Sydney Morning Herald
October 6, 2008

FARRINGTON
NATIONAL

Euphoria does it hard against reality

Author: Barry FitzGerald
Publication: Sydney Morning Herald (22,Mon 06 Oct 2008)

The speculative end of the resources sector is being beaten up something shocking. Tales of woe abound, with just a sample of announcements on Friday showing the euphoria of the past five years has been replaced by the harsh new reality of crumbling commodity prices and the start of a prolonged equity funding drought.

Independence Group has pulled out of the Ravensthorpe nickel joint venture, leaving Traka to find a new big brother, while Advance Energy has deferred a planned options and placement issue.

Vital has reduced the pace of work at its Watershed tungsten project in Queensland, and Terramin has had to cope with the news that OZ Minerals wants out of their Menninnie lead/zinc project after spending $8 million.

And poor old CityView. The backer of its Angolan offshore oil exploration hunt cannot proceed, prompting CityView to refocus on its mineral exploration portfolio - as you would when there is nothing else to do

Having said all that, we subscribe to the Warren Buffett school of optimism, in that it should be a cause for celebration that all of the specs are a hell of a lot cheaper. Then again, being cheap doesn't mean much if the specs have to close their doors. That's why upcoming (September) quarter cash flow reports from the specs will be required reading for anyone with exposure to the sector. Remember, for an ASX-listed junior it takes a minimum of $500,000 a year just to keep the doors open. With easy equity funding no longer an option, the cash-strapped juniors face some tough decisions. Stock selection is more important than ever.

Brighter note

None of the above affects the Melbourne-based Heemskirk, a profitable, dividend-paying old-style mining house. Its shares have nevertheless fallen from $1.50 in June to 95c on Friday.

The crunch is despite the defensive properties of the mining house structure having particular appeal in these uncertain times. Heemskirk is a producer of gold, tungsten and industrial minerals, with the latter plugged into Canada's booming oil and gas sector.

It has just ruled its books off for the September financial year. Don't expect much from the earnings front for the period. But it is a different case with the year now under way, thanks to the recent start to the Los Santos tungsten mine in Spain, a full-year of earnings from the Pajingo gold mine in Queensland and expectations of stronger sales by the industrial minerals division.

Piers Reynolds at Veritas Securities had a look at Heemskirk in mid-September and forecast a net profit for the 2008 year of $3.4 million, rising strongly in the year under way to $13.2 million. Not bad, given Heemskirk was valued by the market at $72 million (5.4 times forecast 2009 profit) on Friday.

Reynolds has a "buy" on the stock, which he values at $1.56 a share. Assuming everything at Los Santos goes to plan, the near-term game changer for Heemskirk could be Pajingo.

Heemskirk has got 40 per cent of the show, which in the June quarter produced 9791 ounces of gold at a cash cost of $733 an ounce. Look for an improvement in grade in the September quarter to have sweetened things up a bit.

But the real cream with Pajingo will come when the joint venture adds to its five-year mine life with some new mine discoveries in a region known for high-grade pods in the 50,000-250,000 ounce range. A find of 100,000 ounces alone would add $40 million to $50 million in free cash-flow potential to the joint venture.

Road to riches

Sampling interesting looking rocks in road cuttings has long been a cheap-as-chips exploration method for geologists content to take their time getting to their destination. The Melbourne-trained geologist Rob Smakman likes to pull over and take a look more than most.

It's been worthwhile, too, with one of the roadside stops by the Brazil-based **Crusader** Resources boss leading to the discovery of the Posse iron ore project in Brazil's famed "Iron Quadrilateral" in Minas Gerais state.

It's not the biggest discovery around, but its location means that it will find a ready market. And given the iron ore price, it doesn't have to be all that big to have an impact on **Crusader** with its $22 million market cap (49c a share on Friday - up 14c on the day, would you believe).

But it was a roadside stop last year in Western Australia's Yilgarn region that caused last week's interest in the stock. Distinctive carnotite uranium mineralisation was identified in a road cutting in **Crusader**'s Lake Throssell project. The find was not surprising, given that the property covers the "upstream" and "downstream" palaeochannel environment which hosts the Thatcher Soak uranium deposit.

Thatcher Soak is partly owned by Elecktra Mines and Uranex. Elecktra recently announced a maiden resource of 6.2 million pounds of uranium while Uranex has estimated 14 million pounds on its ground. All that has got more interesting now uranium mining is possible in WA, the "mining state" that had it in for the radioactive material while the Labor Party was in charge. **Crusader** is now working on a land access agreement with native title owners so exploration can begin.