Geopacific in Woodlark Island JV

A new JV farm-in deal has the potential to deliver Asia Pacific-focused Geopacific Resources Ltd an expanded footprint in the region and a shorter route to production.

The deal, announced in mid-July, will see Geopacific earn up to 80% of the Woodlark Island gold project in Papua New Guinea from fellow ASX-listed junior Kula Gold Ltd by spending up to $18.65 million.

Kula defined a 2.2 moz resource at Woodlark Island and completed a BFS in 2012 but development stalled over the last four years as the gold price fell and project financing dried up.

Geopacific managing director Ron Heeks said the deal presented the company – which has earlier stage copper-gold and gold prospects in Cambodia and Fiji – with an immediate move into project development.

"This is not an exploration project at all," Heeks told **Gold Mining Journal**. "There is already a 2.2 moz resource and 760,000oz reserve at Woodlark Island. It is fully permitted, has a completed BFS and has had $150 million spent on it down the years."

Kula's BFS on the project in 2012 indicated a pre-tax NPV of $US237 million and IRR of 34%, however, the company struggled to secure finance for development.

Heeks believes a fresh approach will deliver a more robust project with Geopacific's first task to convert an additional 500,000oz into reserves.

About 220,000m of drilling has been completed on the Woodlark Island project but there has been no exploration since Kula listed in 2010

"The original feasibility study was done on $US1,600/oz but when it was revised to $US1,200/oz, not enough ounces converted into reserves," Heeks said. "Our first challenge is to find the easiest place to convert inferred ounces into measured-indicated and then into reserves."

Heeks doesn't see the task as insurmountable.

"There has been 220,000m of drilling on this project but there has been no exploration since Kula listed [in 2010]," he said. "Because of the way the project was pushed through during that period, there wasn't enough drilling done [for the conversion to reserves]."

Among the most obvious targets for the additional reserve ounces are 400,000oz of inferred resources sitting on the bottom of the Kulumadau pit shell.

"As it is inferred it didn't make it into the optimisation studies. Including those ounces could reduce the stripping ratios, meaning the pit could go deeper and cash costs could be lowered. There are also hits of 12m @ 5 g/t and 1m @ 4.7 g/t at the bottom of the pit shell. That mineralisation is not included only because there is no drilling underneath it."

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Heeks also thinks an overall sharpening of the project could produce a more bankable outcome.

"There are certainly a lot of opportunities for optimisation; particularly around the mining," he said. "Even tightening the pit walls at the Busai deposit by 14º would probably give us an additional 300,000oz."

Heeks pointed to Dacian Gold Ltd as an example of what could be achieved through a concerted effort to project development.

"I think what Dacian has achieved at Mt Morgans is a good comparison to what is possible at Woodlark Island," Heeks said. "This project probably suffered from a lack of communication between the various professionals working on it so there are big gaps and our task is to bring the whole thing together."

He highlighted mine scheduling as one such area.

"If you look at the BFS mine schedule, the head grade was consistent throughout the nine-year mine life [2.14 g/t in years 1-6 and 1.7 g/t over the life-of-mine] when it should be considerably higher during the early years in order to reduce the payback period."

Ensuring a rapid payback was critical to building a bankable project, Heeks said.

"If you have a 10-year mine life, you must achieve payback within 18 months to be ticking all the boxes for the banks," he said.

Having completed the BFS at the height of the resources boom, Kula was also hostage to cost pressures; a situation which has reversed in the intervening years.

"We expect lower costs, particularly on labour," Heeks said. "We think we can achieve half the fuel costs of the feasibility study. Fuel accounts for 50% of cash costs that is a lot of material under the cut-off grade that can come back in."

Kula's progress stalled as the market turned and cash dried up, but Heeks is confident Geopacific will not encounter similar problems.

"I think we were successful in negotiating a deal because the Kula team realised Geopacific brought money behind it," Heeks said. "We will still have to raise some money but our major shareholders – RCF and Tembo Capital – are on board and they have been with us throughout the negotiations."

Geopacific can earn up to 80% of the Woodlark Island project, PNG, from fellow ASX-listed junior Kula Gold

The company plans to return to the market in the next two months but hopes that will occur on the back of a "major re-rating" of its stock.

Geopacific shares had already risen 30% earlier in July when it announced a maiden resource for its Kou Sa copper-gold project in Cambodia.

The resource – 3.84mt @ 0.77% copper, 0.66 g/t gold and 5.27 g/t silver for 51,200t copper equivalent came from the Prospect 150 and Prospect 160 deposits.

Heeks said it was a good start to the project.

"We will continue to build the overall resource inventory, adding mineralisation from other zones and moving the project towards development," he said.

The arrival of Woodlark Island into the company's portfolio would not detract from Geopacific's Cambodian work, Heeks said.

"We won't shy away from Cambodia but Woodlark is a more advanced project and goes straight into the development timeline. It is a project with a lot of money already spent on it."

– Dominic Piper