

CAPE LAMBERT RESOURCES

PERFECT STORM OFFERS A PERFECT OPPORTUNITY

There has been a decidedly ill wind blowing globally for the past 12 months and while there have been some serious losers in the resources sector, there have also been some handsome winners.

ONE OF THE WINNERS is the Australia-based multi-commodity company Cape Lambert Resources.

Just 15 months ago, the then Cape Lambert Iron Ore sold its flagship magnetite iron ore project for \$A400 million to China Metallurgical Corporation.

The sale was fortuitous for a number of reasons.

Firstly, the acquisition was concluded the month before United States banks started to collapse, sending financial markets throughout the world into a tailspin.

Secondly it was conducted at a time when the Foreign Investment Review Board (FIRB) took a far more tolerant view of major Chinese acquisitions in Australia.

Thirdly, it gave the Tony Sage-led Cape Lambert a treasure chest for the hard months ahead.

Cape Lambert has since developed from a one commodity company to be in charge of a significant number of companies with a broad range of commodities throughout the globe including Peru, Argentina, Brazil, Kazakhstan and Australia.

A former fund manager, Sage has made an art form of investing in early-stage resource projects that are considered undervalued or distressed, then adding value through Cape Lambert's own in-house technical

team. While retaining the Cape Lambert South magnetite iron ore project in Western Australia's Pilbara, Sage has been able to take advantage of the depressed market in the past 12 months to acquire a number of valuable assets.

"We have a completely different model," he told *RESOURCESTOCKS* from his modest offices in Leederville, WA.

"It's the resource investment house model, but involves more than just putting money into a project.

"Our story isn't about production. We look for a project that is a good asset, has infrastructure and a potential end buyer.

"When we put money into a project or a company, we invest in it, providing it with corporate and technical support to add value."

Cape Lambert's audacious acquisition of the CopperCo assets for \$A135 million in May 2009, provided the company with an additional suite of projects.

These included Mineral Securities, the Lady Annie copper project, 25% of the Lady Loretta lead, zinc and silver project, 100% of the Sappes gold project in Greece, 19.9% of the Australian Securities Exchange-listed Buka Gold, Corvette Resources and Tianshan Goldfields, as well as shares in a number of Alternative Investment Market-listed companies including

Platmin, Herencia Resources plc and Chaarat Gold Holdings.

The fact that CopperCo had been placed in administration meant all previous contracts held by the company were extinguished and Cape Lambert was able to take control of the ailing company and its assets with a clean slate.

This enabled Sage and his team to renegotiate far more favourable contracts for CopperCo.

It also enabled his team to review the corporate management of the various companies.

"We have been able to assist these companies by reviewing their assets or by raising funds," he explained. "We were able to raise money for some of them in an environment where the former management had been unable to do it.

"There are instances where management isn't totally focused on developing their projects to another level.

"I don't have to tell anyone in Western Australia how many companies are out there, the amount of money that goes into the ground and the amount of money that is spent on other things. When we invest in a company we want to change that.

"I haven't got a flash office in St George's Terrace. I've been here eight years and find it suitable for our business and I'm not going to move."

Sage emphasised that money the company makes goes into the ground to add value to projects following a technical and corporate review.

"The first time we looked at CopperCo following the acquisition, we looked at Tianshan Goldfields – it's a very low-grade asset in China," he said. "We asked the question, how hard is it going to be to mine in China?"

"We think there's a 5-7 million ounce ore body there, but we've got to prove it."

TONY SAGE
CAPE LAMBERT

"Not many western companies can do it successfully, so the first thing I did when I got on the board was suggest they sell. The other directors were quite passionate about it, but after some discussion they agreed it was the best option."

"It is now sold and we're just waiting for the money. We can do a lot of things with that \$24 million than spending another \$7-8 million that they had left in the bank developing something that was going to be very difficult to mine unless you were a Chinese company."

Sage said all of Cape Lambert's assets were for sale at a price.

However, he nominated Corvette Resources, one of the assets in the CopperCo portfolio, as a company that would stay with Cape Lambert for at least 18 months.

"Corvette was not doing very much when we took it over," he said. "It desperately needed exploration. We think there's a 5-7 million ounce ore body there, but we've got to prove it."

Corvette holds 2300 square kilometres of land in the emerging Albany-Fraser gold province, southeast along strike from the much-vaunted Tropicana gold joint venture between AngloGold Ashanti and Independence Group.

Cape Lambert's strong cash position plus little or no debt and very liquid assets, places it in an enviable position with assets like Corvette, which was one of three gold companies in the Mineral Securities portfolio.

"I couldn't see why there was a need for three gold companies," he said. "We looked at merging them to get them all together for better utilisation of staff and to combine office space. Each of them had different offices."

Sage said the Mineral Securities model, which was leveraged on debt, was very different from the Cape Lambert model.

This strong financial position enables the company to spend money on a drilling program for an asset like Corvette and have the patience to add value and wait, even if the market turns.

"When we took over the Mineral Securities group we looked at all the assets and what we couldn't control – and by that I mean board control – we offered for sale," Sage said.

"An example is Platmin. If you look at the price, we bought it for about \$4 million and we'll be able to sell it for about \$30 million because the market's gone up."

Sage believes the key to the Cape Lambert model is to always have an end buyer for an asset.

"I have very good relationships with several Chinese groups. All of our projects at the moment are being looked at by one or two of those groups and we have a continuous information flow to them as we go through our drilling programs," he added.

"We're not going to do all the work advancing a project and then suddenly put a 'for sale' sign up."

"What we've done is to bring potential buyers in early and, if they like the project, then we provide them with any information updates so they are kept informed. They've already been out to one of our projects in Africa."

"When a decision is made to sell we can then fix a price, reach agreement without a hold-up of eight months for due diligence."

Sage describes Cape Lambert as a funds management group with the added benefit of being able to add a range of corporate and technical support to projects.

Instead of outsourcing the technical work for in-house projects to engineering consultants, CFE Projects is able to provide its expertise to Cape Lambert.

Established as a profit centre, the team is able to take on projects outside of Cape Lambert when they are not involved in company projects.

"For example, when African Minerals found their major iron ore deposit in Sierra Leone, it was a result of work our staff had done," Sage said.

"We did the preliminary work before they got their own people involved."

"I believe that's a bit of kudos for our team."

One of the key assets in the CopperCo acquisition is the Lady Annie copper project in Queensland, which has been earmarked for sale or listing on the ASX.

"It is highly likely that we will float it off," he said.

"I don't want to be stuck with a 45-day wait while the Foreign Investment Review Board decides whether a Chinese company can buy it or not and then have them say no."

"I believe we'll get \$200-220 million quite easily of which Cape Lambert will get, in cash and shares, about \$165 million."

"That's not a bad deal considering we only paid \$80 million for it in June." – **Ron Berryman**



DMC Mining exploration in Africa

CAPE LAMBERT RESOURCES AT A GLANCE



6 months ending November 4, 2009

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MARKET CAPITALISATION

\$A260.2 million (at press time)

MAJOR SHAREHOLDERS

Marampa Iron Ore 11.37%
HSBC Custody Nominees (Australia) 11.19%
J P Morgan Nominees Australia 7.67%
Antony Sage 4.97%