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The Reemergence of Strategic Alliances in Mineral Exploration

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The mining sector is affected by constant changes in the market, along with exploration results and discoveries. The fast pace of this change results in trends developing on a micro or macro scale, and one of the re-emerging trends seen in the industry today is the use of strategic alliances for mineral exploration purposes.

The nature and terms of a strategic alliance can vary greatly, depending upon the objectives of the parties. In terms of mineral exploration, strategic alliances are often formed between an exploration company and a more senior mining company, to work collaboratively to explore for and identify mineral projects.

The exploration company will contribute to the alliance its geological and technical expertise, local operational experience, know-how and contacts, and often a geological or proprietary database to draw upon. Canadian exploration companies are very well suited in this role, as arguably they collectively have the greatest depth of mineral exploration expertise and experience in the world. The senior mining company, on the other hand, will typically contribute funding and provide oversight and technical direction in respect of potential projects that are identified.

The scope of an alliance is often focused on certain geographic areas and certain types of metals or minerals, due to the local knowledge and expertise of the exploration company and the strategic objectives of the senior mining company.

From the exploration company's perspective, a strategic alliance provides a source of funding to allow it to pursue its exploration activities. From the senior mining company's perspective, a strategic alliance serves as a means by which grassroots exploration and project generation can be outsourced to a skilled and proven exploration team, while at the same time allowing the mining company to participate and take an ownership interest in any projects that are discovered.



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The exploration company will almost invariably be the operator under a strategic alliance and will be subject to oversight, typically by a technical committee comprised of representatives from each of the parties. Once a potential project has been identified, the parties will determine whether to designate that project as a strategic alliance project. The arrangement is often such that upon the designation of a project, the senior mining company will have an option to earn a majority interest in the project and upon exercise of that option form a joint venture with the exploration company, or to acquire the property outright. The option or acquisition terms will be set forth in an option-joint venture agreement (which may be either a contractual or corporate joint venture depending on the jurisdiction) or acquisition agreement that are typically negotiated upfront at the time the strategic alliance agreement is settled so that the parties can seamlessly transition into that new and different relationship at the relevant time.

Strategic alliances, by their terms, are often not long term in nature as both parties will typically want to maintain the flexibility of discontinuing the arrangement in the event that satisfactory results are not being obtained or the strategic objectives of a party change. An exception to this is that once a project has been designated as a strategic alliance project it will then be governed by one of the forms of agreement referred to above. Of course, the parties can always mutually agree to extend the strategic alliance arrangement to the extent that it is beneficial to them.

Selecting a strategic alliance partner is similar to selecting a marriage partner. The parties should be well matched to take advantage of the available synergies and benefits from the collaborative effort.

Mineral exploration strategic alliances appear to be becoming more and more prevalent in the industry. Some of the strategic alliances that have been publicly announced recently include:

- Strategic Alliance between Laurentian Goldfields Ltd. and Antofagasta Minerals S.A., a wholly owned subsidiary of Antofagasta plc, for generative copper exploration in southern Quebec, Canada (announced July 26, 2012).
- Non-binding letter of intent to form a Strategic Alliance between Miranda Gold Corp. and Agnico-Eagle Mines Limited for precious metal exploration in central Colombia (announced July 25, 2012).
- Strategic Alliance between Altius Minerals Corporation and Virginia Mines Inc. for the exploration for base metals and precious metals in Quebec and Labrador (announced July 4, 2012).
- Strategic Alliance between HTX Minerals Corp. and the Nunavut Resources Corporation for mineral project generation and exploration in the Kitikmeot Region of Nunavut (announced March 5, 2012).
- Strategic Alliance between Millrock Resources Inc. and Vale Exploration Canada Inc., a wholly-owned subsidiary of Vale S.A., for the exploration of large-scale copper-gold porphyry deposits in target zones of Alaska (announced October 17, 2011).
- Strategic Alliance between Riverside Resources Inc. and Antofagasta Minerals S.A., a subsidiary of Antofagasta plc, for copper exploration in British Columbia (announced July 7, 2011).

- Strategic Alliance between Riverside Resources Inc. and Cliffs Natural Resources Exploration Inc. for exploration of Iron Oxide Copper Gold projects in north west Baja California state and western Sinaloa state to Oaxaca state, Mexico (announced June 17, 2010).
- Strategic Alliance between Eurasian Minerals Inc. and Newmont Ventures Limited for gold exploration in the Republic of Haiti (announced April 28, 2008).

Having been involved with a number of strategic alliances, I see the positive benefits and synergies to both parties that can come from these arrangements.

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