

CITIGOLD DEC QTR 08: DEVELOPMENT RAMPS UP

	Dec Qtr	Sept Qtr	Change
Production (oz)	2,569	3,960	-35%
Head Grade (g/t) #	N/A	N/A	0%
Cash Cost (per oz)	482	480	0%
Development Capital (per oz) *	N/A	N/A	
Total Cost per Oz *	N/A	N/A	
Average Price (\$) (per oz)*	1,191	1,094	9%
Margin (\$) per oz*	N/A	N/A	
Margin (%) per oz*	N/A	N/A	
Cash Balance (\$)	0.4	9.0	-96%
Hedging Liability (\$)	-	-	0%
Exploration (\$)	1.6	0.8	99%
Development (Metres)			
Capital Works	782.0	572.0	
Ore Drive Development	53.0	236.0	
Total Metres	835.0	808.0	
Share Price (A\$)	0.31	0.225	38%

Much of the processed ore was development ore and the grades were not considered indicative of future production and were not provided by the company.

* At the request of the company I have not included these numbers.

Citigold (ASX:CTO) increased development activity during the December 08 quarter with the goal of increasing the number of facings they can access over the next 3-6 months. The company is now in a situation where capital works are moving in front of mining operations with the aim of allowing production to commence from multiple areas of the mine. Production figures for the quarter reflect declining grades from the first mining area, and the lack of development ore because the western decline was being dug through barren rock (previous development work was mainly in the ore body and yielded almost half the ounces produced to date).

To give our subscribers some insight into underground mining, we will briefly go through some of the concepts and terminology in the context of Citigold's activities. The principal phases of underground mining include **Development Mining** and **Production Mining**. Development mining involves the excavation of waste rock in order to gain access to the ore body and generally speaking, yields little if any gold. In Citigold's case this involves the development of **Declines (capital works)**. A decline is a downward-sloping tunnel providing road access from the surface to the underground mining operation. Citigold's declines are 5m by 5m in cross section, to accommodate 50-tonne trucks. Development mining also includes the development of **Drives**, which are horizontal tunnels from the decline to the mining faces. Citigold's drives are mainly 3.5m by 3.5m, enough to accommodate ore loaders. The process of developing these drives yields gold to varying degrees, dependent on how much of the gold bearing system is intersected. The targeted gold veins (gold bearing ore) typically average a narrow width of 0.6m – 1.2m. Given this disparity, large quantities of waste rock are mined along with the ore as part of this drive development process. This dilutes

the gold grades associated with the processing of the development ore. In Citigold's case, this results in anything from 6g/t down to next to nothing.

The other phase of underground mining is **Production Mining**. Production mining can be broken down into two methods, **long hole** and **short hole**. Short hole is similar to development mining, except that it occurs primarily in ore. Long hole requires two excavation drives within the ore at different elevations below surface (15m – 30m apart). Holes are drilled between these two levels (from the top level) and loaded with explosives. The holes are blasted and the ore along with associated waste rock is removed via a loader from the bottom level excavation drive. The loader is very often operated via remote control for safety purposes. The underground chasm which is left after the waste and ore has been removed is called a **stope**. The stope will usually be filled with waste rock so as to even out the empty space and make way for the extraction of adjoining ore blocks. This process of blasting and removing the material is called **stopping**. Citigold presently employs this **long hole stopping** method. On the East side of the Warrior mine, this technique has yielded an average ore grade of 13g/t over the last two years of mining. This higher grade production ore is blended with the lower grade development ore and processed through the mill, which is optimized at 10g/t. For the last two years Citigold's focus has been development orientated, which has meant that the proportion of the ore from stopping is deliberately low. The challenge ahead is to increase the level of production mining and hence the proportion of stopping ore which gets processed.

The Global Speculator took the opportunity to catch up with Citigold CEO Mark Lynch recently to get an update on the short to intermediate term plans for the company. Looking at the numbers above, the first question asked concerned the significant amount of cash expended over the preceding three months (\$8.6m). My concern was with the company's ability to fund its ongoing activities. Lynch highlighted the untouched \$15m convertible note facility made available by a Dubai investment group. He confirmed that this amount will be sufficient to see the company through to a target production rate of 25,000-40,000 oz per annum by the third quarter of 2009.

Annualized administration costs for Citigold are \$5m, and ongoing development capital will likely run at \$5m a quarter (\$20m a year) for the foreseeable future. Assuming an Australian dollar gold price of \$1,300/oz, I estimate that Citigold will need to achieve production levels of 30,000 oz a year, whilst maintaining an operating cash cost of less than A\$480/oz, to become self sufficient. The immediate challenge will be to expand production via increasing the number of mining areas from one (currently) up to two or three by the middle of 2009. A mining area equates to having mining access to a series of adjacent stopes, and is generally in an area of richer ore about 120m across. By increasing the available areas via increased development, Citigold hopes to increase the proportion of higher grade stopping ore which gets processed. Citigold appear to be having no problem shifting tonnes of rock: the issue is getting enough ore from the richer veins to lift their gold production to the point of profitability, while funding further development work.

Talking with Lynch, one gets the feeling that the company has benefited enormously from the 18 months of what is essentially trial mining on the eastern side of the Warrior deposit, and from diamond drilling from underground that has yielded a better understanding of the ore body. Some interesting initiatives, which have been on the agenda for some time, include an underground optical ore sorting system (cost of \$3m). The ore from the veins is quartz and is lightly colored, while the barren country rock is dark granite. This means a large proportion of waste can theoretically be separated from the ore via this system. The waste will then be used to fill the stopes, reducing the haulage costs of transporting this material to the surface. Citigold have longer term plans to develop a conveyor system for vertical haulage of ore and any surplus waste material.

This system could be developed potentially 300m underground and used to vertically haul ore to the surface. As the bulk of the mining moves to deeper levels over time, this conveyer system could be extended. With the mine connected to grid power, diesel costs would be considerably reduced as the use of trucks would essentially be restricted to horizontal haulage of ore to the underground crusher. Such a plan makes sense, given many of the adjoining reefs run parallel to one another over significant distances laterally.

Citigold has taken a considerable amount of time in getting this operation up and running. There is no question the additional time taken has benefited them enormously from a knowledge perspective, but it has come at a price. That price has been the continual dilution of shareholder capital, given the company's ongoing dependency on external funding. Something I am sure that is not lost on Mark Lynch whose family owns in excess of 10% of the company (and falling). One gets the sense 2009 is a very important year for Citigold as it strives to increase production and achieve that elusive self sufficiency status. Lynch took the opportunity to remind me of the company's longer term 300,000 oz annual production target. This was recently validated by an external consulting group. He goes on to explain that with a moderate capital spend of \$25 million a year and vertical development of 100 metres over each of the years, this target can be realistically achieved (100,000 oz of annual production per 100m of vertical development at Warrior). In addition to the Warrior reef, there are five other similar reefs to be mined, including the original reef under the town of Charters Towers that the old-timers worked. I get the impression Citigold's shareholders would be more than content if the modest mid year production target of 25,000-40,000 oz per annum could be successfully met. It has been a long time coming. The Global Speculator would like to take this opportunity to thank Mark Lynch for his time and very much look forward to catching up with him later in the year to discuss Citigold's progress.

Troy Schwensen
www.globalspeculator.com.au

DISCLAIMER

This article has been prepared from publicly available information and is general in nature and should not be misconstrued as a recommendation to buy and sell securities. It has been prepared by the author to update readers on a variety of company activities and observations that the author considers may be of interest to readers.