

# THE NORTHERN MINER

THE GLOBAL  
MINING  
NEWSPAPER

www.northernminer.com

JANUARY 24-30, 2011 • VOL. 96, NO. 49 • SINCE 1915

## Spanish Mountain releases PEA

BY TRISH SAYWELL

Marc Johnson, a mining analyst and chartered financial accountant at M Partners in Toronto, initiated coverage of **Spanish Mountain Gold** (SPA-V) in the middle of December 2010, less than a month after the junior released a preliminary economic assessment (PEA) of its Spanish Mountain gold project in south-central British Columbia.

Johnson holds a buy recommendation on the stock with a 12-month target price of 90¢ a share. Spanish Mountain is currently trading at 61¢ and over the last 52 weeks has traded between a low of 30.5¢ and a high of 83¢ per share.

"We believe early investors will be rewarded as the project is advanced through feasibility by the end of 2011 and into production by 2014," Johnson writes in a research note to clients. "Spanish Mountain's valuation is highly leveraged to gold with minimal exploration risk and we expect it to become an intermediate producer from an open-pit mine in 2014."

On Nov. 23 Spanish Mountain released its PEA on the proposed mine, about 70 km northeast of Williams Lake and 6 km from the village of Likely in the Cariboo region of B.C. The PEA outlined a pretax internal rate of return (IRR) of 14.7% and a pretax net present value at a 5% discount of \$209 million.

The mine would produce an average of 213,800 oz. gold a year over its first five years of operation at a cash cost of about US\$570 per oz., and 172,400 oz. a year at cash costs of US\$625 per oz. over the course of its 10-year life.

But management says the base case of the PEA, which used a gold price of US\$1,100 per oz. gold and a US\$950 per oz. pit shell, can be significantly improved if a pit shell using US\$1,100 per oz. is used.

"With a pit design at US\$1,000 per oz.



SPANISH MOUNTAIN GOLD

The crew in action at Spanish Mountain Gold's flagship project in B.C.

we expect to increase contained ounces significantly," Brian Groves, the company's president and chief executive, explains in a telephone interview. "We took a very conservative approach with the pit design when the PEA process was initiated in June 2010, the street consensus of the banks on Bay Street and Wall Street was gold at around US\$900 to US\$950, so that's why we started there."

Groves adds that new PEA numbers based on a new pit design could be ready before the end of February.

For his part, Johnson believes "positive implications for the contained ounces within the pit shell, strip ratio and operating costs... could result in an after-tax IRR of 22.5%" with a higher-grade starter pit and by using a US\$1,100 per oz. pit shell.

The November PEA was based on 428 diamond drill holes completed between

2005 and 2009 and used measured and indicated resources of 77.4 million tonnes grading 0.55 gram gold per tonne for 1.37 million oz. of contained gold and inferred resources of 39.53 million tonnes of 0.48 gram gold for 611,100 oz. gold.

Groves notes that PEA underscores that the project "has no technical issues standing in the way of its development."

Ron Halas, Spanish Mountain's chief operating officer, notes that the company is planning for a drilling program in the upcoming months. "We know there are some opportunities below the current pit design where we don't have sufficient drill density for independent engineers to assign anything beyond an inferred category so we're starting in those areas and hopefully adding ounces to the resource base as well."

Halas notes that the company will kick

# THE NORTHERN MINER

THE GLOBAL  
MINING  
NEWSPAPER

www.northernminer.com

JANUARY 24-30, 2011 • VOL. 96, NO. 49 • SINCE 1915

off a prefeasibility study in the current quarter. Additional metallurgical work by outside consultants is expected to begin shortly and the company will then move into a feasibility study that will likely be wrapped up in the first quarter of 2012. "The permitting process won't be completed by then, but at least we'll have a bankable feasibility study to back up the business case," he explains.

In terms of the tailings facility plan, the company is examining a land-based option which would have no impact on any bodies of water, which it notes was a factor in the federal government's ruling against **Taseko Mine's** (TKO-T, TGB-X) proposed Prosperity gold-copper mine.

While a land-based option for tailings could increase capital costs by an estimated \$10-\$12 million, it would probably result in more rapid permitting approvals, Groves points out.

Spanish Mountain Gold has already undertaken geotechnical drilling to de-

sign the pit wall to assess the competency of the rocks, work that it says is more typical of the prefeasibility stage of a mining project. "We have taken a very proactive approach to a lot of the data gathering to ensure that if there is an opportunity to advance the project rapidly we'd be in a good position to do that and the net result is that the timelines could be advanced significantly," Groves says.

On other fronts, Spanish Mountain executives say they have made good headway with the two First Nations communities involved. Groves notes that the company is working closely with the two groups on a protocol agreement in which the First Nations groups are informed about each development on the project.

And as far as mining jurisdictions go, management says, B.C. is better than most.

"The provincial government actually gave the go-ahead for Prosperity, it was the federal government that expressed

reservations about this particular project while approving another at the same time," says Larry Yau, Spanish Mountain Gold's chief financial officer.

"The provincial government is very supportive of mining and I believe that at the federal level, the same is true," adds Groves. "In both cases, you need to demonstrate that you have consulted and are working with First Nations and are proposing a responsible mine development... The Prosperity decision was very high profile, but I don't think that's something to label the province as a no-go area."

Groves also notes that in the last 12 to 18 months, the B.C. government has given approval to **Copper Mountain Mining's** (CUM-T) copper porphyry project, **Thompson Creek Metals'** (TCM-T, TC-N) Mt. Milligan copper-gold porphyry project, and **NewGold's** (NGD-T, NGD-X) New Afton copper-gold project.

Spanish Mountain has no debt and about \$3 million in its treasury.