

## MINING

### Eshuys confident St Barbara's Day will come

By Richard Roberts, [28 April 2008](#)



St Barbara boss Ed Eshuys ...  
bigger picture intact.

ST BARBARA Ltd has been like the proverbial duck on the pond for the past three years, barely changing form above water while it paddles furiously beneath the surface to maintain forward momentum. The next 6-12 months will determine whether it can take flight towards a lofty goal of one million ounces a year production by 2010, or if, in its drive to be Australia's next top mid-level gold producer, it starts to look like a quack.

The company, which has its current production focus on the historically significant Southern Cross and Leonora fields in Western Australia, mined 166,000oz in 2005-06 and 171,000oz in 2006-07. A problematic March quarter has clipped the current-year forecast from 170,000-175,000oz to 165,000-170,000oz.

With efforts to transform and rejuvenate old gold fields increasingly coming under scrutiny due to a string of setbacks

and the insipid financial performance of others – and, it must be said, a lack of significant greenfield finds to fire stronger belief in Australian gold exploration and mining generally – St Barbara CEO Ed Eshuys has had his work cut out for him trying to keep people focused on his bigger picture.

Aptly named Big Gold, it is about fresh exploration success from a major search effort in parts of New South Wales, South Australia, Victoria and WA. But it is also focused on, in the near-term, maximising returns from St Barbara's Southern Cross and Gwalia operations through smarter exploration and mining, and deeper exploration success at both camps. The effort has so far produced a resource inventory of more than 10 million ounces.

Eshuys, known for his involvement in the significant Plutonic, Bronzewing and Jundee gold discoveries in WA in the 1990s, is a big believer in the untapped exploration potential at depth – and the quality of St Barbara's existing assets – at Southern Cross and Leonora, and remains confident they will provide the bulk of the company's 1Mozpa of production within 2-3 years.

He was unperturbed, when *HighGrade* spoke to him this week, about criticism of St Barbara's March quarter production performance at Southern Cross and a slight break-out in the development cost of the new Gwalia Deeps underground mine, which have seen the

company's share price lose further ground (capitalising St Barbara at about \$A680 million late this week).

"Southern Cross was never going to be an easy operation," he said. "We knew that and everyone else knew that. I think we've done pretty well under the circumstances. You have to remember when we started at Southern Cross we had six months of reserves. We've now been going for three years and in that time produced nearly 500,000oz and we have at this point in time reserves of 800,000oz. So the fact that production for the quarter was down a bit was just that – the production was down for the quarter. It doesn't reflect on the asset at all.

"The grade of the openpit material we've been mining in the GVG area [at Southern Cross] has been running at between 1.5-2gpt and also we had some issues with the processing plant particularly in the last quarter, with both the crusher and the mill, which was a maintenance issue that we've overcome.

"The bright spot is that the Marvel Loch underground mine is now operating at in excess of 1Mtpa whereas three years ago it was 300,000tpa, and as I've said for a long time the Marvel Loch underground is the cornerstone of that operation. So the improvement in the performance there plus the fact that we're now going to be mining some higher grade openpit material will see us build up to a level in excess of 200,000ozpa."

A revision of the capital cost of the Gwalia Deeps project (including Sons of Gwalia mill refurbishment) to \$A127 million from \$A110 million previously is not extraordinary in the current environment and Eshuys said with three months to go until completion he didn't expect further escalation.

Feasibility study projections of a modest contribution to production from Gwalia Deeps in the September quarter, a more meaningful one in the December quarter, and 95,000oz for FY09, were on track, he said.

"Our focus is to get Gwalia up and running in line with our feasibility forecast ... and to get the Southern Cross operations increasing production to 220,000ozpa," Eshuys said.

Plans to integrate production from Tower Hill, 1.5km from Gwalia, and openpits at the nearby Trump and Kailis finds – the latter produced a 70m intercept of 4.8gpt in the March quarter – are being progressed, with initial resource estimates for Trump and Kailis due this quarter. Resource definition and deeper drilling (to 1000m) at Tower Hill is expected to produce a resource upgrade.

"We're extending the resources down to 1000m and in particular focusing on the high grade," Eshuys said.

"Tower Hill works as a very large openpit, but we don't have a very large plant close by, so the sensible option seems to be to go underground and produce ore to supplement Gwalia.

"We haven't yet studied the [cost] in detail, but if it's a Marvel Loch-scale operation – 500,000tpa-to-1Mtpa, close to the surface like Marvel Loch ... and we have the benefit of all the infrastructure at Gwalia, it should look attractive.

"And openpit ore that we're going to be mining from Kailis and Trump would also complement the Gwalia underground ore. As can be expected it will be higher cost than Gwalia, but because it fills the mill it has a very dramatic impact on the overall costs of the Leonora operation. Basically, by filling the mill you reduce your operating costs for Gwalia by \$A30/oz ... to just under \$A400/oz."

The Hoover Decline reached the top of the Gwalia Deeps reserves at 995m below surface on schedule during the March quarter, while an 800m-deep, 5.5m-diameter ventilation shaft raise – the largest completed in Australia – was finished a month before it was due. Lateral underground development for ore production is in progress.

St Barbara said last week refurbishment of the Gwalia mill and construction of other infrastructure was 60% complete and on schedule to be completed in the September quarter. Meanwhile, a feasibility study on expanding the plant to 1.8Mtpa is in train and design changes to make future expansion easier have already added 6% to this year's refurbishment costs.

Eshuys remains confident St Barbara can achieve its short-term goal of being at an annualised production rate of 450,000oz by the end of this year.

Its FY08 cash costs of \$A525-550/oz could come down by \$A100/oz at the higher annual production rate if Gwalia hits its output targets and the higher throughput level at Southern Cross can be maintained.

The longer-term plan to be producing 600,000ozpa from Leonora and Southern Cross leaves 400,000ozpa to come from St Barbara's "world-class land bank" of 20,000sq.km of ground in Australia (including 7000sq.km in WA), plus acquisitions and joint ventures.

The company's reassessment of production options at the previously troublesome Tarmoola project north of Gwalia, where it has a 3.6Mtpa gold plant on care and maintenance, has evoked scepticism in some quarters, with Goldman Sachs JBWere describing it as a questionable strategy.

"The concept of mixing high-grade underground ore and lower grade but high tonnage openpit ore to feed a larger scale mill is sound," the bank said.

"We question a 3.5gpt underground orebody and 1-1.2gpt openpit. To date this strategy has had limited success at Southern Cross where the underground grades are higher."

But Eshuys said scoping studies indicated a low-cost restart could be facilitated by rapid access to underground ore and low-strip-ratio openpit material.

"We know from an enormous amount of drilling that's been done in the past that there is some 350,000oz in potential underground reserves underneath the pit, and we're looking at extending that by drilling," he said.

"The scoping studies indicate that we should be able to mine that quite profitably and it would require very little capital to get that underground mining underway because of its proximity to the pit floor.

"So our thinking is that it would be a combination of underground production coupled with mining the southern end of the pit, where there is low-grade ore in the floor of the pit, and there's 3.5-5mt of low-grade stockpiles. The combination of those would within a couple of years – it's not something that's going to happen overnight – allow us to restart that operation and produce between 150,000-200,000ozpa."

Eshuys said any capital expenditure at Tarmoola was "18 months to two years away" and would not drain the company's existing \$A84 million reserves of cash and securities.

However, the ongoing \$A150 million capital works schedule for Leonora would require some additional finance which would come from "the capital that we've raised, cash flow from the Southern Cross operations, and some debt [a lease financing facility]".

Eshuys said on the acquisition and joint venture front there was now more focus on WA where "some opportunities have started to emerge".

"Our strategy is to look for acquisitions that are either in production or are close to production of 100,000ozpa which can be expanded and where reserves can be expanded at a reasonable cost," he said. "And then it has to be at a reasonable price of course.

"We've looked at ... several opportunities that would meet the criteria, and several that don't.

"We see that [acquisitions] as part of our 2010 strategy to get to 1Mozpa."

Eshuys hasn't decided what will become of any significant base metal finds on St Barbara's ground. Base metals exploration accounts for about 10% of the company's \$A30 million-a-year search effort and was being undertaken "because we have enormous prospectivity on the land bank that we have at both Leonora and Southern Cross for base metal mineralisation".

"Our bias is gold," he said.

"When we're successful with our base metal exploration we'll have to think again about what we do with that – whether we sell it off, or develop it or whatever, and that will depend on the circumstances at the time.

"We certainly won't be giving it away."