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Polish miner agrees to fund Abacus's Afton-Ajax



ABACUS MINING

Abacus Mining's Ajax west zone at its Ajax-Afton copper project near Kamloops, B.C.

BY SUSAN KIRWIN

Europe's second largest copper producer **KGHM Polska Miedz** has agreed to fund up to 80% of **Abacus Mining's** (AME-V) Afton-Ajax copper project near Kamloops, B.C., which could be the first of many new projects outside of Poland.

KGHM, which is listed in Warsaw and 32%-owned by the Polish government, has been mining the same operations for the last 50 years and currently produces about 500,000 tonnes of copper per year. The

company still has about 40 years worth of reserves left but it wants to increase production to 700,000 tonnes of copper per year by 2018.

Abacus's Afton-Ajax project, a past-producing open-pit operation bought from **Teck Resources** (TCK.B-T, TCK-N) in 2002, could make a dent in that goal. A scoping study completed last year looked at building a 60,000 tonne-per-day operation that would produce 110 million lbs. of copper (about 50,000 tonnes) and

100,000 oz. gold per year over 23 years. Development costs have been estimated around \$600 million. A prefeasibility study is due out in July.

The deal is simplifying things for Abacus, says chief operating officer Andrew Pooler.

"It would have been a struggle at the very least," Pooler says. "Once we completed the prefeasibility study we would have had to go out to the market and we also would have had to solicit larger

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companies to possibly participate.”

Under the deal, KGHM has already completed a \$4.5-million private placement.

KGHM will also pay US\$37 million in cash for a 51% interest in the project, which will give Abacus, who will remain the operator, enough money to complete a bankable feasibility study while doing exploration work to expand the Afton-Ajax project.

Once the feasibility study has been completed, KGHM will have an option to acquire an additional 29% interest in the joint venture and become the operator. It would have to pay US2.5¢ per lb. for the corresponding 29% of the proven and probable copper reserves at the time, up to a maximum of US\$35 million. And KGHM will arrange 80% of the financing and offer to arrange financing for Abacus on commercially reasonable terms.

Pooler says it's rare to sign a deal with a major at such an early stage in development.

“People are concerned about the execution risk but this preliminary economic assessment is well advanced and adequate enough to give KGHM the confidence to know that we would convert it over to a bankable feasibility study,” Pooler says.

And Abacus president and CEO Dough Fulcher says the risk for Abacus being able

to count on KGHM to come through with the cash when the time comes in 2012 is low.

“They have \$500 million in cash on their balance sheet, no debt and \$1 billion a year in profit,” Fulcher says. “So the range of alternatives in financing are broad and I don't think we have to worry about how they are going to arrange financing.”

High copper prices in recent years have enabled KGHM to rake in plenty of cash even though it's been described as an inefficiently run company. The government has a strong influence over how things are run, and management turnover and union problems are ongoing.

KGHM business development manager Krzysztof Kubacki, who was in Toronto recently to promote the joint venture with Abacus, says the company will likely fund the Afton-Ajax project with a combination of cash flow and debt but no decisions have been made yet.

Kubacki says that KGHM is looking to the Americas to find more cost-efficient projects to meet its growing production goals.

“We are mining up to a depth of 1,200 metres underground nowadays and this obviously involves quite high extraction costs so we are looking for new copper assets outside of Poland that will enable us to produce at lower

costs,” Kubacki says.

He says he's looking to North and South America because the company wants projects in mining-friendly and stable regions, so places like the Democratic Republic of the Congo (DRC) are now out. The company pulled out from an investment in the DRC, which lost it US\$40 million without any returns.

KGHM and Abacus are considering investing in other projects together beyond Afton-Ajax.

Kubacki says Abacus is a logical partner because of its complimentary skills to KGHM's large-scale, long-term underground operations.

“They have a very good track record of exploration expertise and development of mining projects, they have operational experience in both North and South America and these are the regions we are looking at,” Kubacki says.

Pooler spent five years as the vice-president of mining operations for **Pan American Silver** (PAA-T, PAAS-Q), which has seven silver mines in Peru, Mexico and Bolivia.

Abacus shares were up 3.5¢ on May 21 to 23.5¢ apiece on a trading volume of 323,000 shares. The company has 156 million net shares outstanding and a 52-week trading range between 38¢ and 12.5¢.