



CHIEFTAIN METALS AND THE TULSEQUAH CHIEF PROJECT

Uncertainties, Risks and Questions

September 2011

The unsuccessful development of the Tulsequah Chief mine near the Alaska – British Columbia border by now-bankrupt Redcorp Ventures and its wholly-owned subsidiary, Redfern Resources, was characterized by overly optimistic predictions and speculation, unmet commitments, and rising costs. Losses to secured creditors of Redcorp were approximately \$100 million¹ and investors' losses were almost \$190 million.² Chieftain Metals, co-founded by former Redcorp President and CEO Terence Chandler, purchased the Tulsequah Chief mine and nearby Big Bull mine, located near the confluence of the Taku and Tulsequah rivers, from Redcorp out of the bankruptcy proceedings in September 2010.³ It is now trying to develop both mixed metals mines.⁴

Two major questions should now be asked:

- Do Chieftain's mine development proposals really differ from those unsuccessfully pursued by Redcorp?
- Is the Tulsequah Chief an economically viable mine, with or without Big Bull?

The Company

Shortly after Redcorp was assigned into bankruptcy in May 2009, Chieftain Metals was incorporated in November 2009 in Toronto by Victor Wyprysky, founder, President and CEO of Strategic Resource Acquisition (SRA), mining executive Terrence Byberg, and former Redcorp President and CEO Terence Chandler, initially as a company privately held by SRA.⁵ Chieftain's main assets are now the Tulsequah Chief and Big Bull mines, abandoned in the 1950's by a major mining company (Cominco, now Teck Resources) and purchased from Redcorp in September 2010.⁶ Chieftain became a separate, public company listed on the Toronto Stock Exchange with stock symbol CFB at its initial public stock offering in December 2010.⁷

A History of Bankruptcies

Under Terence Chandler's leadership, Redcorp Ventures and Redfern Resources declared bankruptcy in March 2009. Losses to secured creditors were about \$100 million and investors' losses were almost \$190 million.

The president, CEO and founder of Chieftain Metals, Victor Wyprysky, was also president and CEO of SRA, now known as Portex Minerals, and is also now founder, Chairman and Director of Portex.⁸ This is important because of the history of SRA, and the relationship between the management of SRA/Portex and Chieftain. In December 2006, SRA acquired the Middle Tennessee Zinc Mines complex (MTZ).⁹ SRA restarted production at MTZ in April 2008. However, after failing to file its audited financial statements by the end of the 2008 for the fiscal year ended September 2008, and failing to make interest payments on loans, in mid-January 2009, SRA and its MTZ subsidiary filed for bankruptcy in the US and Canada. SRA listed assets of \$1 million and debt of as much as \$100 million; MTZ listed assets of \$50,000 and debt of as much as \$50 million.¹⁰ SRA exited bankruptcy protection in August 2009.¹¹ Terence Chandler was appointed Executive Vice President and Terrence Byberg was appointed Chief Operating Officer at SRA in February 2010¹² and immediately afterward, SRA announced the purchase of the Portugal mining properties formerly owned by Redcorp.¹³ SRA changed its name to Portex Minerals in April 2011.¹⁴ Chieftain and SRA/Portex also share one director, Patrick Raleigh,¹⁵ and other management relationships.¹⁶

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No Interested Outside Buyers for the Tulsequah Chief Property

After two extensive solicitations, by Paradigm Capital in April 2009 and the bankruptcy Trustee in September 2009, no acceptable offers were received for the Tulsequah Chief or Big Bull. In December 2009, a revised offer was received from 2224004 Ontario Inc., now known as Chieftain Metals. Chieftain purchased the properties in September 2010 for \$15,417,000 in cash and Chieftain stock, providing few funds to pay back Redcorp's creditors.¹⁷ Since there were clearly no outside parties interested in purchasing the mine, it is reasonable to assume, especially given the timing of Chieftain's incorporation and offer, that Chieftain was formed as a way for Redcorp to complete the bankruptcy process and as an attempt to re-start the development of the mine free from prior financial liabilities. A similar assumption could be made about SRA/Portex and its purchase of Redcorp's Portugal properties.

The lack of outside interest in the mine also raises questions about the mine's viability. Even Redcorp seemed to recognize this in February 2009 when a company press release stated that "The lengthening of the development schedule, increased capital costs, current commodity prices and the limitations on the Company's ability to access sources of additional funding raise serious concerns about the development of the Tulsequah Chief Mine by the Company without strategic partners."¹⁸

Additional Risk Assessment

Redcorp frequently predicted the timing of obtaining crucial permits or beginning construction, but rarely met those predictions. Subsequent announcements included increased capital expenditure estimates, and delayed construction and permitting schedules.¹⁹ Chieftain is continuing Redcorp's pattern of optimistic predictions. Chieftain is also continuing to base some of its economic resource estimates on a hope of improved technology and more ore resources.

Possible Permitting Delays: Since the BC Environmental Assessment Office Project Approval Certificate (BC EA Certificate) expires at the end of 2012, delays in permitting between now and then could put the mine project at risk. In order to meet the environmental assessment deadline, Chieftain plans to start major construction in June 2012.²⁰ However, the company has not yet obtained the Mines Act permits for construction of the tailings dump, mill and the underground mine. In addition, they do not discuss the acquisition of an explosives license.²¹ It is important to understand that Chieftain, like Redcorp, often discusses the "Tulsequah Project" as if it included both mines, Tulsequah Chief and Big Bull. However the current feasibility study is only for the Tulsequah Chief deposit.²² The mining plan used to obtain the BC EA Certificate in 2002 and the federal CEEA Screening Environmental Assessment Approval specifically excluded the Big Bull deposit.²³ Chieftain has not obtained permits for construction or operation of the Big Bull deposit beyond exploratory drilling, and any development of the Big Bull mine will most likely need at least an amended environmental assessment and additional permits. Also, continued international opposition is likely to impact the mine schedule. To date, former Alaska Governor Palin, the Alaska Department of Fish and Game, the U.S. State Department, and the full Alaska Congressional delegation, among others, have expressed serious concerns to British Columbia about Tulsequah Chief mining and associated barging and dredging.

Mine Access Issues: Chieftain plans to begin construction in mid-2012 and has stated that barges will be used to transport goods during construction.²⁴ Therefore, the company will have to rely on barging to support this mine development for two years; the road is currently planned to be ready in the second quarter of 2014.²⁵ However, even during high-water season, barging has proven to be difficult. In May 2008, Redcorp announced plans to ship 20,000 tons of mine supplies to the Tulsequah Chief site in 200 barge loads, yet was only able to accomplish about 30 barge runs due to river conditions. Redcorp called this a "key challenge" in announcing financial results for the third quarter of 2008.²⁶ In June 2011, Chieftain was unable to complete all its equipment barge runs due to low water levels.²⁷ The proposed use of the Taku River as an industrial highway for barges has run into widespread opposition in Juneau and significant concerns from Alaska and US regulatory agencies due to the likelihood that such barging and its associated dredging would damage salmon habitat and threaten the productivity of the most valuable salmon river in Southeast Alaska.^{28, 29}

Chieftain's own Technical Report demonstrates the problems with barging in a shallow, fast, braided river like the Taku. "...the Tulsequah River is not easily navigated due to high and variable flows, debris hazards, and shallow areas...the Taku River broadens to extremely shallow water in its lower reach... would require more or less continuous dredging during the shipping season...The period available to conventional barging varies from year to year, ranging from less than three months to as much as six months..."³⁰

Chieftain also does not yet have the Special Use Permit needed for an access road, nor funds for road construction, and has not completed negotiations with the Taku River Tlingit for access through their territory. Chieftain could be dependent on river barging for much longer than two years, given the numerous uncertainties regarding an access road.

Long Haul Route: Chieftain has assumed that metal concentrates will be transported by truck to Skagway, Alaska using existing commercial services.³¹ If agreed to by the Tlingit, a new road of 130 to 160 km would need to be constructed from the Tulsequah property to connect to an existing road near Atlin. The round trip from the mine to the Skagway port would be more than 750 km, an extremely long and expensive haul route, over roads that are very difficult to travel and are sometimes closed in winter.

Chieftain Promotes Unproven Resources: Chieftain is hoping new drilling will find new mineral resources in areas already explored by Cominco. In addition, Chieftain continues to identify “improved value potential at the Tulsequah Chief Project” through the additional of the Big Bull deposit.³² As noted previously, Chieftain has not obtained permits for construction or operation of the Big Bull deposit beyond exploratory drilling. Since the development and operation of Big Bull was not part of the environmental assessment for the Tulsequah Chief mine, any development of the Big Bull mine will most likely need at least an amended environmental assessment and additional permits.

Conflicting Capital Cost Estimates: The 2007 Wardrop Engineering study indicated the capital requirements for the development of the Tulsequah Project were total gross capital costs of \$201.5 million. In June 2008, Wardrop provided an updated estimate of \$297.1 million.³³ In February 2009, Redcorp halted mine development and announced that a new study by Global Project Management Corporation extended the completion date of construction of the mine to August 2010 and estimated total gross capital costs in excess of \$500 million.³⁴ On March 4, 2009, Redcorp filed for bankruptcy protection.³⁵

But Chieftain now estimates initial capital costs at only \$310 million.³⁶ It is unclear how Chieftain cut nearly \$200 million out of the initial capital costs, especially since its new estimate is based on road access which Redcorp stated is more expensive than the barge access used in previous estimates.³⁷

Questions about Chieftain and the Tulsequah Chief Project

Is there a viable mine? Given that the only interested buyer for the Tulsequah Chief was a company co-founded by the head of the company that went bankrupt trying to develop the mine, is there a practical, economical mine here? Since Chieftain is a junior mining company similar to Redcorp and has no strategic partners, why is this project any more viable than it was back in February 2009 when Redcorp expressed “serious concerns about the development of the Tulsequah Chief Mine by the Company without strategic partners?”

How were development capital costs reduced from \$500 million to \$300 million? Chieftain estimates capital costs for the 130 km road are \$65 million.³⁸ However, in 2008 Redfern spent nearly \$28 million on 16 km of local access roads near the mine³⁹ which raises questions about this Chieftain estimate. Also, in 2007 Redfern estimated that the road would cost over \$46 million more than the barging system to build and over \$7 million more annually to operate than the barge.⁴⁰

Will Chieftain have the finances and commitment to address potential long-term environmental liabilities? Since 1992 when Redcorp/Redfern exercised its option to buy Cominco’s share of Tulsequah Chief and all of Big Bull, Redcorp/Redfern has been responsible for all environmental liabilities associated with the mines, having agreed to indemnify Cominco.⁴¹ Chieftain assumed the reclamation responsibilities associated with the Tulsequah Project when the purchase of the project was finalized.⁴²

Is the permitting and construction schedule realistic given mine access problems? As noted above, Chieftain still needs a number of key permits for the Tulsequah Chief and could face loss of the BC Environmental Assessment Office Project Approval Certificate at the end of 2012 if construction of the project is not substantially started. Also noted above are the significant problems posed by the reliance on river barging during the construction phase. Given the past problems with river barging and the seasonal nature of this transportation method, how can Chieftain ensure it will meet its construction schedule?

Will there be revenue sharing? The most recent cost estimates from Chieftain do not have line items for compensation payments or revenue sharing with the Taku River Tlingit First Nation under any Impact Mitigation and Mutual Benefit Agreement.

Is U.S. concern about mining on its border immediately above the Taku’s best salmon habitat a factor? As noted, the Taku is Southeast Alaska’s most important salmon river. To date, former Alaska Governor Palin, the Alaska Department of Fish and Game, the U.S. State Department, and the full Alaska Congressional delegation, among others, have expressed serious concerns to British Columbia about mining activities at Tulsequah. Chieftain should tell potential investors that its mining aspirations are highly controversial from an international perspective.

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