CVR gives capital clamp the BOOT

Richard Roberts, 24 August 2009

Central Asia's Dalabai property in south-east Kazakhstan.

ACCESS to capital continues to be a big problem for small resources companies, according to the latest Ernst & Young sector review, which also not surprisingly lists cost containment as a key industry focus. Central Asia Resources (CVR) managing director Jason Stirbinskis says not much has changed in the past 12 months.

That's why he was heading down a different path with the company's small-scale Dalabai gold project in Kazakhstan, which the company is using as a platform for growth in the country.

CVR has formed an alliance with Weldtronics, the Thai offshoot of 30-year-old Western Australian engineering and fabrication firm Steelstruct Engineering Group, to design, build and commission a 500,000 tonnes per annum heap leach facility at Dalabai, 150km north of Almaty. The site of a previous Soviet-era heap leach operation, Dalabai has an as yet un-JORCed resource of about 65,000oz and has an existing mining licence that doesn't need renewing until 2023.

Steelstruct lists among its "blue-chip clients" Alcoa World Alumina, BHP Billiton, Alcan Aluminium, Metso Minerals and Queensland Alumina.

Stirbinskis is less concerned about proving up a more substantial gold resource at Dalabai as he is about demonstrating the worth of a joint venture structure that may be revisited at CVR's bigger Kazakhstan gold projects such as Altyntas near the mining town of Akbakai. Under the proposed arrangement, CVR's 90%-owned mining subsidiary (10% owned by a local concern) will sell ore to a processing company, 51% owned by CVR and 49% owned by Weldtronics. The latter will receive payment through its own gold sales.

CVR will meet operating expenses and provide working capital after Weldtronics has built and commissioned the plant.

CVR chief Jason Stirbinskis ... engineering background.

Stirbinskis, who ran a Perth-based metallurgical engineering firm before his appointment as CVR chief executive early last year, is employing his knowledge of, and background in, the engineering sector.

"The arrangement between CVR and Weldtronics is fit for the current climate," he told ***HighGrade***.

"We were looking in the GFC at how CVR could possibly fund the construction of Dalabai because, given where the share price was as for all juniors at the time, it would have been extremely dilutionary to raise capital. But also the banks weren't entertaining the idea of funding a small junior in Kazakhstan. So we thought how are we going to do this?

"The [engineering construction] concept of BOOT came up: build, own, operating, transfer. It's usually for the top end of the market – hundred-million-dollar type projects. But we took that a little further and said maybe there's some fabricators/constructors out there who are suffering because of the thinning out of the pipeline for new work. And maybe they'd be interested in supporting us, but in payment for that share in profits at the other end.

"And that's where Weldtronics came up. So they basically will design, fabricate, construct and commission the plant and for that take [49%] of gold at the other end.

"That's perfect for us because it removes our capital risk. It also reduces our capital requirement because obviously these guys are building it at their cost which at this stage is an incremental cost because they've already got the people sitting there. They've already got the expensive equipment that they need to build this sort of plant sitting there idle, so really the cost is steel and other bits and pieces like that."

Stirbinskis expects the Dalabai plant to be operating for a couple of years on a resource the company is in the process of calculating to JORC standards. While the resource estimate –

which should be done this month – is obviously important to Weldtronics, Stirbinskis said no public figures were available.

“We’ve had an open book with them, so they know exactly where we are in terms of our progress and drilling, etc,” he said. “[There are] obviously conditions on confirming resources and ounces etc, but they’re happy with what they know so far.

“But we suspect Dalabai isn’t all that big [and that] we’ve only got a couple of years of operation there.”

In terms of the overall cost of the Dalabai plant, Stirbinskis said he was still “working out the intricacies of customs and VAT and things like that” but the facility would be “a fraction” of the $A10-12 million the project was estimated to cost in internal scoping work.

“We’ve also built this processing company with strategies in mind that are much broader than Dalabai,” he said.

“We want to be able to pick this company concept up and take it elsewhere as well. ProCo, which is what we’re affectionately calling the processing company, has application for Altyntas and for other projects, which are all at this stage controlled by different companies. There is also the potential to toll process and things like that. The 51-49 split is for Dalabai (ore only). If a toll processing opportunity comes up then we’ll discuss what the relative proportions are for that. If a whole new project comes up, then we’ll discuss it.”

CVR plans to resume drilling at Altyntas, which has a current JORC-compliant resource of 6.9Mt grading 2.27gpt for 504,000oz, next year. The company also effectively has its “non-core” Kepken, Kengir and Uenke Bulak prospects on the market.

ASX-listed CVR had about $A3.8 million cash in the bank at the start of this month and is capitalised at $A14 million.

Stirbinskis said Dalabai was “a good opportunity to get things right before we take on what is a much more substantial investment in Altyntas”.

“We know with reasonably certainty Altyntas will be a gravity/CIL circuit, so in terms of upfront cost we’re looking at 3-4 times the capital requirement,” he said. “Secondly, we’ve only explored about 10% of the prospect so we have a lot more exploration to do to know what we’ve really got there in terms of project. Having said that we’ve already got 500,000oz at 2.27gpt, so we’ve got a mine. But we just don’t whether that’s almost all of it, or that’s just a fraction of what we’re going to find there. So we’ve got a few years worth of work to do yet. And Dalabai fits in perfectly.

“It’s like a little wedge that fits in between now and then.”