Banks Island Gold Ltd. Reports NPV(8%) of $155M and IRR of 43% From Red Mountain PEA

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- NI43-101 Preliminary Economic Assessment for 1,800tpd underground gold mine completed.

- PEA study contemplates gold equivalent production of 114,000oz per year at a cost of $459/oz.

- Banks Island Gold plans to initiate exploration, permitting and feasibility studies at Red Mountain.

VANCOUVER -- (Marketwire - June 18, 2012) - Banks Island Gold Ltd. (TSX VENTURE:BOZ) (the "Company") announces results of a Preliminary Economic Assessment (PEA) for significant underground gold mining operation at the Red Mountain Project, located 30km east of Stewart, British Columbia.

The NI43-101 compliant PEA study, dated June 14th 2012, was prepared by independent consultants, Mr. Robert Baldwin, P.Eng and Mr. Lyn Jones, P.Eng. The study considers a 1,800 tonne per day operation based on the current Mineral Resource at the Red Mountain Gold Property. Underground mining methods are proposed with the utilization of flotation and cyanidation for the production of gold dore onsite for shipment to a refinery.

Pretax Financial Summary

The base case scenario, using the 3 year rolling average price of gold of $CDN 1,360 per troy oz, resulted in a pretax NPV(8%) of $CDN 155M, an IRR of 43%, and a payback of initial capital of 1.2 years.

A scenario using the current price of gold of $CDN 1,700 per troy oz was also considered. The financial summary for the base case and current price scenario is presented Table 1.

Table 1 - Pretax Financial Summary

FINANCIAL SUMMARY (PRETAX)			
	BASE CASE	CURRENT PRICE	UNITS
PRICE OF GOLD	$1,360	$1,700	$CDN/oz
MINE LIFE	4.3	years	
TOTAL ORE MINED	2,845,000	Tonnes	
GOLD PRODUCTION	474,382	oz	
SILVER PRODUCTION	1,233,405	oz	
GOLD EQ* PRODUCTION	499,050	oz Aueq	
AVERAGE ANNUAL PRODUCTION	115,246	oz Aueq / year	
OPERATING COST PER OZ**	$459	$471	$CDN/oz Aueq
TOTAL REVENUE	$678,709,000	$848,386,000	$CDN
TOTAL OPERATING COST	$206,789,000	$206,789,000	$CDN
ROYALTIES PAYABLE	$22,505,000	$28,444,000	$CDN
OPERATING CASH FLOW	$449,415,000	$613,153,000	$CDN
CAPITAL COST	$162,671,000	$162,671,000	$CDN
PROPERTY ACQUISITION	$11,000,000	$11,000,000	$CDN
INCOME AFTER CAPITAL	$275,744,000	$439,482,000	$CDN
NPV(8%)	$155,398,000	$264,134,000	$CDN
NPV(5%)	$192,779,000	$318,980,000	$CDN
NPV(0%)	$275,744,000	$439,482,000	$CDN
IRR	43%	63%	
PAYBACK ON CAPITAL	1.2	0.9	years

**Gold Equivalent calculated by converting silver to gold at ratio of 1:50*

***Operating Cost per oz gold equivalent including royalties payable*

The minable resource used in preparation of the preliminary assessment is partially based on an Inferred Resource. The preliminary assessment is preliminary in nature and includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves. Mineral resources that are not mineral reserves do not have demonstrated economic viability. There is no certainty that the results and conclusions presented in this preliminary assessment will be realized.

Mr. Mossman, President of the Company stated; "The Preliminary Economic Assessment on our newly acquired Red Mountain Gold Property demonstrates its potential as a significant low-cost producing gold mine. The excellent geometry and grade of the Red Mountains mineralized zones allow the use of highly productive mining methods and the planned adit from the Bitter Creek valley allows year-round access to the planned mine and a superior exploration platform in the depths of Red Mountain. The Company plans to continue advancing the Red Mountain Project through exploration, environmental permitting, and feasibility studies."

Resource Estimate

Mr. Baldwin, P.Eng prepared a current Mineral Resource estimate for Red Mountain, which is presented in the Technical Report & Preliminary Economic Assessment on the Red Mountain Gold Property on June 14th 2012. Mr. Baldwin modeled the significant mineralized zones at Red Mountain and calculated the Mineral Resource for gold and silver. Gold and silver assays used in the resource estimate were capped to the 98th percentile, resulting in a top cap of 70gpt for gold and 348gpt for silver. The current Mineral Resource is displayed in Table 2 and is effective as of June 14th 2012.

Table 2 - Red Mountain Mineral Resource

Measured Indicated Inferred
Zone Tonnes Au
Grade
(gpt) Ag
Grade
(gpt) Tonnes Au
Grade
(gpt) Ag
Grade
(gpt) Tonnes Au
Grade
(gpt) Ag
Grade
(gpt)
Marc 737,000 9.2 36 123,000 8.3 35 3,000 8.1 32
AV 326,000 8 23 250,000 8.1 23 175,000 8.4 24
JW 75,000 6.2 10 100,000 6 7 315,000 5.4 5
141 314,000 3.8 8
Total 1,138,000 8.7 31 473,000 7.7 23 807,000 5.4 10
Total Measured & Indicated: 1,611,000 tonnes @ 8.4gpt Au & 38gpt Ag = 435,000oz Gold, 1,976,000oz Silver
Total Inferred: 807,000 tonnes @ 5.4gpt Au & 10gpt Ag = 140,000oz Gold, 259,000oz Silver

Based on the current Mineral Resource, a diluted minable resource was calculated for the purposes of the PEA study. The Red Mountain mineralization is broken into four distinct zones for the purposes of mine planning. The estimated diluted minable resource is presented in Table 3.

Table 3 - Red Mountain "Minable Resource"

Insitu Mining Diluted
Zone Tonnes Au
Grade
(g/t) Ag
Grade
(g/t) Dilution Recovery Tonnes Au

Grade
(g/t) Ag
Grade
(g/t)
Marc 863,000 9.1 36 20% 98% 1,015,000 7.8 31
AV 752,000 8.1 23 20% 98% 884,000 7.0 20
JW 491,000 5.7 6 20% 98% 577,000 4.9 5
141 314,000 3.8 8 20% 98% 369,000 3.3 7
Total 2,420,000 7.4 22 20% 98% 2,845,000 6.4 19

Mining Summary

The current mining methods proposed for the Red Mountain Project are transverse open stoping methods with the use of cemented paste fill for the Marc, AV, and 141 Zones and longitudinal longhole retreat method for the JW Zone.

Proposed access to the underground Red Mountain Project will be provided by a 7,190m adit, at a grade of +15%, from the Bitter Creek Mill site. Based on the current mineral resource estimate, mine production is planned to be 657,000 tonnes per year (1800tpd) over a mine life of 4.3 years (52 months).

Mineral Processing

Mr. Jones, P.Eng is responsible for the engineering designs, calculations, and recommendations related to mineral processing and metallurgical engineering, which is presented in the Technical Report & Preliminary Economic Assessment on the Red Mountain Gold Property on June 14th 2012. The proposed method of gold and silver recovery from the Red Mountain Gold Property consists of conventional crushing and milling, followed by froth flotation and CIL cyanidation of the flotation concentrate. The Red Mountain Project will produce gold/silver dore for shipment to a precious metal refinery.

Flotation and cyanidation recoveries were estimated from historical test work. Estimated metallurgical recoveries of 82% gold and 72% silver were assumed for the Red Mountain PEA study.

The objective of the PEA study was to optimize the Red Mountain process flowsheet to provide maximum gold and silver recoveries. Whereas previous flowsheets have included whole ore fine grinding followed by CIL/CIP cyanidation, the process route recommended is to produce a sulfide concentrate for fine grinding and subsequent CIL cyanidation. While there is some additional loss of cyanide recoverable gold in the flotation tailings, this method offers the following advantages over the whole-ore cyanidation flowsheet:

- Reduced plant capital costs in the areas of fine grinding and cyanidation.

- Lower operating costs associated with milling power and cyanide consumption.

- Low-sulfide and coarse particle size flotation tailings for surface deposition.

Non-acid generating tailings from the flotation circuit will be sent to a tailings storage facility proposed to be located immediately south of the Bitter Creek Mill Site. A minor valley created by a series of outcrop knobs is located in this area, which creates an excellent area for tailings storage. This valley only has minor inflows from a branch of Otter Creek, which is separate from the large flows of Bitter Creek.

Potentially acid generating tailings from the CIL circuit will be sent underground and utilized as cemented paste backfill material to provide support for mining adjacent longhole stopes and to create nearly impermeable material to reduce the acid generating potential.

Infrastructure

A 14km access road from Highway 37A to the Bitter Creek Mill Site requires significant repairs and reconstruction. A 14km transmission line is planned to be constructed to connect the mine and mill to the BC Hydro electrical grid.

The Bitter Creek Mill Site is planned to be located on a gently sloping terrace at the planned portal location of the Bitter Creek Mine Adit. Water supply for the mill will be from groundwater, reclaimed water from the settling ponds, and fresh water from Bitter Creek.

BC Hydro maintains a 138kV transmission line which runs along Highway 37A to Stewart, BC. It is intended

that a 14km transmission line will be built by the Company to connect the Bitter Creek Mill site to the BC Hydro electrical grid.

Operating Costs

Based on the mine design and schedule, an estimate of operating costs was derived for the PEA study. Costs are based on productivities, labour, and material costs obtained from supplier and contractor quotes, cost data from other mines, first principle calculations, and experience.

A summary of operating cost estimates for the Red Mountain Gold Project are displayed in Table 4. Operating costs have been estimated at $206,789,000 over the current 52 month mine life averaging $72.68 per tonne milled.

Table 4 - Operating Cost Summary

OPERATING COST SUMMARY		
	Total Cost	Cost per tonne
MINING & SURFACE		
MATERIALS	$12,090,000	$4.25
BACKFILL BINDER	$24,107,000	$8.47
LUBE, TIRES, & PARTS	$12,096,000	$4.25
MINE ELECTRICITY	$2,639,000	$0.93
DIESEL FUEL	$9,592,000	$3.37
AVALANCHE CONTROL	$2,603,000	$0.91
MINE AIR HEATING	$1,445,000	$0.51
MINE, MAINTENANCE & SURFACE LABOUR	$49,750,000	$17.49
$114,322,000	$40.18	
MILL		
LABOUR	$26,857,000	$9.44
SAFETY, SPARES, & ELECTRICAL	$7,824,000	$2.75
MILL ELECTRICITY	$5,861,000	$2.06
REAGENTS	$12,973,000	$4.56
BALLS & LINERS	$4,353,000	$1.53
PIPING, LUBRICANTS, ASSAY	$854,000	$0.30
$58,722,000	$20.64	
MANAGEMENT, TECHNICAL & SUPERVISION		
STAFF SALARIES	$15,885,000	$5.58
STAFF INCENTIVES	$2,542,000	$0.89
$18,427,000	$6.48	
CONTINGENCY (8%)	$15,318,000	$5.38
TOTAL OPERATING COSTS	$206,789,000	$72.68

Capital Costs

Capital expenditures related to design, permitting, construction, and commissioning of the Red Mountain Gold Property are modeled to occur in a 3-Year pre-production period. All expenditures that are expected to occur after commercial production has commenced are treated as operating costs.

The estimated capital cost from feasibility through to commercial production is estimated at $162,671,000, including cost contingencies. A summary of estimated capital costs is presented in Table 5.

Table 5 - Initial Capital Cost Summary

CAPITAL COST SUMMARY	
FEASIBILITY STUDY	$6,477,000
ROAD BUILDING & POWER TRANSMISSION	$8,386,000
MOBILE EQUIPMENT	$16,560,000
MINE STATIONARY EQUIPMENT	$2,383,000
MINE DEVELOPMENT & CONSTRUCTION	$39,271,000
SURFACE STRUCTURES	$8,488,000
BACKFILL PLANT	$7,000,000
MILL EQUIPMENT & CONSTRUCTION	$53,979,000
COST CONTINGENCY	$20,127,000
TOTAL	$162,671,000

Based on the production schedule and expected operating costs, a working capital requirement of $11,000,000 is anticipated. The working capital is adequate to cover all operating costs expected for the first three months of production.

Environmental and Permitting

The Red Mountain Project will require a formal review under the BC Environmental Assessment Act prior to being issued a Mines Act permit. The Environmental Assessment review process was initiated in 1996 by a previous Property owner but was subsequently withdrawn. The Environmental Assessment information is available for future use. The most important waste management issue for the Red Mountain Project is the prevention and control of ARD from the tailings and any potentially acid generating rock, which is produced during mine development or operation.

Banks Island Gold places a high priority on minimizing environmental impacts, mine closure, and reclamation of its projects without the creation of long-term environmental liabilities. The Red Mountain PEA study incorporates sulphide flotation in the process flowsheet before cyanidation to produce a coarse, non-acid generating tailings product for surface disposal and reduce grinding and cyanide use.

Potentially acid generating tailings from the sulphide concentrate will be sent underground and utilized as cemented paste backfill material to provide support for mining adjacent longhole stopes and to create nearly impermeable material to reduce the acid generating potential.

Detailed metallurgical testwork is required to verify the assumptions and designs presented in the PEA.

Mine Life and Exploration Potential

There is high potential for expansion of minable resources at Red Mountain with a resulting increase in the mine life. Historic drilling results suggest that mineralization at Red Mountain may continue past the current minable resource at depth and mineralized intercepts exist outside the current resource at Red Mountain. The 132 zone was not included in the current mineral resource. Based on historic resource estimates by previous operators this area has a high potential for resource expansion through additional diamond drilling.

Sensitivity Analysis

An analysis was performed to determine the sensitivity of the NPV (8%) to changes in key input parameters. Gold price, ore grade, capital cost, and operating cost were varied from -60% to +140% and the resulting NPV (8%) was calculated. The results of this analysis are displayed in Figure 1. The project economics are highly sensitive to changes in the price of gold and the ore grade but significantly less sensitive to changes in operating and capital costs.

Note: To view Figure 1, please click the following link:
http://media3.marketwire.com/docs/boz0618figure1.pdf.

Recommendations

The preliminary economic assessment presented in the PEA indicates an underground gold mining operation at Red Mountain may be viable. It is recommended that the Project be advanced towards a pre-feasibility or feasibility level study.

A feasibility level study is recommended at an estimated cost of $6,477,000. The recommended work is

comprised of a diamond drilling program with a budgeted cost of $4.2M and engineering and environmental studies at a cost of $2.3M.

Diamond drilling is required to bring the current Inferred Mineral Resource into the Measured and Indicated Mineral Resource categories. Detailed metallurgical testwork is required to verify the assumptions and designs presented in the PEA and advanced fieldwork and engineering is required for road design, electrical transmission lines, foundations, tailings facilities, and structures.

Mr. Robert Baldwin, P.Eng is the qualified person who reviewed and approved the contents of this news release. The NI43-101 Technical Report & Preliminary Economic Assessment on the Red Mountain Gold Property dated June 14th 2012 has been posted on SEDAR and will be available on the Company's website.

The Company is a junior mining resource exploration company focused on exploring for and developing economically viable mineral resources. The Company's mineral properties are located in British Columbia. For more information, please refer to the Company's website at www.banksislandgold.com.

ON BEHALF OF THE BOARD OF DIRECTORS

Benjamin W. Mossman, P.Eng
President, Director, & Chief Executive Officer

This press release contains forward-looking statements. All statements, other than statements of historical fact, constitute "forward-looking statements" and include any information that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future including the Company's strategy, plans or future financial or operating performance and other statements that express management's expectations or estimates of future performance.

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There can be no assurance that any forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader should not place any undue reliance on forward-looking information or statements. Except as required by law, the Company does not intend to revise or update these forward-looking statements after the date of this document or to revise them to reflect the occurrence of future unanticipated events.

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Contact

Banks Island Gold Ltd.
Benjamin W. Mossman, P.Eng
President, Director, & Chief Executive Officer
604-245-0066
www.banksislandgold.com

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