



MiningWatch Canada

Mines Alerte

Suite 508, 250 City Centre Avenue, Ottawa, Ontario, Canada K1R 6K7
tel. (613) 569-3439 — fax: (613) 569-5138 — info@miningwatch.ca — www.miningwatch.ca

Important Information about the Petaquilla Mining Project in Panama

November 18, 2008

re: Inmet Mining, Teck Cominco, Petaquilla Minerals, and Petaquilla Copper

Summary: *In the news earlier this year due to astonishing escalations in estimated capital costs of up to \$3.5 billion,¹ closer inspection of the situation surrounding the Petaquilla copper-gold complex in Panama reveals a series of undisclosed, underdisclosed, and underestimated potential environmental and legal liabilities. These liabilities have to do with the project itself as well as the financial and legal conditions affecting the project's major backers, Teck Cominco and Inmet Mining. The conflict and confusion around Petaquilla could have serious implications for the companies involved but also for the future of large-scale mining development in Panama.*

Context

Mining development in Panama has been very controversial since the 1990s, and very few projects have been developed to the production stage. Those that have made it to production, like Greenstone Resources' Santa Rosa gold mine in Veraguas province, have been extremely troubled. There has been strenuous opposition from indigenous and *campesino* (peasant) groups, and promoting mining also seems to have been less of a priority for the government than in many other Latin American countries. Recently there has been increased interest and investment in mining in Panama, and this has raised growing public concern and brought on renewed resistance from affected communities and religious, public-interest, and indigenous groups. Panamanian civil society organisations have been increasingly coordinating against mining and linking up with Central American mining activist networks. On November 12, 2007, ten major Panamanian NGOs appealed to President Martin Torrijos for a moratorium on mining.² Related developments in civil society opposition to mining are described below.

Several mining projects that are under development have been causing considerable controversy, includ-

¹ "Inmet keeping eye out for acquisitions following rise in Petaquilla costs". Romina Maurino, The Canadian Press, Wed, February 13, 2008 <http://www.resourceinvestor.com/pebble.asp?reid=40458>

² They were: ANCON (National Association for the Conservation of Nature), Audubon Society, CEASPA (Panamanian Centre for Social Studies and Action), CIAM (Centre for Environmental Advocacy), CICA (International Centre for Environmental Training), MarViva, Green Panama, Pro Mar (Foundation for the Protection of the Sea), and the Network of Private Nature Reserves. "Open Letter to His Excellency President Martín Torrijos Espino", http://www.miningwatch.ca/index.php?/328/Open_Letter_to_Torrijos, November 12, 2007.

ing Oro Gold's³ Soná gold project in Veraguas province and Cerro Pelado gold project in Los Santos province, Glencairn Gold's⁴ Cerro Quema gold project, also in Los Santos province, as well as Petaquilla Minerals' Molejón gold project and Petaquilla Copper's Petaquilla copper project (backed by Inmet and Teck) in Coclé and Colón.

Canada has no free trade agreement with Panama, so the companies could not use the investor-state provisions in such an agreement to sue for lost investment and profit, although they could conceivably use US subsidiaries to sue under the U.S.-Panama Trade Promotion Agreement.⁵

The Petaquilla copper and gold concession

Located in Donoso district in Panama's north-central Coclé and Colón provinces, the Petaquilla mineral lease covers 136 km² of rainforest and farmland. Exploration in the 1990s identified a huge copper-gold deposit, and in 1997 the mineral rights were granted to Minera Petaquilla S.A. (MPSA) when the "*Ley Petaquilla*" (the "Petaquilla Law", Contract-Law No. 9 of February 26, 1997) was passed by the Panamanian legislature. The concession is being developed as two projects, a small gold mine called "Molejón" belonging to Petaquilla Minerals, and Petaquilla Copper's huge copper project. Petaquilla Copper is owned and managed by Inmet Mining, with backing from Teck Cominco.

For a more detailed analysis, please see the sections below entitled "The ownership structure of the gold and copper concessions" and "Both of the major backers of Petaquilla already have significant liabilities."

Under the *Ley Petaquilla*, both projects enjoy exemption from many elements of Panamanian environmental and tributary law.⁶ For this reason, environmental groups allege that the *Ley Petaquilla* violates the Constitution, and could be overturned by a ruling of unconstitutionality. Such a legal procedure would take some time, but it cannot be discounted, especially if it can be heard before the copper mine is actually in operation or if an interlocutory injunction is granted to prevent further environmental damage while the case is being heard.

Since the copper and gold projects are part of the same concession and the companies developing them are closely related, we will simply refer to "Petaquilla" except where referring directly to one or the other of the specific projects.

In November of 2005, the Ministry of Trade and Industry approved a request from Teck Cominco lawyers (in the name of MPSA) for a new development plan to begin mining gold and for this to be consid-

³ <http://www.ororesources.com/properties/panama/>

⁴ <http://www.glencairngold.com/s/CerroQuema.asp> – currently being sold to Bellhaven Copper & Gold.

⁵ "The United States and Panama concluded free trade negotiations of the U.S.-Panama Trade Promotion Agreement (U.S.-Panama TPA) on December 19, 2006 and signed the Agreement on June 28, 2007. This comprehensive trade agreement reflects Congressional concerns about labor, the environment, intellectual property, and other issues as agreed by consensus between the President and the Congress on May 10, 2007. Both countries need to also pass implementing legislation before the U.S.-Panama TPA can enter into force."

<http://www.export.gov/fta/panama/index.asp?dName=Panama> viewed November 23, 2007.

⁶ The main features of *Ley Petaquilla* are as follows:

- A stable land tenure – the term of the agreement is 20 years, with two options to renew for another 20 years each, for a total of 60 years [for \$1/hectare/year, for 13,000 ha].
- A favorable tax regime
- Accelerated depreciation and depletion allowance.
- Practically all supplies and equipment required by the project are exempt from import duties.
- Exemption from all income taxes (except the mineral production royalty) until the retirement of all construction financing.
- Tax will not be withheld on interest payments to foreign lenders or dividends to foreign shareholders.
- Future changes in legislation that are inconsistent with *Ley Petaquilla* will not apply to the Owners.

(Company news release on Businesswire. Viewed 22 Nov. 2007 at

http://findarticles.com/p/articles/mi_m0EIN/is_2005_Sept_26/ai_n15629946)

ered as part of the copper mining operation. The request was of critical importance: if the company did not begin work on the copper mine in 2006, it would lose the concession. This resolution allowed Petaquilla Minerals Ltd. to begin development of the Molejón gold mine and allowed Petaquilla Copper Ltd. to maintain the mining rights that would have been lost. Environmental groups say the resolution violates the parameters established in the *Ley Petaquilla*, and therefore they are preparing a legal appeal to the Supreme Court of Justice. If the court rules in their favour, the copper mining rights would be suspended.

Petaquilla Copper was formed in 2006 to take control of the copper deposits in the Petaquilla concession. Subsequently, a Plan of Arrangement between the interested companies lodged the right to explore and develop the gold deposits with Petaquilla Minerals (through its Panamanian subsidiary), and lodged the right to mine and develop the copper deposits with Petaquilla Copper and Minnova, an Inmet subsidiary.

However, the terms and conditions of the *Ley Petaquilla* have to be met by both Inmet (Petaquilla Copper) and Petaquilla Minerals.⁷ If one defaults, the rights of the other are likely to be affected. Questions have been raised as to whether the Plan of Arrangement and other developments meet the requirements of the *Ley Petaquilla*, and the concession itself could be in jeopardy if these challenges are upheld by the courts. On July 8, 2008, the environmental group CIAM (Centre for Environmental Advocacy) filed an administrative suit in the Supreme Court of Justice against the resolution of the Ministry of Commerce and Industry that permitted the company to change its plan of work. The complaint was received and is before the courts; if it is upheld, the concession would be automatically annulled.

In 2008, a battle took place between Inmet and the directors of Petaquilla Minerals (who were also the directors of Petaquilla Copper).⁸ The Financial Post *Trading Desk* described this as “one of the uglier mining disputes in recent memory”.⁹ On September 29, 2008, after a successful hostile take-over of Petaquilla Copper shares for \$350 million, Inmet replaced all the directors, removing all the principals allied with Petaquilla Minerals. Petaquilla Copper it is slated to formally become a subsidiary of Inmet at a special shareholders’ meeting on November 26, 2008. Inmet has also recognized Teck’s claim to 26% of Petaquilla Copper, and is partnering with Teck to undertake feasibility studies and development plans. Teck has yet to decide if it is in or out of this project in the long term.

The company has posted a \$3 million compliance bond, but has failed to post the \$3 million environmental performance bond required under the conditions of the *Ley Petaquilla*, leaving the government and the communities on the hook for any environmental costs should the company go bankrupt or otherwise fail to meet its obligations. CIAM filed a criminal complaint on April 25, 2008, against the Vice Minister of Commerce, Manuel José Paredes, for breach of official duties for failing to enforce the conditions of the concession. The complaint was accepted and is under investigation.

The Molejon Mine is being developed irresponsibly.

The gold deposit, known as Molejon, is being developed in a piecemeal fashion, and is enraging local communities and environmental groups by its disregard for the environment and environmental regulation.

⁷ Petaquilla Minerals was split into two companies in June, 2006: Petaquilla Minerals Ltd. (to “focus on the development of the Molejon Gold Project, which is in the advanced development and pre-production phase, and the exploration and development of additional gold properties in Panama,” and Petaquilla Copper Ltd., to “focus on the Petaquilla Copper Project”. The *Ley Petaquilla* concession lands are 52% owned by Petaquilla Copper and 48% by Inmet Mining Corporation. Teck Cominco Ltd. has the right to acquire one-half of Petaquilla Copper’s interest (i.e. 26% of the concession) by satisfying various requirements. – “June 19, 2006: Petaquilla Minerals Ltd. Announces Results of Annual General Meeting” (held June 6, 2006) viewed Nov. 22, 2006 at <http://www.petaquilla.com/default.asp?i=n061906>

⁸ “Inmet shares take another hit as woes mount at mine projects: Legal dispute erupts over Panama venture”, Andy Hoffman, Toronto Globe & Mail, May 1, 2008.

⁹ “Inmet Mining finalizes Petaquilla Copper Takeover”, FP Trading Desk, August 27, 2008.

The mine manager is Gaston Araja, the former manager of the disastrous Bellevista mine in Costa Rica, which was forced to close after its heap leach pad collapsed in July 2007, and the Limon mine in Nicaragua, with its history of labour trouble.¹⁰ The company proposes to add Araja as a director at its November 18, 2008, meeting.

The gold mine is proceeding without a feasibility study, and without N.I. 43-101 compliant reserves. On November 3, 2008, Petaquilla Minerals had to revise a press release it had just issued which stated it was going to begin gold production in December, to include the following proviso: “projections (for size of the gold deposit) are based information currently available to the company. However, the Company does not have a feasibility study and there is no assurance that these projections will be realized.”

Independent auditors found in May 2008 that “the ability of (Petaquilla Minerals) to continue as a going concern is in substantial doubt”:

“The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of \$83,865,382 as at May 31, 2008 (April 30, 2007-\$79,521,082). Also the company has a working capital deficiency of \$3,692,913 at May 31, 2008...These factors raise substantial doubt about the Company’s ability to continue as a going concern...”

Although proceeds from Petaquilla Minerals’ shares in Petaquilla Copper (approximately 13% at the time of the sale in September, or \$45 million), will have helped the company reduce its debt, it is not enough to move forward in these challenging economic times.

Environmental concerns upheld by Panamanian authorities

Environmental concerns around Petaquilla are closely linked to concerns over social impacts as the affected people are poor *campesinos* (peasants) and indigenous people who stand to gain a small number low-level jobs at a cost of their water supply and a portion of their land base, not to mention the other inevitable and largely unmitigable consequences of such development to both the flora and fauna and the social fabric of the communities as they are “opened up for development”. The mine and its supporting infrastructure are already having devastating impacts on the mine site, affecting the already-imperilled integrity of the Mesoamerican Biological Corridor, an area of important biodiversity and stunning beauty – a twenty-million hectare chain of rain and cloud forests, coastal mangroves, and mountain ranges, encompassing forty percent of the combined national territories.¹¹ Among the problems identified with the development:

- Destruction of primary forest and siltation and contamination of waterways.
- Opening access to a totally roadless area – one of the last intact and pristine sections of the Mesoamerican Biological Corridor – from the Caribbean coast to the Inter-American Highway.
- The company is proposing a port on a stretch of coastline that currently has no access by sea.
- The Study of Environmental Viability is over ten years old and no new documentation has been prepared. The company is planning to take 100% of available water out of the rivers for the operations.

Most recently, Panama’s environmental authority (ANAM) found that the 160 hectare mine site was seriously degraded in every environmental measure except air quality.¹² On November 13, 2008, the

¹⁰ “Bitter Strike Ends at Black Hawk’s El Limón Gold Mine in Nicaragua”, http://www.miningwatch.ca/index.php?/Glencairn/Bitter_Strike_Ends_a, MiningWatch Canada, February 23, 2003.

¹¹ “Proposed Elements of the Mesoamerican Biological Corridor”, World Resources Institute, <http://earthtrends.wri.org/text/environmental-governance/map-478.html>, downloaded November 7, 2008.

¹² “Petaquilla Gold Se Defiende y Dice Que el Informe No Refleja la Realidad Actual”, La Prensa, November 13, 2008.

prosecution of the Judicial Circuit of Colón announced it would open criminal proceedings against Petaquilla Gold for crimes against the environment, based on this report.¹³

When the *Ley Petaquilla* was adopted in 1997, the General Environmental Law No. 41 of 1998 that created the environmental assessment process did not yet exist, so when the company initiated infrastructure works it did not submit an Environmental Impact Study (EIS) to the National Environment Authority (ANAM). The company filed a Study of Environmental Viability with the Ministry of Trade and Industry (as determined by the *Ley Petaquilla*) in 1998. No objections were filed. The company now argues that this gave it the environmental approval to proceed.

In 2005, ANAM initiated an administrative legal action against Minera Petaquilla, S.A. for violation of environmental legislation and, in spite of still having a suit before the Supreme Court of Justice to validate its argument, in 2007 the mining company agreed to submit EISs to ANAM for road construction and for the gold mine project.

The EIS for the gold mine project was submitted to ANAM in May of 2007. The public consultation process has undergone several extensions due to publication and notification errors committed by the company. In addition, the document has been the object of rigorous analysis on the part of several Panamanian environmental organizations that have filed serious criticisms of it. In January of 2008, ANAM asked the mining company for supplementary information on 26 deficiencies of the EIS. The company has not presented the information, but has gone ahead with construction regardless.

In the eventuality that the deficient EIS is approved by ANAM, environmental groups have vowed to appeal the approval by means of a judicial review before the Supreme Court of Justice based on a presumed breach to the obligations of the State (both nationally and internationally) in environmental matters.

No environmental assessment has yet been initiated for the copper project.

Civil society opposition gaining momentum

The sporadic controversy around Petaquilla since the concession was granted has been building into a national movement. On April 17, 2006, the respected NGO *Caritas* issued a declaration against the Petaquilla mining project. The document warned that the mining company was “violating national law and international agreements.”

In early August 2007, representatives of 21 local communities filed criminal complaints against MPSA and ANAM for allowing ecological crimes.

“Some of the petitioners walked for three days to travel to the capital and be present at the filing of the complaints and a forum held at the Lawyers Association... According to activists and people living in the area, hundreds of hectares have been destroyed as Petaquilla is diverting rivers, slashing down forest and contaminating the water that people depend on. That, in its turn, is causing an increased number of illnesses, lack of food and social upheaval. Without any previous warning, Petaquilla is setting off heavy explosives near the homes of local residents... Those who protest are threatened.”¹⁴

Mining in the area is also opposed by a number of national environmental groups because of the inevitable damage to



¹³ “Fiscalía abre proceso contra Petaquilla Gold”, La Prensa, November 13, 2008.

¹⁴ “Will the Stock Market Sink Panama’s Petaquilla Mine?” Okke Ornstein, July 17, 2008.

<http://narcosphere.narconews.com/notebook/okke-ornstein/2008/07/will-stock-market-sink-panamas-petaquilla-mine>

the Mesoamerican Biological Corridor, a project which has received substantial support from the World Bank. On November 12, 2007, ten major Panamanian NGOs appealed to President Martin Torrijos for a moratorium on mining.¹⁵ On October 14, 2008, the International Union for the Conservation of Nature (IUCN) passed a resolution asking the Governments of the countries of the Mesoamerican region to cancel the current mineral exploration and open pit mining of metals. IUCN is a partner with the International Council of Mines and Metals (ICMM) in a biodiversity protection initiative.

There have also been a series of local and regional protests against both the copper and gold projects. On September 23, parallel protests took place at MPSA's shareholders' meeting in Panama City (MPSA formalized the shift to Inmet's control with the withdrawal of the Panamanian investors, and changed its name to Minera Panama) while indigenous communities protested near Coclesito, the community closest to the mine site, to demand the annulment of the concession contract.

On September 6, 2008, communities and NGOs formed the Panamanian Network Against Mining (REDAP). The Network calls for an end to all open pit mining in Panama, and is gaining political strength as evidenced by its emergence as a national movement from the dispersed protests of the previous few years, bringing together indigenous and peasant communities with established environmental groups.



In May 2009, there will be presidential elections in Panama that could result in a change in the current legislative support for open pit mining in the country. Much of the fuel for the anti-mining movement comes from the irresponsible activities at Petaquilla.

The REDAP statement reads in part: "Regarding the existence of the Petaquilla Mine, which as expressed in the recent pronouncements of ANAM and the Supreme Court is not in compliance with current legislation, representatives of the undersigned communities ask the Ombudsman and the Director of the National Environmental Authority to undertake a joint inspection of the

Petaquilla mine with the object of verifying the status and the consequences of the activities that have so far been undertaken without an environmental impact study."¹⁶

Inmet says the copper mine will not proceed until copper prices improve

On October 29, 2008, during a conference call to discuss its third-quarter results, Inmet said that it will hold all of Petaquilla Copper shares by the end of November 2008; and will then move to delist the company from the Toronto Stock Exchange, making it a wholly-owned (and private) subsidiary.

Inmet now controls 74% of Minera Petaquilla S.A. (MPSA), the company that holds the rights to the

¹⁵ "Open Letter to His Excellency President Martín Torrijos Espino", http://www.miningwatch.ca/index.php?/328/Open_Letter_to_Torrijos, November 12, 2007. The signatories were: ANCON (National Association for the Conservation of Nature), Audubon Society, CEASPA (Panamanian Centre for Social Studies and Action), CIAM (Centre for Environmental Advocacy), CICA (International Centre for Environmental Training), MarViva, Green Panama, Pro Mar (Foundation for the Protection of the Sea), and the Network of Private Nature Reserves.

¹⁶ The member communities include: the "Yes to Life" Committee of Soná and Las Palmas, the Cañazas Front in Defence of Life and Mineral Resources, the Donoso Committee for the Closing of the Petaquilla Mine, the Cerro Pelado Committee, the Plan de Chorchá Committee, the Cerro Caballo Committee, the Río Gatú "Join Hands" Committee, the Santeño Committee Against Mining, the Santa Fé - Luis River Committee, the Cerro Colorado Committee, and the Lajilla Committee. They are supported by the Ecological Resistance Collective, the Centre for Environmental Advocacy (CIAM), the Human Rights UP Collective, CEPAS Veraguas, and Oilwatch Panama.

gold and copper concessions. The remaining 26% is considered to belong to Teck Cominco, subject to certain “earn-in provisions”. If Teck elects not to remain in the project, Inmet will be required to buy that company out (see below).

Inmet CEO Jochem Tilk also said that, because of falling copper prices, the company has decided to spend the next two years on exploration drilling, undertaking the engineering, social and other studies for the Environmental Impact Assessment, and generally enhancing the viability of the project. Inmet will not consider developing the mine until (and if) copper prices improve. “We still think it is an excellent project,” said Tilk. Inmet intends to revisit the project economics in 24 months.

Tilk confirmed that the \$3.5-billion-plus project will be challenging to finance. If Teck Cominco decides not to participate, then Inmet will only go ahead if it can find another partner. “Fifty percent is the level of interest in the project that we feel comfort with,” according to Tilk.

Investors pointed out that if Teck decides not to participate, Inmet will have to find \$40 million to acquire its interest in Petaquilla, and that this amount is not disclosed in the projections for the fourth quarter. As Teck is facing a \$9.1 billion debt for its acquisition of Fording Coal, and falling zinc and copper prices, it is unlikely to want to proceed with an investment in Petaquilla.

It is also possible that \$3.5 billion is an underestimation of the cost for project development, in that the figures did not include sustaining capital figures or escalation provisions.

Community and NGO opposition not disclosed

What was not disclosed on the call, or in any company filings, is that MPSA is facing substantial legal challenges from community groups and NGOs in Panama, as described above.

Inmet has not been successful in its legal battles with NGOs elsewhere.

- At the Cobre Las Cruces project in Spain, the company has yet to receive a permit to discharge water into an aquifer, and are awaiting the results of a criminal charge brought by a Spanish NGO. The judge in this matter has asserted the right to block the permit issuance, pending her decision.
- At Cerateppe in Turkey, the judge has ruled with the plaintiffs, and Inmet has decided to write-down \$30 million and not proceed with the project.
- At the Ok Tedi Mine in Papua New Guinea, Inmet has also lost very costly court battles with the land-owners whose properties were destroyed by the dumping of tailings into the Fly River.

Tensions with Petaquilla Minerals – the owners of the gold project – may sabotage the future of the Petaquilla copper project

Legal difficulties aside, the future of the copper project is being seriously affected by the community animosity generated by the irresponsible development of the Molejón gold mine, which shares the Petaquilla concession. Local communities only see MPSA as the owner of the concession, and do not make a distinction over the ownership of the two mines.

The take-over of Petaquilla Copper will not be the end of the friction between the two companies. A number of inter-locking dependencies between the two companies remain.

The concession for the gold and copper deposits is held in the name of MPSA under the *Ley Petaquilla*. The contract specifies work (through a Plan of Development) that has to be completed for the concession to be continued. Although the Plan of Arrangement signed by the Petaquilla Copper and Petaquilla Minerals in 2006 divided the exploration and extraction rights between the companies (through their subsidiaries), it did not change the *Ley Petaquilla* contract with MPSA or alter the Plan of Development.

There is some question now as to whether past work undertaken by Teck for the gold project can be credited to the copper project. If it is not recognized by the Panamanian government, the concession could be forfeit.

In addition, the copper mine will require the construction of a port, more roads and a power supply. A

Joint Venture between Petaquilla Minerals and Petaquilla Copper – Petaquilla Power and Water – has been established for this purpose. Although Petaquilla Copper has been looking at other alternatives for power, the port and roads will be necessary to ship out concentrate. How these two warring companies will manage this is anyone’s guess.

The ownership structure of the gold and copper concessions

At this point in time, there have been dramatic changes in the ownership, management and control of the mining concessions at Petaquilla in Panama, which should be of considerable concern to investors.

Until October 18, 2006, Petaquilla was owned and controlled by Minera Petaquilla S.A., a company incorporated in Panama, specifically to own the concessions. Minera Petaquilla (MPSA) was owned 52% by Petaquilla Minerals Ltd. (a junior mining company incorporated in British Columbia), through its 100% subsidiary Georecursos S.A., and 48% by Minnova, a subsidiary of Inmet Mining in Canada. Teck Cominco, another Canadian company had an agreement with Petaquilla Minerals to gain 26% of their interest in the project, in return for providing a number of benefits, including mine operations, undertaking an updated feasibility study, and providing financing for a number of activities at the site.

After October 18, 2006, the project, and the companies, were divided into gold and copper interests. A new company – Petaquilla Copper – was incorporated in British Columbia, to control the copper interests. Gold and precious metals remained the property of Petaquilla Minerals – in particular, the proposed Molejon Mine. The gold interests were now held by another Petaquilla Minerals subsidiary – Petaquilla Gold S.A. (incorporated in Panama). Teck Cominco and Minnova retain a right to a Net Smelter Return based on the price of gold (not on profit)

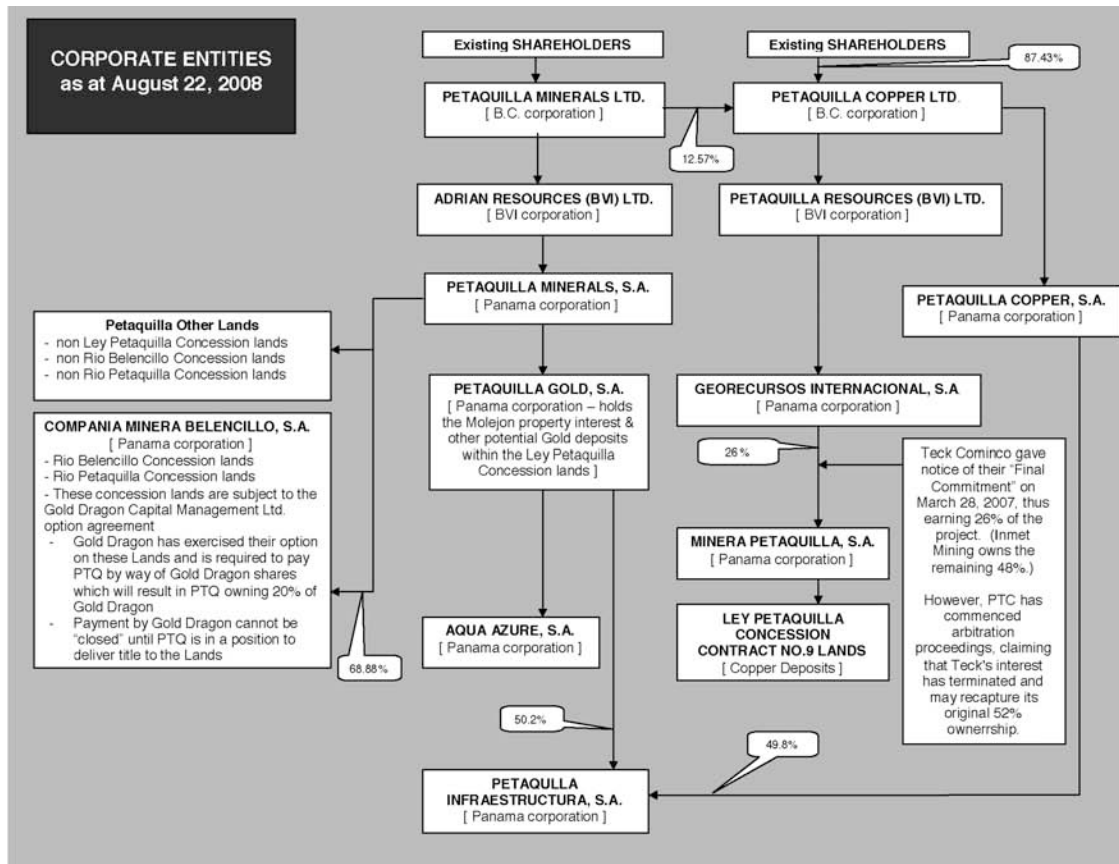
The copper interests became the property of Petaquilla Copper. However, Petaquilla Minerals retained approximately 15% of the shares of Petaquilla Copper after this Plan of Arrangement. The companies had similar boards of directors and management.

The concessions themselves continue to be held by Minera Petaquilla S.A. MPSA has a twenty year right to explore the property dating from 1997, with the right for two consecutive twenty year extensions. Teck Cominco’s interests in the development were shifted to the copper company. Teck is insisting that it has fulfilled its obligations and is entitled to gain its 26% interest in MPSA.

On July 29, 2008, Inmet Mining Corporation, through its wholly owned subsidiary 6910360 Canada Inc, made an offer to purchase all the outstanding shares of Petaquilla Copper, including – specifically – the shares owned by Petaquilla Minerals. As part of this offer, Inmet expressly recognizes the right of Teck Cominco to exercise its option for 26% of the company. Despite resistance from the directors of Petaquilla Minerals, the offer was accepted (at \$2.20/share) in early September 2008.

Petaquilla Minerals and Petaquilla Copper are also joint venture partners in Petaquilla Infraestructura S.A., incorporated in Panama in February 2008, to design, construct and operate electrical and potable water infrastructures¹⁷. However, on July 7, 2008, Petaquilla Copper announced that it had an MOU with Isagen S.A. E.S. P. (“Isagen”) of Colombia to undertake the development of a coal fired power plant for the mining project and other projects in Panama, and that a new joint venture would be formed between Isagen and Petaquilla Copper. It is not clear what the relationship of this joint venture is to the other one.

¹⁷ Petaquilla Minerals, Annual Information Form 20F, for the period ended April 30, 2007.



Petaquilla Minerals' organizational chart (from the 2008 20F Annual Information Form)

Analysis of Petaquilla Minerals:

All the Petaquilla mining concessions are secured by Minera Petaquilla SA for up to 2017. The ability of MPSA to work effectively to bring either the gold or copper projects to a mine remains in doubt

The severing of the gold and copper projects means that Petaquilla Minerals will be on its own to find financing to bring the Molejón Mine to development. There is no longer evidence of any support from Inmet or Teck Cominco.

The costs of bringing the Molejón Mine to production have probably been seriously underestimated. An analysis of the mineral resource was released by SRK in October 2005, and then audited by AAT and re-released in April 2007. None of the mineral "resources" have been defined as "measured reserves", which means that they have not been subjected to an economic analysis.¹⁸ In the case of the Copper Project, an engineering report in January 2008 showed that capital costs estimates had surged to \$3.5 billion from an original estimate of \$1.7 billion undertaken a year previously. Certainly, the cost of developing the gold project must have at least doubled, although this is not disclosed anywhere by Petaquilla Minerals. Petaquilla Minerals has never undertaken a feasibility study for Molejón.

The auditor's report on the company's consolidated financial statements for the period ended May 31, 2008, "included an explanatory paragraph regarding concerns about our ability to continue as a going concern." The paragraph reads; "The Company has not generated any operating revenues to date and has experienced recurring operating losses and accumulated a deficit of \$72,085,126 as of January 31, 2008. Also the Company has a working capital deficiency of \$4,184,074 at January 31, 2008 (April 30, 2007 – working capital deficiency of \$4,220,761). These factors raise substantial doubt about the Com-

¹⁸ Reserves and resources are defined by National Instrument 43-101.

pany's ability to continue as a going concern. The ability of the company to continue as a going concern is in substantial doubt and the Company's continued operations, as intended, are dependent upon its ability to raise additional funding to meet its obligations."¹⁹

In Panama, the company has rushed ahead to move the Molejón Mine into production in a piece meal fashion. The company reports on its website that Phase 1 construction is on schedule, and the foundations for the ball mills are being poured and the steel for the Carbon-in-pulp process and the leach tanks is being shipped. A 28 kilometre road has been pushed through the trails in a previously roadless forest to make this possible.

There are some questions about the number of people working for the company. The company reported in its 2007 20F that "As of April 2007, our corporate head office had three permanent employees (two in Administration and one in Accounting) and five contract staff members working out of its location in Vancouver Canada, and our administrative office in Panama City Panama had twelve employees. Our locations in Santa Ana and La Pintada have experienced the greatest growth with 300 permanent employees, including administration and technical staff as of April 30,2007. In the addition the company has a pool of approximately 700 temporary or casual workers (labourers, drillers helpers, etc) employed at the Molejón gold deposit site."²⁰

However, the numbers appear to have dropped drastically over the year. "As at May 31, 2008, our corporate head office had six permanent employees (two in Administration and four in Finance and Accounting) and three contract staff members working out of our location in Vancouver, Canada, and our administrative office in Panama City, Panama, had twenty five employees. Our locations in Santa Ana and La Pintada had 33 permanent employees, including administration and technical staff, as of May 31, 2008. In addition, our company had a pool of approximately 4 temporary or casual workers (labourers, drilling helpers, etc.) employed at the Molejón gold deposit site."²¹

The mine has been proceeding with no environmental assessment. On August 4, 2008, the Panamanian Supreme Court determined that the company had a legal obligation to undertake an Environmental Impact Assessment before they proceeded to develop the mine. The company had tried to block an investigation by the National Environmental Authority (ANAM). It is unclear what sanctions ANAM will apply to the company.²²

Both the companies that will potentially be involved in the responsibilities of managing the gold and copper deposits are well-insulated from liability and taxation through holding companies located in the British Virgin Islands. Especially at Molejón, the possibilities of an accident are greatly increased by the piecemeal construction of the mine, the cavalier approach to Environmental Assessment and the history of many of the mine management.

The management of Petaquilla Minerals shows substantial turn-over at the directors and management level in the past few years, which does little to inspire confidence in their ability to manage the Molejón project.

The major shareholder of Petaquilla Minerals is Walnut Street Absolute Return Fund, which has 12.48% of the shares. Most of the Directors hold shares, with Richard Fifer holding 2.6%.²³ The Canada Pension Plan holds 1.24%.²⁴

It is clear that Inmet and Teck have no confidence in the directors and representatives of Petaquilla Minerals and want the freedom to develop or postpone the huge copper deposit without meddling from the management of Petaquilla Minerals.

¹⁹ Petaquilla Minerals Ltd, notes to the interim consolidated financial statements January 31, 2008.

²⁰ Petaquilla 20F 2007, page 62

²¹ Petaquilla 20F 2008, page 64

²² "Court ruling goes against Petaquilla", August 4, 2008, Prensacom

²³ Petaquilla Minerals 20F, 2008, page 63

²⁴ Stockwatch, November 10, 2008.

Analysis of Petaquilla Copper

Developing a copper mine is much more expensive than a small gold mine. The concentrates are much more bulky and require transportation to market, and a substantial power supply. Although the copper deposit at Petaquilla is large, the 2008 engineering analysis from AMEC shows that the capital costs have risen to \$3.3 billion, partly because the mine will require a port and energy infrastructure to develop. It is not clear that Teck Cominco and Inmet are willing to invest in the mine at this time, and may only want to make sure that no one else does.

Teck Cominco recently purchased Fording Coal for \$14 billion; in April 2007, it paid \$4.2 billion for Aur Resources. These two purchases have depleted the surplus needed to invest in a new mine of this scale. The company is facing considerable liability for a number of past damages, reduced commodity prices for zinc and copper, and some serious set-backs in terms of new mine development elsewhere.

Inmet is also facing some serious environmental and social liabilities, as well as the closure of the Troilus mine. These are detailed below.

Both of the major backers of Petaquilla already have significant liabilities

Even before the current financial crisis significantly eroded the capacity of Inmet and Teck to mobilise the capital necessary to develop the Petaquilla copper project, both companies already had significant – and under-reported or undisclosed – current and historic (“legacy”) liabilities related to unfunded closure costs and environmental contamination at other sites.

Inmet Mining Corporation

Inmet Mining Corporation is a Canadian-based global mining company that produces copper, zinc, and gold, as well as pyrites as a by-product. The company has four producing mines: Cayeli (ÇBI), located on the Black Sea in Turkey (100% ownership), Pyhäsalmi (PMO), located in Central Finland (100%), Troilus in north-western Quebec in Canada (100%), Ok Tedi (OTML), located in the Star Mountains of Papua New Guinea (18%). It also has one project on the verge of development in Andalusia in Spain – Cobre Las Cruces (CLC) in which it has a 70% interest.

The company also has responsibility for a number of closed mines: Copper Range, in Michigan, USA; Winston Lake, near Schreiber Ontario; Sturgeon Lake, near Ignace, Ontario; Norbec, in northern Quebec; and Samatosum, near Barrier, British Columbia. Most of these mines require long-term water treatment.

Inmet produces metals in concentrates from these mines and sells it to smelters and refineries in other parts of the world. Most of these sales are based on long-term contracts. However, the Cobre Las Cruces mine (if it ever comes into production) will introduce a hydrometallurgical process that will enable the company to sell cathode copper, bypassing the smelting and refining process. This will reduce freight costs and receive a higher market price than concentrates do.

Gross sales for Inmet were \$US 1.087 billion in 2006, an increase from 2005, which was \$708 million, but only marginally (1%) higher in 2007.

Inmet was incorporated under the laws of Canada on June 1, 1987, under the name of Metall Mining Corporation. A series of amalgamations and a name change made it Inmet Mining Corporation on May 4, 1995. A number of further amalgamations and take-overs followed.

As of August 2008, the company had 1233 employees and 1342 contractors (including OTML employees).

The company CEO, Richard Ross, an accountant, is past Chair of the Mining Association of Canada. Oyvind Hushovd, formerly CEO of Falconbridge and Gabriel Resources and still on the boards of Gabriel, Cameco, Lionore Mining, and Western Oil Sands Inc., recently joined the Board. Many of the other Board members are seasoned mining company veterans.

Environmental and social concerns with the company

Ok Tedi

Inmet has held an 18% interest in this mine, and interest shared with the Government of Papua New Guinea, and with the PNG Sustainable Development Program Limited (SPDL). SPDL and Ok Tedi Mining Limited (OTML) were formed in February 2002 when BHP Billiton divested itself of its holdings in the mine. SPDL was mandated to provide future dividend payments from OTML to fund sustainable development programs in PNG.

The mine is located in the Star Mountains Region of PNG. It is a massive copper-gold porphyry deposit at 1800 metres above sea level. The mine and processing plant are situated at the head of the Ok Tedi River, a major tributary of the Fly River. The Fly is used for transport of concentrates from the mine and for supplying the mine.

Chip Goodyear, CEO of BHP Billiton, said on July 16, 2004: “the controversial Ok Tedi Mine in Papua New Guinea, would not have developed under the company charter ...the mine was not a development of which BHP could be proud.”

Up until 2001, this mine was jointly owned by BHP, Inmet Mining, and the PNG government. After huge delays, controversy with previous mining partners, strikes, numerous cyanide spills and a catastrophic dam collapse in 1984, the mine entered its final phase of production in 1989. By 1988, the mountain had been lowered by 150 metres, 4000 people had crowded into the village of Tabuilil and 200 km of roads had been driven through the rain forest.

In 1989, the company got approval to continue to dump tailings directly into the 1100-kilometre Fly River system – a practice they began with the dam collapse five years earlier – on the grounds that constructing a tailings dam was not feasible due to the dangers of land slippage. It dumped 80,000 tons of mine waste daily into the river, impacting 30,000 downstream landowners dependent on subsistence farming and fishing. There has been sediment build-up in the river beds, resulting in over-bank flooding, and forest die-back. Water from the Ok Tedi pit drains freely to the south.

BHP was taken to court for damages by the land-owners in a historic case.

BHP exited the Ok Tedi Mine in 2001-2, after over a decade of owning and operating it. During the 2001 AGM the then chairman of the company ensured shareholders that steps would be taken to ensure that the mine would be well managed regarding the environment after their exit.

It has recently come to light that current environmental predictions for the Ok Tedi mine will be much worse than people downstream were informed about, and will pose serious and long term impacts that could lead to an almost total collapse of the riverine environmental downstream for around two to three centuries. This will pose grave and untold problems for communities living downstream of the mine who are already currently facing chronic, and in some places life threatening food and water shortages.

The gravest environmental problems stem largely from a process called acid rock drainage, by which mine waste and sediments along the river bank leach acid into the surrounding environment. This acid kills all organic life with which it comes into contact, and mobilises heavy metals that are also toxic. There are now catastrophic predictions of acid rock drainage that may leave the river dead for 200-300 years.²⁵

In response to the lawsuit, OTML has attempted to dredge the river and place some of the materials in a tailings impoundment; the company has also added lime to the waste rock being placed in the river. Sulphide removal technologies are being considered for future use.

Although OTML plans to spend \$170 million on remediation equipment in 2007, it should be noted that Inmet’s net income from this mine alone was \$145 million for the nine months ending September 30, 2007.

²⁵ Source: Mineral Policy Institute www.mpi.org.au

Çayeli (ÇBI) and Cerattepe

The Çayeli mine is a copper-zinc mine in north-eastern Turkey. In 2004, Inmet was able to become 100% owners, when a Turkish privatization bill enabled them to purchase the remaining 45% of the mine from the government. The mine is an underground mine.

The mine is in the flood plain of the Buyukdere River, across from the town of Mandli, 7 kilometres from the coast of the Black Sea. The mine is a massive sulphide deposit with serious Acid Mine Drainage problems. To handle this, the company places some of its waste rock back into the underground tunnels, and its tailings and remaining waste rock in “deep disposal” in the Black Sea.

Improper “paste backfill” operations resulted in a number of tunnel collapses, which the company says are now fixed. The company’s Annual Information Return says, “Ground conditions at Çayeli have improved but they continue to pose a challenge.”

The placement of tailings and waste rock in the Black Sea “at depth” is a practice that is considered unacceptable in Canada and illegal in the United States. In Turkey, almost all municipalities deposit municipal and industrial wastes in the sea, and this Submarine Tailings Disposal makes the pollution substantially worse.

The Cerattepe deposit about 100 kilometres away from Çayeli has been the target of interventions from a number of Turkish NGOs, who want the company operating licenses cancelled pending an Environmental Assessment. In August 2006, the courts agreed and the permits were cancelled. In April 2008, the company lost its appeal.

Pyhäsalmi

This mine is one of the oldest and deepest mines in Finland. It is a copper zinc sulphide deposit that extends deep into the earth. The main sulphide minerals include 65% pyrites. The mine processes 1.4 million tonnes of ore per year, and is expected to close in 2016.

Recently the company has been required to obtain an environmental permit under the environmental regulatory framework introduced in Finland when it joined the EU. For the first time the mine will have to monitor and detect potential impacts on air, water and the biosphere and will have to post a closure plan and financial assurance for reclamation. There have also been some concerns with ore pass stability in the mine, and some local people are concerned that the mine is contaminating a nearby lake.

Troilus

The Troilus Mine is located 175 km north of Chibougamau, Québec (Canada) on the traditional territory of the Mistissini Cree – “Category III” lands under the James Bay and Northern Quebec Agreement. The company has an Impact Benefit Agreement with the Cree, which is currently being evaluated by the First Nation.

Troilus is an open-pit gold-copper mine and mill which has been producing 6.5 million tonnes of ore with over 150,000 ounces of gold per year. All copper is sold to Xstrata Canada Ltd, and the gold is sold in the open market. The mine has a remaining life of only two years, and is now facing its shutdown in 2009. The company estimates closure costs at \$4.1 million.

The Mistissini Cree IBA has provided them with employment (at 25%), and some contracts for the mine. The general opinion from the leadership is that the IBA has not sufficiently provided for the environmental impacts from the mine, which will persist long after closure.

Cobre Las Cruces

This copper mine development is located in Andalusia in Spain, 20 km northwest of Sevilla. The company bought the project from MK Resources (a subsidiary of Rio Tinto) in 2005. 30% of the project is still retained by Leucadia.

The mine will initially be an open pit with some underground work planned for after 2012 from a ramp

in the pit. The mine will use leach extraction (with sulphuric acid) to extract the ore. Almost all the ore is acid-generating.

The company plans to use contract miners for pre-stripping and production.

The mine is located below a regional aquifer. The company has a plan to pump the water out around the pit, transport it away from the mine in pipelines and then re-inject the water back into the aquifer. Once mining is finished in 2016, the company will refill a portion of the open pit to seal the aquifer.

The mine is being strongly opposed by a local environmental group with several legal proceedings claiming that governmental approvals were not granted in accordance with regulatory requirements. On May 15, 2008, the company's permits for mine dewatering and reinjection were suspended. In July 2008, an unexplained "ground movement" at the new storage facility for dried residues from the mine's process plant, caused further delays in bringing the mine to production.

Teck Cominco

Teck Cominco Limited is a diversified mining and metals company, headquartered in Vancouver, Canada. It is a world leader in the production of zinc and metallurgical coal and a significant producer of copper, gold and specialty metals. It has many operations throughout the world.²⁶

The Company board is composed of respected and seasoned mining engineers from around Canada. Its President is Donald Lindsay, and its Chairman is Norman Keevil. Two of the directors are from Sumitomo in Japan, which purchases much of Teck Cominco's product. Teck Cominco is the product of a merger between the two companies, Teck and Cominco, in 2001. Cominco in particular has a lengthy history in Canada, and was behind most of the zinc mines in the Yukon, such as Faro.

There are a number of environmental and social concerns with Teck Cominco:

The Trail Smelter and the Columbia River

In January 2008, the US Supreme Court refused to hear an appeal by Teck Cominco against a lawsuit launched by the Colville Confederated Tribes, for damages resulting from the contamination of the Columbia River and Lake Roosevelt by slag from the Trail smelter over a 60 year period.²⁷ An article in the Toronto Star, dated January 8, 2007 stated that the company could face damages as high as \$1 billion.²⁸ The company's 2007 Annual Report states that a contingent liability of \$20 million has been set aside to undertake studies agreed to by the US EPA. Although a full page in the report (page 104) is devoted to the Colombia River legal battle, no estimate is given of the actual clean-up costs.

"One of the world's largest smelters routinely dumped metals-polluted slag and more toxic chemicals than allowed into the Columbia River, but has rarely been fined by its British Columbia regulators. Over a 60-year period, the Trail, B.C., smelter poured up to 9.8 million tons of slag into the river, which flows south into Eastern Washington and forms Lake Roosevelt behind Grand Coulee Dam.

"Most Canadian discharge limits are laxer than in the United States. The Trail smelter has been allowed to discharge 17 times more mercury into water than U.S rules would allow.

"In 1996, average daily discharges were as high as 40 pounds of lead, 136 pounds of cadmium, nearly 9 pounds of mercury and more than 16,000 pounds of zinc, records show. But the smelter routinely exceeded its permit limits.

"The worst threats are from mercury, a neurological poison that builds up in sediments and fish, and sulfuric and phosphoric acids, which change the pH of the river, the EPA says.

²⁶ A map of its operations can be found at <http://www.teckcominco.com/Generic.aspx?PAGE=Operations&portalName=tc>

²⁷ <http://theyee.ca/News/2008/01/08/TeckCominco/>

²⁸ U.S. law stands against miner Teck, (Source: The Toronto Star online edition; January 8, 2007)

“A spill of 1,000 gallons of sulfuric acid into the river in June 1995 was attributed to “lack of attention” on the part of a worker, according to a provincial report.

“Smelter discharges were permitted within a one-third-mile “mixing zone” between two bridges in Trail, on the theory that the river’s mighty flow would dilute the pollution to safe levels as it traveled south...

“Smelter accidents also have released toxic chemicals into the river with little or no warning to people downstream, according to Canadian records obtained under the Freedom of Information Act... Now, the U.S. Environmental Protection Agency is leaning on Teck Cominco to clean up the historic pollution voluntarily, or face a costly Superfund bill. The EPA was pushed into action by the Colville Confederated Tribes, which petitioned the EPA in 1999 to study pollution in Lake Roosevelt, the 130-mile impoundment of the Columbia behind the dam.

““U.S. citizens should be outraged about what this company has done. They’ve used this river as their sewer for 100 years,” said Patti Stone, the Colville tribes’ water quality coordinator.

In a study released in March 2003, the EPA says it found industrial pollution in sediments throughout the upper Columbia, posing a risk to people, fish and aquatic life. The EPA detected elevated heavy metals near Northport, high mercury levels near Kettle Falls and high zinc levels near the border with Canada.”²⁹

Thallium poisoning at Trail: In August, 2001, 65 workers were poisoned by thallium at Trail. Teck Cominco had concerns about thallium more than a month before workers became ill from being exposed to the potentially deadly metal, an internal report obtained by VTV shows. Despite those concerns, Cominco did not disclose the presence of thallium to contract employees working at the site. The workers later became sick with sore throats and nausea, among other complaints. “Dust has high levels of thallium, cadmium, lead and zinc,” says the report dated June 13.

The Sullivan Mine was closed in September 2000 – Teck Cominco used the Sullivan mine as a poster child for remediation of old mine sites, until four people died in June 2006 from oxygen deprivation. An independent report found that a faulty design of the below-ground sump and management’s failure to enforce safety regulations was the likely cause of the deaths.³⁰

The Polaris mine in Nunavut was closed in 2003, and the company was charged with Fisheries Act violations. “Teck Cominco Metals Ltd., the operators of the Polaris Mine in northern Nunavut, have now been sentenced after pleading guilty in Nunavut Territorial Court on July 16, 2003 to one count of violating Subsection 36(3) of the federal Fisheries Act. The sentence included a fine of \$5,000 and a contribution of \$25,000 to promote fish and fish habitat in Nunavut. The charges stemmed from a fuel spill incident at the company’s Polaris Mine operation on Little Cornwallis Island, Nunavut in June 2002. A leak occurred during the transfer of diesel fuel between tanks within the tank farm. Fuel and some accumulated water from inside the tank farm were pumped outside the containment area, and flowed toward the shoreline. Part of the spill entered Crozier Strait.”³¹

The David Bell and Williams mines in the Hemlo Gold Camp in Ontario are jointly owned by Barrick Gold and Teck Cominco. There have been problems with silicosis and other respiratory illnesses. The First Nation downstream was forced to purchase a water treatment plant in order to remove cyanide from their drinking water supply in 2000.

Pinchi Lake

For more than six decades members of the Tl’azt’en First Nation have been eating food and drinking

²⁹ “EPA goes after Canada smelter: Teck Cominco asked to pay, or face Superfund”, by Karen Dorn Steele. (October 5, 2003). <http://www.spokesmanreview.com/news-story.asp?date=100503&id=s1420547>

³⁰ The Hermann report can be found at: http://www.mediaroom.gov.bc.ca/sullivan_mine/sullivan_mine.htm

³¹ Craig Broome, Enforcement Officer, Environmental Protection Branch, Environment Canada. “Statement on Polaris Mine”. Iqaluit, October 1, 2003.

water contaminated by mercury, and now face crippling health problems. The 2,800 Carrier Indians cite untimely deaths as well as severe illnesses such as epidemic rates of cancer, arthritis, lupus and kidney disease, birth deformities and crippled limbs.

Cominco Ltd. operated a mercury mine on the shores of Pinchi Lake, about 160 kilometres north of Prince George, from 1940 to 1944. Mercury was again mined at Pinchi Lake from 1968 to 1975. The company's own reports from that era reveal waste mercury was sluiced into the lake every day and that mercury-laden tailings created a long island in the lake. Mercury, which converts in the environment to deadly methyl mercury, was consumed by Carrier people who drank the water and ate poisoned whitefish, char, trout, ling cod, suckers, Kokanee salmon, beaver and moose.

The baking of the ore in the reduction plant released the mercury in its purest form. It melted out from a reddish rock to become a molten silvery liquefied heavy metal. The steam from the melting process filled the air, then condensed on the ground into small pools of mercury, and it dripped from the eaves-troughs. The company sluiced the raw mercury into the lake when it cleaned the plant every evening. It also dumped the waste-baked ore tailings into the lake creating a long bar of "land", like a crooked finger into the lake. The mercury, now in its elemental form combined with the biota to become methyl mercury, a poison to plants, animals, and people. The people were not told this.

Today Teck Cominco Metals Ltd. is engaged in environmental remediation and has spent about \$3 million to try to clean up and prevent leachate from the mine. There have been two tailings dam failures since 2003.

The Indian communities around the lake ate fish for breakfast, lunch, and dinner. It was the main food in their diet.

In 1973, four years after the government had tested the water and fish and found a mercury content in the fish four to twenty times higher than that considered safe for human consumption, Health and Welfare Canada showed up to test the people. They tested twenty-five people. The test results were many times above what was considered safe in humans, but the people were told there was "no cause for alarm". The people have still received no compensation for this problem.³²

Teck Cominco is negotiating a deal with the affected First Nations to compensate them for the disaster.

Red Dog Mine, Alaska

According to the *Juneau Empire*, "The Red Dog Mine, located 55 miles east of the village of Kivalina and just five miles from the Noatak National Preserve, is the Northwest Arctic Borough's major economic engine, providing 14 percent of total employment there. Additionally, NANA Regional Corporation will get an estimated \$1 billion over the mine's projected life of 50 years..."

"In 1989, when the Red Dog Mine opened, concentrations of zinc were measured at levels more than 600 percent above what the government considers healthy to water life. In 1991, the EPA issued 134 separate permit violations to Cominco and fined them \$75,000 for illegally discharging heavy metals into a nearby creek. In December of 1991, the Alaska Department of Environmental Conservation issued a warning to the Red Dog Mine that lead levels outside the mill were 30 percent higher than what is considered to be protective of human health."³³

Environmental News Service reports, "In the fall of 2000, inspectors from the Alaska Department of Environmental Conservation found numerous air quality violations at Cominco's lead and zinc mine in Kotzebue. The 18 air quality violations included knowingly operating and failing to report equipment that exceeded emission limits and failure to conduct monitoring. Cominco failed to report required information used to evaluate compliance with sulphur dioxide limits on 67 pieces of equipment. At the port site, Cominco violated the National Emission Standard for Hazardous Air Pollutants by failing to

³² For further information, please contact Linda Vandenberg and/or Janice Knighton at (250) 383-8688.

³³ Mike Layne. "My Turn: Money obscuring environmental issue". *Juneau Empire*, October 23, 2003.

http://www.juneauempire.com/stories/102303/opi_myturn.shtml

properly determine the amount of mercury contained in sewerage sludge that Cominco regularly incinerates.”³⁴

The problem is massive: “The EPA’s 2001 TRI ranked Red Dog Mine the state’s number one emitter of toxic substances and the second biggest nationwide, with a release of 216,000 tons of toxics to the environment.”³⁵

“Since Red Dog started operating in 1989, the plaintiffs have noticed a serious decline in their drinking-water quality and changes in the patterns and abundance of marine mammals and fish.”³⁶

“In September 2002, residents of Kivalina, home to about 380 people and the closest village to the mine, sued Teck Cominco Ltd., charging the company with 2,171 federal water-pollution violations. Filed in U.S. District Court as a citizen action under provisions of the Clean Water Act, the lawsuit sought more than \$59 million in fines.”³⁷

In August 2006, “U.S. District Court Judge John Sedwick found that the company violated its discharge permit 618 times by pumping too much effluent, or treated wastewater, into Red Dog Creek, which flows into the Wulik River, according to court documents... [He] also sided with the plaintiffs that Teck Cominco had three illegal discharges at the mine’s Chukchi Sea port, about 52 miles away from Red Dog... But Sedwick denied the plaintiffs’ other claims, saying they failed to prove the violations. The Kivalina residents alleged 1,951 violations of the Clean Water Act.”³⁸

On May 14, 2008, Teck Cominco settled with the villagers for an undisclosed amount.

Turkey

Teck Cominco has “earn-back rights” on Fronteer Gold’s projects in Turkey. These projects have been opposed by local people in the courts for years now, who oppose the use of cyanide in gold mining.³⁹

Teck Cominco is also one of the companies exploring on Mount Ida. A mythic mountain in modern Turkey is the latest target of Canadian gold mining companies. At one time considered sacred to the goddess Cybele, Mount Ida is the place where Paris chose Aphrodite, and from which the gods watched the Trojan War. Canadian gold companies Eldorado (Tuprag) and Teck Cominco are poised to drill and blast one of the most valuable and biodiverse eco-regions in Turkey and all of Europe.

Drilling on Mount Ida (Kaz Daglari, in Turkish) near ancient Troy in northwestern Anatolia has roused residents and environmentalists, who are asking for solidarity. The mountain is a rich source of clean water, with more than 1.3 billion cubic metres feeding hundreds of brooks and streams. The fir forests on its slopes are one of the most efficient producers of oxygen and eliminators of CO₂ in the world. The forests shelter dozens of rare and endemic plant species, and the foothills are covered with apple and peach orchards, olive groves and vineyards.

In 1993, a 21,300 hectare area (30% of the Mount Ida region) near the Bay of Adramyttion was designated a National Park. In 2007, the mayor of the city of Canakkale (the Dardanelles) called on the Turkish Parliament to include the entire mountain and its foothills in the designation.

In 2004, the government of Turkey amended the country’s mining legislation, to open up the coasts, national parks, historic sites, forests and agricultural lands to mining. The Constitutional Court challenge, which local municipalities, villagers, olive producers and environmentalists launched in 2004 to

³⁴ ENS. “Knowles Takes Red Dog Mine to U.S. Supreme Court”. *Environment News Service*, November 4, 2002. <http://www.ens-newswire.com/ens/nov2002/2002-11-04-05.asp>

³⁵ Layne, 2003.

³⁶ Paula Dobbyn. “Ruling: Red Dog Polluted: MINE: A Judge Has Upheld a Third of the Water-Quality Violations.” *Anchorage Daily News*, August 2, 2006.

http://www.redorbit.com/news/science/599257/ruling_red_dog_polluted_mine_a_judge_has_upheld_a/index.html

³⁷ Layne, 2003.

³⁸ Dobbyn, 2006.

³⁹ contact: Feza Lochner fezahope@hotmail.com

repel this legislation, is still pending.

In 2007, Canadian Eldorado (Tuprag), Teck Cominco and eight other firms started to drill for gold at 36 different locations on the once sacred mountain. Rumour has it that Mount Ida has 250-300 tons of gold reserves. Already, junipers that were more than a hundred years old have been cut to make way for the drilling, and many village wells have turned muddy.

The destruction of archaeological and mythological sites is alarming enough, but the devastation of the forests and the contamination of the underground water with cyanide and acid mine drainage are survival issues, especially at a time when Eastern Europe and Anatolia are facing severe droughts due to climate change.

The existence of active fault lines in the region represents an earthquake risk that could be catastrophic.

Antamina

Shareholders: BHP Billiton (33.75%), Xstrata (33.75%), Teck Cominco Ltd. (22.5%) and Mitsubishi Corp. (10%)

When Antamina was inaugurated in 2001 it was expected to become the world's No. 1 copper producer, and No. 3 zinc producer in its first ten years.

There have been conflicts with the local community. In 1998 the Federation of Fishermen of the port town of Huarney said the company was polluting fishing waters and frightening away marine life during construction of a wharf and mineral-pipeline. Since then, the company has invested \$16 million in social relations. The company has also been accused of lowering waters levels in Conococha lagoon, affecting plant and animal species, and of contaminating the area with mineral residues. The residents of the fishing village of Huarney began protesting in 2001 that the transshipment of minerals through a pipeline to the Pacific would contaminate their land. Two years later, some 150 men, women and children, developed symptoms related to exposure to toxics such as nosebleeds, headaches, and fainting. An attempt to enter into a roundtable debate on the issue failed when the Antamina Mining Company did not take part.

Underestimation of liabilities at closure

Before the recent boom in commodity prices, Teck Cominco had been ready to close the Highland Valley mine in 2009, which was then extended to 2013.⁴⁰ The Trail smelter receives ore from this mine. In the 2007 Annual Report, the company says, "the refining and smelting facilities in Trail are considered to be indefinite life operations and neither the amounts that may be required to retire these facilities nor the timing of required expenditures can be estimated at this time. For the Trail operation, our recorded liability is limited to components of the facility where costs and expected dates of existing retirement and remediation requirements can be estimated." Considering that Highland Valley is the largest copper mine in Canada and one of the largest in the world (at 135,000 tonnes per day), and the Trail smelter has operated for over 60 years, the remediation costs for the Trail area alone will be enormous.

The Williams and David Bell mines in northern Ontario are scheduled for closure in the near future; David Bell in 2010, and Williams in 2013. No estimate of closure costs is given in the Annual Report, despite the fact that the mines are beside and upstream from Pukaskwa National Park and from the Pic River First Nation.

*The only liability shown in the Annual Report for closure of all facilities in Teck Cominco's possession is \$374 million – including Red Dog, Antamina, and Trail. The financial statements should indicate the liability for each facility and the form in which security is held.*⁴¹

⁴⁰ Canadian Mining Yearbook 2005, Natural Resources Canada
<http://www.nrcan.gc.ca/smm/cmy/content/2005/01.pdf>

⁴¹ Annual Report 2007, page 94