

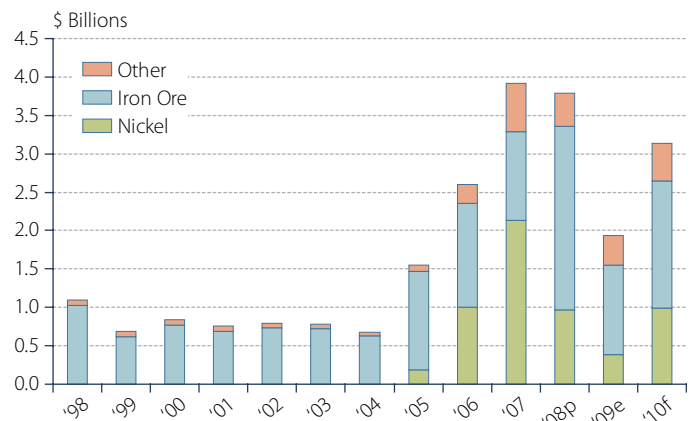


# Mining

*Operations at Iron Ore Company of Canada (Dept. of Natural Resources)*

The mining industry faced a difficult year in 2009. The global economic downturn placed significant downward pressure on both demand and prices for mineral products. This caused provincial mining producers to reduce production and labour requirements. As a result, the value of provincial mineral shipments declined about 50% to approximately \$1.9 billion in 2009 (see chart). This decrease was mainly due to lower production and prices of iron ore and nickel. In addition, exploration expenditures declined by about 60% due to tighter credit markets and lower mineral demand. Total direct mining employment decreased by 11% to roughly 3,500 person years.

## Value of Mineral Shipments



p: preliminary; e: estimate; f: forecast  
Source: Department of Natural Resources

Market pressures improved somewhat in the latter part of 2009, and lately there have been many signs of improvement. As a result, the outlook for the mining industry has improved considerably.

## Market Conditions

Prior to 2009, demand for minerals had been strong for several years, mainly due to significant economic growth in developing countries such as China and India. However, the recession last year lowered demand for mineral products and placed downward pressure on prices.

Traditionally, iron ore prices are set by contract and negotiated to take effect in the spring of each year. However, last year the recession caused substantial price volatility for iron ore, leading to increased use of temporary spot markets and a delay in finalizing 12-month fixed price contracts. Consequently, IOC's contract prices were not set until September 2009. The contract dropped concentrate prices 29.8% to US\$68.48/tonne and pellet prices 48.3% to US\$80.05/tonne compared to prices negotiated in 2008. However, rapid price growth for several years prior to 2009 meant that prices last year were still near 2007 levels despite the substantial drop. Over the past several months, spot market prices for iron ore (which are a good indicator of future contract prices) have improved,

which should help support higher contract prices for 2010.

After reaching record high levels in 2007, nickel prices declined throughout much of 2008 and bottomed out in the first quarter of 2009 (see chart). Average nickel prices in the first quarter were approximately US\$4.75/pound. Since March 2009, nickel prices have increased steadily, averaging about US\$7.27/pound in the last three quarters.

Copper prices rose steadily throughout 2009, but overall were down compared to 2008. As indicated in the chart, prices began the year at a low point after dropping substantially in the last quarter of 2008. Prices gradually increased from an average of US\$1.55/pound in the first quarter to an average of US\$3.02/pound in the fourth quarter.

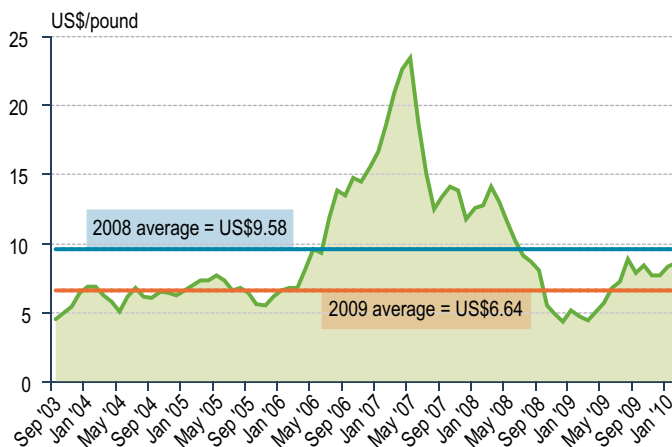
### Iron Ore Mines

Iron ore producers operated under challenging conditions in 2009 because of the slumping demand for steel.

The volume of iron ore shipped from IOC and Wabush Mines was approximately 16.5 million tonnes in 2009, representing a decline of 13.0% from 2008. This decrease was due to production cutbacks at both mines. The value of shipments declined over 50% to approximately \$1.2 billion as a result of lower prices and production.

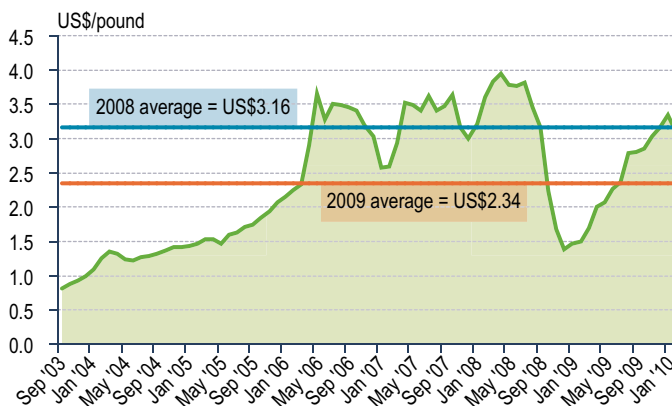
In an effort to deal with slumping demand for steel, IOC shut down production for a five-week period from July 7 to August 10, 2009. The company planned the shutdown around employee vacation time so that layoffs would be minimized. When production resumed,

### Nickel Prices



Source: London Metal Exchange

### Copper Prices

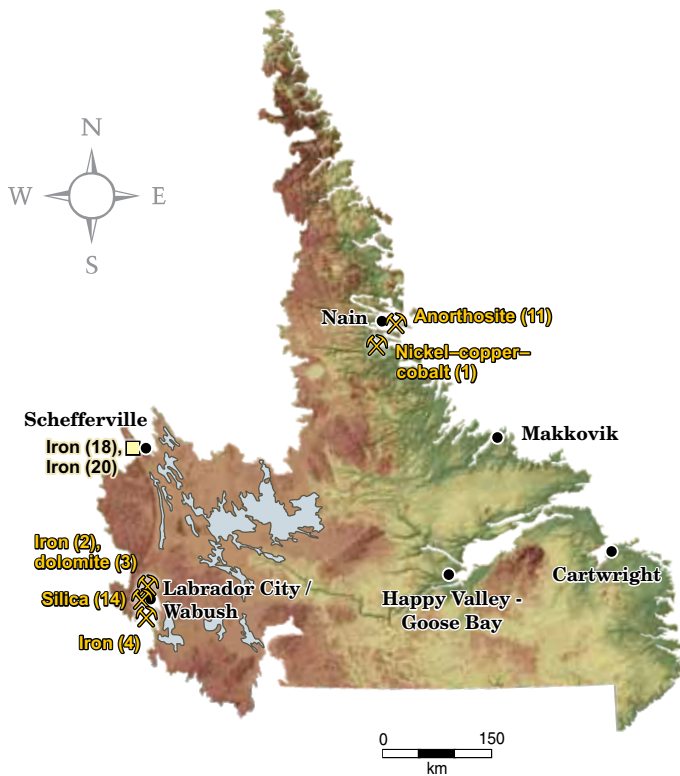


Source: London Metal Exchange

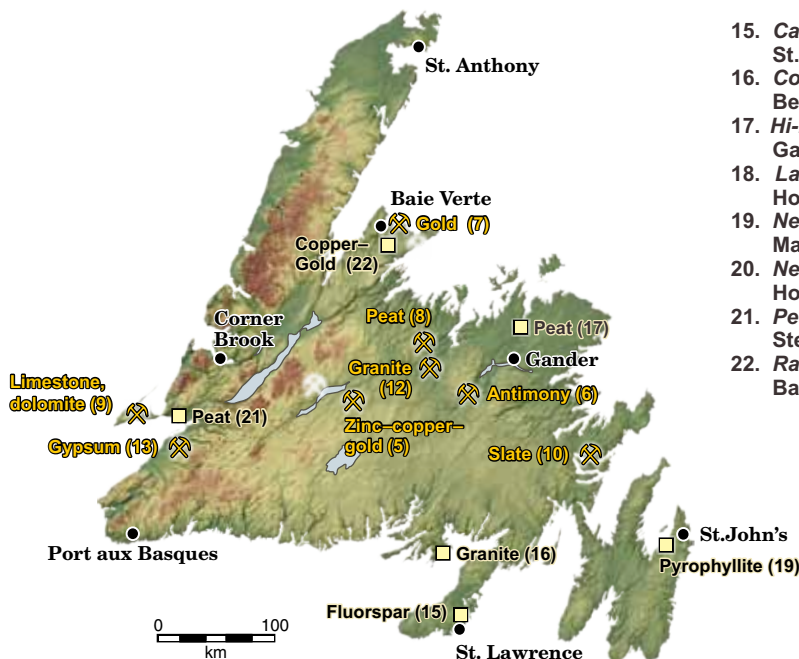
a rebound in the market created favourable conditions that resulted in the hiring of 30 new employees. IOC's \$800 million expansion plan announced in 2008 is still on hold, but the company expects it will make a decision on whether to resume the expansion sometime in 2010.

# Producing Mines and Developing Properties

March 2010



\* Note scale differences of Labrador and Newfoundland maps



## Producers

1. *Vale Inco Newfoundland & Labrador Limited*, Voisey's Bay
2. *Iron Ore Company of Canada*, Labrador City
3. *Iron Ore Company of Canada*, Labrador City
4. *Wabush Mines Limited*, Wabush
5. *Teck Duck Pond Operations*, Duck Pond
6. *Beaver Brook Antimony Mine Inc.*, Beaver Brook
7. *Anaconda Mining Inc.*, Pine Cove
8. *Hi-Point Industries (1991) Ltd.*, Bishop's Falls
9. *Atlantic Minerals Limited*, Lower Cove
10. *Hurley Slate Works Company Inc.*, Burgoynes Cove
11. *Torngait Ujaganniavingit Corporation*, Ten Mile Bay
12. *Terra Nova Granite (2007) Inc.*, Jumpers Brook
13. *Galen Gypsum Mines Limited*, Coal Brook
14. *Shabogamo Mining & Exploration Limited*, Labrador City

## Under development

15. *Canada Fluorspar (NL) Inc.*, St. Lawrence
16. *Continental Stone Limited*, Belleoram
17. *Hi-Point Industries (1991) Limited*, Gander Bay
18. *Labrador Iron Mines Holdings Limited*, Howells River
19. *Newfoundland Pyrophyllite*, Manuels
20. *New Millennium Capital Corp.*, Howells River
21. *Peat Resources Ltd.*, Stephenville
22. *Rambler Metals and Mining Canada Limited*, Baie Verte

Source: Department of Natural Resources

Wabush Mines also cut back production to deal with decreased demand. In February 2009, the company laid off 160 employees of which 130 were unionized. On August 31 the company recalled 100 unionized employees after finding further market opportunities in China.

Wabush Mines continues to evaluate a potential manganese separation project. The company received \$2.2 million from the Atlantic Canada Opportunities Agency (ACOA) as part of a \$4 million project to develop a prototype to determine whether the technology can be transferred to treat all production. At the time of writing, the prototype project was 40% complete with final completion expected in late May. A full implementation of the technology would cost \$43 million and will allow the company to mine and process higher manganese ores, which will extend the life of the mine.

### **Voisey's Bay**

Vale Inco Newfoundland and Labrador (VINL) shipped approximately \$580 million worth of metal concentrates in 2009, a decline of over 53% compared to 2008. This decrease was mainly the result of lower production and prices for nickel and copper.

In response to poor economic conditions and lower prices, VINL shut down production at the Voisey's Bay operation, including the mine and the processing mill, for the month of July. However, instead of re-opening on August 1 as planned, 120 unionized employees at Voisey's Bay went on strike after rejecting the company's offer for a new three-year collective agreement. Since then, mining and production of concentrates have ceased. Negotiations between Vale Inco and the union representing workers began on January 22, 2010, but broke off two days later. Recently, the two sides agreed to meet with a conciliator on March 15-16.

On January 29, 2009 the province and Vale Inco announced they had formed an improved Development Agreement for the construction of the hydromet nickel processing plant in Long Harbour. The company was granted a 14-month extension to the original construction period, resulting in a new completion date of February 2013. The company made commitments, including: a target of 77% of construction employment to occur in Newfoundland and Labrador; to not export more than an average of 55,000 tonnes of nickel concentrate per year for the next four years; and to complete the second stage of the feasibility process for underground mining at Voisey's Bay by mid-2011.

The construction phase of the nickel facility began in April 2009. The company first had to perform demolition work to clear the port site of the former phosphorus plant. Site clearing; infrastructure development, including road access; and procurement activities are currently ongoing. Construction employment at Long Harbour averaged approximately 450 person years in 2009. The company estimates the total value of construction, over the 2009-2013 period, to be US\$2.8 billion with US\$441 million projected to be spent in 2010.

## **Other Mines**

The Duck Pond operation, located in Central Newfoundland, is an underground copper-zinc mine with annual production of approximately 650,000 tonnes and average employment of 287 people. Teck Duck Pond Operations was challenged last year by declines in mineral prices. The effects of these declines were lessened by the fact that mining reached the heart of the underground ore body, which enables the company to have access to large zones of the mineral. Of note is the fact that copper from the Duck Pond Mine was used in the production of the bronze medals for the 2010 Winter Olympic Games in Vancouver. Also, in February the company was placed on a short list of eight employers in the province for an "Employer of Distinction" award by the Newfoundland & Labrador Employers' Council. The award recognizes employers that excel at leadership, innovation, creativity, and sustaining a healthy, safe workforce.

Anaconda Mining Inc. has begun an upgrade and expansion to the Pine Cove gold mill near Baie Verte. Commissioning of the Pine Cove mill began in June 2008, but commercial production at the mill was delayed by problems in the milling process. In response to these problems, Anaconda will spend \$2.7 million for re-design, engineering and implementation of the mill as a stand-alone operation with a minimum throughput rate of 700 tonnes per day. The company expects the mill upgrade to be completed by June 2010. On December 18, 2009 Anaconda announced the early termination of a 12-month toll processing agreement with the former operators of the Nugget Pond mill. The company entered into the agreement in June 2009 to have its ore processed at the Nugget Pond mill while performing the upgrades at the Pine Cove mill. Subsequently, the company determined it would be better to wait and process the ore at Pine Cove.

In 2008, Beaver Brook Antimony Mine Inc. (BBAM) reactivated the only antimony mine in North America. The mill, located near Glenwood, had been shut down for the previous 10 years. In the fall of 2009, Hunan Nonferrous Metals Corporation (HNC), the largest antimony company in the world, acquired 100% of Beaver Brook Antimony Mine Inc. The acquisition of the Beaver Brook mine by HNC should ensure a stable demand for the company's antimony concentrate. Currently, work is proceeding to upgrade throughput at the mill to 450 tonnes per day. The expected life of the mine is approximately 10 years.

## **Exploration**

Exploration expenditures declined in 2009 after several years at unprecedented levels. Expenditures rose to a record level of \$148 million in 2007 and remained historically high in 2008 at \$146 million as a result of strong commodity markets. However, as a result of the worldwide recession and financial crisis, expenditures declined to \$58 million in 2009. About 66% of mineral exploration expenditures last year were invested in projects in Labrador, with the remainder being spent on the Island.

Exploration in Labrador has focused on three main commodities: iron ore, uranium and nickel. The economic downturn and its impact on prices and project funding substantially reduced exploration

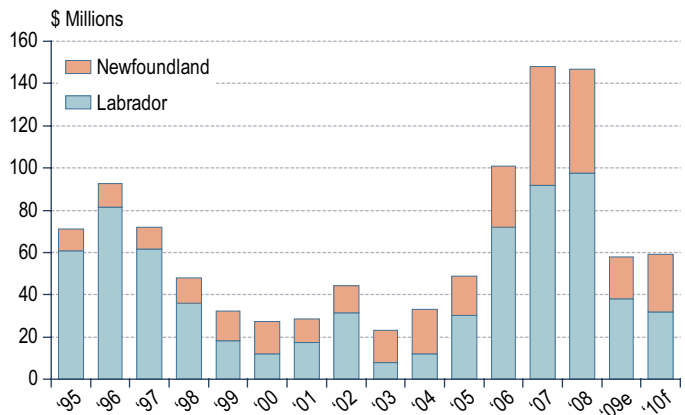
for uranium and nickel in 2009, however, several iron ore projects continue to advance and there is new interest in rare-earth metals in Central Labrador.

On the Island, exploration emphasis was primarily on base metals and gold in Central and Western Newfoundland. Higher resource estimates were produced for Thundermin Resources and Cornerstone Resources' Little Deer copper project and Creston Moly Corp.'s Moly Brook molybdenum property. In addition, Northern Abitibi Mining Corp. continued to expand the mineralized zones at its Viking gold property, reporting two new areas of high-grade gold mineralization.

### New Developments

New Millennium Capital Corp. (NMCC) and Labrador Iron Mines Holdings Limited (LIM) each hold mineral claims containing high-grade iron ore in Northwestern Labrador near the Labrador/Quebec border. Both projects are on track for development this year. LIM's project has cleared the Environmental Assessment process. The total cost of the project will be determined after an engineering study—a 2008 estimate anticipated a capital cost of \$30 million. The project has a target start date of mid-2010 and is expected to employ about 110 persons during operation. NMCC estimates total capital expenditures on its project of \$300 million. Upon clearing environmental registration, construction of phase one of the project is expected to start in the second quarter of 2010 and end in the second quarter of 2011. The project is expected to create 188 jobs once operational.

### Mineral Exploration Expenditures



e: estimate; f: forecast  
Source: Department of Natural Resources

Canada Fluorspar Inc. is proceeding to reactivate the fluorspar mines located on the Burin Peninsula. Project development includes: mining of two partially-mined underground veins; upgrades to an existing mill; construction of a tailings management facility; and a new marine terminal. The Provincial Government has committed financial assistance of \$10 million for development of a deep water wharf. An Environmental Preview Report was submitted, however, revisions were required. Canada Fluorspar is currently working to provide these revisions. The project is expected to generate over 350 jobs during construction and 150-190 full-time jobs during operations. The company expects construction to begin in the second half of 2010 with production commencing in the second half of 2012.

# MINING OUTLOOK 2010

Demand for minerals is expected to increase and mineral prices are expected to strengthen in 2010 as the world economy continues to recover from the recession.

The value of provincial mineral shipments is expected to increase about 60% to \$3.1 billion. Increases in the production of iron ore, nickel and copper, as well as higher commodity prices, are behind the anticipated rise.

Both iron ore producers are expected to increase production and recent spot prices suggest an increase in future contract prices.

The value of production at Voisey's Bay is expected to roughly double due to an increase in production and prices. This expectation could be impacted by the timing of the resolution of an ongoing strike.

Construction continues at Vale Inco's nickel processing plant in Long Harbour with site establishment and infrastructure development. This includes wharf development and the erection of buildings.

The province will invest \$235,000 to complete a Minerals Strategy which will focus on expanding exploration and production activity as well as creating additional employment opportunities.

Employment in the mining industry is expected to increase by between 100–200 as a result of the rebound in mineral markets.

Exploration expenditures are expected to increase to \$59 million.

Rambler Metals Canada Ltd. continues to explore and develop the potential of mineral claims located on the Baie Verte Peninsula, including the former Ming Mine copper/gold operation. Rambler's current project scheduling suggests that production will begin by December 31, 2010 and the mine will have a seven-year life span. The company plans to process 850 tonnes of copper/gold per day and employ about 150 people at full production. Capital cost for the project is expected to be about \$31 million. Sandstorm Resources of Vancouver will provide \$20 million in project financing for which it is entitled to receive about 44,000 ounces (25%) of the first 175,000 ounces of gold produced by the project. Sandstone's share of any remaining gold production is 12%.