BizNews.com
The rational alternative

First-hand perspective from junior minor, Stonewall Resources on the current climate in mining

Posted on February 9, 2015 in Mining Indaba 2015

Lloyd Birrell, Chief Executive of Stonewall Resources joined Alec Hogg at the Mining Indaba in Cape Town to discuss the mining industry from the junior miner's perspective.

https://www.youtube.com/watch?v=0GxR55T-neU

https://soundcloud.com/biznews-com/alec-hogg-speaks-with-lloyd-birrell-ceo-stonewall-resources

You're a junior miner.

Yes, we are, Alec.

It sounds like it's really tough for junior miners here at the Indaba this year.

Well, someone called us 'the last boy scout'. It's really hard and the transition from exploration to production has been the downfall of many juniors. We have several advantages, which I can tell you about, but it's still a tough area to be in.

An expert from London said that base metals are tough and it's probably going to get tougher, but there is a glimmer of hope for precious metals. That's your field – gold?

Yes. We have a few by-products, but our business is gold mining.

In particular, a very interesting part of the gold belt in South Africa, around the Pilgrim's Rest area… What is that story? How did you come to acquire those assets?

Alec, the first misconception that I have to correct, is that those goldfields are mined out and marginal. In fact, it's the opposite. We have what we believe are the widest margins in mining in South Africa, and there is a wealth of resources available to us. We have seven New Order mining rights and six New Order prospecting rights, stretching over 80kms, from Bourke's Luck all the way down to the South of Sabi. That's a massive mining rights area.

Why is it cheaper to mine there?

Firstly, the ore bodies are all horizontal, so access is by way of an adit. We don't have all the complexities of dewatering from depth, cooling, and all the massive infrastructure required to get to where you want to be. Secondly, we made a very substantial discovery just over a year ago, called the pre-mine residue. This has fundamentally changed our business plan as well as our valuation. The old-timers had significant infrastructural constraints.

Are you talking about 100 years ago, when they were mining there in Pilgrim's Rest?

That's good history. Your memory's correct. The mines actually commenced in the 1870's and the consolidation of those mines took place from 1881. The old-timers found everything. They were very smart but they couldn't make electricity that they didn't have, so they would generate power from the Belvedere hydroelectric power station, but they had 3.5 MVA. You don't mill a lot, with 3.5 MVA. They were forced to high-grade, and when they mined the stopes, they would upgrade by hand. Today, we call it a dense media separation device. They reef-picked. They sorted the reef by hand, in the stopes and they only pulled out about 20 percent of the material, leaving behind 80 percent of what they mined.

What grade did they leave behind?

We've done extensive testing. It's running between 1.3 grams/ton and 2.1 grams/ton.

It doesn't sound high. Does open cast mining make it worthwhile?

It's pre-explored, pre-developed, pre-drilled, and pre-blasted. The crucial thing to note is that the gold is in the fines. That means that a simple screening process is enough for us to upgrade it, so we can concentrate approximately 90 percent of the gold into about 25 to 28 percent of the mass. You can imagine what a discovery this was for us because by the time you've pulled the mass into 25 percent, you've upgraded it threefold. A simple process of screening means that we reduce our milling substantially.

You sound South African, but you're listed in Australia.

That's quite right, Alec. I am South African, born and bred. I went to Pretoria Boys' High and studied at UCT, so I'm very South African.

Why is the company listed in Oz?

In 2010, I started Stonewall Mining and brought in some very competent people. Dave Murray (our Chairman) ran BHP Coal worldwide and with his assistance as well as a few other directors' (Trevor Fourie being one); we got investment in from offshore. One of the requirements was that we list and the Chinese company – the private equity fund that brought in the bulk of the investment – wanted to list on the ASX. Within three weeks of listing, we were already an acquisition target by another Chinese company. We signed a deal with them in May of 2013. Unfortunately, the deal fell over in November/December 2014, but at that stage, they were offering $141m to acquire us.

What is your market cap now?

The market cap has fallen back to $25m.

Wow. You also have a gold prospect in KwaZulu Natal. Now, we know that a lot of things come from KZN, but gold…

It's an extraordinary greenstone belt. It has produced gold. It was open for gold production in the late 1800's and then, in 1971 Lonmin actually mined there. They were producing between 25 and 40 kg/month for 20 years. Incidentally, that is a vertical reef. After 22/23 years, they'd reached the end of the infrastructure life of mine, and required a fairly substantial development to continue with the mining. That coincided with the drop in the gold price in late 1997, and it was just too hard for them.

Where exactly, is it?

It's between Pongola and Piet Retief.

It's a little bit like the Barberton-type area: greenstone/green belt. You have a prospect in Australia. It must be pretty hard to manage three.

We're not really focusing on production at that particular prospect. The sheer size of the TGME and the Sabi mining complex means that that's going to absorb 90 percent of our energy over the foreseeable future.

Okay, so when is it going to start kicking in? Remember, Gordon Miller, who was running Simmers at the time, was terribly excited about the prospect. He couldn't bring it to account.

Firstly, we are in production already so we are in fact, producing right now. We started on the 8th or 9th of January – without commissioning – and we are now producing, from the reef residue. It's a lovely ore body. It's oxidised and our process is working very nicely. Insofar as Gordon Miller is concerned, I don't think he was wrong. However, the sheer scale of the mining right area and the vision that he had, would realistically, exceed what we would have the capacity to raise. There are multiple reefs. In some zones, we found up to 26 different reefs. For us to develop and attempt to do something on that scale is just beyond our capability.

We've seen that you mentioned the Chinese interest in South Africa. Very recently, we saw a Chinese acquirer of Village, which has some gold prospects as well. Are you perhaps looking to engage more with them?

We were extremely disappointed. We thought that the approach that the Chinese took was the right one. In other words, three regional plants backed up by one central plant. The secret to success in these greenstone belts is to have multiple access points. Multiple delivery points of ore, with high-tech plants that can deal with the complex metallurgy. The logic was fine. The research, time, energy, and money that was spent on this expansion plan, which would have seen R1.5bn invested in the area. We thought that it was absolutely spot on. They literally pulled out at the 11th hour.

Did they tell you why?

The reason they gave was that the gold price had fallen below an economically viable level. We would respectfully disagree because our costs are coming in at around the $750.00/oz. mark – our 'all in' sustainable cost.

Have you had much success here at the Mining Indaba – if that is the purpose of being here – in interesting other prospective investors?

Yes. We have a strong interest and let's be brutally honest about it. We are particularly vulnerable. Our share price has taken an absolute hammering, but the fact of the matter is that a very competent industrial company in China was prepared to offer R1.7bn for us. The reef residue alone…our conceptual ounce is there. Aside from our three million in Jork ounces; our reef residue or pre-mine residue project potentially holds anywhere from 17-million to 36-million tons. That's a two million ounce resource. It's a very attractive proposition for a company looking for immediate, low cost ounces at low capital. When we go into a mine, we open the adit and we're in. Everything else was done by our predecessors.

http://www.biznews.com/mining/mining-indaba-2015/2015/02/09/first-hand-perspective-from-junior-minor-stonewall-resources-on-the-climate-in-mining/