Changing of the guard

Australia may have lost numerous mining houses to foreign takeover and mergers in the past five years, but a new generation is emerging to take their place. **Tim Treadgold** digs out 25 of the leaders

AUSTRALIAN MINES

The near-certainty of quick cash from operating a small nickel mine near Kambalda proved too much of an attraction for Australian Mines which had started life as an explorer in the ultra-remote Musgrave Ranges in the dead centre of Australia.

With the acquisition of the Blair mine in early 2003 came a side deal over surrounding exploration tenements, and the hatching of a plan to move swiftly into nickel production while looking for additional material to ensure a mine life beyond the initial target of 18 months.

Investors like the concept. Since Australian Mines evolved from its roots as West Musgrave Mining in May, 2003, the share price has more than doubled from around 12c to 24c, a price which capitalises the company at $27 million.

Much more can be expected as Australian Mines continues to work up Blair, its potential to generate cash, and the exploration tenements to reveal additional resources. An initial scoping study produced a revenue estimate of $35 million from an 18-month campaign at the mine, with $9.5 million staying with the company as cash flow.

In fact, the cash flow will be much higher because that scoping study was based on a nickel price of $A13,800 compared with $16,800 in early November. In rough terms, cash flow at the latest price will be 20% higher than the scoping study, turning the $9.5 million into at least $11.4 million.

The proof of the plan at Australian Mines will lie in the production. Estimates point to the mine, which was mothballed in 2001, still containing 140,000 tonnes of material at 3.16% nickel for a contained 4450t of metal. A global resource estimate was put as high as 325,500t at 2.9% for 9300t of metal.

Production is expected to start in the first quarter of 2004 with material delivered under an off-take agreement with WMC. As the cash starts to flow, exploration will be stepped up for both nickel and gold on the company's tenements.

Key Assets

The Blair mine and its surrounding tenement package is the company-maker for Australian Mines. The mine produced more than one million tonnes of ore for WMC at an average grade of 2.53% nickel to yield 26,000t of metal over a 12-year campaign. It was de-commissioned during a period of low nickel prices. Since being acquired by Australian Mines in a share-based purchase a number of encouraging exploration indications have been reported which could see Australian Mines significantly increase the expected life of the re-opened mine. The company also maintains an interest in its West Musgrave joint venture with BHP Billiton which is contributing $1 million via a share placement in Australian Mines.

Management

Chairman: Keith Liddell. Deputy chairman: John Daniels. Managing director: Don Boyer. Directors: Neil Warburton and Anthony Fairweather.

Operating Performance

Australian Mines, when named West Musgrave, was a pure explorer with a focus on the West Musgrave region. It is now moving up to the status of a producer/explorer with the imminent start of production at the Blair nickel mine.

Exploration

The company has an excellent ground position in the Kambalda region. Of particular interest is a discovery known as Area 57 where early exploration has defined a resource of 80,000t at 3.9% nickel, including 51,000t at 5.5%. Additional near-mine resource additions are expected with new targets evolving.

Outlook

Cash flow will totally change the complexion of Australian Mines. It has progressed from explorer with outward flowing cash into an emerging producer with the prospect of generating $10 million, and more, of net inward cash flow from the Blair mine. The application of those funds to additional exploration should see Australian Mines position itself as an emerging producer/explorer on solid financial footings.

BREAKAWAY RESOURCES

Higher copper prices cannot come soon enough for Breakaway, owner of the small, but high-grade Eloise copper/gold project near Cloncurry in Queensland. Increased revenue from the 22,000t per annum Eloise project will help to finally wash away Breakaway's somewhat messy past, and help pay for a series of potential new gold and nickel developments in WA.

As well as Eloise, which is producing copper at about US70c/pound for free cash flow of up to $5 million a year, Breakaway owns the Kambalda West nickel project which includes the historic Spargoville nickel project, the Vivien gold project near Agnew, and has a stake in the Bannockburn nickel joint venture with Jubilee Mines and the Miranda gold joint venture with Gold Fields.

In terms of its structure, Breakaway can best be called asset rich and cash poor. Or, to put it more kindly, it is a company well placed to benefit from the emerging mineral exploration boom because it has strong ground positions in a number of emerging exploration hotspots. That is why Eloise is the key at this stage of the company's evolution, because it brings in the cash to pay the bills.

Over the past four months, investors have sensed the improving outlook for Breakaway. The stock, after trading listlessly around the 3c a share mark, tripled to 9c in October, before easing back to more recent sales of around 7c, a price which capitalises the business at $26.5 million.

If conditions continue to improve, Breakaway will emerge a winner as markets strengthen because it has the assets to deal itself a place at many tables. However, the first steps in that process involve shaking off the past, and a series of ill-judged investments.

Breakaway today is a creation of the merger of Amalg Resources, a Kalgoorlie-based business which thought it could win from the boom in laterite nickel and gold production by owning a lime producing business, Loongana Lime. It is history now that gold production fell, the laterite projects largely failed and Loongana became a drag on Amalg and was eventually sold, with the listed Amalg then merging with the unlisted Breakaway to create a new business with Eloise at the core.

Key Assets

The Eloise mine processes about 600,000t of ore a year for the production of 22,000t of copper, 9750 ounces of gold and 240,000oz of silver in concentrate. It was acquired by Amalg from BHP in 1994 for $13.25 million. The Vivien gold venture is close to the Gold Fields-operated Agnew mine and could be quickly brought back into production. Kambalda West incorporates the Spargoville and Spargos Reward nickel and gold projects. The Bannockburn project covers base metal interests on 10 leases north-west of Leonora.

Management

Chairman: Jon Young. Managing director: Michael Mulroney. Director: Garry Connell.

Operating Performance

The Eloise mine is Breakaway's only producing asset, handling about 600,000t of copper and gold ore a year with an average head grade of about 4.37% copper. Ore is trucked from the underground workings to a two-stage crushing system, then to a two-stage milling circuit, flotation, and out as a concentrate grading about 29.5% copper, 4.7gpt gold and 100gpt silver.

Exploration

The Eloise Deeps are highly rated to provide at-depth ore extensions for the mine, particularly the eastern lode. Regional exploration includes detailed examination of the 12km strike of the prospective Levuka shear zone where a number of Eloise-type structures have been identified.

Outlook

Breakaway is shaking off its difficult history and steadily building cash reserves from the Eloise copper/gold mine. As commodity prices rise this will position the company to start more work on its promising assembly of gold, nickel and base metal exploration tenements.

CONSOLIDATED MINERALS

Servicing the Chinese steel industry has proved to be an extremely lucrative business for Consolidated Minerals. Built on the base of the Woodie Woodie manganese mine in WA's Pilbara region, the company has branched out into chromite and is looking to add additional materials, including iron ore and zinc.

Strong demand for its products saw Consolidated post a profit of $11 million in the year to June 30, down on the previous result of $14 million thanks to tougher trading conditions, start-up costs at the Coobina chromite mine, and the rising value of the Australia dollar. Revenue in the latest year was up 13% to $91.3 million.

Exploration at Woodie Woodie continues to reveal additional resources with Consolidated keen to expand production. Chromite sales beyond Asia are also likely to increase after an initial trial shipment to Sweden. A step into zinc production was considered via a proposed bid for the assets of the failed Western Metals, but Teck Cominco won that race. Iron ore production from the Mindy Mindy project is possible, but much further into the future.

The structure of Consolidated as a supplier of raw materials to the steel industry has won strong support from investors with the rise in the company's share price over the past 12 months from a low of 56c to a high of $1.07 helping lift market capitalisation of the business to around $150 million. Investors like the solid production, profit profile and the dividend flow, which has been maintained at 5c a share despite the fall in profit last year.

What makes the growth of Consolidated even more impressive than first meets the eye is the fact that it emerged from the failure of previous owners at Woodie Woodie. An inability to match demand with supply, and to master the complex transport economics of the Pilbara saw Consolidated start life in difficult circumstances or, in the words of one director, in a negative $2.5 million position.

Those problems are now history. Since re-opening in 1999 Woodie Woodie has been responsible for generating most of Consolidated's $40 million in profits, and remains the backbone of the business.

Exploration at Woodie Woodie continues to reveal additional resources and Consolidated is keen to expand production.