

Tough times call for focus and projects with quality – Brennan

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TORONTO (miningweekly.com) – As commodities remain depressed and the China-driven resource cycle fades, companies must maintain exceptional focus to advance projects, Largo Resources consultant **Mark Brennan** told an audience at the Canadian Institute of Mining's Management and Economic Society in Toronto last week.

Brennan retired as Largo's president and CEO on March 9. The company operates the Maracás Menchen mine in Bahia, west Brazil, supplying all of its vanadium output to Glencore through an offtake deal.

SECRETS OF SUCCESS

A project's success is dependent on the quality of a deposit's grade, which will allow a project to deliver when times are good and endure when times are tough. Grade is also vital when companies seek financing.

Of equal importance, a company must assess where its material might fit within the market and whether it would be competitive enough to replace or displace existing material.

Brennan also stressed the importance of expertise within management. "You need a team that has done it before, particularly for the commodity in which you are dealing," he said.

But for some companies, such as those involved in specialty minerals and metals, it can be hard to find talent. In this case compromise is often required, although a company should at least hire those with a depth of experience within the wider industry.

A company should also think about the stages at which it needs to recruit talent and the levels of financing that will be required for each project phase it is involved with. "Project stages have to be sufficiently strong in terms of financing, whether a company is involved at the drilling level, the feasibility stage, the construction phase or when a project comes on stream," he said.

Although it can happen, it is rare for a junior company to take a project from inception to production; most companies intend to sell their stake at a specific point in a project's development cycle or agree to a merger and acquisition.

SIZE ISN'T EVERYTHING

The scale of a deposit might not always be an answer: size is only good if it comes with grade and quality. "As a general rule, good deposits only tend to get better, while mediocre deposits tend to get worse," Brennan noted.

Assessing a project's viability must be an exercise in realism; too often management teams have preferred to keep a project alive because millions of dollars have already been invested and they are unwilling to walk away.

The preliminary economic assessment is important in that it allows a company to further understand a project's viability. "In Largo's case this was the stage where we could identify weaknesses. At the same time, we were encouraged by what we saw and moved on to the feasibility study," Brennan said.

Largo also decided to recruit more vanadium experts at this point to advise and assist feasibility development. Brennan noted the importance of pilot plants, which allow companies to process and analyse the ore involved, greatly increasing their understanding of the metallurgy involved.

Strategic partners in the feasibility stage can be extremely helpful; in Largo's case it signed an offtake agreement with Glencore in 2008, the trading house being a leading participant in the vanadium market. Glencore then

assisted Largo in its market and technologies analysis. In addition, their presence added greater credibility in relation to banks and investors.

Funding is important at every step but there might be times when a slow and steady approach is impossible, Brennan noted. “[Sometimes] you’ll need to scramble; you need to be persistent, hustle and follow every lead you can find.”

A critical means to keeping costs down is to utilise proven technology where the performance parameters can be better predicted. In addition, the parts and supplies are more readily available. By contrast, new or untried technology can lose a company the competitive edge needed in order to penetrate a market.

If possible, companies should hire the best equipment and construction contractors and maintain close working relations. It was also important to ensure they deliver and install on time and to the right specifications.

Using the best contractors helps reduce risks associated with installation and commissioning, although Brennan noted that there will always be problems of varying degrees. In Largo’s case there were around 1 200 issues that needed to be resolved from construction to coming on stream.

Budget overruns are always possible and it is important for management to maintain a hawk-like focus on keeping these in check wherever possible. Largo’s total capital expenditure for building the Maracás Menchen operation stood at \$242-million on a budgeted build of \$235-million.

KICK OUT THE KINKS

The trickiest phase normally comes with commissioning, Brennan said. This is the period in which the testing of all operational areas must be undertaken, making sure any kinks are ironed out.

This is also the stage where the learning curve can be at its greatest, particularly for the staff involved in day-to-day management. “It’s key that you pay attention to detail at this point. The initial feed is where you can have problems,” Brennan said.

Operators in remote areas should also expect possible challenges in retaining their workforce. Some workers will seek to build up experience and then leave for opportunities closer to their homes and families.

The ramp-up phase involves reducing or eradicating any bottlenecks and working on improving efficiencies. It also allows a company to monitor the quality of the output, ensuring it meets end-user expectations.

Further optimisation can be achieved once on stream, with careful note taken of unscheduled stoppages and how these have been resolved. This is important as stoppages, even for a few hours, can dent predicted output.

A company should continue to carefully monitor the markets and prepare itself as best it can for any downward shifts in prices or, alternatively, for any shift higher. But at its heart, survival and success boils down to the inherent strength of the project and its ore. “Remember: it’s about project, project, project,” Brennan said.