

# Murchison Metals Limited Announce Feasibility Studies and Market Update

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Perth, Australia (ABN Newswire) - [Murchison Metals Limited](#) (ASX: MMX) (PINK: MUMTF) is pleased to announce it has received feasibility studies from its 50% owned Crosslands Resources Ltd ('Crosslands') iron ore mining business and OPR infrastructure business in the mid-west region of Western Australia. Murchison's joint venture partner in both businesses is Mitsubishi Development Pty Ltd ('Mitsubishi').

In receiving the studies Trevor Matthews, Chief Operating Officer of Murchison Metals, said: 'The delivery of these studies by Crosslands and OPR represents a significant milestone in the ongoing development of the mid-west as a major iron ore producing region, and Murchison looks forward to progressing both projects to the next stage of development. The effort of both joint venture teams is reflected in the high standard of work seen in the studies, and I would like to thank all of those involved.'

## Status of the Studies

Crosslands has delivered its feasibility study on the JHEP. The feasibility study has yet to receive formal sign-off from the Board of Crosslands, and remains subject to detailed review by the joint venture participants. The cost estimates included in the feasibility study are based on a P50 level, with a nominal accuracy of between +/- 10% and +/- 15%, and a base date of 31 March 2011.

The JHEP feasibility study has indicated the technical and commercial viability of undertaking the project, subject to the confirmation of the terms of access to infrastructure.

The study outcomes are subject to further review and optimisation work including a value improvement program that will encompass mine planning, and further development and refinement of capital and operating costs. Crosslands has indicated that it is developing a further revision to the feasibility study due for completion during the September Quarter, and is continuing its SCA discussions.

OPR has delivered its feasibility study on the Oakajee Port and Rail infrastructure project, and notes that, at this stage, it has not entered into any binding agreement with respect to the provision of infrastructure services and is working toward finalising the terms of its contractual arrangements with the State Government. The study has yet to receive formal sign-off from the Management Committee of OPR, and remains subject to detailed review by Murchison and Mitsubishi. The cost estimates included in the feasibility study are based on a P50 level with a nominal accuracy of between +/- 10% and +/-15%, and a base date of 1 January 2010.

The OPR study has indicated the technical and operational viability of undertaking the infrastructure development, with commercial viability to be demonstrated once OPR is able to finalise the terms of access to infrastructure from its potential foundation customers. OPR will also update the study following value engineering work, and after SCAs have been concluded.

## JHEP Feasibility Study

The JHEP is planned as a large scale, long life, iron ore mine that will produce on average, approximately 23.4 Mwtpa of high purity iron concentrate and DSO products for the first ten years, supplying the key markets of Japan, China and Korea. JHEP plans to produce two primary products, being a sinter feed averaging 64.4% iron (on a dry tonne basis), and a pellet feed averaging 68.5% iron (also on a dry tonne basis). Both products feature low impurities, especially alumina and phosphorous. The current mine plan projects total production of 701 Mwt of concentrates and 13.5 Mwt of DSO over a 39 year project life, based on the mining inventory.

Total capital costs are estimated at A\$3.7 billion, including contingency of A\$335 million, A\$580 million in indirect costs, and owners' costs during construction of A\$254 million. Mine development capital does not include A\$252 million in current and non-current Run of Mine ('ROM') inventory that will be mined during

pre-stripping and stockpiled for processing during the first five years of operation. These costs include A\$411 million associated with mining fleet and equipment.

Annual operating costs (excluding royalties and infrastructure charges) are estimated at approximately A\$33.66/wt, comparable with other large scale concentrate mining developments.

Crosslands plans to export its production through the planned infrastructure of OPR. As a potential foundation customer of OPR, Crosslands is presently negotiating infrastructure access with OPR, which had not been finalised at the time of delivery of the feasibility study.

Further study and optimisation work will be undertaken by Crosslands during the September Quarter which is expected to result in additional benefits to the project.

Crosslands is now progressing key marketing and approvals activities. The feasibility study assumes PGA in the March Quarter 2012 with first shipping through Oakajee targeted for 2015. Murchison considers that this schedule is dependent on the timing of completion of SCAs and other related milestones.

The outcomes of the JHEP feasibility study are discussed in greater detail in Appendix A (see link at the bottom of the release).

### **Oakajee Port & Rail Feasibility Study**

The OPR project is planned as an integrated new railway and port located in the upper mid-west region of Western Australia. The development will service regional iron ore miners exporting bulk iron ore products. The initial project configuration is designed to handle 42 Mwtpa at project completion (from a name plate capacity of 45 Mwtpa), and OPR has received indications that future expansions of the facility will likely be required.

The OPR feasibility study estimates the total capital cost of the port and rail infrastructure at A\$5.94 billion inclusive of A\$723 million for port Common Use Infrastructure ('CUI'), contingency of A\$533 million and A\$508 million in owners' costs during construction. The CUI facilities include the breakwater, turning channel and navigation aids. The rail costs also include A\$273 million in rolling stock.

The base capital cost estimate of A\$5.43 billion (before owners' costs), represents a 3.6% increase on the preliminary A\$5.24 billion base capital cost estimate (before owners' costs) indicated in OPR's November 2010 Budget and Engineering Study.

Owners' costs reflect those costs to be borne by the project sponsors and which are required to effect the project, but are not necessarily able to be directly allocated to the project, such as corporate overheads, land acquisition, insurance and so forth.

OPR's average operating costs are estimated at A\$228.8 million per annum, including contingency, or A\$5.45/wt of throughput.

OPR will present the feasibility study to the Western Australian Government, which together with the Federal Government, has jointly committed A\$678 million for construction of CUI at the Oakajee port.

### **Supply Chain Agreements**

OPR's revenue model will be underpinned by long term, take or pay contracts with potential foundation customers in the form of SCAs. In 2010, OPR executed memoranda of understanding with three potential foundation customers, being Crosslands, Sinosteel Midwest Corporation ('SMC') and Karara Mining. OPR has not yet reached agreement with the potential foundation customers on tariffs and other commercial terms of the SCAs.

On 23 June 2011, SMC announced that it is deferring development of its Weld Range project. However, Murchison notes that SMC has confirmed to OPR that it remains willing to engage in ongoing discussions in relation to the SCAs. To this end, SMC is seeking a revised tariff structure / model and further certainty on scheduling, including the date by which the port and rail infrastructure will be delivered.

Murchison fully supports re-engagement with SMC on this basis with respect to the Weld Range project, and notes the ongoing willingness to engage by all parties - OPR, Crosslands and Karara Mining.

The study assumes PGA in the March Quarter 2012 with first shipping through Oakajee targeted for 2015. Murchison considers that this schedule is dependent on the timing of completion of SCAs and other related

milestones.

A more detailed summary of the OPR feasibility study is contained in Appendix B (see link at the bottom of the release).

## **Funding**

Under the current joint venture agreements with Mitsubishi, notably the Umbrella Financing Agreement ('UFA'), Mitsubishi is responsible for managing the arrangement of debt financing as part of the development funding plan with target gearing ratios of 60% for OPR and 50% for the JHEP. As part of this process, Murchison has been working with Mitsubishi and a syndicate of domestic and international commercial banks, including all four major Australian banks, on the financing strategy since mid 2010.

Mitsubishi is also responsible for providing additional funding support as detailed in Appendix C (see link at the bottom of the release), including the requirement for Mitsubishi to make a future payment into Crosslands, known as the Residual Contribution, which would be used as the first tranche of equity funding for project development. All additional funding for both projects is to be met by equity contributions from Murchison and Mitsubishi on a 50:50 basis.

The timing of the Residual Contribution is contingent on satisfaction of certain conditions, which are outlined in Appendix C (see link at the bottom of the release), and is to be determined through negotiations with Mitsubishi at that time. The final quantum of the payment will be based on final bankable feasibility studies as recommended by the chief executive officers of Crosslands and OPR, and there are a number of outstanding factors which may influence the size, or certainty, of the payment being made. Given all of the circumstances, it is not possible for Murchison to give guidance on the likely quantum or timing of the Residual Contribution at this time.

Although there remains significant uncertainty with respect to the potential size of the Residual Contribution, Murchison considers that this payment, on its own, will not be sufficient to cover its anticipated equity required for project development.

On 16 March 2011, Murchison executed a US\$100 million bridging facility with Resource Capital Fund V L.P. (RCF V), to provide the Company with financing flexibility with respect to funding in the lead up to the completion of the studies. To date, Murchison has drawn, and committed to draw a total US\$30.75 million against the facility to fund study progress and for general corporate purposes, leaving remaining availability of US\$69.25 million. The first interest payment under the facility is due on 11 July 2011. Key terms of the facility are detailed in Appendix D (see link at the bottom of the release).

## **Strategic Review**

In order to meet project funding requirements and realise the inherent value of the JHEP and Oakajee projects, Murchison has been reviewing its funding options in parallel with the progression of the feasibility studies.

Following the release of the feasibility studies, Murchison will be continuing to advance its strategic review to maximise shareholder value.

Murchison has appointed Rothschild and O'Sullivan Partners as its financial advisers as part of this process.

For the complete Murchison Metals announcement including appendixes, please refer to the following link: <http://www.abnnewswire.net/media/en/docs/547624.pdf>

## **About Murchison Metals Limited:**

Murchison Metals Limited is an Australian ASX listed company. Murchison is included in the S&P/ASX 200 Index.

Murchison is a 50% shareholder in Crosslands Resources Ltd which is the owner of the Jack Hills iron ore project located in the mid-west region of Western Australia. The remaining 50% of Crosslands is held by Mitsubishi Development Pty Ltd ('Mitsubishi'), a subsidiary of Mitsubishi Corporation, Japan's largest general trading company.

Murchison also has a 50% economic interest in an independent infrastructure business, Oakajee Port and

Rail ('OPR'). OPR was established to construct new port and rail infrastructure to provide logistics services to miners (including Crosslands) and other potential customers in the mid-west region of WA.

The remaining 50% economic interest in OPR is held by Mitsubishi.

In addition to its investments in Crosslands and OPR, Murchison owns the Rocklea iron ore project located in the Pilbara region of Western Australia.

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