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Kalimantan Gold Aims To Turn Profits From Coal Into Exploration For Gold

By Charles Wyatt

It is an interesting commentary on the availability of funding for junior mining companies that Kalimantan Gold could only raise half of a proposed C$1 million non-brokered placement at Christmas, but that the latest effort has encountered so much demand that it has had to be increased - and then some. The pity is that Kalimantan Gold has its primary listing on the TSX Venture Exchange and its secondary listing on AIM, as this leads to a number of discrepancies, not least because all the trade takes place here. In fact practically all the stock in this latest placing went to European investors and a chunk to Indonesian, but virtually none to North Americans. That may be because they do not know where Indonesia is, let alone Kalimantan.

However the Canadian primary listing means that placings have to be priced in C$s and there is a major differential between the TSX price and the AIM price. A comparison of the share charts of the two companies over the past year bears this out. The patterns are completely different and the one to study is the AIM chart which shows that the shares peaked at around 9p last June, fell with the rest of the market right down to 3p, and are now trading at 6.5p. A very sturdy performance given the background, but the current placing had to be priced at C$5 cents which is the equivalent of 2.8p so it is hardly surprising that the new shares were gobbled up. Adventurous investors must already be wondering how to arbitrage, as the differential between the two current share prices is now 1.8p with the Canadians trading, or not, at 4.7p. The only problem is that there is not much stock available in Canada and the differentials between the Canadian system and Crest are not for the weak hearted.

There are sound commercial reasons why investors are attracted to the stock at the moment. Rahman Connelly the chief executive is determined to raise the funding necessary to conclude Kalimantan's deal on the IBP coal project in East Kalimantan. There is another waiting in the wings which could be even bigger. Kalimantan Gold has an option to acquire up to 80 per cent of IBP, but it only has until the end of the month to agree improved terms and complete. There is a buoyant market in Asia for thermal coal and the Indian Government, as part of its Electricity India power programme, has informed any company seeking to build a coal fired power station that it should have a controlling interest in a mine so that supply is assured. Only then will a grant become available. Several such companies have been knocking on Rahman's door of late as the company's coal suits their requirements.

He is a pragmatic man and sees no problem in monetising the asset at a profit, while retaining a useful royalty. Then he will be on to the next project where negotiations are underway. When Kalimantan Gold switched to coal 18 months ago he was already anticipating that the market in metals was getting toppy, so was looking for a product always in demand, and where the capital investment would be minimal. In the case of IBP all he has to do is transport the coal 20 kilometres by an existing road to a jetty for which land has been acquired on the nearby river, whence it will be shipped 304 kms by barge to the Balkpapan coal terminal. The actual mining should be simple enough as the overburden is fairly thin and the flat lying coal seams thick.

An open cut mine, based on only the 416 hectares where exploration has taken place (out of a total 2,700 hectares), has already been permitted for production. Key to Kalimantan Gold's ability to find such projects and agree deals is vice president exploration Mansur Geiger who lives in Indonesia and is fluent in the language and understands the people and their customs. Mansur has over 30 years mineral exploration experience in Australia and Indonesia, and has built an incomparable spread of contacts and knowledge of the Indonesian coal industry. Work completed on the IBP concession to date indicates a potential deposit of between 100 and 120 million tonnes of between 4,800 and 5,000 kcal/kg coal with low ash and sulphur content. No resource has yet been delineated to 43-101 standards, but as the coal deposit consists of two consistent seams and has a mass of unexplored potential, the value is what it is. Kalimantan Gold has drilled 58 holes to around 60 feet depth and geophysical logging has been carried out on all holes. The results have confirmed the validity of the data provided by the vendors.

Always in the background is the Jelai-Mewet epithermal gold prospect in East Kalimantan and the KSK Contract of Work in Central Kalimantan where Oxiana, prior to the fatal merger with Zinifex, spent an initial US$2.5 million on exploring a number of porphyry copper-gold targets. Oxiana decided to pull out at an early stage as a lot of deep drilling was required. This is big company stuff and it was not long before a major with local experience was in talks. Unfortunately the mining sector went into free fall at that time, but it is understood that these talks will resume when metal prices improve further. Jelai-Mewet, in Central Kalimantan, still seems to be where Rahman Connelly’s heart lies and this is where the profits from the coal will mostly be spent. This project was handed down by Bob Friedland’s Ivanhoe Mining when it went off to seek its fortune in Mongolia, and the data handed over with it has helped in building a resource model of the vein structure.