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Mining and Mineral Development in Montana, 1998

Political Highlights

The 1998 calendar year was the decade's worst for Montana's metal mining industry. Low commodity prices and continuing attacks by the environmental community in the courts and in the legislative arena have precipitated a steady retreat by mining companies from the state. This retreat was hastened by yet another initiative campaign (I-137) in spring of 1998 directed at banning all new surface mines, or expansions of surface mines, that use cyanide in a leach circuit. The industry's defense was hampered by two factors: 1) an initiative (I-125) passed in a previous legislative session forbidding use of corporate dollars or employee's time on initiative campaigns, and 2) fines levied against businesses that failed to file with the Commissioner of Political Practices as Political Action Committees (PAC's), after contributing

dollars and employee's time to fight ballot issues during the 1996 election. The Commissioner, under administrative law 44.10,321, determined that any two individuals discussing a ballot issue constitutes a political action committee, and must report their activities or be fined. Fines incurred during the 1996 campaign were not settled until December of 1998.

The combination of bans and fines severely dampened the mining voice during the 1998 campaign. Initiative 125 was declared unconstitutional 12 days before the election, but the mining industry has pointed out that this did not give them time to prepare a rebuttal to all the issues thrust in front of the voters by opposing factions. Although voters in some counties were strongly against I-137, the initiative was approved in November by 52% of the votes cast statewide. Initiative 137 was challenged immediately in the courts while bills to nullify the initiative were drafted for the upcoming legislature.

During August, many gold mining companies that were active in the state put all planned expenditures and investments scheduled for activities in Montana on hold until after the election. As a result of I-137, practically all exploration and/or development work being conducted on preproduction properties remains curtailed.

Several bills favorable to the mineral industry and business in general appear to be headed for legislative approval. An exploration incentive bill, modeled after Alaska's, easily passed through the State Senate and is being studied in the Taxation Committee. Other bills designed to reduce property taxes also received a favorable response. Bills addressing changes to I-137 have been the subjects of vigorous debate, and their fate is still uncertain.

Metal Mining Highlights

During 1998, the mineral industry had little to celebrate. Most commodity prices were low and declining, and the permitting process continues to be slow.

Sixteen years after the first public meeting and 12 years after submitting its permit application (October 1987), ASARCO's Rock Creek copper-

gold project, northwest of Missoula is nearing completion. The final E.I.S. (environmental impact statement) is scheduled for summer of 1999. Canyon Resources' McDonald Gold project (north of Helena) is currently in limbo with \$70M invested. The project's E.I.S. is incomplete, severely overdue, and over budget at three times the anticipated cost. Since initiative I-137 has denied Canyon Resources the only viable processing alternative, the company has indicated they may file a "taking" lawsuit to recapture their forfeited investment and projected profits.

Early in 1999, *Pegasus Gold's* Diamond Hill gold mine, southeast of Helena, closed temporarily – an apparent victim of the corporation's 1998 bankruptcy proceedings. Although the bankruptcy appears settled, mining companies indicate that these proceedings have further complicated obtaining bonds by raising the cost. The bonds have become more difficult to obtain since it appears that the bonding companies will be held responsible for payment of the final reclamation in lieu of the *Pegasus Gold* forfeiture. In 1998, the mine was developed to the 1,000-foot level and was producing over 1,000 tons per day.

After a lengthy E.I.S. process, the Golden Sunlight gold-silver mine, near Butte, was awarded permits to expand its waste rock dumps. The Montana Environmental Information Council is challenging the decision in court. Loss of the court case would force closure of the mine as the law from the I-137 vote would not allow the company to reapply for the dump expansion.

Pegasus Gold canceled expansion of its Zortman gold-silver project, near Malta, and commenced final reclamation for closure. *TVX Gold* has been unable to find a buyer for its Mineral Hill gold-silver mine, near Gardiner. Plans appear to be progressing toward reclamation in 1999.

Stillwater Mining Company's platinum, palladium, gold, copper, nickel, and rhodium operations are the bright spot in Montana's metal

mining industry. They are located at three sites between Billings and Big Timber. The company endured low capitalization and weak prices during times that other commodities and companies were enjoying success. Now shortages in international commodity markets for platinum group metals provide an excellent development environment for this aggressive young company.

Stillwater secured adequate futures contracts to ensure funding of its ambitious expansion program. At the smelter site in Columbus, work was initiated on a new copper and nickel recovery plant and a new 1 00 ton-per-day smelter. The Stillwater mine is being prepared for production rates of 3,300 tons per day up from 2,000 tons per day. Mill construction is complete and development is underway to provide the necessary stopes and access for the projected production rate. A record of decision has been issued for their new pond and slurry line project, which will diminish the company's environmental risk. Two tunnel-boring machines are advancing in the twin 18,500-foot drives to the J-M reef, near Big Timber. Completion is expected before 2000, and production will commence at Stillwater's second mine shortly thereafter.

Stillwater Mining has announced intentions to attain an annual production level of 500,000 ounces of platinum group metals within five years. At this time, the company reports that finding enough skilled labor to meet production quotas appears to be their only obstacle.

Industrial Minerals Activities

In the industrial minerals sector, the cement industry is continuing to produce at capacity. The talc industry has shown some stress as a significant market share disappeared with the Asian crises. *Luzenac America* has spent the last year reclaiming their chlorite mine, southeast of Butte.

The two garnet operations in Alder and Dillon are for sale. *Cominco American Resources*

announced their decision to parcel out their industrial minerals division. The Alder operation (Ruby Garnet) has been negotiating with a number of companies. Sweetwater Garnet ceased operations in August and is welcoming inquiries.

Small-scale activities have been noted in development of white decorative marble, west of Helena, and polished marble, southeast of Helena, near Radersburg. Decorative stone “picking” is continuing in the northwest between St. Regis and Libby. There seems to be an increasing interest in 3- to 4-inch blocks as decorative stone coverings of buildings in addition to the more common ½- to 2-inch flagstone.

Coal Activities

Montana’s coal-mining industry posted a 4 percent increase in production as opposed to the nearly 8 percent increase the previous year. Increases were noted at the Savage Mine (*Knife River*), near Sidney; the Rosebud mine (*Western Energy*), near Colstrip, and at the Spring Creek mine (*Spring Creek Coal Company*), near Decker. Significant decreases in production (-1,000,000 tons) were noted at the West Decker mine (*Decker Coal Company*), near Decker, and the Big Sky mine (*Peabody Coal Company*), near Colstrip.

Exploration

Exploration activity levels continued to decline as few companies had funds available for investment given the low commodity prices. What funds were available were redirected from Montana as the companies reported difficulty in securing finances on Montana projects. No industrial minerals exploration is being conducted at this time. In 1988, 56 companies spent \$23.6 million on 75 exploration projects. In 1998, 19 companies spent less than \$450,000 on 21 exploration projects. Only three of those companies were majors.

Western Region

In the northwest corner of the state, *Cominco American Incorporated* drilled a Sullivan

type, stratabound zinc target on Hell Roaring Creek. This is a small ongoing project, near Troy, in the Sylvanite mining district.

Between Garrison and Drummond, BHP drilled in the belt of “goldless” jasperoids near Rattler Gulch. Results are unknown. *Steve* Ryan tested placers on upper Deep Creek northeast of Bearmouth. Results suggest acceptable grades in the bottom (gulch) placers and in the side (colluvial) placers. Coarse gold was observed in many of the rock-filled karsts. Downstream on Deep Creek, *Danny* Glover completed a second year of placer testing in the old Valley Mining ground. Results are unknown.

Caboose Mining Company drilled on the Dead Horse prospect in the Trout mining district, near Philipsburg. This drilling program is part of an ongoing silver exploration project near the old Algonquin silver-manganese mine.

Helena Region

South of Lincoln, *Dale Fayram* trenched, drilled, and reopened workings on the Jay Gould gold property on Stemple Pass. Other parties disclosed intent to initiate exploration on adjacent properties of the old Vern Knopf package purchased during an Internal Revenue Service tax sale.

Pegasus Gold drilled on and adjacent to the Diamond Hill property, west of Townsend. Mine reserves were expanded after promising intercepts were hit on the West Diamond Hill and Hope properties. The area is still being explored for underground orebodies.

BHP drilled a porphyry target near Radersburg; *Steve Dobson* drilled previously explored ground in the Elkhorn

Mountains, south of the Newmont/Santa Fe/Goldfield property. Results of both programs are unknown.

On the western side of the Elkhorns, east of Boulder, *Tremingo Resources* completed an eighthole, due-diligence drilling program on *Newmont Santa Fe Goldfield's* Elkhorn property. Tremingo took an option on the property and plans to develop the east Butte portion of the package as an underground mine. An estimated 600 tons per day will be mined using a mechanized open stope process with some backfilling. Ore will be hauled to the Golden Sunlight facility for processing. Estimates place cash costs between \$105 and \$211 per ounce gold for the first three years; Tremingo expects production to begin by July 1999.

Butte/Anaconda Region

Orvana planned a drilling program south of Butte, but the company only continued mapping in the Highland Mountains. The property spans the Fish Creek and Moose Creek drainages in a broad fault zone where historically, prospecting has shown lode prospects hosted in the Wolsey shale, and placer deposits derived from those lodes. Orvana is looking for a joint venture partner before continuing any large-scale exploration activity.

West of Melrose, *Tom Gignoux* continued exploration on the old Hecla property. Geophysical testing followed by a recent drilling program provided good intercepts on silver mineralization. The program resulted in a better understanding of the orebody and potential targets. East-northeast of Melrose, *Don Dean* completed a trenching program in gravels and outwash in Soap Gulch. In addition to delineating placer reserves, the program may provide an understanding of the gold's source.

Hanover Gold maintained an extensive drilling program in the Virginia City area as evaluation of its Alder Gulch/Brown's Gulch property package continued. The results, although not definitive, are encouraging in delineation of economic mineralization. By August, as the anti-cyanide campaign (1-1 37) appeared to be gaining support, Hanover suspended exploration until after the election. Although the prospect has not been defined specifically as heap leach, the company indicates that their enthusiasm for proceeding under current legal and economic restraints is low. When Initiative 137 passed in November, Hanover Gold dropped much of their Alder Gulch property package, and has since closed its Montana offices.

Adjacent to Alder Gulch, *Roy Moen* continued developing the Prospect property in conjunction with his permitted custom mill. Moen is reluctant to put the property into production at current gold prices, even after exposing considerable mineralization. East of Alder, *Dillon Vermiculite* completed some trenching in conjunction with its ongoing effort to permit a small pit. The end of a year-long permitting process appears in sight.

Southwest of Dillon, *Phelps Dodge* drilled an unsuccessful string of holes extending from east of the Ground Hog mine to the Ermont mine. The property was dropped. South of Dillon, on Grasshopper Creek, *Bruce Cox and Company* drilled a series of successful holes on its zeolite property. The group believes it has found a market niche for its product; plans are in place to upgrade the road and initiate production at a low, steady rate over the next year.

Placer exploration continued in the Ruby Creek drainage, west of Wisdom. Upstream, *Anciel Griffeth* continued bulk-testing

gravels upstream of the patented properties in Nugget Creek. Results are rumored to be spotty. Downstream on Ruby Creek, *Wally Henderson and Company* explored a deep, saturated placer with a small-diameter auger (2-3 inches) mounted on a mobile unit. Results are unknown.

South of White Sulphur Springs, *Cominco American Incorporated* drilled on Frank

stepped out considerably farther but did not intercept the mineralization. The company is rumored to be looking for a joint venture partner before continuing the program.

Outlook

During the last 10 years, there have been no new major mines permitted in Montana. The perception of the metal-mining companies seems to be that permits for large mines are not achievable.

Permits for small to medium-sized operations do not appear to be a problem, especially if they are for an underground mine operation.

The future of metals exploration and development in Montana's mineral industry depends on several items, such as commodity prices, final dis-

position of the cyanide ban, industry's and the business community's perception of Montana's business environment, and the perceived ability to permit a major mine in the state.



Frankovich's property. Frankovich indicated the gold zone is shallow with a flat dip; his drilling confirmed grade and location to his property boundary. Cominco's drilling