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Better News for Rusina Mining at Acoje

by David Rowland

When Proactive last covered Rusina, a mere month or so ago, Rusina CEO Rob Gregory had just announced the loss of Rusina's usual revenue stream. After some careful belt tightening, cash was set to stretch past summer 2009, while European Nickel continued to move the Acoje nickel laterite project onward through pre-feasibility.

At the time Rob Gregory hinted that it wasn't just a question of hunkering down until the long economic winter eventually thaws. Proactive hadn't thought to be writing another article so soon, and it makes a change to report news that bucks the general gloomy trend.

For more detail on the projects mentioned here, interested readers are referred to a wealth of background information in previous articles this year.

Hors d'oeuvres

Direct shipping of Acoje's laterites has never been the main game, but was a very handy starter operation while it lasted. Depressed nickel prices mean it will be a while before this resumes in earnest, but a Japanese buyer has recently taken delivery of a trial shipment of 7,500 tonnes of nickel laterite ore, shipped by Rusina's Philippine partner, DMCI. The change is that the ore was 2.15% nickel, almost double the average grade and significantly higher than past shipments. A certain amount of high-grading won't do significant damage to a laterite tonnage of 50MT (two-thirds indicated, the rest inferred) and further shipments are possible. Margins are low but it all helps.

Main Course

The 'main course' for Rusina is the 40:40:20 joint venture between Rusina, European Nickel and DCMI to process the bulk of the Acoje laterites, using European Nickel's heap leach technology. Crudely, this involves mining the near-surface laterites (strip ratio 0.46), and subjecting it to European Nickel's proprietary heap leach technology. Most people know that nickel laterites can be difficult to process, but European Nickel's technology is known to work well at Caldag in Turkey.

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Rusina and European Nickel have just published the pre-feasibility study, and it is good news. In addition to opex costs of $3.10/lb – notably economic below today's $4.40/lb nickel price – the study features an Internal Rate of Return of 28.3%, 3-year payback and forecast annual sales of US$260m, inclusive of by-product credits (mainly cobalt). This translates to US$108 million of free cash flow annually. The study assigns a post-tax NPV of US$375 million using a 10% discount rate and notes there is quite a bit of potential to improve on these figures by extending the mine life.

There are two routes to increase the resource. The first is by infill drilling and firming up all the Inferred resource (40%) to Indicated status (currently 60% of the resource). The second route is by adding tonnage from the Zambales Chromite deposit, and the combination is expected to extend the mine life beyond 20 years by the time the Definitive Feasibility Study is published.

All this is predicated upon a long-term nickel price of $6/lb and cobalt at $10/lb, which should be realistic, bearing in mind that operating nickel mines are falling by the wayside in today's price environment. Supply-side factor will kick in once Chinese stockpiles clear next year.

For the technically minded, the leaching agent is dilute sulphuric acid. Sulphur prices have retreated by a factor of 8 from their peak, which means Rusina are more likely to source prills from abroad and burn them on-site than use pyrites from the recently acquired Barlo tenement. Electricity is a nice by-product from the sulphur-burning process and can be sold back to the grid. Incidentally, Barlo holds interesting metal potential in its own right, and if not needed for sulphuric acid, Barlo's pyrites will be gladly taken by the fertilizer industry.

The nickel will be recovered in a precipitation plant in a two stage concentration process producing two saleable products. The first stage primary nickel product ("PNP") will contain 39% nickel and 1% cobalt and the second stage nickel product (SNP) will contain 25% nickel and 1% cobalt.

The next stage is a trial operation which will contribute to the bankable feasibility study. Rusina is currently constructing the trial pads that will start being irrigated early 2009, and plans to employ a Chinese EPC (Engineering Procurement Construction) contractor. Since the plant is basically a copy of European Nickel's operation at Caldag, Turkey, it makes sense for speed, economy and accuracy to employ the Caldag contractors, and the added links to China won't hurt either.

Regulars will know that EN are earning their 40% by paying US$10m for the development to full Definitive Feasibility stage, so there is no drain on Rusina's cashflow. The DFS should be complete by the end of 2009, at which point $498m in funding will need to be found, pro rata to the JV ratios. This includes 10% contingency. How will this be found? There are options, but let's see how the market lies in H2 next year.

Exploration

Dessert comes in the form of some surprise drilling results. Back in the September operational update, Rusina reported assorted results at Acoje. Part of this was to explore the chromite potential of the property – regular readers will remember that Acoje was originally a metallurgical-grade chromite mine which produced for over fifty years. Drilling targeted three near-surface virgin loads for extensions

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beneath their outcrops, with one additional deep (320m) hole exploring beneath the old workings. PGMs were also assayed.

The deep hole confirmed high grade chromite intercepts, including 6.05m of 44.4% chromite and another intercept of 3.60m at 42.9% chromite. This would be exploited from tunnel extensions to the old underground mine and wouldn't come cheap, although the near-surface pods close by are an easy bonus. A joint venture partner would be needed, and Rob Gregory reckons an end user smelting group would make an ideal match, not least because it would eliminate marketing costs. Speaking of costs, chromite prices are down from $450/t to $200/t, and opex costs would likely be under $100/t. However, there's a long journey to travel before feasibility studies begin.

What made some of us sit up were the anomalous PGM results that were returned within the massive chromite, including 0.4m at 1758 ppb platinum and palladium (1.76 g/t Pt + Pd), with palladium as the dominant component. Previously, the PGMs were thought to be restricted to black dunite nickel sulphide pods, which are quite separate from the chromite mineralisation, but if Rusina eventually exploits the chromite, these PGMs are virtually a free bonus. More intriguingly, it opens up new geological interpretations. Watch this space.

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