



Date: Wednesday, 22 September 2004
Page Number: 4
Edition: First
Supplement: WEALTH

Market: National
Circulation: ABC 132,959
Published: Monday to Friday
Editorial: [email the editor](mailto:email_the_editor)
Item No: P3699465

Size: 274.79 sq. cm.

How mines can put a hole in your wallet

There are two indicators to determine how a mining company is spending its money, writes **Robin Bromby**

REMEMBER Yinnex NL? What about Paget Mining, Matlock Mining or Golden Fortune Mining?

Unless you were a shareholder, probably not.

The names Pasminco, Australian Kaolin, Centaur Mining & Exploration and Western Metals are more likely to jog memories because of the sheer size of their losses, hundreds of millions of dollars in all.

Even those companies that survived near-death experiences, primarily Anaconda Nickel, were able to stay alive only because debtors and bondholders were given a Hobson's choice between losing most of their investment — or all of it.

These and many other companies have in common the fact that they churned through shareholders' money and had little or nothing to show for it at the end. There's no shortage of rueful investors in the resources sector.

If you're not a geologist, it might be hard to judge how good is a company's tenement portfolio. However, a look at the financials can — at least — give you an idea how the money is being spent.

So it's instructive to look at the report on junior companies compiled each quarter by stockbrokers Intersuisse.

There you can see at a glance which companies are putting their — or, actually, your — money into the ground rather than into fancy offices and over-the-top salary packages for a select few directors.

According to Intersuisse the percentage of all spending in the June quarter that went into actual exploration activity is quite high. Range River came out top by putting 98 per cent of its outlays into the ground, followed by Pioneer Nickel (97 per cent), Minotaur Resources, Bullion Minerals, Red Metal, and Gunson Resources — all 89 per cent or above. Another test: who is keeping their administration spending low. Pioneer Nickel spent just \$14,000; others at the top of the class were Jindalee Resources, spending \$24,000, Navigator Resources \$34,000, Platsearch, Giants Reef and Range River \$40,000, Red Metal \$47,000 and Cullen Resources \$50,000.

Intersuisse director Gavin Wendt said the survey represented only a cross-section of the junior sector but it was a useful guide.

"With small exploration companies with no earnings, its shareholders funds which are being spent," he said. "This data shows how

wisely they manage their cash."

Investing in mining companies is like going out to the track at Morphettville or Eagle Farm on a Saturday. A few will strike the trifecta, a few more the quinella, a good number will come home with a few place dividends, but the majority will be severely out of pocket. The rule of thumb in the sector: only one in a thousand prospects ends up becoming a mine.

And the wonderful thing about investing in explorers and having a bet at the races is that most players are prepared to pick themselves up, dust themselves off and start all over again.

They ignore the track record: both investing in the resources sector and on the racetrack are net destroyers of wealth.

Not the blue chips, surely? BHP Billiton shareholders are doing well, but the company managed to flush away a good chunk of their funds on schemes like the hot briquetted iron plant (\$1.5 billion), Magma Copper (\$3.5 billion) and Vietnam oil exploration.

The smaller companies tend not to be so noticeable and their records are known mainly to those who invested in them.

Yinnex, for example, had \$50,000 to its name after the 1987 crash but staggered on for a decade, raising more money and acquiring new projects, until it turned into Min-Tech, then Telezone, but it lost its listing in 2001.

Shareholders in Matlock Mining, most of whom had bought into a gold explorer, endured the company owning garbage trucks and then moving into the production of fish-based fertiliser before turning back to gold. Those shareholders were in the end rescued by Eagle Mining but plenty of money had been churned through in the meantime.

Paget barely survived the 1987 crash, but chanced on a good gold deposit in Senegal. And then it went through its money fighting a legal battle to keep the prospect, a battle it lost. A new team came in and turned the company into Travelshop.

Golden Fortune was suspended in 1989 because it could not even raise the stock exchange listing fee.

Then there are what have been called the "lifestyle" companies; the ones where the chief executive or directors look after themselves very well and pocket big six-figure salaries.

One Perth-based chairman of several penny dreadfuls was known in the racy 1980s for hiring not one, but two, chauffeured cars to take him and his party around Sydney on their visits.



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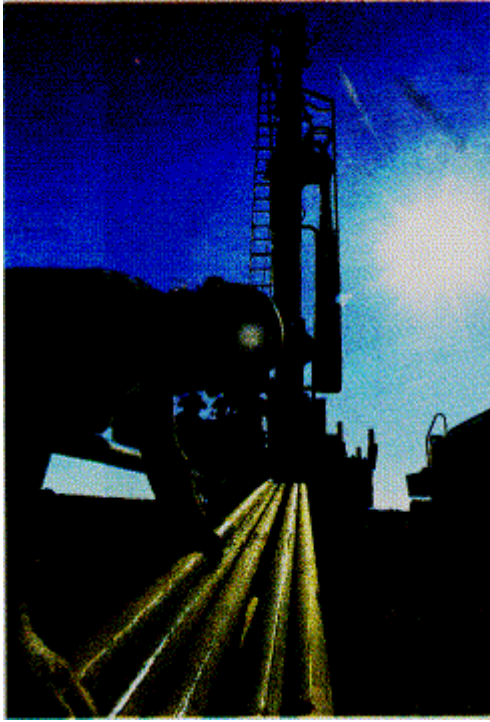
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All his companies are now long gone — and so is the shareholders' money.



In the pipeline: Opportunities are on offer