

PANAMA

By Gerald M. Ellis

The minerals sector in Panama has been quiet for several decades but although mining operations are limited there has been a significant amount of exploration activity. This really began with the Hochschild reconnaissance of the old Cana mines in Darien in the mid-1960s which had been worked for gold in the late 1890s-early 1900s by Darien Gold Mining Co. Ltd of London. Subsequently reconnaissance and sampling was undertaken by Falconbridge in 1969, and by Freeport in the 1980s. The Freeport project included geochemical sampling and geological mapping, and the completion of 39 drill holes.

More recently, there has been significant exploration activity, mainly by Canadian mining companies. Those involved have included: International Arlo Resources Ltd, Campbell Resources Inc., International Canalska Resources Ltd, American Manor Corp., Link Mineral Ventures Ltd, Allican Resources Inc., Laguna Gold Co., Greenstone Resources Ltd, Western Keltic Mines Inc., Glamis Gold Ltd, Tiomin Resources Inc., Adrian Resources Ltd, Teck Corp., Inmet Mining Corp. and Aur Resources Inc. Activity has ranged from reconnaissance through to detailed exploration and on up to prefeasibility and feasibility studies. Meanwhile, a new mining code is being prepared.

Base metals

In Cerro Petaquilla and Cerro Colorado, Panama possesses two of the world's largest undeveloped porphyry copper deposits. At the end of February 2001, the Canadian company, Tiomin Resources Inc. elected to transfer ownership of its wholly-owned subsidiary, PanaCobre SA to fellow Canadian, Aur Resources Inc. in full satisfaction of a US\$2.3 million loan made by Aur to Tiomin. PanaCobre SA owns the Cerro Colorado copper project which has been dormant since 1988. PanaCobre has evaluated both the sulphide reserves and the oxide reserves, and feasibility studies have shown that the sulphide amounts to some 1,750 Mt at an average grade of 0.64% Cu.

The project was on stand-by during 2002, and most of the activity concerned road and camp maintenance. Development to the operating phase awaits an improvement in copper prices as well as a means of reducing the projected operating costs. In the meantime, the contract with the Panamanian Government is still in effect.

The contract for the Cerro Petaquilla concession is also still in good standing. The Petaquilla property comprises 136 km², located some 120 km west of Panama City and 10 km from the Caribbean coast. Copper, gold and molybdenum mineralisation was discovered during a regional survey by the UNDP in 1968. Follow-up work defined the Botija and Petaquilla porphyry deposits. Petaquilla is estimated to contain some 30 Mt of copper. The concession area is owned by Empresa Minera Petaquilla SA in which Inmet

Mining holds a 48% equity interest and Adrian Resources 52% (acquired in 1992). Teck Cominco can earn a 26% interest in the project from Adrian by funding the feasibility study and carrying Adrian's remaining 26% interest through to production.

Teck Cominco has been managing the project on behalf of Adrian but has deferred a decision about whether or not to place the deposit into production. It has updated the feasibility study prepared by H.A. Simons to address the current outlook for copper prices. The study indicated that the project is feasible and concluded that total after-tax cash flow would be US\$2.1 billion, with a net present value of US\$364.4 million. Teck Cominco evidently believes that a further improvement in copper prices is necessary and that the current oversupply in the copper market needs to ease.

Under the Panama Canal Watershed Law (PCA), the Caimito and Cocolé del Norte river systems could be utilised as reservoirs for increased water and power supply for the canal. This would necessitate the flooding of certain areas to a level of 100 m above sea level and would significantly impact any mine development. Minera Petaquilla has expressed its concern to the Ministry of Commerce and Industry and the matter was under appeal during 2002.

Precious metals

During 2002, the Cerro Quema gold-silver project, managed by Minera Cerro Quema SA, was kept on maintenance, road repairs were effected and reforestation plans prepared. It is a gold-silver deposit located in the Los Santos Province, and awaits a further improvement in the price of gold before it is put into production. Cerro Quema was purchased from Campbell Resources Ltd in 2000, and that company wrote off its carrying value in the project by US\$9.1 million.

Transworld Exploration SA's Romance project is under care and maintenance and reforestation. Operations were conducted over the period 1990-98 on a series of gold-silver veins.

Minas de Santa Rosa SA produced gold and silver between 1995 and 2000 but has since closed down its mining operation and the site is being prepared for rehabilitation and reforestation.

Glamis Gold Ltd relinquished all of its exploration concessions two years ago following discouraging drilling results at its Viento Frio property in September 2001.

Industrial minerals

Cement, clays, limestone, salt, sand and gravel are produced in small quantities. Empresa Estatal de Cementos Bayana at Calzada Larga, and Cemento de Panama at Quebrancha are the principal cement producers. Cementos Bayano sold its 95% to Cementos Mexicanos SA. A 5% share was sold to employees as part of the country's new pension plan.

Energy industry

Houston-based Global Energy Development, of which Harken Energy owns a majority interest, is offering a farm-out of its Garachine Block where the company has a two-year technical evaluation agreement (TEA) with the Panamanian Government. The block covers 5,670 km² both on and offshore in the eastern Gulf of Panama, about 161 km southeast of the Pacific entrance to the Panama Canal.

The Garachine TEA was signed in September 2001, with the Ministry of Commerce and Industry, and allows Global Energy the option to negotiate for a five-year exploration contract and a 25-year production period at the end of the TEA period. Technical evaluation includes examination of onshore structure by satellite data, geo-history modelling, seismic velocity studies and reprocessing of selected seismic lines.

Panama has no identified oil and gas reserves. Virtually all oil is imported and the country neither produces nor consumes natural gas. The above contract with Harken was the first petroleum exploration permit granted by Panama since 1987 and gives the right to studies in the Provinces of Colon, Bocas del Toro and Panama.

During 2002, the Ministry of Commerce and Industry and the Inter American Development Bank were engaged in the preparation of a project to modernise mining laws in a manner that should provide incentives to investors.