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Woodlark wonder: Geopacific's island paradise

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02

The wonder of Woodlark



by Michael Washbourne

Victor Kiam's love affair with the Remington razor saw him buy the company outright and go on to build an enviable fortune. Geopacific Resources Ltd managing director Ron Heeks and his team are hoping a similar chain of events will unfold at the Woodlark gold project in Papua New Guinea.

Geopacific initially entered into a lucrative JV with project owner Kula Gold Ltd in July 2016, but within nine months of running its rule over the asset, the company moved to acquire its junior counterpart in an all-scrip takeover valued at almost \$10 million.

"We liked it so much that we bought the company," Heeks tells **GMJ**, paraphrasing Kiam's famous catchphrase from the 1980s. "We really liked what we saw, we understood a lot more about the project by then and we could see that what we thought was going to happen would happen, so it made sense for us to take the company out."

With control of Kula secured last October, Geopacific's plans to bring the project – on Woodlark Island, about 500km east of mainland PNG – to life are now rapidly taking shape.

Those activities culminated in March with the release of a PFS which supported development of a low-cost, open-pit

mining operation averaging 100,000 ozpa over an initial 10 years at Woodlark.

It was the first real opportunity for Geopacific to showcase the extensive work it had carried out over the project since first setting foot on the island more than 18 months ago.

"This was a project that was stuck for one reason or another when we took it over," Heeks says. "What we saw was a different way to make this project work and it all revolved around costs."

"From understanding the orebody and thinking it through a bit better, we saw this as a large tonnage operation rather than a small selective mining operation as had been put forward."

According to the PFS, Geopacific will need to spend \$180 million to build a standard 2.4 mtpa CIL plant and related mining infrastructure for processing of 21.5mt @ 1.37 g/t



gold for 943,000oz run-of-mine ore.

The PFS also indicates 15mt @ 0.43 g/t gold

for 209,000oz will be stockpiled during the first 3.5 years of operation before being upgraded through an additional 2.4 mtpa gravity plant to produce 3mt @ 1.84 g/t gold for 177,000oz supplemental feed to the CIL circuit.

Key financials from the study include an AISC of \$990/oz for the first five years and \$1,100/oz over the life-of-mine, payback within two years, free cash flow of \$338 million (pre-tax) and \$314 million (post-tax) and IRR of 38% (pre-tax) and 33% (post-tax), based on a \$1,650/oz gold price.

Up to 60% of the gold is recoverable from gravity processing due to the free milling nature of the ore with Geopacific estimating 92% recoveries can be achieved from the leaching circuit in the first five years of production with life-of-mine recoveries of 90%. A low strip ratio of 2.5:1 for the first five years and 3.1:1 over the life-of-mine is a major boon for both company and project, according to Heeks.

"What became evident early on was that this project would benefit from having a slightly bigger plant," Heeks says. "Therefore, the strip ratios were going to be very different and considerably lower. That all feeds into the economics and the whole thing just starts

breeding on itself.

"We're really maximising the orebody and throwing very little of it away. Looking back, we could see that a different spin on how to build it was going to give us a totally different product."

Completion of the PFS increases Geopacific's overall interest in the project to 93%.

The company inherited a database worth more than \$150 million, including more than 260,000m of historic drilling, from its takeover of Kula and punched 30,000m of its own holes into the project last year to lift Woodlark's total resource to 47mt @ 1.04 g/t gold for 1.57 moz, including 86% in the measured and indicated categories.

Reserves of 34.7mt @ 0.99 g/t gold for 1.1 moz were reported with the PFS.

Heeks and his team – including executive director Philippa Leggat – are anticipating a flood of questions from the market about the viability of a low-grade operation in an undeveloped location such as Woodlark Island.

"If you look at all the star performers in Australia, the cut-offs that we're mining to [0.6 g/t run-of-mine ore, 0.3 g/t upgraded ore] are similar to the cut-offs they're mining to," Heeks says. "I don't think there is anything new there and the fact that unit costs have come down and consumables have come down, particularly oil, allows you to get down to those lower cut-offs quite easily.

“Don't look at the grade; look at the profit that comes out at the end.”



Woodlark exploration manager Warrick Clent shows Geopacific executive director Philippa Leggat the proposed sites for the Kulumadau open pit and processing plant

Leggat at one of the caves which has helped Geopacific understand the Woodlark geology



“More and more you’re going to see reserves and resources coming out at these sorts of grades. But don’t look at the grade; look at the profit that comes out at the end.”

Leggat adds: “That low strip can’t be pushed enough. We’re not moving a huge amount of waste at high cost. Most of what we’re moving is ore.”

Since taking control of Woodlark, Geopacific has strived to dismiss any comparisons between the work it has undertaken and that previously completed by Kula, including a BFS released in 2012.

Work on key items, including front-end engineering design, for the DFS – due in Q3 2018 – began before the PFS was released to ensure the company maintained the momentum it has built at the project.

“We’ve gone to considerable efforts to verify, review and validate information using independent consultants the whole way through,” Leggat says. “There is little doubt along the way as to the accuracy of certain aspects. While this is a PFS, there are a number of elements done to a DFS level.”

Another benefit Geopacific has at its disposal is the unwavering level of community and government support to build a mine on Woodlark Island.

Mining and environmental permits have previously been

“They are very keen to move now and if we’ve got a problem it’s that it doesn’t quite fit with our time schedule.”



Geopacific completed a 30,000m drilling programme last year to supplement the database acquired from Kula Gold

granted for the key deposits – Kulumadau, Busai and Woodlark King – central to the company’s plans to develop the island’s first major industry.

“They are very keen to move now and if we’ve got a problem it’s that it doesn’t quite fit with our time schedule,” Heeks says. “They’re looking for what everybody else is looking for – health and education – and we will essentially be the only employer on the island, apart from a couple of government people.

“There will be jobs, they get a royalty payment, so they’ll be able to, in conjunction with us, improve the education standards and health standards on the island. And there will obviously be better access to the mainland as well because of the regular commercial flights.”

Geopacific will soon upgrade and extend Woodlark’s existing airstrip – constructed during World War II from the naturally occurring limestone corals – to cater for increased traffic on the island.

Design and implementation of new haul roads for a more efficient transport route is also being undertaken.

Heeks, a geologist who has extensive history developing projects in the Asia-Pacific region, says there were no major logistical challenges standing in the way of building a gold operation at Woodlark.

“Where people see logistic challenges and they think it’s going to be a higher price, we actually see the exact opposite,” he says.

WOODLARK PFS

Estimated capital cost	\$180 million
AISC	\$990/oz (years 1-5), \$1,110/oz (LOM)
NPV (8%)	\$226 million (pre-tax), \$178 million (post-tax)
IRR	38% (pre-tax), 33% (post-tax)
LOM revenue	\$1.668 billion
*based on \$1,650/oz gold price	



Woodlark Island is serviced by regular shipping routes, with food supplies often arriving via the Boiboi jetty



The 120-man accommodation camp rarely had a vacancy last year as the company ran its rule over the project

“Working with them on this is absolutely vital. They can put a stop to your plans if you don’t do it right.”

“This will be a largely Asian-based build, either in the Philippines or somewhere else nearby, and everything will be manufactured so that it can come down basically constructed, including tanks and things like that, so that we don’t have a lot of people actually on site building.

“You build it under controlled conditions, bring it down

and basically glue it together on site. We have considerable economies over building things in the middle of Western Australia where everyone has to fly in and fly out at a massive cost.”

Under the proposed mine plan, Geopacific will need to relocate one of the villages near the Kulumadau deposit. Heeks says the village is champing at the bit to begin the move, but managing expectations

was imperative.

“We will be using as much off the village as possible to build their [new] village,” he says. “They need ownership of it. The worst thing you can do is just give somebody something.

“If you just turn up with contractors and knock up everybody’s houses, nobody’s actually got ownership. It’s like being given a present, but if you break it you don’t really care about it. Working with them on this is absolutely vital. They can put a stop to your plans if you don’t do it right.”

Woodlark Island has an estimated population of about 6,000 people, according to an unofficial census in 2010, with Geopacific believing the actual number to be less than 2,000.

Leggat, who originally hails from South Africa, said the eclectic mix of nationalities inside Geopacific meant the company was well positioned to understand the cultural needs of an impoverished population.

“For me it was one of the most impressive things about this company and one of the reasons why I ended up joining,” she says.



Community engagement has been a key agenda for Geopacific since arriving on Woodlark Island. Led by community relationship manager Karen Hayward, the company is committed to improving health and education standards among the local population

"We've all worked all over the world, so we understand how to mix those cultures; how valuable that can be to the organisation and to the overall outcome.

"Plus, we are forward-facing and we take the flack if something goes wrong. So, it's a whole lot easier just to get it right in the first place."

Heeks expects his company will have an "immediate win" upon relocating the village due to the fact it is currently positioned on top of the main Kulumadau pit.

"There's probably greater than 100,000oz sitting underneath it because the village is sitting on top of one of the ore zones," he says. "We know what the ore zone looks like on the side of the village, but we haven't been able to drill it because of where the village is.

"We'll have an immediate win when we move the village because we can put more ounces into the pit, but they're marked as waste at the moment. It also means our low strip ratio will come down even more."

Geopacific's geological team is also recalibrating its focus towards regional exploration opportunities, especially on the back of the recent discovery at Boscalo, a prospect originally flagged as a possible extension of the mineralisation at Kulumadau East.

Some of the best intercepts reported from Boscalo were 12m @ 7.45 g/t gold, 20m @ 1.77 g/t, 20m @ 1.71 g/t and 7m @ 5.25 g/t.

Heeks is confident of finding more orebodies on Woodlark Island and unlocking a 3-5 moz gold field for his company to exploit.

"A typical epithermal system doesn't have one or two orebodies, it has six or seven and we would expect to see another five or six floating around," Heeks says. "All the indications are pointing towards that. We need to do some more drilling because the exploration upside here is huge. We've all but got a couple of million [ounces] in the bag now, it's hard not to see that doubling."

Financing discussions are likely to accelerate once the DFS is completed, putting Geopacific firmly in the frame to join the likes of Newcrest Mining Ltd, Barrick Gold Corp, Harmony Gold Mining Co Ltd and St Barbara Ltd as a major gold producer in the region.

"I think we've got to an extremely robust product now that people would have a hard time disputing," Heeks says. "Keep in mind the costs we've used are reasonably conservative and we think that we're going to be able to optimise those as we move into the DFS.



Clent explains the nature of the Woodlark mineralisation to Leggat and Hayward at the company's core shed

"When you think about it, for about \$8-10 million worth of paper, we've got a multi-million ounce, fully permitted gold project on our books. We just need to keep doing what we've said we're going to do and that's to develop this into a mine."

Geopacific Resources Ltd remains committed to its Kou Sa copper-gold project in Cambodia despite being stripped of its flagship asset status.

A brief round of drilling towards the back end of last year identified a new zone of epithermal mineralisation – the first time a discovery of its type has been made on the 158sq km of prospective tenure.

"We're currently evaluating that to work out how we move next, but it's certainly added to the potential of the area a lot," Geopacific managing director Ron Heeks says.

"While that project is not our focus right now, it's been a fantastic jurisdiction to work in. In fact, it's one of the best places in the world I've ever worked.

"For all the things you hear about Cambodia, we haven't experienced any of them. The logistics really couldn't be any better. Everything is unbelievably cost-effective and the Government is unbelievably pro on the mines department side."

Geopacific, however, is considering its options for its suite of early-stage exploration projects in Fiji, having not completed any major work over the ground since picking up the Woodlark gold project in PNG.

"The time is not right for juniors starting to do porphyry copper exploration," Heeks says. "Majors have been interested before, but when the exploration world ended five years ago they just lost interest. I think you'll see the majors show more interest as we move forward."