

THE GLOBE AND MAIL

Rio Tinto to acquire 9.9% of Northern Dynasty

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Globe and Mail Update

VANCOUVER — Rio Tinto PLC may not have turned up in the bidding war for Canada's major mining companies, but it has been scouting the territory, and Tuesday slapped down \$87.5-million for a 9.9-per-cent stake in Vancouver-based Northern Dynasty Minerals Ltd.

Under the terms of the transaction, Rio Tinto subsidiary Kennecott Canada Inc. will pay \$10 each for 8.75-million shares of Vancouver-based Northern Dynasty, which is developing the Pebble project in Alaska.

The deal with Rio Tinto, the world's second-largest miner, provides a “Good Housekeeping seal of approval” to a project Northern Dynasty has been working on for the past five years, president and chief executive officer Ronald Thiessen said yesterday.

“We wanted participation on an equity level by a major as an indication of how significant this project is,” Mr. Thiessen said.

Northern Dynasty describes Pebble as one of the world's largest copper-gold projects, a group that includes Ivanhoe Mines Ltd.'s Oyu Tolgoi project in Mongolia and Freeport-McMoRan Copper & Gold Inc.'s Grasberg mine in Indonesia.

Rio Tinto was one of about 10 companies that signed confidentiality agreements over the past year that allowed them to take a close look at the project, Mr. Thiessen said.

Rio Tinto and other parties were attracted by the size of the deposit — early resource estimates have pegged 49 billion pounds of copper and 64 million ounces of gold — as well as its location, Mr. Thiessen said.

With countries such as Bolivia, Mongolia and Venezuela rattling foreign mining interests with proposed or actual changes to their legal or tax regimes, projects in politically stable locations have added allure.

Shares of Canadian companies with projects in Mongolia, including Vancouver-based Ivanhoe Mines, have been pummelled since Mongolia introduced a windfall profits tax law in May.

Location and political stability “absolutely played a role for everybody that was looking at this thing,” Mr. Thiessen said.

Rio Tinto already operates the Greens Creek lead and silver mine in Alaska and so is familiar with the state, he added.

Under the terms of the transaction, announced yesterday, Rio Tinto will buy 8.75 million shares at \$10 each. The deal gives Kennecott the right of first refusal to participate in future offerings that could increase its stake to a maximum of 19.9 per cent.

Rio Tinto, which has a market capitalization of more than \$50-billion (U.S.), could swallow Northern Dynasty (which has a market capitalization of \$595-million [Canadian]) without a blink. And there have been rumours that Northern Dynasty was a takeover target.

But the smaller company has two shareholders that control about 40 per cent of its shares and Rio Tinto was content with an equity deal that carries the option to boost its stake, Mr. Thiessen said.

Majors frequently buy stakes in junior companies to get exposure to a promising region or deposit. The coal arm of Swiss-based Xstrata PLC, currently bidding against Inco Ltd. for Falconbridge Ltd., this year acquired a nearly 10-per-cent stake in Erdene Gold Inc.

Halifax-based Erdene has projects in Mongolia and a 20-per-cent interest in the Donkin coal project in Nova Scotia.

Over the next year, Northern Dynasty plans to continue drilling the Pebble project to confirm resource estimates and begin putting feelers out for a consortium that could turn the project into a mine, Mr. Thiessen said.

Given that the project could cost in the neighbourhood of \$2-billion to build, the most likely development scenario would be a consortium, with Rio Tinto a possible participant in such a group, he said.