

Lundin takeover of gold-copper project of Cukaru Peka from Freeport is still not completed. Reservoir Minerals still have to agree or use the right to match the offer. Some brokers believe that Reservoir as junior mining developer will agree which would enable Lundin to realize its plans for middle size copper mine development.

Reservoir Minerals Inc. has moved up sharply this month—over 50%—after Lundin Mining Corp. (LUX:TSX) made an offer to buy part of Freeport-McMoRan Copper & Gold Inc.'s (FCX:NYSE) interest in its joint venture with Reservoir. But it remains a strong buy.

Lundin agreed to acquire part of Freeport's interest in the huge Cukaru Peki deposit in Serbia, which Reservoir has the right to match—within 60 days, ~40 remaining—including both the payment and the terms. Lundin will acquire Freeport's 55% interest and rights in the epithermal deposit at Cukaru Peki, plus 28% of Freeport's interest in the underlying porphyry, for US\$262.5 million (\$262.5M).

Brokers believes Reservoir will do this, and not necessarily by teaming with another partner. The company could match the offer itself, raising the necessary funds by debt, a royalty on the gold portion of the epithermal, or equity (or a combination). Debt is the most likely option for the bulk of the funds; there is aversion to raising too much equity and thereby diluting shareholders, but equally some concern at encumbering the deposit with a royalty.

Under the terms of the deal, Reservoir would have to raise only \$135M by closing, with another \$20M first-year commitment to spend on the porphyry and perhaps an equal amount (though at its discretion) on the upper epithermal. The next payment, of \$45M, would not come until a production decision had been made.

This would give Reservoir 100% of the epithermal, and 60.4% of the porphyry (with the porphyry interest declining when Freeport earns in). The important point is that Reservoir would initially have a majority interest in the deposit that would put it in more control of the deposit and its destiny.

Freeport cleverly limited the amount of money to be spent on the porphyry in its agreement with Lundin, and Reservoir, in exercising its right of first offer, must match the terms in that agreement. It is unclear whether Reservoir, owning a majority of the deposit, could advance that timetable. Most likely we think that once Reservoir has control of the project, it would eventually bring in a major partner who would offer Freeport some cash and perhaps a free carry (for a lower interest) and to advance the project, or some similar arrangement.

And here's the nice part of the story, according to comments from Adrian Day Asset Management, worst case is that Reservoir does not match the offer, and Lundin owns 55% of the epithermal. There are far worse companies to have as partners! The company in fact

## Serbia mining: Lundin awaits decision from Reservoir on Cukaru Peka copper-gold asset takeover deal

has already stated that it now regards Cukaru Peki as its “priority project,” ahead even of other developments projects it already owned.

Lundin’s purchase gives a basis to put a value on Reservoir’s interest. Reservoir can be diluted down to 25%, but is free carried through feasibility. Right now, Reservoir is selling ex-cash only little more than Lundin paid for the epithermal. This ignores most of Reservoir’s 45% interest in the porphyry; its joint venture with Rio Tinto; and all its other projects in Serbia, Southeast Europe, and West Africa. One analyst has an NAV at a rather higher 12% discount rate, at CA\$8.56—without giving any credit for the porphyry. In the long-term, the porphyry is the big prize.

At a market cap of CA\$315M, Reservoir, with \$33M in cash, has room to move much higher, and after a breather—or on some new development.

source: Serbia-energy.eu