

April 21, 2010

Baobab Resources Gets The Drill Rigs Turning On The Tete Project In Mozambique, With A View To Proving Up 700 Million Tonnes Of Iron Ore

By Alastair Ford

After a hard morning's work supervising an accelerating drill programme in the heat of the Mozambique autumn, Ben James gets onto the sat phone for a quick chat to Minesite. Earlier that morning, his company, Baobab Resources, had put out an announcement on the London stock exchange, detailing the commencement of the new drill campaign at the Tete iron ore project in the Tete province of Mozambique. The company's shares duly ticked up by 0.25p in response, to close at 11p. That's nicely up on the 6p at which the company raised its last round of finance, and bodes well for the future too.

At the moment, says Ben, Baobab is continuing to target a resource of between 400 million and 700 million tonnes on the Massamba Group trend at the northern end of the Tete licence, and the immediate aim, says Ben, is to add comfort and confidence to the company's ability to get there. The current work centres around the central portion of the eight kilometre long Massamba Group trend, just two kilometres south of the Chitongue Grand prospect, where drilling in 2009 identified a resource of just under 50 million tonnes. The company has already completed five holes of scout drilling in this area, which is known as the Chimabala prospect, amounting to an aggregate of 1,624 metres, and these holes, reports Ben look to have delivered good intercepts. About a third of them have already been prepped and are on their way to a lab in Australia, with the rest to follow. And that sets Baobab up nicely for a string of news releases over the next couple of months or so.

Depending on the results of the ongoing scout drilling, Baobab will then move to proper resource definition drilling in the third or the fourth quarter of this year, with a view to driving fast towards that 400 million to 700 million tonne target. Ahead of that, work on preliminary metallurgical studies will also get underway, based in part on the results from the current round of scout drilling. Metallurgy, explains Ben, is the next real hurdle. "We're confident we can get the resource", he says. "Metallurgy is next." Given that a scoping study by Coffey undertaken in 2008 has already delivered a favourable initial opinion, investors may be forgiven if they take an optimistic view as to the outcome. Coffey reckoned that a concentrate grading between 67% and 70% iron was feasible, with some vanadium and ilmenite thrown in.

Coffey used a base case scenario of a 300 million tonne deposit and a 10 million tonnes per year operation, numbers which Ben James still refers to when he talks about "the strong project economics". Minesite readers will be only too aware that the price of iron ore has been powering ahead lately, a trend which has lead Ben, and others, to consider what the various options for Tete really are. The current plan is to deliver concentrate to the

coast for export, an operation which would cost around US\$500 million to put in place. But given that, with Vale and Riversdale as neighbours, and with a new hydro plant on the Zambezi River well within reach, and with rail infrastructure set for rapid expansion, the Tete region is about to enter a period of major economic growth, other opportunities are beginning to present themselves.

One such would be a mine mount pelletizing operation. That would cost more to build than the currently planned operation, but in the long term it would make more money too. For a company that's capitalised at a mere £18 million, it might seem a big ask. Ben James parries a question as to the precise relationship the company has with neighbours Vale – “on good terms” – but he's more forthcoming about the investment arm of the World Bank, the IFC, which is a major shareholder in Baobab, and which has just put a further US\$700,000 the company's way. “The IFC have just left site”, says Ben, and the visit seems to have gone well. He adds, though, that the real benefits of having the IFC on board will start to show through when the time comes to start negotiating for access to power and other infrastructure. Bringing the IFC with you to the negotiating table in a country like Mozambique can deliver no end of benefits.

It will be some time before any of that becomes a reality though. First, there'll be more drilling, followed by drilling, drilling and a bit of metallurgy. That work is all fully funded though, as Baobab has enough money to last it into the first quarter of next year - a nice position for a company that famously operates on a shoestring to be in. As long as the iron ore price continues to hold up, it looks like 2010 will be a good year for Baobab's shareholders.

For more articles like this, register for FREE at www.minesite.com