

## Resource Investor

### New Gold's "Mini-Grasberg" Hits Milestone

By Ben Abelson  
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NEW YORK ([ResourceInvestor.com](http://ResourceInvestor.com)) -- Interlisted Canadian explorer New Gold Inc. [TSX:NGD; AMEX:NGD] is one step closer to its dream of developing a significant copper-gold deposit in British Columbia. Recent drill results have confirmed the company's ability to directly access the rich underground mineralisation at its wholly-owned Afton project, believed to contain some 1.63 billion pounds of copper and 1.86 million ounces of gold.

New Gold CEO Chris Bradbrook called the results "an important milestone." In a recent interview with *Resource Investor*, he noted that the relatively high grades intersected - 1.43% Copper, 0.25 g/t gold, and 2.3 g/t silver - "at least confirmed, if not exceeded, the previous resource model."

Now that the company has successfully accessed its underground deposit, it plans to continue drilling through the end of the year in preparation for an early 2006 feasibility study. This crucial pre-feasibility phase may represent the last chance for metals bulls to get on board at reasonable prices.

New Gold has more than a few things going for it. Afton, the site of a former Teck open-pit operation in the 1970s and 80s, is one of only a few undeveloped large high-grade deposits located in a very stable political environment. Bradbrook himself is quick to label it a Grasberg-grade project next to the Trans-Canada highway. Considering that a 2004 scoping study suggested it contains a measured and indicated 68 million tonne resource base grading 1.68% copper equivalent, or 2.61 g/t gold equivalent with an 18 year mine life, there isn't much disputing that statement.

At first glance, the project's economics look more than sound. The resource estimate assumed metal prices of just \$0.85/lb. copper and \$375/oz. gold. And, when one looks at the mine as a copper-equivalent project, total operating costs are expected to come in at \$0.40/lb., leaving a substantial profit margin even at today's copper prices. Even with the expected \$150 million-plus in start-up costs, the project's payback period has been estimated at under four years.

New Gold recently traded at \$4.42, pretty much where it was at the start of 2003, and down significantly from an early 2004 high of \$9. With just 14.4 million shares outstanding, the company has a market cap of about \$64 million - but controls an asset base potentially worth north of \$3 billion.

Like many mines currently in development, Afton represents an acquisition hold-over from an era of much lower metals prices. New Gold's management team was prescient enough to acquire the project in 1999 after Teck gave up on the site, believing it to not be economically viable and wary of the potentially large capital costs.

Bradbrook himself is a relative newcomer New Gold, which formerly called itself DRC Resources. (Investor confusion with Africa's Democratic Republic of Congo, not exactly the most stable mining environment, was one reason behind the name change.) As a geologist, brokerage analyst and former vice president of corporate development at Goldcorp, Bradbrook said he was attracted to New Gold's development potential.

"There aren't many assets out there that can become mines," he noted. "When you see one that has potential, it motivates you."

With nearly C\$20 million cash on hand, the company should have enough money to take it through the pre-feasibility stage, at which point New Gold is likely to begin evaluating its options. Although Afton's development is expected to cost at least \$150 million, Bradbrook has indicated a strong desire for the company to go it alone - and leverage Afton's development to jump solidly into the junior producer leagues as early as 2007.

Assuming the feasibility report comes back positive, investors can likely expect some form of dilution by mid-2006, although Bradbrook has indicated that he would favour financing that is approximately 2/3 debt, 1/3 equity.

Still, for a company with a current market cap of \$64 million, equity issuance of \$50 million is no laughing matter. One can assume, however, that if a decision is made in favour of development, New Gold's stock price will have strengthened enough to mute the impact of the share issuance.