

Digital Look
15 October 2009



Small Cap Focus: Frontier progress

By Andrew Hore

Kazakhstan-based Frontier Mining is on course to commence production at its Benkala copper project in early 2011. This should transform the business and make it a strong cash generator in the first year of production.

Benkala is in the north of Kazakhstan and it is jointly owned with Coville Intercorp. The intention is to produce 20,000 tonnes a year of copper cathode. Equipment is being bought and a JORC resource will be announced in the second quarter of 2010. Infill drilling is currently taking place.

The pre-feasibility report suggested that operating costs would be less than \$1/lb, compared with a price for copper cathode of \$2.70/lb. Even the recent low of the copper cathode price of \$1.29/lb is above the cash costs of producing the metal.

One uncertainty is how quickly that Frontier can obtain the mining licences and permissions that it requires. There is already a huge backlog of applications but the company is keen to stress that it can continue to develop the mine while it is waiting for any licence it requires.

The appointment of Kazakh businessman Erlan Sagadiev as chairman and chief executive of Frontier has coincided with a sharp upturn in the share price. He has sorted out the finances of the business, including pumping in money through his own business interests.

The financing involved a \$10m debt facility provided by Zere Group JSC, which is deemed to be controlled by Sagadiev. The facility lasts until April 2011 and the interest charge is 15% a year. At the same time, a placing raised \$4m at 1.5p a share. Some of the cash was used to repay part of an existing loan note issued to Coville. The remaining Coville loan of \$3.24m is repayable at the end of 2009.

During August, Frontier signed a Standby Equity Distribution Agreement with Yorkville Advisors. The SEDA is worth £5m (\$8.2m) and so far £120,000 has been drawn down at a share price of 6.65p.

House broker Libertas believes that Frontier has enough cash for its immediate needs.

Libertas reckons that Frontier's share of the development costs of Benkala could be around \$15m. Frontier would like to secure an offtake agreement to help finance the development costs.

Frontier started gold production at the Naimanjal complex during the summer so this is providing cash

flow to cover the company's costs. The Koskuduk gold project should start production in the middle of 2010. This will require an investment of \$1.5m to bring it into production.

At 7.75p a share, Frontier is valued at £39.51m.

Zere Group was issued 407.5m warrants exercisable at 1.5p a share as part of the debt facility agreement. They would be equivalent to nearly half of the company's enlarged share capital if exercised. In theory, these are already £25m in profit if they were exercised at the current share price, which would also raise more than £6m for Frontier.

Once it is up and running, Benkala would more than justify the current valuation for Frontier. That excludes any value for the gold projects.

As with any mining company, smooth progress towards production at Benkala should not be taken as a certainty. However, Frontier is well down the line and making decent progress towards production.