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Crusader Opens Negotiations With The Banks, As It Closes In On A Feasibility Study At Borborema

By Robert Tyerman

Rob Smakman, managing director of Australian gold hopeful Crusader Resources, has been talking to banks about potential financing for the company's flagship Borborema project in north-east Brazil.



Rob Smakman

The banks, he says, “see a good capacity for debt” at Borborema, following a hefty 61 per cent increase in the project's measured and indicated resource estimate to 1.87 million ounces at 1.14 grammes of gold per tonne of ore.

Described as “stupendous” by Smakman, an Australian geologist whose worldwide mining experience includes a stint at European Goldfields, this increase is part of a wider upgrade which takes the total resource up to 2.43 million ounces of gold at a grade of 1.2 grammes a tonne.

Crusader is three quarters of the way through a A\$3.5 million bankable feasibility study on Borborema, and expects to produce a reserve figure for the open-pit project next month. First production is planned for 2014, provided the company can raise the finance.

As far as that possibility is concerned, the company is not short of powerful friends, as Canadian investment group Dundee Corporation holds 19 per cent of its shares.

However, the stockmarket remains sceptical, having marked Crusader's shares down from more than A\$1.20 last year to 54 cents now. But Smakman says he hopes to arrange funding with a mix

of debt, equity, and cash flow from another operation - the Posse iron ore venture in the Brazilian state of Minas Gerais.

Posse is all set for production, and, says Smakman, is now only waiting for the end of a strike at the Brazilian Mining Department, and for local delays with licences to work their way through the system.

Borborema was the subject of a pre-feasibility study last year which envisaged a capital cost of US\$169 million to bring it into production at the rate of up to 180,000 ounces of gold a year.

According to the study, cash costs are likely to come in at US\$558 an ounce, which provides for plenty of margin against today's gold price of around US\$1,660.

On those parameters the project would yield an internal rate of return of 32.9 per cent, and would have a net present value US\$250 million, more than four times Crusader's present market capitalisation.

Indicating that the bankable feasibility study is "on track" to appear in November or December, Smakman now suggests costs are likely to be "sub-US\$700 an ounce for the first few years".

The current anticipated mine life is 11 years, and these days the company more modestly speaks of likely production of "150,000 ounces-plus" a year.

"Capex will be our biggest challenge", reflects Smakman. Crusader recently raised A\$7.9 million at A48 cents from new and existing shareholders, and Smakman says some investors, such as Melbourne-based Northcape Capital with seven per cent, have been supportive throughout.

But clearly the imminent reserve figure and later feasibility study will be crucial, as will progress at Posse.

On possible further resource expansion, Smakman says Borborema is open at depth, but points out that the grades are too low to go underground.

Citing “interesting” exploration results to the north of the project, he suggests “our upside is the regional Serida gold belt.” Crusader holds around 4,000 square kilometres in this area and has four teams doing mapping and sediment work.

This, says Smakman is yielding “pretty exciting results” at a time when “there is no-one else in the region”. Hitherto the area has primarily been regarded as a tungsten zone.

“Cash flow from Posse would help a lot with Borborema”, says Smakman. It would cost A\$2 million or so to take the project into production this year, and operating costs are likely to come in at A\$10 a tonne, a fraction of present market prices, even if the iron ore price has been falling lately.

Holding an estimated 36 million tonnes of iron ore low in phosphorous and other nasties, at an encouraging grade of 43 per cent, Posse may not be big, but it could be a crucial stepping stone in Crusader’s plans for growth.

Infrastructure is already in place and the plan is to sell output from Posse at the mine gate to a hungry local market, rather than shipping it to China.

That final sticking point remains, however. “Our problem has been getting the licences,” says Smakman. “The local state is quite difficult.”

Despite its name and mining tradition, Minais Gerais state attracts tourists and is populous, unlike the area around Borborema. And Smakman notes “non-governmental organisations”, with no love of mining, are vociferous in the area.

“We’ve delivered most of our promises”, he declares. But the next few months could be crucial, as Posse awaits the green light, and the Borborema feasibility study comes in. Watch this space.