Jubilee Platinum - Interview with Colin Bird and Tom Winnifrith

Tom: It is the 24th July. I'm sitting here with Colin Bird of Jubilee Platinum (JLP). That's him coughing there. If I come down with Swine Flu tomorrow, you're to blame. Colin, Jubilee: let's just go through various aspects of it. I'm going to start with the least important area (probably): Madagascar. Is that a write-off?

Colin: No, on the contrary, it's not a write-off. We've got, in the northwest, very pleasing platinum anomalies but of course one goes back to last year or the beginning of last year and junior mining companies were not sure where tomorrow's income was coming from, or tomorrow's funds, so one had to sort of stick to your priorities. We were nicely cashed but of course the key priority has been to get that Tjate project where the key valuation has to be the asset, i.e. the ore resource, and my short term objective has been to get that in place. Together with pursuing our dump profiles and our dump plans. So it's certainly not on the back boiler. In fact, as we've said here, Tom, in Madagascar, we're actually closing in the gaps in the soil sampling, because there's not too many people getting soil samples in excess of half a gram 600m wide by about 2.5km. So that's not the sort of thing you walk away from.

Tom: But you're not committing much cash to it at the moment.

Colin: Oh, absolutely. No, we're looking at around $200,000 this year as the spend.

Tom: Were you to move up the league so that you became a producer and you had cash available for it, presumably at that stage you would ramp up your activities there.

Colin: Yes. And of course depending on the sort of results we're getting now. The one thing about what we're doing in this day and age, in terms of Jubilee as is and its current developments we've announced, there's going to be competition for cash, Tom, and immediate cash flow obviously ranks superior to something which is a few years away.

Tom: Okay. Let's turn, then, to the idea of immediate cash flow. You announced the all share purchase of Braemore, which is another AIM listed company. This I think has confused a number of people, because you seem to have issued a remarkably large number of shares for a company which has historically been loss-making and, despite all talk of near term production, you then also issued some more Jubilee shares to bring more money into the kitty at Jubilee. Isn't this just issuing paper for paper's sake?

Colin: By Jove, it's not! And you know (I'm not giving too many secrets away) I might have been issuing a lot more shares to acquire Braemore 2 years ago when its technology and its process wasn't anywhere near as established as it is now, when the money in Australia hadn't been spent on producing a very robust, bankable study. So I think that issuing the number of shares we're issuing makes me quite happy. And London, of course, I think there's a feeling in London, or there's a lack of understanding in this deal. But you know if Braemore had got no contribution to Jubilee other than to supply it with its smelting requirements, we're actually looking at the NPV level of taking our project (the Tjarte project) at current valuation ($1.4 billion NPV)at current prices to $1.7 billion. The reason for this is that no longer to we give the major 20% of our metal in order for him to smelt for us. We get all the benefits ourselves by owning the smelting. So really, if we're paying $40 million or thereabouts in paper, I'm getting an uplift of $300 million. That's a 7 times, 8 times uplift. And that's not even the reason for doing the deal, Tom.

Tom: Okay, so what is it that Braemore brings to the party? What assets does it have?

Colin: What Braemore brings to the party is there's again a misconception that in actual fact it's technology. It is not a technology deal, it is essentially the answer to the current problems in South Africa. You will read that the majors are experiencing all sorts of trouble with their metallurgical process, in particular Lonmin who announced a blow-up and the fact that they've got to slow down production for quite an extended period. And the reason for this, Tom, is quite simple, that the current smelting capacity in South Africa was designed to handle sulphide ores, which is the Merensky Reef. The predominance of ore contribution in this day and age is from the UG2. The UG2 is chrome and, like it or like it not, today's smelters - the entire capacity - is ill prepared to treat the increase in chrome ratios. The net result is more chrome, more heat, more temperature, more temperature, more brick failures, more furnace failures. ConRoast has been proven to handle up to 11% chrome. It has no sweat with chrome. You produce a lightening bolt which disintegrates the metal. It's simple. They've not had to re-brick for 24 months. It's my view, Tom, that the ConRoast is not an alternative processing route, it's the answer, because my belief is that you will not see a conventional 6-in-line furnace being built again in South Africa. ConRoast is the way forward, both in the short and long term. So what's happening here? Jubilee, you know, has put itself into a new space. From exploration through to finished metal. Nobody in our space other than the majors, in my space, my competitors. We can actually produce finished metal.

Tom: Braemore owns this technology - does it actually own a smelter?

Colin: Yes. Well, it owns the rights to use the smelter. The demonstration smelter can handle 2,200tons a month. As you know, mining is a big business and you don't get away with laboratory scale tests. I'd be quite anxious if that was the case. No, we've got a big system, a big smelter and that works and we've located the site and we're actually getting that in production in the next 6 months when we'll be able to smelt the equivalent of about 130,000oz per annum.

Tom: So that should generate what sort of cash flow for Jubilee?

Colin: Once we get to that finished state in probably about March/April next year, we shall be looking then at the combined group doing between $12-15 million.

Tom: Of revenue, or ...?

Colin: Cash flow.

Tom: Cash flow?

Colin: Surplus of income over expenditure. It's not that significant but –

Tom: Mr. Colin 'Micawber' Bird! Right.

Colin: It's a start, Tom, and it's a significant start because this step wasn't taken lightly. We basically could have bolted our Tjarte ounces, which we're very happy with, onto other people's ounces. So what? More ounces? Same story? The problem with the industry, in actual fact is its smelting. What we've done is joined up with a company who's got the answer to that smelting and you know, Tom, there's the myth again, you know (in fact I've heard it myself), that Jubilee has given up a massive 30% yield in its equity in order to acquire new unproven technology. The reality of life is that DCR furnaces have been around for yonks. There's some massive DCR furnaces in the world and the patents and intellectual property isn't about DCR furnaces, which are bog standard, it's about the way that you collect platinum and you collect platinum by the use of iron and that system is what's patented and it's that system which gives us the key to tomorrow's platinum smelting door.

Tom: Okay. The $12-15 million that you'll be generating as free cash flow next year, is that just from the smelting process, or is that implying that you're using your own rock?

Colin: No, good Lord! We've had to be very careful because the phone's never stopped ringing since we announced we're getting together. We're not going to get into bed with one single supplier of feed stock, so currently we're dealing with 3 suppliers of feed stock, probably in equal proportions. Putting in at the moment 2,200tons which will go up to about 5,000 tons a month and slightly beyond and it's a combination of toast smelting and returning metal to the customer and keeping metal. We've de-risked the process. We've de-risked the line. So that's where our income will come from.

Tom: We talked a little while ago about other near term sources of cash flow - your own tailings operations. When would they be starting to kick in?

Colin: Well, first of all, what this has done, it's enhanced the value of our own tailings, not only by getting together with Braemore, we'll be able to treat our own tailings and the first plant to treat our tailings, i.e. to smelt our tailings from a concentrate, we will also be able to provide a smelting facility for 2 or 3 other similar operations in the western Bushveldt. When our operations come in - we're just sealing down the paper work, getting everything in place, so again that's one of the steps in the development of Jubilee.

Tom: When do you think that you would ... How much would it cost to build a smelter to process yours and other people's tailings?

Colin: This is the amazing thing, you know. 6 months ago, I would've said $100 million. I was actually misled. It's 100 million Rand. $12 million. We're sitting in your boardroom and the footprint of the technology of the process we're putting in is as big as this room. We're not building football field type smelters here.

Tom: So if it only costs $12 million to build, then presumably, with the cash that you have in the bank and the cash that you're going to be generating from the first Braemore furnace and the fact that you probably will be able to borrow against that cash flow, you should be able to get your own tailings operation up and running without seeking external funding?

Colin: You've hit it right on the nose. You've sort of given me a smack on the nose for giving away my equity too cheaply. I would argue that I've actually made good deals which will benefit long term, well, mid term and short term to Jubilee shareholders. But you're absolutely right, you don't keep giving paper away at 37p, you've got to start valuing it and I'd like to prove the business model. I'd like our investors and new investors to share my belief that we're actually going into that mid-cap sector and when we come with real projects, where we can give the capital cost, the operating cost and what the contribution to the group will be, Jubilee will have a list of competing projects. For example, Tjarte will compete against the Australian nickel - 450,000 tons of nickel dumped on surface. No mining costs. We'll be competing against enlarged furnaces. We'll be competing against our dump concentrate production. So Jubilee will be a company which has aspired to mid-cap, got to mid-cap space and has got competing projects for the cash, so –

Tom: You seem to be implying that, for a capital cost which could be funded internally, if you were to say, "Right, I'm going to put everything into getting the Braemore furnace up and running in the autumn and then sometime next year getting the tailings furnace up and running," you could be a company which is chucking off $25 million of free cash flow. That would be enough to make you mid-cap on your own.

Colin: Yes, if you start doing the necessary multiples, yes indeed.

Tom: Let alone Tjarte and the Australian nickel you've got from Braemore. The Australian nickel (this is something that's passed me by), what's the development plan for that?

Colin: It's very interesting. When I first looked at Braemore, which is 2 years ago, that attracted me more than ConRoast. What's happened to ConRoast of course over the last couple of years is the increase in the amount of UG2 which has made it a much more attractive process than it might have been 2 years ago. What you've got, Tom, is those big mines in Kalgoorlie. Western Mining did a deal with the former Braemore people which gave Braemore all the access to the 450,000ton dumps - existing mines too, so the dump's getting bigger by the day - to actually mine and extract the nickel. BHP acquired Western Mining, as you know, and then acquired Braemore and this deal and the right to back in and you know one of the projects (Kambalda) is probably as high as 6.7% nickel and there are open cast miners now who are mining primary rock. There's 450,000 tons of nickel that hasn't got any mining exposure against it. Sulphuric acid nearby. Total mining infrastructure available. And a break-even price, we think, of about $12,000 per ton of nickel. That makes it a very attractive, cheap nickel for BHP and we're not talking about these massive pressure leap systems, $1 billion, $1.5 billion, we're actually talking about a total expenditure of about $130 million per dump. Cheap, Tom, and I'd be very surprised if there won't be a knock on the door or a telephone call which says, from BHP, "Come, on, let's talk. Let's get that first operation going." I'm not banking on it but, as an engineer, I liked it. I liked it a lot 2 years ago and nothing's changed.

Tom: Okay. Let's treat that as upside to the core valuation. To Tjarte: you keep making progress but, as with all these mining things, people wonder when are you actually going to start building a mine. When are you actually going to start building a mine?

Colin: That's a good question, Tom. And you know I've been criticised all over London (and probably South Africa as well, but less in South Africa than in London). The guys who are building plants now are actually at maximum capacity and when they bid for the plants they're building, the concentrators, nickel was up in the late $30,000s, copper was in the $8,500s, we all know how steel prices went and the actual cost of plants went up 60%. If you asked them to bid now, they would be bidding on the prices that they would like to be. 6 months from now, 4 months from now, the order book will be empty, current contracts will be coming to an end and reality will have set in. So really, Tom, when we go to bankable, that word 'bankable' means a lot. Not what Colin says, not what Tom would like to think, this is about an independently assessed engineering company saying what it's going to do for the capital. So that number has got to be hard and firm and I really don't want to have to ask the engineering companies now, who have got full order books and are flat out, to give me a price on a new concentrator. Likewise, I'm amazed when I see Johnson Matthews saying, "Oh, for 2009 we think the platinum price could range between $750-1,400." Really, Tom, how long is a piece of string? And 2 out of the 3 components are so questionable at the moment, i.e. the capital cost and 2 (what makes it all go) the metal price are so indeterminate, so volatile, so unreal that isn't it better to wait for more stable times? In reality, we can have a feasibility study out in 2 months. We know the key assumptions but to get it hard nosed that we can walk into a bank -

because that's the words we're using, 'bankable feasibility study' - I'd like a bit of the volatility to disappear. And it will. It will.

Tom: So what sort of timescale would you expect for a bankable feasibility study?

Colin: As I say, I could produce it tomorrow. I would expect the autumn is a sensible time. But remember, by the combination now of the group we've got, Tjarte will be competing for space with Australia, with enlarging the capabilities of our smelters and of course there may be smelters to build elsewhere. So what the Jubilee board will be looking at will be the project which requires the minimum capital for the maximum return. There's competition for space. And I think maybe you've hit the key there, you know. Jubilee no longer is about Tjarte, is it? Really, it is aspiring to be a mid-cap company with multiple choices. Probably not even a sole platinum company, Tom, if you start talking about nickel and the other opportunities available to us.

Tom: If you say that Tjarte ... from what you say there are other projects where you can have a much lower capital outlay and generate cash quickly, would you consider that you might by the autumn start discussing the option of basically flogging Tjarte off to whoever it is who owns the neighbouring farms?

Colin: I really don't see that, no, because I still see Tjarte as the core of this deal. I see Tjarte as the core of the company. It's only 2 years ago, Tom, that people were talking of a platinum company with a resource statement being worth \$20/oz in the ground. Now, \$20/oz attributable to Jubilee is essentially 50 million oz. That gives me \$1 billion which gives you something like £700-750 million and there's a hell of a gap between £40 million and £700 million, Tom, and I'm certainly not giving that gap away. I think one thing I haven't brought out too well is Tjarte will be Tjarte and financed fairly conventionally. With the problems the smelting industry is having, the opportunity for innovative financing, i.e. where the provider of the feed shares in the metal and also the construction of the project, is not as conventional. The need is greater than Tjarte at the moment. The requirement to have the smelting problems sorted is immense and so, for lack of a better word, let's call it trade finance, shall we? I think trade finance possibilities to achieve our short term cash ambitions are probably very real and should be explored in the marketplace we find ourselves [in], because I don't want to raise equity finance at 37p. I certainly don't want to be working for the banks and at the moment there aren't too many banks running around with £600 million saying, "Would you build us a mine?"

Tom: Presumably, though, if you were to get the Braemore smelter and the tailings smelter up and running (which you imply you can do without raising any additional equity) and you were doing £20 million operational cash flow a year, current share price - you're capitalised at £65 million or something?

Colin: That's the combined group, Tom. We're basically about £42 million, I think it is, isn't it?

Tom: Combined group, post –

Colin: About £70 million, yes.

Tom: £70 million. You're not going to be trading on 3.5 times cash flow with those long term things forever, are you?

Colin: No, of course we're not. And there's the crux of it all. We've got to basically go through the pain of developing the cash flows. We've got to demonstrate to the industry, the shareholders, that we're sound, we're robust and we've got long term plans and then I think basically the recognition will be back for the company's management.

Tom: And presumably also there's going to be the stage where, if we said that the capital costs of developing Tjarte were, what, $400 million?

Colin: $600 million.

Tom: $600 million - if you were able to get 60% of that through conventional debt, 70% maybe, you're talking about $280 million but you wouldn't necessarily have to do all the rest with equity, would you? There must be some funding... You don't own all of it anyway but also there must be some ability for the company to borrow at a corporate level against its secure cash flows which could provide some of the equity component for the project fund.

Colin: That's right. There's several stages of financing. You know, a lot of those Western Bushveldt mines are getting very old now, getting very tired, are losing money at today's prices. New capacity will be needed and there will be people out there to assist us with that new capacity provision, I'm sure.

Tom: A final quick word: it's not a stock we cover on t1ps.com but Kiwara (KIW) you are also involved in. I think you own 23% of the company or something, don't you?

Colin: I own a little bit more than that, I think, Tom. I own 47 million shares which I guess is about a quarter. Yes, 25%.

Tom: 25% of the company. I haven't really followed Kiwara because it's a bit early stage for me but some people are telling me that I should be. I'm not going to because everyone will say I'm just being too nice to you but some people are saying that ... I mean it seems a very early stage prospect but then some of the numbers you come out with from Kiwara have seemed like telephone numbers to me.

Colin: Yes. And it's nice that you're nice to me, Tom, from time to time. I need somebody to be nice to me. But you know 1.38 billion tons is not Mickey Mouse.

Tom: Is that copper or –

Colin: No, that's of ore but at 0.78% as the copper grade.

Tom: Right.

Colin: The copper grade is very palatable, very manageable. If you're looking at 1 billion tons you're often looking at 0.4%. The difference really between 0.4% and 0.85 - it's double. They are telephone numbers but they're very real because again they're not Colin's numbers, these numbers come from Snowdon - a very reputable independent who has spent the last 6 months actually working on them. But the big thing here, Tom, is ... several things, really. It ain't the end. It can continue down dip and it's open both north and south, so that 1.38 billion tons can definitely grow. But the biggest thing to me, as an engineer, is the fact that, if you test the cut-off grade and go from 0.3-0.6/0.5%, many of these projects die because you can't join them up any longer. This joins up at 0.5%. The geology - it's continuous cut-off - and your tons drop to about 850 million. Likewise, if you take it all the way up to 1%, it still joins up and we sacrifice to 257 million tons. Now, 257 million tons at 1% is a mine to be envied by the copper producing companies in the world but, notwithstanding ... and you know we talk about Tjarte being the advanced project - we picked up 30 bore holes from others (and of course when the bore holes were drilled, near surface mining wasn't a proposition in Zambia) and we've drilled 35 of our own, so Tjarte we've got 42 bore holes. At Kiwara in the Kalumbila project, the copper project, we've got 70. So I might argue with you, Tom, that maybe Kiwara is a lot more advanced than you're giving me the benefit of. And then we announced those 2 nickel holes and you know there 870m apart, tremendous nickel grades. The whole industry accepted that and I didn't really believe them myself, I share that with you. We spent a week looking for the deliberate mistake - decimal points in the wrong place, lots of arsenic - but none of those and I'm happy –

Tom: You've just got some funding, haven't you, from the International Bank or something?

Colin: Yes, the IFC have committed an initial $6 million, indicated $15 million and that first tranche of money will take us a long way along the value release.

Tom: So are you drilling right now?

Colin: I'm drilling as we sit here, Tom. I'm drilling that nickel. Because you know with 70 bore holes in Kalumbila, 11km away is our Kawako nickel project, one project is miles in front of the other and I think the world will actually sit up and be quite surprised if we start producing or repeating those nickel grades that we had in Kawako. So I'm actually biting my fingernails down as we sit here, waiting for the report from the drilling today.

Tom: Okay. We'll watch that with more than interest. Thank you very much, Colin.

Colin: Thank you for your time, Tom. Thank you.