

Franconia Advances Birch Lake Project in Minnesota's Duluth Complex

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Brian Gavin President & CEO

While many newer deposits and mines are found farther and farther afield—because all the close at hand ones have been mined out—our next guest is exploring on three large base and platinum group metals deposits just a stone's throw from the ports of Lake Superior in the U.S. Franconia Minerals' (TSX: FRA) Birch Lake project has three established deposits with resource estimates with hundreds of millions of tonnes of underground mining ore. Franconia's President and CEO Brian Gavin joined us at resourceINTELLIGENCE studios to tell us how his company is gearing up for a Feasibility Study at Birch Lake.

Resource Intelligence: Let's talk about your three deposits in Minnesota. You have a resource estimate on each one, but the main one is Birch Lake, is that correct?

Brian Gavin: The main deposit is Birch Lake primarily because it's the one we feel we can put into production most efficiently. We acquired Maturi and Spruce Road in 2003 from Inco, who had them in their portfolio since the late 1960s. But the Birch Lake project is further away from wilderness areas and is almost entirely located on state-owned land and not federal land. For that reason we think we can move Birch Lake through the permitting process much quicker.

RI: You've been able to acquire and grow your Birch Lake project quickly. Can you give an indication of just how quickly?

BG: We started out in 2003 with 31 million tonnes of inferred resource and right now we're at 130 million tonnes of indicated resource and 35 million tonnes of inferred. So over the life of the project, we've more than tripled what we've got. The last increase was 21%.

RI: There's something of an analogy here with Polymet (TSX: POM) which has to some degree paved the way for you and developed a large mine to the south.

BG: Polymet is about seven miles to the south and is developing a large open pit deposit, of basically the same type of ore. They are just about to become the first recipient of a copper-nickel mining permit in Minnesota after about four years in the permitting process. So, they are essentially clearing the way for us from a permitting point of view.

RI: What does that mean to you in terms of where you focus your energy now?

BG: I think it clears the way and we feel that we can move from a feasibility study, which we expect to complete in 2011, to receiving a permit in probably under two years.

RI: What do you know about the metallurgical profile at Birch Lake in terms of amenability to mining and recovery rates?

BG: We've done extensive bench scale testing for recoveries and we see excellent recoveries of all the metals from the rock to a concentrate; that is the first stage of the process. We've also done extensive bench scale secondary recovery using the Platsol technology, which is what Polymet plans to use and we see excellent recoveries at the bench scale. Our recoveries at the bench scale are actually almost identical to Polymet's recoveries at the pilot scale in 2006. So we are very confident that as we scale up we're going to see acceptable recoveries.

RI: There is an analogy with Polymet in terms of the metallurgy and how you're developing, so will there also be a share price and market cap analogy as well?

BG: I think Polymet is going first through the process and we are to some extent following in their slipstream. We plan to have more or less the same size of mine as Polymet does initially, if you look at it in terms of the amount of copper-nickel and platinum-palladium produced. It is interesting to note that right now—maybe a year to eighteen months away from production—Polymet's market cap is about \$500 million. We are about three to four years behind them in terms of getting to production and our market cap right now is between \$50 and 60 million.

RI: What aspects of your previous drilling have guided you to where you're going now and what is future drilling going to look like?

BG: We spent basically the period from June 2006 until August 2008 drilling wide diameter core for metallurgical purposes and also converting the inferred resource at Birch Lake to indicated resources. Any drilling we do in the future will probably be narrow diameter and much cheaper drilling to convert the remaining inferred resource to indicated resource and for exploration around the margins of the deposit to add more inferred resource.

RI: Let's compare your targeted operating costs for a mine with planned value.

BG: The operating costs for the project are about \$25, or less we think, per tonne. We don't have a study right now on this project, but those are our target costs.

RI: What about the rock value?

BG: The base case metal prices that we used in our last analysis, for

example in our resource estimate, is about \$60 per tonne.

RI: Another one of your neighbours is Duluth Metals, a company that has really impressed investors lately.

BG: We think of Duluth Metals as the new kid on the block because they have been exploring for a few years and they have been very successful. They started out with a very aggressive drilling program and have managed to find over 500 million tonnes indicated resource and several hundred million tons of inferred. Now there is major company interest in the district in part due

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to Duluth Metals. Just last week they signed a joint venture agreement with Antofagasta Mining from Chile, a \$16 billion London-listed company.

RI: So the road ahead is well paved, indeed.

BG: To some extent they are bringing major company interest in and they have demonstrated the significant exploration potential in the district. I should point out that Polymet has a relationship with a major company and that Glencore is financing their exploration, Glencore being a Swiss based refining and mining group.

RI: They have some issues that you don't have and one of them that you mentioned earlier is your location, the lands that you are on. If we look at the tonnage for example, you've got this 131 million tonnes indicated plus more inferred and plus whatever potential is still there, and it's all located on lands that you have permits to.

BG: Yes. We hold most of our Birch Lake resource through state leases from the state of Minnesota. We think the permitting track with just state and private mineral and surface rights is going to be much easier than on our deposits to the north where there is federal land involvement and also

for Duluth Metals. The state of Minnesota is very eager to see royalties from these lands and the royalties go more or less into the state education trust.

RI: You had a loan from the state of Minnesota.

BG: A few years ago we negotiated a \$2 million loan from the state of Minnesota. For every dollar that they lent us they will get a warrant to buy a share, so the state of Minnesota may potentially be an investor in the company. Last year they gave us an additional \$500,000 grant.

RI: What is the local community interest?

BG: Interestingly, the part of the royalties that doesn't go into the educational system in Minnesota goes back to the local counties. So there is great interest from the local community. We're also in an iron mining area and there has been a fantastic history for almost 150 years of iron mining in the region, but the iron mines now produce as much iron ore as they ever did with 3,600 employees in the industry. Fifteen years ago it used to be 16,000 employees. So there are people with mining backgrounds who would like jobs in mining. The local politicians and legislators are fully on side with our project. At the

national level, Senator Al Franken of Minnesota recently sent a letter in favour of the mining projects.

RI: You're a substantial shareholder in the company as well. How much do you and the rest of your management team hold?

BG: The management group has been able to retain about 11% of the company to this point.

RI: Would you consider yourself a takeover target?

BG: We really don't rule anything out. My job is to build value for the shareholders and I am a significant shareholder, so I definitely want to build some value. I think there is good potential for us as a takeover target. I think we could build a mine if we choose to do so.

RI: What does this year entail for you moving ahead?

BG: We will first consolidate our land position, take down some options that we have on the land site and make sure things are in order there. We then move onto some additional drilling to convert our remaining inferred resource to indicated resource. We then move on to a prefeasibility study which we think we can complete by the third quarter of 2010. If that is positive and we think it will be, we will move on to a bulk metallurgical test with the metallurgical sample we already have on hand and that would lead directly to a feasibility study. I think we could complete the final feasibility study by mid 2011 and be applying for permits at that time.

We recently completed a \$4.23 million financing, which should take us through this year and provide a comfortable cushion for the work we want to achieve. Our primary goal is to put a mine into production. Finding a few more tonnes of ore is not a priority at this point. We can find it later on as the mine develops. We see the big value for shareholders as bringing this mine to production.

Milestones:

- 2010, Convert tonnage from inferred to indicated resources through drilling
- Prefeasibility complete by Q3 2010
- Complete feasibility study by 2011

