885302 TGS→MAX

MERK | HARD CURRENCY FUND Worried about the Falling Dollar?

SAFEHAVEN
PRESERVATION OF CAPITAL

"No warning can save a people to grow suddenly rich." - Lorc

Browse faster. Get Google

Ads by Go

December 15, 2005

Roca Mines - A Potential New Molybdenum Producer

by Bill McWilliam

Roca Mines Inc. recently obtained a permit to develop its MAX high-grade molybdenum deposit near Revelstoke, in southeast British Columbia. The permit enables the Company to operate a 500 tonne per day underground molybdenite (MoS_2) mine and on-site concentrator. Initial production will access approximately 72,000 tonnes of ore per year from the HG zone, which has a measured resource of 260,000 tonnes grading 1.95% MoS_2, equivalent to 6.7 million pounds of molybdenum. This is contained within a larger resource estimated at 42.9 million tonnes (measured and indicated) grading 0.20% MoS_2, which is equivalent to 115 million pounds of molybdenum.

The Company's strategy is to fast-track a high-grade mine that will have initial production of approximately 1.5 million pounds of moly, with a current market value of about US$45 million. Total operating and administrative costs are estimated at US$100 per tonne, implying a first year gross profit of almost US$38 million if the company sold the molybdenum at an average price of US$30 per pound. Capital costs are estimated at only US$15 million to start the mine and onsite concentrator. Production is scalable and, subject to market conditions, the production rate could be increased to 2,500 tonnes or higher per day. The deposit has the right combination of attributes for a successful launch and continued profitable production.

The issuance of the mine permit is good news for Roca and an important accomplishment by its management team. Roca Mines shares common management with another junior exploration company, Stikine Gold Corporation. In April 2005, I wrote about Stikine Gold with respect to its Sullivan Deeps project. Stikine drilled two deep and expensive core holes to test for the "big sister" of the $20 billion formerly producing Sullivan Mine. Although the program was a "technical success", no mine was found and the stock collapsed. As mentioned in that article, good management groups have the ability to generate new projects and bounce back from adverse situations. Based on my analysis of Roca's potential, this is more than just a rebound romance. Here's why.

Of all the risks that confront a junior exploration company, and there are many, deposit risk is the most formidable. Mineral deposits are rare beasts that require very perfect geological conditions to form. Subsequent to deposition, a number of things, such as faults, un-mineralized dykes and erosion, can affect the nature and size of the original

Large Ir
Deposit
4.3 Billio
Resourc
from tide
www.roche

Liquid M
Supplen
100% or
minerals
Produce
1926 wit
acid - $1
www.active
minerals.cc

Active L
Minerals
The Orig
Mine for
Same-da
worldwid
OrganicPh

Iron Ore
Market
Iron Ore
Compan
30 day tr
www.bigpic

Advertise

deposit and render it uneconomic. Achieving economic status, which is another and more difficult threshold, involves a set of conditions equally important to deposit formation.

Roca Mines has an option to acquire a 100% interest in the MAX deposit, which is a medium-size developed moly deposit in an area with excellent infrastructure and a mining friendly community. And, contrary to opinions that suggest moly prices are going to crash back to the US$5 level, there's lots of evidence to suggest that high-moly and copper prices may be with us for several years. Roca is a great speculative choice at this time because there is minimal deposit risk and the economic and market conditions that could enable financing a mine currently exist.

The MAX deposit received its first serious exploration in 1969 by Scurry Rainbow Oil and Gas. In the mid-70s the property was acquired by a Newmont-Esso Minerals joint venture that conducted surface and underground drilling, mapping and extensive sampling. Surface drilling of 32 core holes (15,747 metres) from 1976 to 1979 was successful in defining the MAX molybdenite deposit and demonstrated some better grade sections. Some of the drill holes returned spectacular intervals of high-grade molybdenite:

- core hole 77-3 assayed 0.408% MoS_2 over 271 metres
- core hole 78-5 assayed 0.329% MoS_2 over 305 metres
- core hole 78-5B assayed 0.443% MoS_2 over 349 metres

These excellent results led to a decision to undertake an underground exploration and bulk sampling program. From 1979 to 1981, a total of 2,000 metres of adit (4 X 4.5 metres), crosscut and drift development were cut on the 960 Level, which is approximately 500 metres below the surface outcrop. Underground core drilling of 22,151 metres in 87 holes detailed the mineralization and explored adjacent areas. Bulk samples were taken for metallurgical testing. Work on the project was halted in late 1982 due to a low molybdenum price and a poor long term forecast for molybdenum demand. The project then sat dormant until very recently when two prospectors staked the key claims covering the deposit and optioned those claims to Roca Mines. More than US$15 million (in 1980s dollars!) was spent on the property prior to Roca acquiring its option. Historical and recent confirmation drilling by Roca have defined a high-grade molybdenum resource with favourable metallurgy.

Although the Max molybdenum deposit is sizeable at 42.9 million tonnes (and remains "open" for expansion to depth), there are many defined moly deposits in the world ranging from large tonnage (~300 million tonnes grading +/- 0.07% MoS_2) open pit deposits to underground deposits with higher grade moly that range up to 700 million tonnes of +/- 0.20% MoS_2. What sets the Max deposit apart from other primary and by-product molybdenum deposits is its flexibility, in that it contains readily accessible high-grade zones within a larger resource that enables relatively low-cost production from an underground deposit.

The market issues are:

- The current demand for moly exceeds supply
- There are constraints that restrict increasing low-cost by-product production of moly and may delay the expansion of Chilean copper-moly deposits
- The large-scale low-grade open pit moly deposits require very large capital investments

production of crude steel is greater than 1 billion tonnes and is growing at 2% per year or 20 million tonnes. Within this market, the demand for specialty steel products such as stainless steel and high-moly alloy steel is growing more rapidly. The rapid growth of infrastructure in China is using more alloy steel that contains higher levels of moly.

The world demand for oil and gas is driving exploration into more exotic terranes that require stronger and more acid resistant steel. The demand for oil and gas worldwide is accelerating, which ultimately will create the need for several new pipelines as the distribution and export infrastructure have to be extended to new areas.

Moly is a critical alloying metal in pipeline applications especially in cold climates. The MacKenzie Valley pipeline, for example, is in the final planning stage. It is 1,220 kilometres long and the steel may require 2 pounds of moly per tonne. The 30 inch line weights about 155 kg per metre or 155,000 tonnes per kilometre and would consume about 378 million pounds of moly for the entire project. Remember, total world production is currently about 375 million pounds, so the incremental demand for moly from this single project could keep the market in deficit for a long time. A lot of the gas from the MacKenzie Valley line will be used by companies to produce synthetic oil from Alberta's tar sands, which are now viewed by many as a critical resource for North America's oil security and the pipeline will enable production to increase from this resource. Given the secure supply status of the tar sands and its large resource, there's a strong likelihood that the pipeline will be built.

Another problem is how to value Roca? There are no comparables and the major task of financing the mine is not complete. A tonne of ore from the HG zone contains about 20 pounds of payable metal. Annual production of 72,000 tonnes should yield about 1.5 million pounds of payable moly. At US$30 per pound, it has a market value of US$45 million. If mining, milling and G&A costs are US$100 per tonne (US$4.55/lb) and Roca is able to get US$25/lb (US$500/tonne) in an off-take agreement, the return to the mine is US$400/tonne. The initial production of 72,000 tonnes could generate US$29 million in gross profit implying a Capex payback of just a few months from mill start-up (construction will take an estimated 6 months). Currently there are, fully diluted, about 50 million shares issued. At the current price of C$0.30 per share the market cap is only C$15.0 million.

The economics look robust but the trick is getting someone to finance construction with as little dilution as possible to current shareholders. Because the project has not gone through the process of a full feasibility study, a bank loan is not an option. Whereas in many commodities an organized futures market exists for the product (e.g. copper, gold, silver), there is no such market for moly. If this were a copper or gold mine, the company could forward sell approximately one third of its first year's production at current prices to finance the entire mine and mill complex. However, because moly prices have historically been so volatile, consumers are generally uneasy about such forward contracts.

The facts suggest that markets for base and precious metals will remain strong, and many other financial options are available to the company with a mining permit in hand, including joint ventures, convertible debt arrangements, equity or some combination thereof. Worst case scenario would be a large equity financing which could still leave Roca with approximately 100 million shares outstanding, but having 100% control of a high-grade producing mine. The company could then use internal cash flow to finance a larger mining and milling operation based on prevailing molybdenum market conditions in 2007.

Roca's controls a high-grade moly deposit situated near substantial infrastructure and it could be in production in less than a year. The ore for initial production has a very high gross value and small-scale production offers a rapid payback of start-up capital. The deposit is much larger and production can be increased according to market conditions.

Roca looks like an excellent speculation at this level and an announcement with respect to a favourable financing arrangement should cause a substantial rise in the Company's market cap.

Disclaimer: I recently participated in a Roca Mines financing and I also hold an option to purchase additional shares.

Bill McWilliam
SafeHaven.com

Bill has been involved in virtually all aspects of the investment business as a pension fund manager, broker, analyst and underwriter for the past 30 years. He has also founded, co-founded and financed successful start-ups in the technology and mineral exploration sectors.

« Opinions expressed at SafeHaven are those of the individual authors and do not necessarily represent the opinion of SafeHaven or its management. »

Top of Page

Read our DISCLAIMER

HOME | ARCHIVES | CAREERS | FORUMS | SEARCH
SITE MAP | ABOUT US | LINKS | CONTACT US
Copyright © 2000-2005 - SAFEHAVEN.com Inc

ColdFusion by COS
Server Admin by DI
SafeHaven W
XML/RSS FEED