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Meridian pursues cash flow project

Richard Roberts, 10 November 2008

MERIDIAN Minerals, formerly Bellevue Resources (BVE), expects to gain support from its key shareholders for an acquisition that will hopefully give it an income to pursue an aggressive search for copper and gold in New South Wales and South Australia.

The company is conducting due diligence on a producing copper oxide project in "southern Australia" with a view to acquiring the asset by the end of the year. If it proceeds the deal will require additional funding by Meridian, which has about $A1.3 million in the bank. Managing director Jeremy Read told ***HighGrade*** he was confident despite the state of equity and credit markets of securing the backing.

"How we do it is yet to be determined," he said.

"We've been talking to some of our existing significant shareholders, but we're looking at several different options at this point in time in order to raise the funds other than just going into the market for straight equity."

Meridian, which got approval for the name change at an annual general meeting on Friday, has nickel explorer Mithril Resources (10.6%), Canadian miner Teck (8.45%) and Macquarie Bank (2.2%) among its major shareholders, with management owning 28% of the company and the top 20 shareholders holding 68%.

Meridian was a public unlisted company with some attractive exploration acreage in NSW and SA when it was "taken over" by Bellevue, a listed vehicle with a modest Queensland tin play, in July this year. Read, founding managing director of would-be Botswana copper miner Discovery Metals and a former Australian exploration manager for BHP Minerals, brought a team with strong financial and exploration technical skills across from Meridian with a view to stepping up the merged entity's exploration activities, and finding and acquiring an advanced project.

Read said the copper oxide project fitted that bill. It was producing 2-5 tonnes a day of copper cement from a 10tpd plant using ore from a heap-leach copper oxide operation. Copper ore is said to be mined from an openpit, free dig with a 2:1 strip ratio, with the cement product sold at 75% of the LME cash copper price under a life-of-mine offtake agreement. Measured and indicated resources in two areas (one of which is being mined) are reported as 1.2 million tonnes grading 0.82% copper, for 10,000t of contained copper, and 1.8Mt grading 0.72% Cu, for 13,000t of contained Cu.

The “motivated seller” is believed to be an engineering group with no core attachment to mining. Read declined to name the group or location of the project.

Meridian has a non-exclusive memorandum of understanding to purchase 100% of the project, and six weeks to finish due diligence.

Read said the project had the potential to generate $A4-10 million of free cash flow per annum while exploration for sulphide mineralisation hadn’t been undertaken. This could form part of the company’s future exploration focus, which Read agreed would need funding and with the current range of difficulties facing juniors running low on cash and without too many friends in investment markets was not guaranteed of getting it.

“It’s certainly important,” he said of the potential acquisition.

“It’s not a be-all-and-end-all situation. We are looking at two other projects in a fair amount of detail as well, but certainly we would like this one to come off.”

Read couldn’t say exactly what the extent of Meridian’s acquisition ambitions were at present, but admitted a $A20-30 million acquisition would be difficult at the moment”.

“This one [copper cement project] would be a stepping stone to the things we want to do as a company,” he said.

Read conceded it was all about survival now for companies such as Meridian – he doesn’t have any better idea of when equity markets, or commodity prices, will improve than the next bloke. But he is a believer that metal prices will come back strongly given the new discovery rate in recent years hasn’t produced a long list of future mines and greenfields exploration success has been even thinner on the ground.

NSW, “discovered” by a few juniors in the past few years but not many because “brokers and financiers don’t seem to recognise the place”, according to Read, offers a good environment for a junior in Australia because exploration is generally less expensive than in the rest of the country, prospective ground is available and is generally underexplored, and it is proven porphyry copper-gold discovery country given deposits of the scale of Cadia, Cowal and Northparkes.

“Infrastructure throughout the state is excellent, and certainly in the Lachlan Fold Belt (LFB) and [LFB northern extension] Thomson Fold areas we’re working in,” Read said.

“We see that, in comparison to South Australia next door where you can also find these massive deposits, we might spend $200,000 on a drill program [in NSW] and $175,000 of that will go into the ground directly in drilling and assay costs etc, and not much goes on logistics.

“That’s important for us at this point in time, to make sure we are getting maximum value for our exploration spend. If you don’t have to spend a lot on overheads and logistics for your exploration programs you’re getting better bang for your buck.

“Certainly geological prospectivity drives anything you do, but after that if we can go into areas where there is highly efficient exploration particularly at this point of the cycle, those are places we should give preference to.”

Read expects drill results from a small program at Tumut, in the southern end of the NSW portion of the LFB, west of Canberra, to bring the project to a key decision point after the end of this month. The drilling followed surface trench sampling which produced results such as 20m grading 4.05gpt gold, 10m of 4.5gpt gold and 18gpt silver, and 15m of 3.4gpt gold.

Other promising NSW prospects include McAlpine, north of Tumut, which has old workings and where surface sampling has returned up to 28% zinc and 5% copper; Boomey, near Copper Hill (137Mt grading 0.3gpt gold and 0.3% copper), seen to host the same north-west controlling structures as those that occur at Copper Hill and Cadia, further to the south; the Ashes copper-gold target adjacent to Rio Tinto-operated Northparkes; and the Thomson copper-gold prospect in the Thomson Fold belt.

Drilling at Boomey (100-150m deep holes into an IP anomaly) and Ashes (150-200m holes into IP anomalies) is set to start by early 2009.

Read said he had fielded interest from some large companies in joint ventures on the NSW properties. He and fellow Meridian directors, chairman Ray Miller (former MIM and BHP senior executive), mining engineer Michael Howard (ex BHP), and Andean Resources founding director Morrice Cordiner, know how to play that game