sees Inuit as partners in mining

What this means as the mining industry goes forward in exploring and developing Nunavut's mineral potential is that the Inuit will have a firm partnership role in those activities and opportunities. Exploration on Inuit lands will be subject to increased vigilance on the part of the Inuit, and communities will be better informed about activities of the industry. Mine development will be subject to even closer scrutiny, and through the requirement of the land claim, Inuit Impact Benefit Agreements will provide Inuit with employment, business and training opportunities and a share of the royalties which are due to the federal government.

These provisions, in effect, make the Inuit partners in our industry. While at this stage, this applies only to Inuit-owned lands, I believe it is good news for the Inuit and for the mineral industry as a whole. The provisions of the land claim cut both ways. For the Inuit, it provides for opportunities to participate directly in the north's No. 1 industry. It also encourages Inuit and governments together to set the stage for future growth of their territory through planning and investments in infrastructure such as roads, ports and power generation facilities to facilitate development of the industry and their communities. By encouraging

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NUNAVUT

Inuit organization for the Qikiqtani Region where 15,000, or roughly half, of Nunavummiut (people of Nunavut) live – said the creation of Nunavut Territory for the Inuit is an "artificial line on the map, in a sense."

"There have been some changes in the past 10 years, but Nunavut is not significantly changed in living standards," he said. The real turning point came in 1993 with the Nunavut Land Claims Agreement.

"There have been glitches along the way, but they are learning experiences. We still have hope."

Audla said mining offers tremendous opportunity for his region and for Nunavut, as a whole, not only in direct employment but also for Inuit-owned contracting firms.

"The territory has huge amounts of known (mineral) potential, but 80 percent of the area is not known," he said. "The recent announcement of a federal mapping program will bring about more known mining potential."

In the past three years, six mine projects have moved close to development in Nunavut.

Qikiqtani's for-profit arm, Qikiqtaaluk Corp. is an example of an Inuit-owned firm that has taken advantage of the surge in mining activity by winning and successfully fulfilling mining service contracts.

In its 2008 annual report, Baffinland Iron Mines Corp. described the Inuit of Nunavut as its strategic partner, noting that Nunavut residents worked 40 percent of the hours completed on its massive Mary River iron ore project on Baffin Island. Mary River's iron deposits have been described as the best in the world, and the Baffinland president and CEO calls the Mary River Project the "Hoover Dam" of mine projects.

Audla said work at Mary River and for other mine projects has enabled Qikiqtaaluk to pay out C$6 million to Inuit workers.

"I think our people have a better appreciation for that money, having earned those dollars rather than just being given the money," Audla said.

Overall, employment sectors in the Qikiqtani Region include the DEW line, cleanup of contaminated sites, hospitals, offshore shrimp and turbot fishing, government and mining.

"And if the numbers are correct, the known oil and gas resources in Nunavut exceed those in the Beaufort Sea," Audla said. "With the opening of the Northwest Passage, developing these resources is closer to reality.

"(The Inuit people) have always been patient, and as times goes on, it seems this patience will pay off."

Mining boom appears on horizon

Meanwhile, government, Native and mining company leaders say an era of unprecedented opportunity lies ahead for Nunavut.

"When I started work in Nunavut in the 1990s before there was a territory, mining didn't have much of a future," said Gordon MacKay, director of the Government of Nunavut's Minerals & Petroleum Resources Division. "There were three operating mines in the territory and almost no exploration or development projects; geoscience and mapping were dramatically poor, and the mines had 10-15 percent local employment."

Though prospects for mining 10 years ago "weren't very bright" in Nunavut, MacKay said the huge territory with its Archean greenstone belts still offered the best geology in the world.

In 1999, mining investment in Nunavut totaled less than C$30 million and by 2008, comparable investment in the territory had climbed well over C$300 million. That trend is a major factor in Nunavut's unemployment rate in the territory's 10 largest communities having steadily dropped from 13 percent in 2004 to 8.2 percent in 2007 before surging to 9.8 percent in 2008.

MacKay attributes exponential growth in mining investment over the past decade to the land claims agreement, creation of the territorial government and getting the word out to industry that Nunavut is open for business.

"If the recession had hit two years ago, it would have been very bad," MacKay said. "But the message has gone out. Now, Nunavut is recognized as very prospective by industry. We have almost no private land ownership. It's all territorial, federal and Inuit-owned lands, though the land is still managed by the federal government."

Though Nunavut has no mine in production today, government leaders are hopeful that the Jericho Mine, which closed in 2008 after less than two years of production, will soon reopen. Owner Tahera Diamond Corp., a Toronto-based junior, is currently seeking a buyer or strategic partner to help transform the financially troubled operation into a profitable venture.

Cumberland Resources Ltd. and Miramar Mining Corp. spent most of the past decade working to develop gold mines in Nunavut before being gobbled up by larger mining companies as they neared their goals. As a result, leading gold producers Agnico-Eagle Mines Ltd. of Toronto and Denver-based Newmont Mining Corp. are now advancing the Meadowbank and Doris North gold mine projects, respectively, toward production.

David Smith, vice president of investor relations for Agnico-Eagle Mines Ltd., agrees with MacKay.

"The Nunavut business climate is great. We feel welcome at the community, regional, territorial levels, all the way up to the federal government," said Smith, who avers that Agnico-Eagle's Meadowbank gold project is headed toward startup in early 2010.

What benefits will Meadowbank bring to Nunavut?

In addition to production taxes and royalties, mines like Meadowbank promise the direct economic benefit of relatively high-paying steady employment for skilled workers.

But Smith also points to indirect and intangible benefits that will flow from the mine's development.

"I've lived in a community where there was a brand new mine," he said. "I spent three and a half years in Northeast Turkey. When I got there, the houses didn't have running water, and when I left, the people were driving around in Mercedes."

Smith said mining can provide real value creation. "I really believe in the long-term financial and social benefits of mining. Agnico-Eagle is the type of company that is determined to do things properly. It's one of our core values to benefit the communities where our mines are located," he explained.

But for Nunavut, mining could be even more significant, according to MacKay.

Unlike Alaska where the mainstay of the economy, oil, is isolated from most of the population in fields on the North Slope, mining in Nunavut likely will be more "hands on," he said.

"Because of the geography of the territory, there are 25 communities spread out all over Nunavut. Every one of them has an opportunity to have an operating mine nearby," he said. "We need mining to be the foundation of our economy, and we can build and diversify from there."

Training tops government priorities

Though MacKay maintains that Nunavut has progressed considerably in 10 years, he acknowledges that the territory still has a ways to go to make the next step.

"We need to have mines in production, and Nunavut's people working in those mines," he said.

To meet the challenge, the Government of Nunavut developed "Parnautit," a mineral exploration and mining strategy aimed at creating conditions for a strong and sustainable minerals industry that contributes to a high and sustainable quality of life for all Nunavummiut.

The government also brought together industry, Inuit groups and federal agencies to help identify training needs for mining and to begin working toward meeting those needs, MacKay said. From this effort, has emerged a mine training initiative for Nunavut.

Agnico-Eagle is participating in the government's mine training roundtable, mainly to advise the group on the types of jobs that are available at Meadowbank and where officials should put their efforts for urgent training. The company has said training for the trades (mechanics, millwrights and electricians) would be particularly beneficial.

Government and industry experts estimate that the mining sector will employ about 3,000 skilled workers – roughly 23 percent of Nunavut's entire labor force – within the next five years. Most of these jobs will be in the trades, which require two or more years of training. The number of jobs increases to about 4,800 if positions are included that require similar transferable skills in contaminated cleanup sites and in communities.

"In 10 more years, we look to have four or five operating mines in the territory. And from the mining industry's perspective, it is much more preferable to have a local work force. We are hoping to attract federal funds to get at the challenges in training our workers," MacKay said. "But in my experience, you can't train people for jobs that don't exist." ●

Agreements between mining companies and aboriginal communities or governments in Nunavut Territory

For the last decade, aboriginal-industry relationships and partnerships have evolved tremendously in Canada through the conclusion of various types of agreements that have proven to be successful in securing benefits for some aboriginal communities and certainty for exploration and mining companies.

Mine or Project	Type of Agreement	Government/Aboriginal group	Year
Nanisivik Mine	Unspecified	Government of Canada	1974
Lupin Mine	Unspecified	Government of the Northwest Territories	1981
Polaris Mine	Other	Government of the Northwest Territories	1981
ULU Project	Impact and Benefits Agreement	Kitikmeot Inuit Association	1996
Jericho Diamond Mine Project	Impact and Benefits Agreement	Kitikmeot Inuit Association	2004
Meadowbank Project	Impact and Benefits Agreement	Kivalliq Inuit Association	2006
Doris North	Impact and Benefits Agreement	Kitikmeot Inuit Association	2006
Angilak Property	Memorandum of Understanding	Nunavut Tungavik Inc.	2008
Mary River Project	Memorandum of Understanding	Qikiqtani Inuit Assoc., Qikiqtaaluk Corp. and Kakivak Assoc.	2008/09

Source: Natural Resources Canada

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10 YEARS LATER

the industry and the economy, the Inuit will be encouraged to develop their human resources through education, training, and building awareness of the industry that holds so much potential for Nunavut.

Education and training hold key to prosperity

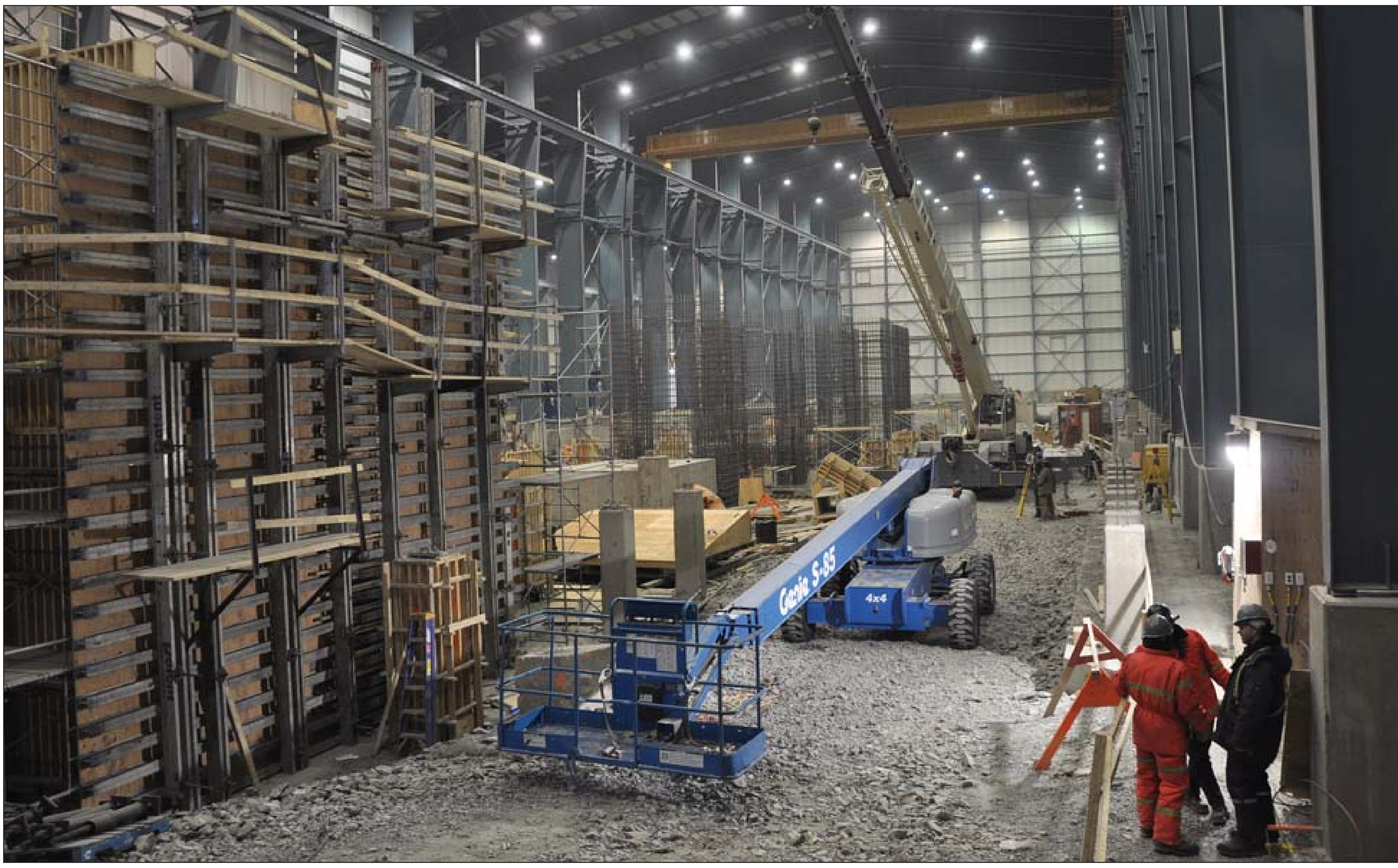
Explorers and miners are already participating in the formation of mine training organizations and developing awareness programs for communities. Field assistant jobs are already offered to communities near exploration projects. Specific job-related training programs have already been delivered in communities near mine sites, and more are on the way. Inuit-owned businesses are taking part in the industry through contracts for a variety of services. Inuit have become joint venture partners in companies that do contract mining and construction and provide air transport, logistics and other services.

What does the future hold? Over the next 10 years, I believe that the Inuit and industry can work together with government to encourage the youth to stay in school so that they can participate as geologists, engineers, accountants, biologists, ecologists, chemists, geophysicists, technicians and trades people of all kinds.

I believe that this knowledge base will help not only the mining industry but also will have a profound effect on the social fabric of Nunavut. It's a tall order, but let's use the 10th anniversary to mark the beginning of a renewed commitment to education at all levels.

I believe that, with that commitment to education, Nunavut can develop a realistic vision that sees the territory as a place where there is high employment and people and businesses that are successful in developing Nunavut's rich natural resources in a responsible manner. ●

Mike Vaydik is general manager of the Northwest Territories & Nunavut Chamber of Mines.



COURTESY OF AGNICO-EAGLE MINES LTD.

Construction crews prepare form work, front left, for concrete foundations in late March to support the semi-autogenous grinding (SAG) mill and the ball mill inside the Meadowbank ore processing plant. Projected mill recovery rates will range from 91 percent to 94 percent and mining/milling costs are expected to average C$50 per metric ton for the Meadowbank gold project.

● NUNAVUT TERRITORY

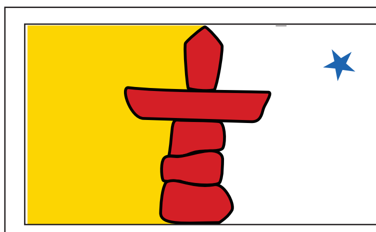
High hopes for Nunavut's next mine

Low-cost gold producer tackles challenges of Canadian arctic in bid to bring modern gold production to the Far North territory

By ROSE RAGSDALE
For Mining News

Nunavut Territory's next mine appears to be a winner.

On track to begin initial gold production in early 2010, the Meadowbank Project promises to deliver the best of what those who pressed for the creation of the territory had in mind – a mining venture capable of doing the heavy lifting needed to improve the local standard of living by providing steady, good-paying jobs along with significant public revenue.



NUNAVUT: 10 years later

The Meadowbank property is located in the Kivalliq region of Nunavut and lies in the Third Portage Lake area, about 70 kilometers, or 43 miles, north of the community of Baker Lake, near the western shore of Hudson Bay.

Agnico-Eagle Mines Ltd. holds a 100 percent interest in Meadowbank, which has probable gold reserves of at least 3.6 million ounces; 32.8 million metric tons at 3.5 grams per metric ton. Meadowbank's deposits are open on strike and at depth.

Already a major source of employment in the region, the C$620 million project is viewed as an important sign that the young territory is moving in the right direction, toward a self-reliant and sustainable economy.

"Agnico-Eagle is a tremendous asset to the territory and a real vote of confidence for mining in Nunavut," said Gordon MacKay, director of the Government of Nunavut's Minerals & Petroleum Resources Division. "When the mining industry sees the tremendous profits that Agnico-Eagle will make at Meadowbank, it will make a difference."

COURTESY OF AGNICO-EAGLE MINES LTD.

The Meadowbank gold project is under construction in Nunavut Territory near the western shore of Hudson Bay.

Part of Nunavut's exciting geology

Four gold deposits have been discovered along the Meadowbank gold trend, a 25-kilometer-long trend encompassing 35,000 hectares, or about 84,000 acres, of

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MEADOWBANK

land in a series of Archean-aged rocks forming the Western Churchill supergroup in northern Canada.

Currently, three of the four deposits are planned to be mined. The Goose Island and Portage deposits are hosted by highly deformed magnetite-rich iron formation rocks, while an intermediate volcanic rock assemblage hosts the majority of the mineralization at the more northerly Vault deposit. In all the deposits, gold mineralization is commonly associated with intense quartz flooding, and the presence of iron sulphite minerals (pyrite and/or pyrrhotite).

DAVID SMITH

Like the similar-sized Fort Knox gold mine in Interior Alaska, Meadowbank is being developed as an open-pit mine because the known gold resources are situated within 225 meters of surface. A zone of high-grade, near-surface gold mineralization, the Cannu zone, was discovered and evaluated in exploration in 2005.

Meadowbank is expected to produce an average of 350,000 ounces of gold per year over a 10-year mine life. But unlike Kinross Corp.'s Alaska mine, total cash costs of production at Meadowbank are expected to dip well below the industry average to C$300 per ounce. That compares favorably with an average of US$390 per ounce for Fort Knox production over the next nine years.

COURTESY OF AGNICO-EAGLE MINES LTD.

Vehicles travel along a shore-side road near a barge unloading ramp under construction at the Meadowbank gold project being developed by Agnico-Eagle Mines Ltd. in Nunavut Territory.

Following up on an early lead

When Agnico-Eagle pours its first gold at Meadowbank, it will culminate nearly 30 years of exploration and development in the Baker Lake area. Regional grass-roots exploration programs outlined gold-bearing Archean greenstone belts in the area in the early 1980s.

The Third Portage deposit was discovered in 1987 during exploration by a joint venture between Cumberland Resources Ltd. and Comaplex, which also outlined the Goose Island deposit, and the North Portage deposit. In 1997, Cumberland purchased Comaplex's 40 percent interest making it the 100 percent owner of the project. In additional exploration programs, Cumberland discovered three other area gold deposits: the Vault deposit (October 2000), the PDF deposit (October 2002) and the Cannu zone (September 2005).

By 2003, Cumberland had identified several large, high-grade shallow and closely spaced gold deposits at Meadowbank, thus establishing a major Canadian gold project. Currently, Meadowbank consists of 10 Crown mining leases (7,395 hectares) and three Nunavut Tunngavik Inc exploration concessions (23,126 hectares) covering a total of 30,521 hectares. A 2005 feasibility study recommended development of a conventional open pit gold mine with an eight-year mine life from probable mineral reserves of 2,890,000 ounces situated within closely-spaced, near-surface deposits.

In August 2006, Cumberland received a positive recommendation from the Nunavut Impact Review Board for development of Meadowbank, and a month later reported that the Cannu zone contained about 85,000 ounces of inferred mineral resources.

In July 2007, Agnico-Eagle and Cumberland executed an all-share exchange for all of Cumberland's outstanding and fully diluted stock.

Though Agnico-Eagle appeared to be new to Meadowbank, the company actually had been eyeing the property for a while.

"We actually drilled this property ourselves in a joint venture with Hecla Mining Co. in the early 1990s. The times were different and we walked away," said David Smith, Agnico-Eagle's vice president of investor relations. "But we kept our eye on it and watched what Cumberland was doing. When the time was right, we made our move."

C$11 million for 2009 exploration

Exploration at Meadowbank is ongoing. In the 2008 exploration campaign, Agnico-Eagle completed 85 drill holes totaling 24,028 meters. Most of the drilling took place near the current resource envelopes at Portage, Goose Island and Goose South and on other targets on the large Meadowbank property, outside of the area of the mining license.

A scoping study is underway to consider an increase in the production rate at Meadowbank from the design rate of 8,500 metric tons per day to a target rate of 10,000 tpd. The study is considering a higher production rate from the open pits, as well as a scenario where the pit material is supplemented by underground ore from the Goose South deposit. Results of the scoping study are expected in the third

see **MEADOWBANK** *page 13*

COURTESY OF AGNICO-EAGLE MINES LTD.

A geologist studies core samples in a core shack at the Meadowbank Project in the Kivalliq region of Nunavut Territory. Gold grades at Meadowbank are expected to average between 3.44 grams per metric ton and 4.8 g/t over the project eight-year life of the mine.

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MEADOWBANK

quarter of 2009, according to Agnico-Eagle.

For 2009, the company has budgeted C$11 million for exploration in Meadowbank region, including an estimated 47,800 meters of diamond drilling for resource-to-reserve conversion and discovery of new gold zones.

Six months ahead of schedule

In a March 2009 update, Agnico-Eagle said mine construction is well underway at Meadowbank with commissioning and first gold production expected before the end of the first quarter of 2010.

A 110-kilometer, or 66-mile, all-season road to the site has been completed and startup has been accelerated by six months.

"We had such a good shipping season last summer that we were able to advance the schedule," Smith explained. "We exceeded our expectations."

Smith referred to the sealift last summer that the company conducted to transport the bulk of equipment and supplies needed for its exploration and development efforts at Meadowbank. He said goods are brought every summer on oceangoing barges from Montreal through the Atlantic Ocean around Newfoundland and into the Arctic.

Agnico-Eagle credits hard work by its employees and contractors as the main reason for the speedy timetable, he added.

At the project, pre-stripping in the Portage pit got underway during the fourth quarter of 2008 with about 800,000 metric tons of waste rock hauled.

The mill, power house and service buildings also were fully enclosed in the fourth quarter. Work continued on the SAG mill foundations and internal foundations during the winter season.

Most of the earthwork related to the construction of the East Dike was completed by the end of the third quarter of 2008. During the fourth quarter, the emphasis was placed on the grouting of the foundation of the dike. Casing installation is virtually complete. Bedrock drilling had progressed to 33 percent completion earlier this year.

Construction of the Bay and Goose dykes are scheduled for 2009 and 2010. Completion of the East Dyke will permit the start of initial production from the Portage open pit, while completion of the two additional dykes will allow extension of the Portage open pit as well as access to the higher-grade ore of the Goose Island open pit by 2011. Work also has started on dewatering the Portage open pit area.

Agnico-Eagle also said preparations are underway for the 2009 sea lift season. The outstanding mill and mining equipment as well as consumables for the ensuing year are scheduled to be delivered this summer. The company expects to start commissioning the plant near the beginning of 2010.

COURTESY OF AGNICO-EAGLE MINES LTD.

Biologists monitor fish in Baker Lake near the Meadowbank Project in validating a predicted model of the fish population.

Arctic challenges on horizon

The mine and mill planned for Meadowbank are simple in design, so processing ore should not be difficult. But operating in the Canadian Arctic could present a considerable logistical and infrastructure challenge for the producer, Smith said.

"On occasion, the area has pretty severe winter weather so we've budgeted for some days when we can't operate at Meadowbank due to whiteout conditions," he said.

Another big challenge that the miner is already tackling is training members of the local labor force to work at the mine and retaining that work force once it is in place.

Agnico-Eagle plans to draw personnel from its Quebec base to complement and assist the work force in Nunavut.

Part of an ambitious strategy

Agnico-Eagle's operating history includes more than 30 years of continuous gold production primarily from underground operations. Since Agnico Mines Limited, a silver producer in Ontario, and Eagle Gold Mines Ltd., a gold exploration company, merged in 1972, the company has produced more than 4.0 million ounces of gold.

In addition to being one of the lowest total cash-cost producers in North American gold mining, the company prides itself on having paid its shareholders a cash dividend for 27 consecutive years.

Agnico-Eagle has an ambitious strategy to increase its annual gold production to 1.4 million ounces by 2011. To accomplish this goal, the company is building a multimine platform starting with its operations in the Abitibi region of Quebec. Having created a dominant land position around its LaRonde mine in Quebec, the gold producer brought numerous properties running along Quebec's gold-rich Cadillac-Bousquet belt into the pipeline at different stages of development. This foundation offers long-life gold reserves and generates good earnings and cash flows, enabling Agnico-Eagle to broaden its base within Canada and internationally.

Toward that end, the company has developed five gold mines, including Meadowbank, virtually simultaneously. Gold production began in April 2008 at its Goldex mine near LaRonde. In Finland, the Kittila gold mine began initial production in September 2008. Shaft sinking is complete and level development is underway at the nearby Lapa deposit, with gold production expected there in midyear 2009. And initial gold and silver production at the Pinos Altos Project in Mexico is on tap for the third quarter of 2009.

When Agnico-Eagle CEO Sean Boyd was asked what he learned from building five mines at the same time, Smith said the top executive replied, "I learned not to build five mines at the same time."

He said the company's top managers are now "looking forward to stepping back" and thinking about how to improve operations at its six producing gold mines. ●

Miner targets Inuit workers to fill mine jobs

Training the locals to work at the Meadowbank Project near Baker Lake in Nunavut Territory and pouring dollars into the community by purchasing services from local contractors is a big part of the commitment that Agnico-Eagle Mines Ltd. made to gain the right to produce the estimated 3.5 million ounces of gold it has identified so far on the property.

"We anticipate a long-term, mutually beneficial relationship with citizens and government of Nunavut, much like our experience in Quebec," Agnico-Eagle Vice Chairman and CEO Sean Boyd said recently.

Under terms of the Inuit Impacts & Benefits Agreement that Agnico-Eagle signed with the Kivillaq Inuit Association, the miner must fix its Minimum Inuit Employment Goal and identify barriers that must be removed or minimized to increase the number of potential Inuit employees at Meadowbank.

SEAN BOYD

During construction this year, Meadowbank has about 1,000 people, mostly contractors, working a two-weeks-on-two-weeks-off rotation, with 550 workers on site from July to November.

David Smith, Agnico-Eagle's vice president of investor relations, said about 250 company employees are currently working on the project. Of that number, about 43 percent are Inuit, he reported.

In addition, the contractors working at Meadowbank include three 100 percent Inuit-owned firms, BLCS, Peter's Expediting and Arctic Fuel.

Of the C$500 million spent on the project, so far, C$188 million also went to contracts with companies with significant local interests, including First Air, Dyno, Toromont and NTCL, according to Smith.

Training to gear up at startup

When production gets underway in early 2010, Agnico-Eagle expects to employ 500 permanent workers at Meadowbank with about 35 percent drawn from the local labor force.

The company has initiated an "on-the-job training program" for various positions, and is touring the local community to talk about job opportunities among Inuit youth.

But Agnico-Eagle's training managers report difficulty finding space for the training effort at the mine site because of construction activities.

Starting in 2010, the company plans to launch more on-the-job training of local residents to fill a host of jobs at the mine. These occupations include haulage truck operators, auxiliary equipment operators, crusher helpers, cook helpers, crusher operators and mill helpers, the managers said.

From this ongoing training program, Agnico-Eagle anticipates increasing the number of Inuit employees on its payroll each year of the 10 years that the mine is expected to be in production.

–ROSE RAGSDALE

● MARKETS

China imports spur metals price recovery

China stockpiles record tons of copper and zinc during its slowest GDP growth on record, causing analysts to speculate

By SHANE LASLEY

Mining News

China has been importing copper and zinc at a record-setting pace since the beginning of 2009. This unprecedented level of buying comes at a time when the Far East country is experiencing the slowest growth in a decade, causing analysts to speculate on what is driving the country's stockpiling of these base metals.

The good news for the mining industry is that China's hunger for copper and zinc has, at least for the short term, caused healthy gains in the prices of these metals.

Commodities watchers expected copper prices to languish around US$1.50 a pound in the short term, increase to about $1.75 a pound in the second half of 2009 and not return to their former trading highs until sometime in 2010. Zinc is also outperforming experts' predictions. The consensus was that zinc would average about US52 cents a pound in 2009 before climbing to about US65 cents next year.

Both metals rocketed past analysts' short term predictions and did not stop until they exceeded levels forecast for next year.

Copper – which freefell from about US$4 a pound in June of 2008 to around $1.30 a pound by year's end – rebounded through the US$2 a pound mark during April 9 trading, reaching $2.20 the following week.

Likewise, zinc – which dropped from its all-time high trading price of more than US$2 in December 2006 to a low of about US47 cents a pound in December – has recovered by more than 40 percent, hitting US68 cents on April 16.

Because of the importance of base metals to construction and manufacturing activities, their prices have a tendency to foreshadow other economic activity, causing forecasters to use these commodities as leading indicators of global economic health.

Tarnished bellwether

The recent surge in copper and zinc prices may not be as much a bellwether of a healthier-than-expected economy as an indicator of China's grasp of capitalism. The developing nation has been replenishing its stockpiles by buying up large quantities of both copper and zinc.

A recent report from China's customs agency reveals that the country imported 89,703 metric tons of zinc during the first two months of 2009, an increase of 633 percent over the same period last year. Industry sources estimate the country imported an additional 100,000 metric tons in March.

Similarly, the customs agency reported that China's copper imports for the first two months of this year rose to 451,438 metric tons, a 71 percent increase over a year ago. The Far East country reported an additional 374,957 metric tons of red metal imports in March.

While China imports record amounts of the metals, most of the world remains in the grip of a recession that is not expected to let up until the latter half of this year, leaving experts to conclude that the recent price gains are not sustainable when China stops buying.

Though analysts predict a contraction in zinc and copper prices, they do not expect that they will reach the lows of late 2008.

China banking on Bancor?

While China has been buying up the metals at an unprecedented level, the country's gross domestic product grew by only 6.1 percent in the first quarter of 2009, the slowest growth on record. The country's GDP depends largely on exports which are expected to remain slow as long as the countries that consume its products remain in recession.

Economists have been batting around ideas about the

see RECOVERY *page 15*

China miners secure future zinc reserves through investments in Canada

Chinese firms are securing potential future base metal sources. In two separate deals, China metal companies are moving ahead with investments in zinc projects in northwest Canada.

In July 2008 two China mining companies – Jinduicheng Molybdenum Group Ltd. and Northwest Nonferrous International Investment Company Ltd. – acquired Yukon Zinc Corp.

By buying up all of Yukon Zinc's outstanding shares for C 22 cents per share, the two Shaanxi Province-based companies became owners of the rich polymetallic Wolverine project in southeast Yukon Territory.

Wolverine has measured and indicated resources of 4.46 million metric tons grading 12.14 percent zinc, 354.8 grams per metric ton silver, 1.16 percent copper, 1.69 g/t gold and 1.58 percent lead (at US$80 cut-off). Inferred resources are 1.69 million metric tons containing 12.16 percent zinc, 385.4 g/t silver, 1.23 percent copper, 1.71 g/t gold and 1.74 percent lead (at the same cut-off).

Construction is already well underway at the fully permitted, volcanic massive sulfide project. Yukon Zinc is anticipating production from the 1,700-metric-ton-per-day underground mine by mid-2010. Their corporate headquarters is in Vancouver, B.C., with ownership from China.

Tongling Nonferrous Metals Group Holdings Co. Ltd., another China mining company, is in the process

see RESERVES *page 15*

● ALASKA

Alaska develops new core-drill training

Rural Alaskans get shot at rewarding careers through groundbreaking program that certifies world's first core-driller apprentices

By SHANE LASLEY
Mining News

A first-of-its-kind core-driller apprenticeship program is providing rural Alaskans with the training and certifications that will enable them to work at mining projects close to their homes in the bush.

"This training is for Alaskans who live in the remote areas where our natural resources are being developed," said Alaska Labor Commissioner Click Bishop. "Once trained, these Alaskans will be employed in high-paying, high-skilled jobs in their towns and villages."

The nationally certified apprenticeship for core-drillers is not only a first of its kind in the United States, but it is the first core-driller apprenticeship in the world and could set the standard for core-driller training globally.

"This occupation has never been done in the country before. And even in other countries that really embrace apprenticeship, it's not done there. In Canada and in Australia, they have core-driller training, but they do not have apprenticeships for core drillers. We led the charge on this," said Gerry Andrews, Apprenticeship Coordinator for the Alaska Department of Labor and Workforce Development.

"One design aspect of this core drill program is that we can share it with the Canadians," Andrews told Mining News. "The steps that we took to design the apprenticeship program are the same steps that the Canadians would use for their apprenticeship programs."

COURTESY OF THE ALASKA TECHNICAL CENTER

The inaugural class of a mining industry core-driller training program offered by the Alaska Department of Labor and Workforce Development graduated April 22 after completing a 15-day course. Graduates of the program's advanced course will return to the workplace as the world's first certified core-driller apprentices. The newly minted apprentices hail from small communities throughout rural Alaska. Pictured kneeling: Sam Jones (Ambler), William Mike (Kokhanok), Dan Nazuruk (Noorvik), Theodore Gray (Allakaket), Sam Tukrook (Point Lay). Second row: Darrell Hobson (Nondalton), Jonathan Hobson (Nondalton) Harold Gooden, Jr. (Kiana), Peter Merculief (Iliamna), Brian Janti (Newhalen) Back Row: Stan Active, III (Togiak), Oscar Kapatak (Koliganek), Reno Nanaloo (Iliamna), John Greenley (Togiak), Sam Overton (Cathbalak), George Smith (Noorvik)

Creating a registered apprenticeship

The strength of this unique program is the result of the state and federal governments teaming up with educators and miners to create a nationally certified apprenticeship that meets the needs of industry and Alaskans who are looking to work and advance their skills in mining.

To create the nationally certified apprenticeship program, the state Labor Department joined efforts with the U.S. Department of Labor Employment Training Administration's Office of Apprenticeship. With nationally recognized certification, the apprenticeship will give trainees a way of readily showing that they are trained and have the necessary experience to do the job.

"It is the first-ever curriculum in the history of the United States for core drilling, and it's a registered apprenticeship program, so once they get their certificate, they can go anywhere."

Steve Borell, executive director of the Alaska Miners Association, applauded the program. "I think it is a win-win for everybody," he told Mining News." If a worker gets laid

see APPRENTICESHIP *page 16*

continued from page 14

RESERVES

of buying a 13 percent stake in Canada Zinc Metals. The C$4.9 million deal will provide funds for additional exploration of the Cardiac Creek SEDEX zinc-lead deposit, which is part of the 6,400-hectare, or 15,424-acre, Akie claim block in northeast British Colombia.

A NI 43-101 report filed in 2008 estimates an inferred resource at Cardiac Creek of 23.6 million metric tons grading 7.60 percent zinc, 1.50 percent lead and 13 g/t silver with a 5 percent cutoff.

Canada Zinc also owns the Kechika Trough regional exploration property, which covers a total of 78,526 hectares, or 185,189 acres, extending northwest from the Akie property for a distance of 125 kilometers, or 75 miles.

—SHANE LASLEY

continued from page 14

RECOVERY

reasons for the surge in Chinese metal buying. The most widely accepted theory is that the country is simply buying base metals at yard sale prices in anticipation of its domestic needs when the US$585 billion stimulus legislation kicks in and global demand for goods made in China increases as the world economy recovers.

Although this reasoning is the most popular, it may not tell the whole story and is certainly not the most interesting argument.

An article by Telegraph International Business Editor Ambrose Evans-Pritchard suggests that China is moving its foreign reserves from U.S. Treasury bonds into metals, especially copper.

While money watchers have anticipated that China would diversify its reserves, most anticipated a move to the more traditional metal, gold. Evidence suggests that the country may be shifting its money into more practical metals.

In his article Evans-Pritchard points to a speech by China's top banker which may provide insight into why the country is purchasing more metals than it is expected to need during the global slowdown.

During a March 23 speech, titled "Reform the International Monetary System," the governor of the People's Bank of China, Zhou Xiaochuan, suggested the global monetary system should be based on commodity reserves.

The international monetary system should be, according to the governor of China's central bank, "anchored to a stable benchmark."

The banker does not suggest that an international reserve currency be tied to one metal, like the Gold Standard or the Silver Standard of days past, but to a group of commodities.

Zhou referred to Bancor – a commodities-based financial system introduced in the 1940s by John Maynard Keynes. In his speech the banker called the Bancor system farsighted and said it is unfortunate that the system was never accepted.

If China is listening to its top banker, it might explain why the country is stockpiling metals. If the country is anchoring its money to commodities then the country's buying spree may be far from over. By buying up metals at clearance sale prices, the Far Eastern country diversifies its foreign reserves and holds a stockpile of increasingly important metals that will be needed when consuming countries are once again ready to buy goods made in China. ●

● YUKON TERRITORY

Wolverine edges closer to production

Yukon's next major mine wins regulatory approval of tailings plan; recruits local workers as plans coalesce for mid-2010 startup

By ROSE RAGSDALE
For Mining News

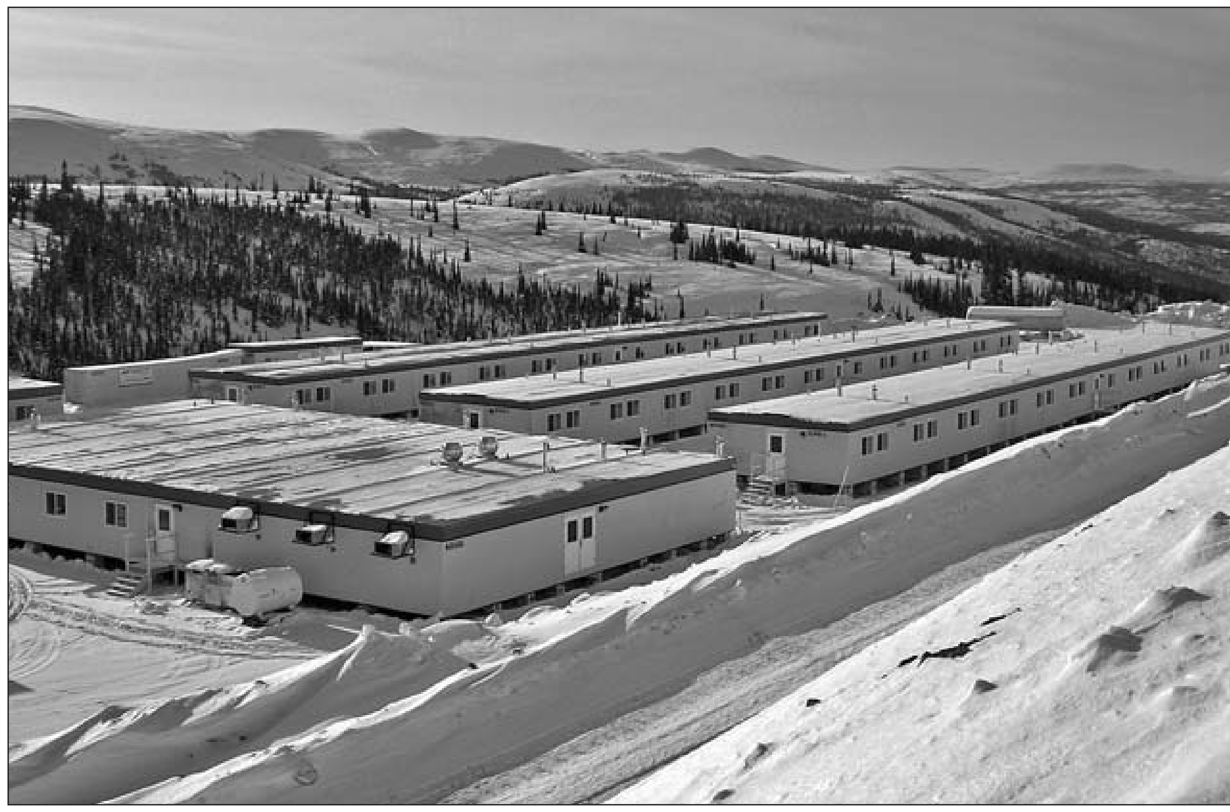
Yukon Zinc Corp. moved closer to startup of the Wolverine Project in Southeast Yukon Territory recently by gaining regulatory approval of its tailings and infrastructure design and construction plan.

Two Chinese companies, Jinduicheng Molybdenum Group Ltd. and Northwest Nonferrous International Investment Co. Ltd., acquired all of the public shares of Vancouver, B.C.-based Yukon Zinc last summer. Since then, the private company has quietly advanced the development of Wolverine.

The Yukon government April 14 said it approved a detailed design for a tailings storage facility for the proposed underground zinc-silver-copper-lead-gold mine, which is scheduled to begin commercial production in mid-2010.

"Yukon Zinc is now in a position to proceed with further implementing its development plans for the Wolverine Project," Yukon Energy, Mines and Resources Minister Brad Cathers said in a statement. "This is a tangible example of how Yukon's regulatory regime enables the development and management of Yukon's natural resources in a responsible and sustain-

see WOLVERINE page 19



COURTESY OF YUKON ZINC CORP.

A 205-person camp at the Wolverine Project in Yukon Territory is soon to be the home of construction staff and contractors during 2009 and early 2010, and ultimately will house permanent mine workers. Wolverine begins production in mid-2010.

continued from page 15

APPRENTICESHIP

off, and they want to go to work somewhere else, they have a way to prove they have the experience. They have the training they say they have."

Good to have a job

While the certification can be taken to exploration projects anywhere in the world, the program's primary purpose is to provide rural Alaskans with the skills needed to work at mining projects in the regions where they live.

"Our goal is to increase the ability of companies to hire locally and keep dollars in Alaska, helping raise the standard of living in our rural communities," Stone said.

Core drillers in Alaska earn an average wage of about US$25 per hour, making it an attractive occupation to rural residents. Most of the state's mineral exploration jobs are located in remote areas where there are few other opportunities for employment.

"This is a win for the state to have an effective training program for industry." Borell said. "It is especially a win for the rural communities that have people who need the jobs. This is a way to provide training for them."

Sam Jones, a four-year drilling veteran at the Red Dog zinc-lead mine in Northwest Alaska and a member of the inaugural apprenticeship class, may have summed up the program's benefits best. Said Jones: "It's good to have a job."

Developing curriculum

Once planners settled on a concept for the apprenticeship training program, a curriculum had to be developed. The state Labor Department approached the University of Alaska's Mining and Petroleum Training Services. MAPTS, which has trained more than 50,000 workers over the past 30 years, is the largest trainer of its kind in North America.

The state Labor Department and MAPTS teamed up with the mining industry to identify the duties and tasks needed to be a core driller and created an educational standard for the occupation.

"By partnering with industry, we are developing a premier work force development model that will meet employers' needs," Stone said.

Two levels of training

The apprenticeship program offers training for both entry-level drillers and a more advanced program for individuals who have previous drilling experience.

"There are two types of workers that we are focused on; one is incumbents we want to take from being driller helpers to being full-fledged drillers, and the other is entry-level people," Stone said.

Both entry-level and experienced trainees participate in 15 days of classroom studies, including five days of Occupational Safety and Health Association training and 10 days of classroom training targeted at their experience levels.

The entry-level students also will work 15 days on a core drill rig. This will provide participants new to drilling with an opportunity to experience what it is like to work on a drill rig before being thrown into a production environment.

Program provides key training

Brian Janti, another member of the 18-apprentice inaugural class to receive the core drilling apprenticeship, said the training is helpful, especially for the newer guys who don't have as much experience.

"For people who have never seen a rig, this is great," he said.

Janti, who is from Newhalen, a village of less than 200 people located about 30 miles, or about 48 kilometers, southeast of the Pebble Project, did not know anything about drilling when he started as a driller's helper at Pebble in 2004.

"When I first got on a rig, I didn't know what a pipe wrench was," Janti admitted.

After classroom studies are completed, participants in the advanced group are certified as core-driller apprentices, enabling them to earn a good wage while gaining additional experience to climb to the level of journeyman drillers.

Janti hopes the training and certification will be the ticket that he and other young people from rural Alaska need to advance their drilling careers.

"I really hope this certificate will enable me to show proof that I can operate a drilling rig," he said. ●

NORTH OF 60 MINING NEWS

Companies involved in Alaska and northwestern Canada's mining industry

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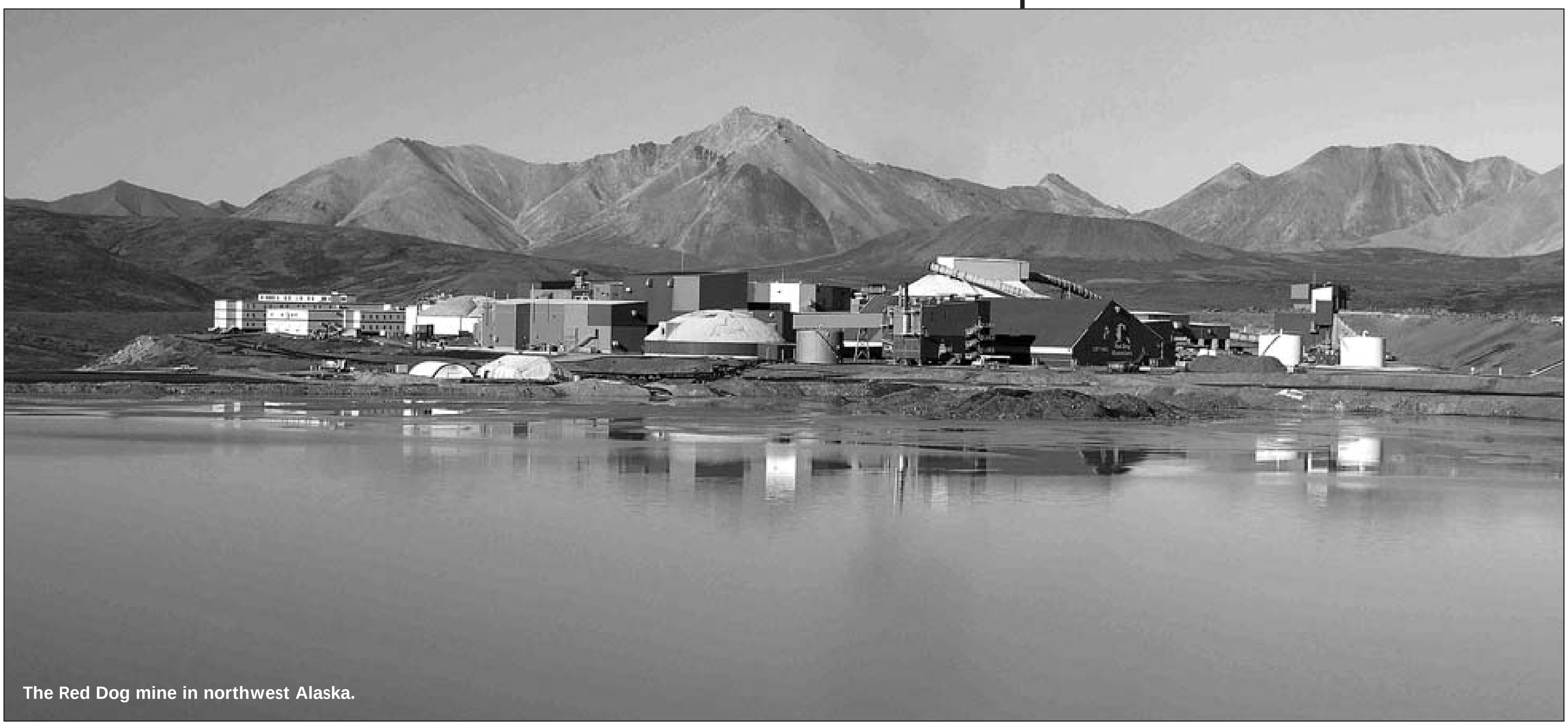

The Red Dog mine in northwest Alaska.

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continued from page 16

WOLVERINE

able manner."

Wolverine, a volcanic massive sulphide deposit, is located 195 kilometers, or 121 miles, northwest of Watson Lake, B.C. and about 280 kilometers, or 174 miles, east of Whitehorse in Yukon Territory's Finlayson Mining District.

The property, originally staked in 1973, was extensively explored for more than two decades. In June 2005, following receipt of a Type B Water Licence and Mining Land Use Permit, Yukon Zinc, a closely held junior led by well-known geologist Harlan Meade, began a test mining program and detailed infill diamond drill program. From the successful test and subsequent exploration, the company developed a proposal for an underground mine with surface ramp access.

The mine site and industrial complex are located on a gentle sloping subalpine rider in the pass between the Go Creek watershed to the south and the Wolverine Creek watershed to the north. An airstrip and the tailings facility are situated near the headwaters of Go Creek.

The 178 square-kilometer, or 68.7-square-mile, Wolverine property is currently estimated to host measured and indicated resources of 4.46 million metric tons grading 12.14 percent zinc, 354.8 grams per metric ton silver, 1.16 percent copper, 1.69 g/t gold and 1.58 percent lead (at US$80 cut-off). Inferred resources are 1.69 million metric tons, containing 12.16 percent zinc, 385.4 g/t silver, 1.23 percent copper, 1.71 g/t gold and 1.74 percent lead (at the same cut-off).

Current plans call for daily production of 1,700 metric tons silver- and gold-bearing zinc, copper and lead concentrates to be sold primarily to metal markets in Asia. The concentrates are to be trucked about 860 kilometers, or 533 miles, to loading facilities at a port in Stewart, B.C., for transshipment to Asian smelters.

The estimated C$207.5 million project currently has a projected eight-year mine life; however, conversion of Wolverine's inferred resources into reserves with more infill drilling could extend the mine life another three years.

Tailings facility critical to production plan

The milling process at Wolverine will produce tailings, which will either be deposited in the underground mine as paste backfill, or deposited in the tailings facility. The tailings have high sulphide content and have the potential to become acid-generating if allowed to oxidize. Therefore, tailings will be stored in the saturated containment system described herein, according to Yukon Zinc's design plan.

The tailings storage facility's design is based on the company's field and laboratory investigations and takes into consideration a range of factors, including storage capacity requirements, site water balance, dam failure consequence rating, and earthquake and flood potential.

The tailings dam will be constructed in two stages: A 16.5-meter-high starter dam will be constructed to an elevation of 1306.5 meters in 2009 in preparation for mill startup in June 2010, and in 2011, the dam will be raised 7 meters using the downstream construction method to a final elevation of 1313.5 meters.

Construction moves apace

As Wolverine proceeds through the Yukon government regulatory approval process, Yukon Zinc anticipates completing the bulk of infrastructure construction needed for the project this year in time to begin commercial production by mid-2010.

COURTESY OF YUKON ZINC CORP.

A mine worker uses a "shotcreteing" machine to spray a concrete material onto vertical and overhead surfaces of the underground workings at the Wolverine Project in Yukon Territory in preparation for the start of production in mid-2010.

So far, company crews have completed construction of a 26-kilometer, or 16-mile, all-weather access road to the Robert Campbell Highway, as well as bridge building and diversion ditches at the Wolverine Project, and are working on removal of organic material in preparation of bulk earthworks this spring.

A 205-person camp is already in place and ditches around the tailings facility are being prepared, Yukon Zinc spokesman Shae Dalphond told Mining News April 20.

Surface runoff diversion ditches on the upslope side of the industrial complex area are being constructed to direct clean runoff around the site to Wolverine Creek, while two other diversion ditches upslope and two ditches down slope of the industrial complex area also will be constructed to collect runoff from the site, and settle or treat it, as necessary, prior to discharging to the Go Creek watershed.

Crews have begun removing waste rock, or mucking, and shotcreting areas underground. Crews also have completed installation of a multiplate culvert at the mine entrance, Dalphond said.

All major permits for the project, including Quartz Mining and Type A water licenses, have been issued. Yukon Zinc plans to complete the bulk earthworks, build foundations for the industrial complex and begin construction of the tailings facility this spring and summer, Dalphond said.

Construction of the industrial complex or mill building will follow in the fall and winter.

Mine preproduction development will occur from February 2009 to May 2010 to allow for full operating status in June 2010, the company told regulators. During the preproduction period, an estimated 2,200 meters of lateral development, plus an estimated 600 meters of raise development is planned.

One reason for scheduling startup in June was to give the mine's operators time to collect spring runoff from the mine site for the initial water needed to begin production rather than taking water from a nearby creek, according to regulatory filings.

25 percent First Nations hire

Yukon Zinc is also moving forward with efforts to fulfill its commitments under a socioeconomic participation agreement that the company signed with the Kaska First Nation, which is comprised of the Ross River Dena Council and the Liard First Nation. The Finlayson area is within the Kaska Nation's traditional territory.

The miner has committed to finding ways to maximize the employment of available and qualified Kaska members through training and scholarships, along with business opportunities and community support and development loans.

Yukon Zinc representatives attended a job fair March 18 in Watson Lake that Dalphond said generated some interest in the mine project among job candidates in attendance.

Currently, about 106 employees and several contractors are working on site. Of the employees, 72 are Yukon residents, including 26 First Nations members.

Once Wolverine goes into production, the mine's permanent work force will number about 160, Dalphond said. ●