

# Baffinland Announces Economics for the Mary River Direct Shipping Road Haulage Project Option

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TORONTO, ONTARIO -- (Marketwire - Jan. 13, 2011) - [Baffinland Iron Mines Corporation](#) (TSX:BIM) ("Baffinland" or the "Company") today announces results of the Feasibility Study on the Road Haulage Project Option on Deposit No. 1 of its 100%-owned Mary River Project, located in Nunavut Territory, Canada. The Road Haulage Feasibility Study (the "RHFS") was completed by AMEC Americas Limited.

The Road Haulage Project Option contemplates trucking the iron ore northwest along the existing 100 km Milne Inlet tote road 300-days per year and shipping iron ore using market vessel ships during an approximate 90-day (mid-July through mid-October) open water season in Milne Inlet. Mining and shipping targets 3 million tonnes of lump and fine iron ore production per annum. Production is expected to be 75% high quality lump iron ore and 25% premium quality fine iron ore (sinter feed). Baffinland's lump and fine iron ores are expected to grade greater than 66% iron over the twenty-year life of production.

The Company expects that production would start in 2013 with approximately 1 million tonnes of iron ore being shipped. This is the earliest date that production could be achieved assuming that the environmental assessment process is complete and permits are received by the second half of 2012. Full production of 3 million tonnes per annum is expected to commence in 2014 over an anticipated mine life of 20 years.

## Highlights of the Road Haulage Feasibility Study:

	Contractor Operated (\$ millions)		Owner Operated (\$ millions)	
After-tax internal rate of return		22.3%		30.6%
Project after-tax cash flow	\$	1,957	\$	3,070
Project pre-tax net present value 8%	\$	795	\$	1,407
Project after-tax net present value 8%	\$	577	\$	1,030
Capital cost of the Project	\$	605	\$	740
Operating cost (per tonne)	\$	63	\$	29
Payback period (in years)		3.6		2.6

## Assumptions:

- All dollar amounts in this press release are in Canadian dollars unless otherwise stated.
- Operating and capital costs were estimated to an accuracy of +/- 15%.
- The exchange rate used is USD 1.00 = CAD 1.07.
- The iron ore prices used in RHFS are the average forecasted long-term prices for Carajás fine and lump iron ore, European Basin as generated by AME Mineral Economics and CRU International Limited. The average long-term price forecast is estimated to be US\$146 per dry metric tonne unit for fine iron ore and US\$183 per dry metric tonne unit for lump iron ore. In US dollars, this would result in estimated average long term prices per tonne for the Mary River iron ores, estimated for the RHFS, at US\$120 or CAD\$128 per tonne for lump ore and US\$94 or CAD\$101 per tonne for fines FOB Milne Inlet.
- All iron ore sales have been assumed to be FOB Milne Inlet.

## Mineral Reserves

The RHFS has utilized updated economic and technical data specifically for the Road Haulage Project Option over the projected 20-year mine-life. The resultant mineral reserves at Deposit No. 1 for the RHFS

are:

#### Deposit No. 1 Mineral Reserves within the Designed Pit for Road Haulage

Reserves	Million Tonnes		Fe%	P%	S%	SiO2%	
Proven	33.7	66.1	0.023	0.069		1.89	1.37
Probable	27.1	66.3	0.027	0.061		1.69	1.1
Total	60.7	66.2	0.025	0.065		1.79	1.26

*Note 1: Effective date of the estimate is December 30 2010*

*Note 2: See appended "Notes to the 2010 Mineral Resource and Mineral Reserve Statement"*

The reserves for the RHFS reflect a very limited conversion of in-pit measured and indicated resources to reserves; less than what was contemplated and generated in 2008 for the Rail Definitive Feasibility Study, which contemplates transporting the iron ore south by rail to the proposed Steensby port site ("Rail Study"). The 2008 mineral reserves of 365 million tonnes grading 64.7% iron; as defined by the "Technical Report of the Definitive Feasibility Study, Aker Kvaerner, February 2008", have been superseded by the RHFS and the new economic and technical data have rendered the 2008 reserves as no longer valid. As the Company updated current technical and economic criteria for the RHFS, the result is a single mineral reserve at Deposit No. 1 based upon these criteria. The RHFS reserves are part of the former larger reserve that was defined as part of the Rail Study and are not accretive.

#### Mineral Resources

Mary River mineral resources have also been estimated based upon drilling to the end of 2009.

#### Deposit No. 1 Mineral Resources

Resource Category	Million Tonnes		Fe %	P %	S %		S
Measured	207	66.3	0.05	0.19	2.7	1.2	
Indicated	211	66.3	0.05	0.26	2.5	1.0	
Measured + Indicated		418	66.3	0.05	0.23	2.6	
Inferred	213	66.9	0.05	0.43	1.9	0.9	

*Note 1: Effective date of the estimate is December 30 2010*

*Note 2: See appended "Notes to the 2010 Mineral Resource and Mineral Reserve Statement"*

#### Deposit Nos. 2 & 3 Mineral Resources

Resource Category	Million Tonnes		Fe %	P %	S %		S
Indicated	26	65.0	0.02	0.02	5.2	1.0	
Inferred	336	65.9	0.03	0.01	2.4	1.1	

*Note 1: Effective date of the estimate is December 30 2010*

*Note 2: See appended "Notes to the 2010 Mineral Resource and Mineral Reserve Statement"*

These resources include the reserves defined and converted for the RHFS set out above and are also not accretive. These resources are estimated based upon drilling to the end of 2009 and do not include drilling completed in 2010 as assays and analytical work are still in progress.

#### Iron Ore Market Forecasts

Iron ore prices are forecasted as the average prices for Carajás fine and lump iron ore in the European Basin by AME Mineral Economics and CRU International Limited. The Mary River iron ores are superior quality iron ores as defined and confirmed by detailed metallurgical laboratory based testwork and a trial cargo bulk sample that was consumed in the blast furnaces of two of Europe's premier steel companies. Discussion with market analysts indicates that there is a high probability that the Mary River iron ores will be able to achieve a quality premium of 9% to 15% to the market forecasted prices. This quality premium was not included in the Company's RHFS financial analysis.

#### Economic Analysis of the Project

As part of the RHFS, Baffinland considered a capital and operating cost trade-off by replacing owner

operations with contractor operations for mining, crushing, screening, haulage and the port. The evaluation of these scenarios is presented below.

### Owner Operator - Capital Costs

The capital costs for RHFS include mining, crushing, screening, stockpiling, tote road, port and surface facilities for a throughput of 3 million tonnes per annum and are estimated at \$740 million in fourth quarter 2010 Canadian dollars. The capital costs are summarized in the table below are inclusive of the costs up to and including plant commissioning and start up.

#### Summary of Capital Costs

Project Area Description Cost (\$ millions)

##### Direct Costs

Mining 59.5  
 Crushing, Screening Plant 23.4  
 Stockpiling & Shiploading 53.8  
 Infrastructure at Mary River (Mine) 122.2  
 Infrastructure at Milne Inlet (Port) 96.4  
 Ore Dock Facilities 58.2  
 Tote Road 85.2  
 Total Direct Costs 498.7

##### Indirect Costs

Project Indirect Costs 142.8  
 Owner's Costs 9.0  
 Gravel Royalties 12.5  
 Total Indirect Costs 164.3

Subtotal Direct and Indirect Costs 663.0

Contingency 77.3

Total Project Costs 740.3

#### Additional Life of Mine Costs

Closure Costs 27.0

Sustaining Capital 146.0

### Owner Operator - Operating Costs

Estimates of operating costs for the RHFS are prepared by area and component, and consider the mining plan and processing schedule. Operating costs are in fourth quarter 2010 Canadian dollars with no allowance for escalation.

Life-of-mine operating costs are tabulated below:

#### Summary of Operating Costs

	\$/tonne	
Mining	8.21	
Processing	2.80	
Road haul	8.85	
Stockpiling	1.45	
Shiploading	3.50	
Camp	2.06	
Air Transportation		1.27
G&A	0.79	
Total	28.93	

### Financial/Sensitivity Analysis

Summary of Cash Flow	Contractor Operated (\$ millions)	Owner Operated (\$ millions)
Undiscounted after-tax cashflow	\$ 1,957	\$ 3,070
After-tax net present value at 8%	\$ 577	\$ 1,030
After-tax net present value at 10%	\$ 422	\$ 796
After-tax net present value at 12%	\$ 304	\$ 616
After-tax internal rate of return	22.3%	30.6%
Payback period (in years)	3.6	2.6

The financial analysis does not include certain other costs that would be associated with executing on the Road Haulage Project Option including any financing costs, corporate G&A and the socio-economic costs associated with the Inuit Impact and Benefits Agreement including financial participation.

The Company expects that the financing of the Road Haulage Project Option would include both debt and equity. Although, the exact debt to equity ratio has not been determined at this time, any required equity financing would result in the issuance of additional equity in the Company, which may result in significant dilution to the existing shareholders of the Company.

### Contractor Operated

In the Contractor Operated scenario, capital costs were reduced to \$605 million while operating costs increased to \$63 per tonne. The contractor rates were not the result of a competitive tender process or contract negotiations and thus should be used only as an indicative comparison to the owner operated capital and operating costs.

### Summary of Contractor Operated Capital Costs

Project Area Description	Cost (\$ millions)
Direct Costs	
Mining	19.7
Crushing, Screening Plant	38.2
Stockpiling & Shiploading	-
Infrastructure at Mary River (Mine)	119.7
Infrastructure at Milne Inlet (Port)	96.4
Ore Dock Facilities	20.5
Tote Road	102.0
Total Direct Costs	396.5
Indirect Costs	
Project Indirect Costs	128.1
Owner's Costs	7.3
Gravel Royalties	12.5
Total Indirect Costs	147.9
Subtotal Direct and Indirect Costs	544.4
Contingency	60.3
Total Project Costs	604.7
Additional Life of Mine Costs	
Closure Costs	27.0
Sustaining Capital	-

### Summary of Contractor Operated Operating Costs

	\$/tonne
Mining	17.29
Processing	-
Road haul	17.51
Stockpiling	17.00
Shiploading	-
Non-Productive Days/Contingency	5.18
Camp	2.20
Air Transportation	1.04
Tug Operations	1.68
G&A	0.81
Total	62.71

## **Optimisation Plans**

The RHFS has assumed initial limited production of 1 million tonnes in 2013, with full production of 3 million tonnes achieved in 2014 and continuing for a twenty year mine life. This is the earliest date that production could be achieved assuming that the environmental assessment process is complete and permits are received by the second half of 2012.

There is an opportunity to increase the production rate to approximately 4 million tonnes per annum with the same port and loading facilities, infrastructure, larger secondary crusher and screening facility and a minor increase in mobile equipment. This would require the acceptance of higher demurrage costs and would see the number of Handymax to Panamax vessels increase from a range of 43 to 50 vessels for 3 million tonnes of annual production to a requirement of 57 to 67 vessels for 4 million tonnes of annual production. The higher production rate would very probably reduce unit operating costs due to sharing of fixed costs over a larger annual tonnage.

Opportunities have also been identified to optimise operations and achieve reduced capital and operating costs; however these opportunities were not pursued as part of the RHFS due to time constraints. These opportunities would need to be evaluated in subsequent engineering work.

## **Future Plans**

It is expected that the Rail Study will be updated with current technical and economic inputs in due course. The update will incorporate optimized design changes defined by value engineering studies. However, reserve data generated by the Rail Study at Deposit No. 1 is now dated and can no longer be referred to in public disclosures until such time as it is updated. The Technical Report of the Definitive Feasibility Study, Aker Kvaerner, February 2008 will remain on SEDAR at [www.sedar.com](http://www.sedar.com).

A new mineral resources estimate will be completed and disclosed when assays from the 2010 drilling program are complete and the estimate can be completed. The drill program tested targets and mineralisation at Deposits Nos. 2, 3, 4 and 5. The additional mineralisation will very likely be categorized in the inferred resource category and is not expected to be material. No drilling was completed at the new discoveries; Deposits Nos. 6, 7, 8 and 9 and therefore these Deposits will not be part of any resource estimate in 2011.

## **Additional Disclosure**

Resource estimation is performed by George Wahl, P. Geo., while open pit mine planning and reserve estimation is performed by Rene Gharapethian, P. Eng. Both of these independent technical professionals are Qualified Persons as defined by National Instrument 43-101, Standard of Disclosure for Mineral Projects ("NI 43-101"), and they performed their resource estimation and open pit planning under the guidance of AMEC Mining & Metals for inclusion in the Study. Gregory Wortman, P.Eng., also a Qualified Person as defined by NI 43-101, of AMEC Americas Limited, was the Project Manager and was responsible for overall supervision of the feasibility study team. The Company expects to file a NI 43-101 report within 45 days of the date of this press release.

Assaying and analytical work was performed by SGS Lakefield Research Limited ("Lakefield") under a strict protocol designed for testing lump iron ores. Samples were then sent from Lakefield to SGA in Germany, where samples were composited for detailed metallurgical testing to ISO standards for iron ore. The testwork was specific for lump ores. Additional test-work was also completed on fine material for sintering.

Richard Matthews, VP Technical Services, a Qualified Person as defined by NI 43-101, and Michael T. Zurowski, P. Eng., Executive VP and a Qualified Person as defined by NI 43-101 had oversight responsibility regarding the various components of the RHFS.

Baffinland is a Canadian publicly-traded junior mining company that is focused on its wholly-owned Mary River iron ore deposits located on Baffin Island, Nunavut Territory, Canada. Baffinland's shares trade on the Toronto Stock Exchange under the trading symbol BIM.

## **CAUTION REGARDING FORWARD-LOOKING INFORMATION**

*This press release contains forward-looking information within the meaning of securities laws.*

*Forward-looking information may relate to management's future outlook and anticipated events or results, and includes statements or information regarding the future plans, intentions, beliefs and prospects of the Company, and can often be identified by forward-looking words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "envision", "may" and "will" or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. In particular, readers are cautioned that substantially all of the information contained in and/or derived from the RHFS constitutes forward-looking information. Actual results may vary.*

*In addition to assumptions regarding the general conduct of mining operations at the Mary River Project, the information contained in the RHFS is also based on a number of assumptions regarding, among other things, mineral reserve and resource estimates, future annual production and shipment quantities, the grade and moisture content of iron ore produced from the Mary River Project, iron ore sale prices, currency exchange rates, the relative composition of lump ore and fines, estimated initial and sustaining capital costs and estimated operating costs. Many of these assumptions are described in this press release, and readers are cautioned that while the Company considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. The reader is cautioned that mineral resources are not mineral reserves and do not have demonstrated economic viability. To the best of the Company's knowledge, there are no known environmental, permitting, legal, title, taxation, sociopolitical, marketing or other known issues that may materially affect the estimate of mineral reserves or resources.*

*Without limitation, in estimating an initial capital cost for the project option of \$740 million, the Company has assumed that current high construction input costs for labour, equipment and materials prevail over the construction period, that the current strength in the Canadian dollar prevails over the construction period, that Federal goods and services taxes are recoverable, that the Government of Nunavut fuel importation tax is recoverable, that the royalties imposed by the Federal Government and the Qikiqtani Inuit Association ("QIA") for the use of gravel do not change, that construction input costs do not escalate from this present time through to the end of construction, that financing costs are excluded from the capital cost estimate, that any payments required under the terms of the future Inuit Impact and Benefits Agreement do not exceed the allowance for such currently included in the capital costs, that the allowances made in the construction estimate to account for the effects of global warming prove to be adequate, that design criteria concerning the geotechnical conditions present at Mary River, Milne Inlet and along the road corridor prove to be adequate, that the scheduling of the ore carriers will be undertaken by ship owners operating with support of Fednav and Baffinland, that there is no delay in the project timeline after mobilization of contractor equipment in 2011 that necessitates additional holding costs for said equipment and that, as a result of the regulatory process, costs in excess of those already included in the capital costs for regulatory compliance are not imposed.*

*In estimating that operating costs for all facilities at Mary River and Milne Inlet will be \$28.93 per tonne, excluding taxes and financing costs, that Federal goods and services taxes are recoverable, that the royalties imposed by the Federal Government and the QIA for the use of gravel do not change, that operational input costs do not escalate from this present time through to the end of the production period, that financing costs are excluded from the operating cost estimate as are any payments required under the terms of the future Inuit Impact and Benefits Agreement, that the allowances made in the operating cost estimate to account for the effects of global warming prove to be adequate, that the ocean freight costs paid by customers through off-take agreements and that all sales will be on a FOB (Free on Board) basis, INCO Terms 2000. Baffinland's view is that the regulatory process will be complete in a timely fashion and will not impose additional costs on the project, that as a result of the regulatory process, costs in excess of those already included in the capital costs for regulatory compliance are not imposed.*

*In making statements concerning the planned engineering and construction schedule of the Mary River Project, including the timing of completion of basic engineering and project construction, the Company has assumed, among other things, that it will obtain in a timely fashion all of the financing, regulatory approvals and other authorizations required to enable the continued exploration and development of the Mary River property, and the mining activities required in order to complete such activities.*

*By its nature forward looking-information is subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what is currently expected. These factors include risks inherent in the exploration and development of mineral deposits, risks relating to changes in iron ore prices and the worldwide demand for and supply of iron ore, uncertainties inherent in the estimation of mineral reserves and resources, risks relating to the remoteness of the Mary River property including access and supply risks, reliance on key personnel, construction and operational risks inherent in the conduct of mining activities, including the risk of increases in capital and operating costs, regulatory risks, including risks relating to the acquisition of the necessary licenses and permits, financing, capitalization and liquidity risks, including the risk that the financing required to fund the required exploration and development activities may not be available on satisfactory terms, or at all, environmental risks and insurance risks. In particular, the key sensitivities of the conclusions reached in the RHFS relate to Baffinland's ability to obtain regulatory*

*approvals that do not materially change the project timeline, that construction contractors, equipment, materials and labour are available at the appropriate time, in adequate quantity and with adequate quality, and at similar cost to the assumptions reflected in the RHFS, that weather, ocean, and ice conditions allow for the mobilization and execution of the construction plan in general agreement with the assumptions in the RHFS, that future decisions on the part of regulators are consistent with assumptions included in the RHFS, that the Inuit Impact and Benefits Agreement negotiated with the QIA is consistent with the assumptions included in the RHFS and that the terms and conditions associated with the abandonment and restoration of the project site remain in accordance with the assumptions in the RHFS.*

*Although the Company has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those described in forward-looking statements, there may be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the RHFS, and are cautioned not to place undue reliance on such information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. While the Company may elect to update publicly or otherwise revise any forward-looking information, the Company undertakes no obligation to do so, whether as a result of new information, future events or other such factors which affect this information, except as required by law.*

#### **Notes to the 2010 Mineral Resource and Mineral Reserve Statement:**

Baffinland resources and reserves are classified in accordance with the Canadian Institute of Mining Metallurgy and Petroleum's "CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines" as per Canadian Securities Administrator's National Instrument 43-101 requirements.

- (1) Lump Iron Ore: 75 percent of sales;  
Sinter / Fines Iron Ore: 25 percent of sales;  
Based on testwork conducted at Studien Gesellschaft Fur Eisenerz-Aufbereitung (SGA);
- (2) US\$ 1.00 per CDN\$ 1.07;
- (3) Moisture content: up to 2 percent;
- (4) Cut off grade: Deposit No. 1 for scheduling (57% Lower orebody, 50% Upper and Middle orebodies)
- (5) Cut off grade: 60.5% Fe for Deposits Nos. 2 & 3 (optimization);
- (6) Apparent density ore: regression based on Fe Grade 4.56 g/cc average (assumes 66.2% Fe average product);
- (7) Mining recovery: 95-99.0 percent Deposit No. 1;
- (8) Mining recovery: 97.5 percent Deposits Nos. 2 & 3;
- (9) Mining dilution: 1.0-5.0 percent Deposit No. 1;
- (10) Mining dilution: 2.5 percent Deposits Nos. 2 & 3;
- (11) Crusher recovery: 100 percent;
- (12) Overall pit slope angle: 35-45 degrees Deposit No. 1;
- (13) Overall pit slope angle: 40 degrees Deposits Nos. 2. & 3
- (14) Maximum drill hole spacing defining measured resources: 45 meters;
- (15) Maximum drill hole spacing defining indicated resources: 120 meters;
- (16) Maximum drill hole spacing defining inferred resources: 450 meters;
- (17) Resources and reserves are defined within a practical open pit;  
Geometry based on a production rate of 3 million tonnes ore per annum;  
Reserve classification is supported by a Feasibility Study, January 2011, completed by AMEC to a level of accuracy of +/- 15 percent;
- (18) Mineral resources are not exclusive of mineral reserves;
- (19) Mineral resources which are not mineral reserves do not have demonstrated economic viability; and
- (20) Mineral resources and mineral reserve tonnages have been rounded to reflect the relative accuracy of the estimate

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