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RIO TO THE RESCUE. POSSIBLY. AS BHP DUCKS OUT OF DAM STIMULUS

South Australia could be saved by the giant's move

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SOUTH Australia may not be down a hole as far as it thinks following BHP Billiton's decision to drop the ball on what promised to be the state's own stimulus package, the $30 billion expansion of the Olympic Dam copper-uranium-gold project.

That's because BHP's old enemy Rio Tinto is out to find a deposit to rival Olympic Dam just 30km to the north at the Vulcan prospect, a joint venture Rio has with Perth-based junior Tasman Resources (TAS).

The joint venture has kicked off an eight to 10 deep hole exploration program that will cost $5 million and probably will take seven or eight months to complete. Assuming results excite, Rio has the right to earn an initial 55 per cent interest in the Vulcan tenements by spending $42m.

So this is one serious exploration effort.

Little wonder. Previous work by Tasman confirmed the presence of Olympic Dam-style rocks and mineralisation, right down to the same sort of copper, uranium and gold mineralisation. Holes in that earlier program were drilled in the northern part of the 12sq km gravity Vulcan anomaly. Results were interesting enough, and obviously encouraging enough to attract the likes of Rio.

But what everyone has been waiting for is results from drill holes in the southern portion of the anomaly, where it is seen to be more dense.

The area would have been drilled previously but was held up pending clearance by traditional owners, which is now in the bag.

The wait for initial results from the southern zone is nearly over, with the first of the southern holes now twisting its way to depths of 1-1.4km. For a company of Tasman's size (15c a share and a market capitalisation of $34m), it is as close as it can get to a company-making event from a single hole.

Should any of the holes in the program snag something that points to the same sort of big-time potential that was found all those years ago down the road at Olympic Dam, it will be off to the races for Tasman. Unusually, Tasman has carriage of the initial work in the southern area as operator. That is an acknowledgment by the mighty Rio of its expertise in things Olympic Dam-ish thanks to one Rob Smith. He is Tasman's senior geoscientist and worked for 22 years with Olympic Dam's previous owner, WMC Resources, in exploration, operational and managerial roles across Australia. He was also part of the team behind the discovery and development of Olympic Dam, where he was chief geologist for six years.

While Rio is comfortable about Tasman overseeing the initial program at Vulcan (south), its joint venture deal with the junior does envisage Rio becoming operator should exploration success warrant its continued involvement after the initial drilling program. Rio has already paid Tasman $10m to get on with the work.

When the first program is completed, Rio has the right to earn a 55 per cent interest by paying Tasman a further $7m, as well as spending another $25m on exploration or by producing a concept study/inferred resource estimate within three years.

That deal is as good as it gets for juniors with the big boys of the industry. It is also why Tasman could care less that BHP this week decided to walk away from a $3m deal to acquire some of Tasman's secondary exploration tenements in the broader Stuart Shelf region.

In walking away from the Tasman deal, BHP is saying that it is the "natural owner" of any future mines in the area, which kind of sounds like a line out of *Mad Max*: If you wanna develop a mine in my back yard, talk to me. That's BHP's spin on it, anyway.

The reality is that Rio will have its own pedal power should Vulcan stand up as a development project, just as it is doing, to BHP's chagrin, at the $US10bn Oyu Tolgoi copper project in Mongolia.

Oyu Tolgoi was originally a BHP property. But a round of cost-cutting in 1999 saw it offload the project to Robert Friedland's Ivanhoe Mines for all of $US11m, and a later payment of $US37m to extinguish a 2 per cent royalty.

In more recent years Rio took control of Ivanhoe (since renamed Turquoise Hill) and it is now developing the former BHP property as the planet's newest "tier one"

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copper-gold mine development. Now, given that BHP had plenty of time to do a deal with Tasman on Vulcan but turned up the opportunity, it would be more than a touch ironic see Rio hit paydirt again in the shadow of BHP.

Excelsior Gold (EXG)

INVESTORS are moving beyond the producers in the search for exposure to the run into the gold price to more than $US1725 an ounce, and the expectation that it has further to run if hopes of a fresh stimulus for the US economy prove well-founded.

The hunt has moved to the developers and advanced explorers and, unlike previous runs, they don't need to have a West African project — a reflection of some notable disappointments among that bunch of late.

Nope, a good old-fashioned Aussie address will do now. And if there is a resource base with near-term development appeal, a company can expect a valuation of more than $50 an ounce in the ground. That's why Excelsior Gold (EXG) found support last month at a 11c a share and is now trading at 14c for a $51m market capitalisation.

That's a handy 27 per cent gain that reflects ongoing success in the outlining of more ounces at the group's Kalgoorlie North project, now estimated at 952,000 ounces (17.9 million tonnes at 1.66 grams of gold a tonne). Thanks to its location, the project has toll or stand-alone treatment options to get into production. And in the meantime it is expected to continue to add low-cost ounces to the resource base ahead of the release in the June quarter next year of a development study.