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West African Minerals Undaunted By Satellite Potential For South Djadom

By Alastair Ford

“The fundamental premise on which we went into Cameroon was to try to locate high grade DSO iron ore using geophysics. This worked fairly well to get us into prospective areas”, says Brad Mills.

Unfortunately while the geophysics indicated South Djadom had the makings of a large scale iron ore deposit with more work, the DSO portion was thinner on the ground at the Block 1 target than the company might have liked.

The company’s maiden mineral resource on this first Block at South Djadom, announced on 9th October, showed an inferred 76.1 million tonnes grading 30.3% iron at a 25% iron cut-off grade.

Within this was a higher grade 12.6 million tonne cap grading 41.6% at a 35% cut-off. Block 1 is just one of potentially five that comprise the South Djadom corridor adjacent to the multi-million tonne DSO Mbarga deposit.

Acceptable by world standards, but not good enough for West African, as Brad readily concedes.

“The enrichment cap was thinner and lower grade than we would have liked”, he says. “We were a bit disappointed with the grade.”

Sundance’s Mbarga project, part of the wider Mbalam portfolio of assets, is just across the way, and grades there are significantly higher.

“From an economic perspective”, continues Brad, “South Djadom will really only be interesting when infrastructure at Mbarga is developed. We don’t really expect better grades, and absent high grade material we will focus on other prospects”.

So anyone who thought the initial results at South Djadom might have led to a period of introspection at West African is likely to learn a thing or two about this well run management.

For starters, newsflow from the Binga project, which lies close to the coast, is fairly imminent.

“We’re currently wrapping up the next stage of drilling at Binga”, says Brad. “We should have some results there shortly. The idea is really to see if we can develop some reasonable grade material 50-to-60 kilometres from the ocean. We’re having a thorough look to see if we can bring some tonnages together.”

The aspiration is that Binga will deliver ore of a DSO quality or close to it that can be fairly easily upgraded and shipped.

Once the results are in, West African will assess their priorities and start planning for next year.

“What we’ll do is digest all of that and then tee up the portfolio for 2014”, says Brad. “The obvious targets are the North Djadom magnetic anomalies and Lele. But we’ll also look at other targets.”

It’ll take money to do that of course, but West African is a company with plenty of experience in the capital markets.

Brad himself is a former chief executive of Lonmin, and also runs another company, TSX-listed Mandalay Resources. Chairman Jim Mellon is a director of several listed companies, including mining companies Polo Resources and Condor Gold, and has pockets plenty deep. He’s also, incidentally, the new owner of Minesite having acquired it via an option about a month ago.

Another director, Gerard Holden, was the number one man at Barclays Capital, back in the days when Barclays was the leading force in mining finance in London. He’s since had stints with Norilsk and Namakwa Diamonds, amongst others.

Between them, they ought to be able to put together a decent enough package to keep West African going through next year. Not that there’s any immediate urgency. “We’ll end up the year with around US$3 million”, says Brad.

That residual cash should at least allow the company some say on timing, and may ensure that pricing is advantageous. Because while there are a few signs that the market is improving, it’s still not easy.

“The markets are relatively fraught in the entire iron ore exploration space”, says Brad. But if the equity markets are tricky, the outlook is slightly more favourable in terms of iron ore itself.

“I’m quite optimistic on the commodity”, says Brad. “Soon people will get out of their depression that iron ore is going to US$80 or lower”

Over the past year or so, Brad’s been consistently proved right on the iron ore price, arguing for relative strength against a barrel of far more negative prognoses. Why is this?

“The bears haven’t figured out the difference between capacity and production”, he says. “They’re so used to the LME way of doing things where there is an inventory holder and the inventory holder moderates the price.”

Producers of the LME-traded metals can always rely on being able to sell into a stockpile. But this is not the case within iron ore.

“Iron ore is such a fundamentally different market”, says Brad. “There’s no incentive for producers to produce iron ore that they can’t sell. Why on earth would Rio overproduce? A US$40 drop in the iron ore price is something like US$12 billion to them. So the analysts see the capacity, but they don’t realise it won’t get used.”

And that, he says, is because they lack experience in how an oligopoly behaves. “My bias on iron ore is that there’s much greater producer discipline.”

In this context, where small companies continue to struggle, but the iron ore price stays firm, it’s worth keeping an eye out for opportunities. “We will take a harder look at the distressed assets that are available”, says Brad. Interesting times lie ahead.