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Platinum Australia Ltd – Notes Following Investor Briefing

By Warwick Grigor

There are two horses in the race for the title of Australia's first dedicated platinum/palladium producer – Helix Resources and Platinum Australia (PLA). Each company has its dedicated band of enthusiasts and no doubt they have their money where their mouths are, but from my unbiased view, with shares in neither of them, it would appear that the odds point to PLA. The following comments have been prepared following a PLA presentation this week.

A Very Successful IPO

PLA was one of the most successful IPOs of 2000, with subscribers more than tripling their money on the 20¢ float price when the 1 for 1 options are included. Since the initial burst of interest the shares have tended to track sideways with the Company having some difficulty in steering the shares to higher levels notwithstanding a procession of positive announcements.

Assessment of Value

With a share rice of 52¢, the current market capitalisation is $30m after diluting for options (which would bring in $7m if they were exercised). Cash back is approximately about $2m or 5¢ a share. However, this will be boosted by $12m once the placement to Lonmin is completed in August and the market capitalisation will increase to about $42m i.e. beginning to reach the minimum threshold to encourage institutional investors.

While PLA is considering two development scenarios it is probably better to focus on the lower rate of 650,000 tpa until the viability of the low grade circuit has been proven. The lower treatment rate provides a net present value of $74m or almost twice the market capitalisation after the first placement to Lonmin. Importantly, the cash costs are estimated to be less than half the current metal prices. The current share price should be seen as offering quite reasonable value.

The Lonmin Deal

The Lonmin arrangement is an excellent development for PLA – it is hard to fathom why it has not been better embraced by the investing public. Lonmin will initially invest $12m at 52¢ a share. Then, once the bankable feasibility study has been completed, it can elect to invest a further $40m by subscribing to another 66.75 million shares at 60¢ each.

The bottom line for this deal is that it virtually underwrites the bankability of the project. Existing shareholders will not need to put their hands in their pockets again. There will be no overhang of stock in the market. The shares are kept tight and, assuming the project is profitable, the great financing hurdle facing all junior companies is automatically dealt away. What more could shareholders want?

Perhaps investors don't understand the merits of Lonmin, which is the world's third largest producer of PGMs through its 73% owned Lonplats. Of the top three PGM producers it is the most experienced with the metallurgy of the UG2 Reef in South Africa, which has close similarities to the chromite PGM reefs at Panton Sill.

PLA shareholders should be viewing the Lonmin deal as an excellent risk minimisation arrangement.

The Panton Sill PGM Project

Panton Sill was looked at previously by companies that included Pancontinental and Helix Resources. Criticism has been levelled at earlier operators that there had been a lack of systematic evaluation employed. The promise of the A and B chromites was identified early on and the big picture of the regional geology was overlooked, though this may have been due to inexperience with this type of geology in Australia.

When PLA commence work on the project it showed interesting promise but the resources were only 2.2 mill. tonnes at 6 gpt 3E PGM i.e. 400,000 oz of platinum, palladium and gold.

Geology and Resources

The published resource is 2.2 million ounces of PGMs+Au in the ratio of Pt:Pd:Au of 1:1.2:0.2, with 20% being in the measured category and 30% indicated. The bulk of the ounces are in the A Reef, being 7.1 mill. tonnes at 5.4 gpt to a vertical depth of 500 m. Three declines are proposed to access this resource. Where appropriate the better portions of the B Chromite (2.3 mill. tonnes at 3.3 gpt) will also be mined. The surrounding lower grade dunite resource comprises 24 mill. tonnes at 0.9 gpt for 720,000 oz. If this can be economically mined and treated it will significantly enhance the economics.

Mining Plan

Two scenarios are being considered. One is for the treatment of 650,000 tpa of chromite ore. The other, based on an expanded ore resource expected upon the completion of the current drilling programme, is for 900,000 tpa. An open pit could mine up to 10 mtpa of material for a four year life, to a depth of 50-70 m. selective mining methods would be used for the reefs and bulk mining for the dunite. The underground operation would account for 80% of the ore mined, and would be accessed by up to three 4.5 m x 4.5 m declines with a steep gradient of 1:7. Up to eight stopes would be accessed at any one time with uphole and downhole retreat method being employed.

Treatment Route

PLA plans is thinking about operating high and low grade circuits. The high grade circuit would mill the ore to a –200 micron size initially, then –45 microns. The ore would then be floated and the tailings would be further ground to –30 microns. These would be cyanide leached at 60^0C in a CIL circuit to achieve 80% recovery of PGMs (principally palladium). This is an innovative aspect as it is not being done elsewhere. The reason given for this is that it is more suitable for palladium. Platinum would require higher temperatures.

The idealised low grade circuit would comprise SAG and ball milling to – 45 microns then the CIL cyanide leach, but the economics of this circuit are yet to be confirmed.

Overall, the open cut ore is expected to provide 50-55% recovery to flotation concentrates in the first pass, and of the remainder another 50% can be recovered by further processing the tails. Underground ore is expected to perform better with 60-65% recovery in the first pass float. The difference is due to weathering and oxidation present in the open cut to a depth of approximately 50 m.

Saleable Product

PLA intends to produce two types of product. The float concentrate will account for 75% of the saleable PGMs, with the concentrate grade being > 100 gpt. Payment terms for these metals will be in the order of 80%. Note that there will be useful nickel credits.

There will also be sludge produced from the CIL route which can be sold directly to refineries. The grade of this might be in the order of 10% PGMs and the payment terms 90-95%.

Transport of the concentrates will be an issue, costing up to A$150 pt or $4.5m tpa to ship to South African smelters (based on 30,000 tpa of concentrates).

Project Economics
Both the 650,000 and the 900,000 tpa scenarios contemplate 12 year mine lives. The higher rate of production involves only marginally higher capital costs of $64m (versus $57m). Key statistics provided by the Company are tabled below (note that we have not audited these figures from base data);

Throughput	650,000 tpa	900,000 tpa
PGM Production	69,000 oz	95,000 oz
Capital Costs	$57m	$64m
Operating Costs	$70 pt	$65 pt
	$42 pt mining	$40 pt mining
	$23 pt treatment	$21 pt treatment
	$5 pt overheads	$4 pt overheads
Deferred Capital	$71m	$102m
NPV	$74m	$154m
IRR (10% DR)	31%	49%
Payback	3.5 year	2.0 years
Net Cash Flows	$177m	$330m
Cash Costs	US$261/oz	US$249/oz
Price Assumptions		
Platinum and palladium	US$600/oz	
Nickel	US$7,000 pt	
Copper	US$1,700 pt	
AUD/USD	52¢	

If these numbers can be achieved in the field the project should be very profitable. The profit margins will be akin to the best margins we see in the gold industry.

Timetable

Resource drilling completed	- by December 2001
Bankable feasibility completed	- by March 2002
Construction commencing	- by mid 2002
Commissioning commencing	- by mid 2003

Key Personnel
Many projects have been ruined by incompetent management personnel. One of the biggest risks for junior companies is the ability to attract the right person for the job – one that has relevant experience and the ability to work with a minimum of support from the surrounding organisation (which is usually pretty scant with junior companies). PLA has placed its faith in John Lewins, a mineral engineer of Scottish birth. John has specialised in project development for much of his career with the MIM projects of MacArthur River, Tom's Gully, Nolan's and Tick Hill on his resume. (Recall that Tick Hill was one of the most profitable projects ever developed by MIM – short life but very sweet). A four year stint dealing with countries such as Armenia, Ukraine and Mongolia would certainly have tested his resourcefulness and political agility. The Panton Sill Project should almost seem routine by comparison.

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