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Cast Prejudice Out Of The Window And Take A Close Look At Norseman Gold

By Charles Wyatt

"It's not easy to please all the people all the time" runs an old political saw trotted out by every political party from time to time. In the case of Norseman Gold it must have been a thought that has gone round and round in the mind of Barry Cahill, the company's chief executive. The idea of putting Barry in charge of Norseman when it listed on Aim was that this was a man with proven experience in operating high grade thin vein mines – he'd run many such operations throughout Australia. Norseman, though, was always going to be something of a challenge. It may be Australia's longest continuously running gold mining operation, having produced over 5.5 million ounces of gold across 65 years, but while it was in the hands of Croesus Mining, the previous operator, it mined itself into a real mess.

Barry Cahill does not want to be drawn into criticising the Croesus team, but does point out that they were explorationists rather than narrow vein miners. "High grade is the key," he explains. "In these two mines at Norseman you can identify the ore from the country rock so you follow it and get it out as efficiently as possible." Sounds simple, but the best operators stick to a simple plan because they know it works, like Johnny Wilkinson kicking his goals. Simple also means that you do not attempt to try to prove up resources too far ahead in narrow vein mines. Just imagine sitting at surface and trying to drill into a vein 200 metres below which may be no more than a metre in width. Even if you hit it, and veins tend not to run in straight lines, the mineralization is not consistent. A nuggety bit of mineralization may be sitting next door to low grade material. Whatever ends up in the assay core tends to be deceiving.

Barry's problem has been to explain this to fund managers who were starting to think they knew something about mining. A little knowledge is a bad thing. One of the things they had got into their heads was that all gold mines – open pit or vein – should have a mine life of between five and 10 years, based on current resources. This theoretical mine life could then be fed into a computer model and comparisons made with peer companies. The only trouble with this is that few mines are the same and the efficiency of a computer model depends on the figures fed into it. Inaccurate future projections for the gold price and for currency rates can and do make a complete nonsense of even the best of models, but these models do have one use – they can be waved in front of superiors when reasons are required for investment decisions.

In the light of the current bear market, where the share price of virtually everything has gone down the plughole, none of this matters quite so much, so Barry will not have to worry about pleasing all the fund managers and analysts all the time. Certainly Guy Wilkes at Ocean Equities is confident that Norseman Gold is now on track and his confidence is backed by the latest quarterly report to end June. Production during the period hit its highest level since Central Norseman acquired the Norseman mine back in April 2007, with 21,116 ounces of gold produced from 102,825 tonnes of ore, giving an average head grade of around 6.4 grammes per tonne.

It is interesting to compare that figure with the last estimate released in June 2006. That showed a total resource of 14.7 million tonnes at an average grade of 4.1 grammes per tonne gold giving 1.9 million ounces of contained gold. This included 5.6 million tonnes at an average grade of 1.3 grammes per tonne gold in the measured category, an indicated resource of 4.9 million tonnes at an average grade of 6.8 grammes per tonne, and 4.1 million inferred tonnes at an average grade of 4.5 grammes per tonne. Agreed, it included some stockpiles with an average grade of 1.7 grammes per tonne in the measured category which may have dragged the overall grade down, but it is still way off our calculated head grade.

As a result of this good quarterly result, production for the year totalled 77,229 ounces, which neatly bisected the forecast range of 75,000 to 80,000 ounces. Cash costs continued to fall, with net direct cash operating costs of A$741 per ounce in this quarter. Barry Cahill reckons that this trend can continue provided higher levels of production are achieved, relative to fixed costs. In other words if Norseman consistently hits monthly production of 80,000 ounces of gold as it moves on towards its 100,000 ounce target, costs should fall below A$700 per ounce. This is borne out by the figures for June alone, which show that production hit 8,190 ounces and operating costs came in at only A$622 per ounce. That makes for a very healthy cash flow as the gold price achieved from sales in the quarter averaged A$947 per ounce. And Norseman has no hedging, which was the death of Croesus.

As well as carrying out development exploration at Harlequin and Bullen, the two mines currently being exploited, regional exploration is continuing at a number of targets within the company’s tenements. The area to the north of the historic North Royal open pit has potential to deliver a near surface resource which could, again, be mined by open pit methods. During the current quarter drilling will focus on upgrading the reserve category of known mineralization, with a particular emphasis on resources close to the treatment plant. Barry plays his cards close to his chest when asked about the next resource estimate, but he makes it clear that he has no intention of drilling for the sake of it, as cash has to be conserved at a time when A$7.3 million has just been in invested in mobile equipment, mine infrastructure and mine development.

Rising costs of fuel, steel and reagents are all having to be assimilated and Barry is certainly not resting on the laurels of a single record month. What he would like is a bit more understanding on the part of investors about narrow vein mining, and about the overall potential of the Norseman field, which in spite of its prolific historic production, has never been fully explored. In the meantime his co-directors have been debating the advantage of taking an ASX listing. One of the reasons Norseman listed on Aim is that it was felt that Australian investors might not give it a fair go in view of recent history. The achievements over the past 18 months have reduced this risk significantly and it is also quite clear that Aussie investors understand mining better than their counterparts in the UK. One wonders, however, if it is worth the time and effort in these days of global markets when all that is needed is for a few intelligent investors to take a long hard look at this gold producer, whose shares have been knocked for several sixes over the past year.