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## Spinning off into black hole

Robin Bromby | January 28, 2008

**IT may be time to call a halt to the rash of spin-offs if Botswana Metals is any guide. Back in the 1929 crash, Variety captured the stock market chaos with the now famous headline: "Wall Street lays an egg." Well, Botswana Metals did just that 79 years on.**

The company, which houses the non-uranium assets of A-Cap Resources, issued its shares at 20c. Their best trading day was their debut on January 18 when they managed to close at 12c. A week later they ended at 9c. A Wednesday announcement that drilling had begun at the new company's most advanced nickel prospect in Africa did nothing to rev up the punters. By Friday only \$13,000 worth of stock went through.

Another spin-off - White Canyon Uranium - was to have closed last Thursday but this has now been extended to February 18. This company, coming out of Golden State Resources and holding uranium prospects in Utah, had expected to close its shareholder priority offer on December 28, but then extended that to January 9 because of "Christmas mail delays", an event apparently not foreseen.

Perhaps investors have been watching what has been happening with some of the other Australian companies that have uranium interests in the US. WildHorse Energy, which had been boosted by the presence on its register of James Packer and Macquarie Bank, fell from \$2.54 in November to 66c last Wednesday. Black Range Minerals, which has a promising project in Colorado, has seen its shares come back from 17c to 9.2c.

The aforementioned A-Cap, while it is drilling for uranium in Botswana, has gone from \$1.08 on November 1 to 48.5c on Friday. WildHorse and A-Cap have had considerable backing out of the US, WildHorse getting \$20 million from Goldman Sachs last year. But the money out of the US will not be so eager to jump now and that won't help White Canyon.

### Finger to the wind

THE folks at Hazelwood Resources clearly got a sense of which way the wind is blowing on spin-offs. They have cancelled the planned float of BigHill Resources, which was to have housed the parent's Cooke's Creek tungsten project in the Pilbara. BigHill was to have raised \$7 million and with an allowance for another \$3 million in oversubscriptions. Hazelwood shareholders were to be offered the chance to pick up (at 20c a share) 80 per cent of the new IPO.

Hazelwood cites volatility in the equity markets. It will now aim at getting a decision to mine made this year. But Hazelwood shareholders were pleased. The stock had slumped to 17c last week, but climbed after the cancellation announcement and closed on Friday at 22c.

And while Uranio was congratulating itself in a release yesterday on raising \$4.5 million and listing tomorrow, it should be remembered that the original intention was to ask for \$10 million based largely on the association with the man who built Summit Resources, Alan Eggers.

While not a spin-off, Uranio was a little on the derivative side with its main asset being the acquisition of a 70 per cent stake in four projects owned by Deep Yellow (which will hold 9.8 per cent of Uranio).

### Divide and weaken

AND then there is Coppermoly, a spin-off containing Papua New Guinea copper-molybdenum projects from Toronto-listed New Guinea Gold, a company whose chairman is Gold Coast-based Bob McNeil. It had wanted \$20 million and planned to close its offer on December 7. But last Wednesday it settled for \$8 million.

This business of slicing off parts of the operation and raising money through a new vehicle can be very beguiling for promoters. You would be searching a long time for an exploration company CEO who could resist the temptation to tap the market for some ready cash by spinning off some of the family jewels, but that option may now be closing off.

In the end, it is too often a case of divide and weaken. There are those - Pure Speculation among them - that argue that the market is far too heavily weighted by junior players and the last thing we need is even more of them fracturing themselves into smaller and smaller entities. Whatever happened to the concept of critical mass?

And, yet, there is always someone to try to prove us wrong. Traders gasped with pleasure last week when Ironbark Gold - now dizzy with excitement about zinc in Greenland - said it would spin off its NSW gold assets in a \$3.5 million float, Waratah Gold.

Ironbark pointed to the fact that an earlier spin-off, Wolf Minerals, was the best performing IPO of 2007 (helped by its acquisition of the closed Hemerdon Ball tin and tungsten mine in the UK). Wolf says it will have a Hemerdon JORC-compliant resource next month and it expects to be producing 3000 tonnes of tungsten a year when production starts.

### Tungsten drought

WHICH is very timely. Another tungsten up and comer, Vital Metals, commissioned independent metal marketing company GBRM to assess the tungsten market.

Since a mine was reopened in Canada in 2005, no new significant production has come on the market and none is likely until 2009, the report says. Yet China's increased demand has been running at 15 per cent a year since 2002, and that country is limiting exports from its mines.

Ammonium paratungstate, the form of tungsten after chemical processing of concentrates, is fetching up to \$US25,000 a tonne and is heading towards \$US30,000/tonne.

Other tungsten plays to watch (apart from Hazelwood) include Kasbah Resources with a tin-tungsten project in Morocco; Hawk Resources, which plans to start work at Callie Soak in Western Australia once it gets the exploration licence; Paradigm Metals, which now has an inferred resource at the White Rock project; and Minemakers, which said earlier this month its earlier statement of tungsten grades in Tasmania had erred on the down side.

### Different psychology

FOR those of you who are worrying where the resources stocks are heading after Wall Street's bounce-back came to an abrupt halt on Friday night, Warwick Grigor of Far East Capital thinks a new market psychology is upon us.

Grigor, who charts 150 stocks daily, said in his Friday client note that the bull market had reached the top floor.

We're now in a bear market, he wrote, so take profits on any rebound and focus on buying when the selling gets overdone. But he adds that some new stories could offer profits. "Punters always flock to a winner, even in a bear market," he added.

He sees gold continuing to climb but cautions that the stocks to keep in mind are those - and especially those coming up to development - that have little or no hedging.

Meanwhile, the folks at Navigator Resources have yet to decide how to finance their Leonora gold project. Debt funding could involve some forward contracts, but the company is alive to the profits to be made from the spot price. Navigator has just taken an option on a gold processing plant and plans to produce 75,000oz a year over the first two years.

Hill End Gold has almost completed building its plant and is now stockpiling ore at grades between 30 and 40 grams/tonne gold. While there was a big sell-off for HEG on Tuesday, with 1.4 million shares traded, the encouraging sign was that there was plenty of liquidity in the stock - sellers who wanted to get out could find buyers.

That's the difference between a near-producer and grassroots explorer when times get tough.

*The Australian implies no recommendations regarding any of the stocks mentioned. The author does not own shares in any of the mentioned companies.*

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