

Campbell Resources banks on Chibougamau

COMPANY RECOVERING FROM COPPER RAND ORDEAL WITH NUINSCO'S HELP

SITE VISIT

CHIBOUGAMAU, QUE. — Like a phoenix, **Campbell Resources** (CCH-T, CBLRF-O), which emerged from the ashes of creditor protection in March, is hoping to reach new heights at Chibougamau, deep in the boreal forests of northern Quebec.

Campbell lost \$24.4 million in 2005, forcing the Canadian gold and copper producer to restructure after facing difficult startup issues at its Copper Rand underground mine, and a shortage of cash. In 2006, Campbell posted a \$41.2-million loss with the writedown of the value of Copper Rand.

Campbell brought its low-grade Copper Rand mine back into production in March 2005 after closing it in 1997 due to poor economic conditions. The company spent \$58 million on infrastructure renewal, including centralizing milling facilities for Copper Rand and its nearby Joe Mann underground gold mine.



BY TRISH SAYWELL

But startup problems, mainly a result of poor ground conditions, affected the construction of a ventilation raise and prevented the company from producing at planned rates. Resulting cash-flow problems led to a suspension of development work by the middle of 2005.

Now Campbell is making up for lost time. With the help of **Nuinsco Resources** (NWI-T, NUIFF-O), the development of its Chibougamau properties, 500 km north of Montreal, is well under way.

"It's been a long haul," says André



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From left: Campbell Resources president and CEO André Fortier, vice-president of finance Réal Savoie, and vice-president and general manager Alain Blais at the Merrill Island open-pit copper project in Quebec's Chibougamau camp.

Fortier, Campbell's president and chief executive. "The characteristics of Chibougamau are low grade and small tonnage. We're trying to prove that the grade is better and the tonnage is greater."

Last year Nuinsco helped Campbell lock down more than \$20 million in financing, bought a 10% stake in the company, received warrants to buy another 20%, and entered into an operating consulting agreement for Copper Rand and

Joe Mann. In July, Nuinsco completed its earn-in of a 50%-carried interest in Campbell's high-grade Corner Bay copper deposit.

Under the Corner Bay agreement, Campbell will retain 100% of operating cash flow until it recoups its capital expenditures incurred on developing Corner Bay since January 2007. Half of the operating cash flow will be retained by Campbell to repay historical capital costs



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CEO AND VICE-CHAIRMAN

of about \$4 million. After that, all operating cash flow will be split evenly between the two companies.

With measured and indicated resources grading near 5% copper, Corner Bay is a very robust deposit with tremendous exploration upside at depth, which should generate significant cash to NuinSCO's account.

When Corner Bay moves into production next year, it will be NuinSCO's first cash-producing asset. Cash flow from Corner Bay will help NuinSCO finance its other exploration programs while minimizing dilution to shareholders, says René Galipeau, the company's vice-chairman and chief executive.

"Typically, exploration companies issue equity to fund exploration activity," Galipeau says. "Cash flow from Corner Bay will help minimize the need to issue equity and will be better for our shareholders."

On a recent visit to the project, Campbell and NuinSCO executives enthusiastically explain that development is moving forward. A decline has been started at Corner Bay and the Copper Rand mine is now in commercial production.

Contractors have completed 350 metres of a planned 725-metre ramp and Campbell is on the verge of starting a 42,000-tonne (46,300 tons) bulk sample, which is anticipated to average 3.7% copper. Initial bulk sampling was delayed somewhat in September due to ground water, but the company was expecting to strike ore by the middle of October.

"I'm excited about Corner Bay because we anticipate good grade and the project is well started with good ground condi-

tions and we're close to ore," says Campbell's Fortier. "The mill is hungry."

Corner Bay has a measured and indicated resource of 491,000 short tons grading 5.58% copper, plus 1.54 million tons in the inferred category grading 6.76% copper. It is open at depth.

Galipeau says Corner Bay averages about 5-6% copper, "which is a very nice grade, compared to Copper Rand." That project is running at about 2% copper.

"They have one hole below the known resource that's even nine per cent," Galipeau says.

Exploration drilling intersected a deep 6.3-metre interval grading 9.27% copper starting at 1,250 metres below surface.

Galipeau also likes Corner Bay because it can be mined at shallow depths.

"It's shallow and easy to get at," he explains. "Eventually, we expect to sink a shaft and go for the deeper stuff, but for now it just made sense to go after the shallower material because there is so much capacity available at the Copper Rand mill."

Galipeau estimates that the mine has a 4-year life on the shallow material alone.

The deposit is anticipated to produce about 14 million lbs. copper annually, at an average mining rate of 496 tons per day.

Production costs are expected to be \$1.09 per lb. (\$1.75 per lb. including development capital) generating cash flow to NuinSCO's account of \$29 million. Campbell is responsible for development capital, which is expected to total \$14 million before preproduction revenue credits.

Ore from the deposit will be trucked to the mill, about 45 km away.

When the bulk sampling is completed,

Campbell plans to extract an additional 550,000 tons of ore expected to average 4.5% copper over the following three years, bringing the project into its second phase.

Together, the two phases are expected to generate \$58 to \$60 million, net of milling charges payable to Campbell by NuinSCO after recovery of all development capital. Those figures were based on internal economic studies completed by Campbell and NuinSCO using an average forward copper price over the next 27 months of US\$3.27 per lb. and an exchange rate of US95¢.

Electrical power will be supplied by the province's network following the construction of a 15-km private power line. Water supply is sufficient since it is located near the shore of Lake Chibougamau. There is enough land around the deposit for a settling pond, waste disposal and mine surface infrastructure.

Feeding the mill

Developing Corner Bay is part of Campbell's strategy to increase throughput and decrease unit costs at its Copper Rand mill. Throughput at the mill — which can handle 3,000 tons per day — is currently running at only 80-100 tons per hour (1,800-2,400 tons per day).

Indeed, the mill runs just three and a half days a week — driving up costs to as high as \$16-\$18 per ton from about \$11-\$12. But with ore shipped to the mill from Corner Bay, and its newly operating Merrill Island open pit, the mill was expected to move to a 5-day-per-week schedule starting in mid-October.

"It's very important to fill that mill," Galipeau says. "The objective is to run that mill full and continuously."

Further to that goal, the company received its long-awaited environmental permit from the government of Quebec to mine Merrill in early September. Ore from the pit is now being trucked 5 km to the mill.

"We never really seriously looked at it (Merrill) until NuinSCO said we might

have a source of additional ore there,” Fortier says. “We did more exploration. I’m optimistic.”

The first blasting took place in early October and Campbell expects to produce about 20,000 tons of ore a month during the initial phase. Campbell has a permit to mine 150,000 tons of ore in its first phase.

A past-producer, Merrill has historic measured resources of 1.1 million tons of ore grading 0.92% copper and an inferred resource of 905,000 tons grading 0.53% copper.

The estimated grade and recovery rate indicates incremental monthly production of 200,000 lbs. copper. But Campbell hopes to identify additional potential to sustain longer-term production from the pit.

Digging deep

Since March 2001, development of the Copper Rand mine has focused on accessing gold and copper resources between levels 4030 and 5000. Campbell has spent more than \$60 million to reopen the mine.

Work has included deepening the No. 4 shaft to the 4,326-ft. level and driving a ramp down to the mineralized zone at the 4,730-ft. level. A 4,000-ft. conveyor has been installed on the ramp.

At the end of 2006, Copper Rand had total reserves of 1.3 million tons grading 1.74% copper and 0.082 oz. per ton of gold. Measured and indicated resources totalled 753,000 tons with an inferred tally of 467,000 tons.

Copper Rand is expected to produce more than 10 million lbs. of copper and

20,000 oz. of gold annually during the next five years.

Under the refinancing agreement with Campbell, Nuinsco is providing operating management services to increase production at Campbell’s Copper Rand mine. Copper Rand was first brought into production in 1959 by a previous owner.

Currently, the Copper Rand mine is in transition to the Alimak system. Alimak mining — also known as vertical mining — increases ore availability, decreases water and improves ground conditions. It also eliminates the amount of ramp construction that is required. Not only does this save money, but it also enhances ground stability, Fortier explains, and reduces dilution.

“You are moving less waste and you are



BY TRISH SAYWELL

A decline at Campbell Resources’ Corner Bay copper operation, about 45 km north of the Copper Rand mill in the Chibougamau camp.



always in ore with Alimak mining,” Fortier says. “Ground conditions are better in ore at Copper Rand than they are in waste generally, so that’s another advantage.”

Alimak stope preparation is progressing well. The first raise is completed and drilling is being completed on the second raise. Blasting should occur shortly. The third raise is almost completed and drilling should start within weeks.

Says Galipeau: “The whole idea is to get as many work areas in the mine as possible. Instead of having one work face, hopefully (with Alimak) they’ll have three or four.”

In August, Campbell completed a ramp to bypass the groundfall area that will facilitate access to levels 4,500 and above. Construction of the ramp to the 4,870 level has also begun and Campbell expects to reach ore by November. That will save a significant amount of money.

“They were spending a million and a half dollars a year to rehabilitate those areas,” Galipeau says.

Fortier predicts Copper Rand is likely to become profitable next year.

“We will have completed most of the development by the end of this year and we will have more stopes or more sources of ore beginning in the new year and that will provide the flexibility that we need,” he says.

As of Dec. 31, 2006, Campbell had proven and probable mineral reserves of

38,000 tons of ore at Copper Rand. In the first half of 2007, Copper Rand produced 1.8 million lbs. copper, 1,852 oz. gold and 4,560 oz. silver.

Future prospects

After a lengthy drought, things are starting to look up for Campbell in Chibougamau. The company’s consolidated metal production in the second quarter increased 26% over the first quarter for gold, 25% for silver and 9% for copper.

It is also raising more money. Last month it signed a deal to sell its Joe Mann gold mine to Gold Bullion Development for \$200,000 in cash and a \$5.1-million debenture.

Once Campbell has Corner Bay, Copper Rand and Merrill up and running smoothly, it plans to pursue other targets in the area. “We own quite a bit of land in the Chibougamau camp,” Fortier says. “Once we’ve got these projects going, we’ll have the ability to pursue other targets with access to our mill.”

Nuinsco’s management is thinking the same way and the company is already eyeing other properties in the Chibougamau camp that it would like to own on a 50/50 basis with Campbell.

“We like owning half of Corner Bay, but it’s the whole camp we like — we think there’s a lot of exploration and production potential there,” Galipeau explains. “It is not only for Copper Rand, not only for

Corner Bay, not only for the mill — but it’s also because there are numerous mines that were shut down when copper was down to fifty cents a pound, and now many of those assets are worth looking at. It’s for what is not known. It’s not for what is in production — it’s for what could be in production.”

The Chibougamau area has been home to several copper-gold mines through the years. Copper was first noted in the Chibougamau area in 1870 but it was 25 years before the discovery resulted in widespread prospecting. It wasn’t until 1950 that a road finally reached Chibougamau and the region could be mined at a profit.

The rest was history. Copper mining reached a feverish pace as copper prices soared to the unheard-of-level of US60¢ per lb. *Time Magazine* wrote in 1956 that Chibougamau was so hot that a Toronto stock-brokerage firm set up a branch office in the mining town “to soak up some of the free-floating wealth from well-heeled miners, drillers and claim-speculators,” and handled \$500,000 worth of business a week.

Now things might be coming full circle. Perhaps the words published in a 1956 edition of *The Northern Miner* are as true today as when they were first written: “There’s no reason to think that the peak of exploration has been reached. It’s big-game country and skilled hunters are on the trail.”