

AMA to begin shipping tantalum after long delays and steep share-price slide

BY GOOLA WARDEN |

A little-known statistic that Tjandra Pramoko, CEO and major shareholder of Catalyst-listed Alliance Mineral Assets (AMA), likes to cite is that every iPhone has about US\$1 worth of tantalum in it. Specifically, the rare earth element is a crucial component for the touch screens of the iPhone, as well as the multitude of other mobile devices that have now become indispensable in daily life.

AMA has just produced its first 100kg of tantalum at its Bald Hill Mine in Western Australia, which could revive interest in its depressed shares. Bald Hill Mine spans some 59,000ha, but only 1,500ha has been explored and proven to hold tantalite ore. Even so, it is already capable of processing 400,000 tonnes of tantalite ore a year.

The mine also has a recently commissioned primary processing plant. This is essentially an ore refining and reduction facility, where tantalite oxide is extracted from clay and refined into tantalite concentrate. The refined mineral is then sent to a second, more sophisticated processing plant in Kalgoorlie, about 600km east of Perth, for further refining into a purer tantalum concentrate. "The job of the secondary plant is to upgrade the material from primary to saleable concentrate," Pramoko says.

The cost of production of tantalum concentrate at AMA's Bald Hill Mine is estimated to be around A\$60 per lb when at full capacity. At the moment, AMA's ore is from a shallow pit and is easy to process, capping production costs. AMA has negotiated to sell half of its tantalum output to Mitsubishi Corp Rtm Japan at undisclosed prices. "We have a distribution agreement with Mitsubishi to sell 50% of AMA's tantalum concentrate," Pramoko says, but declines to reveal anything about pricing other than that it will still allow AMA to earn a good margin.

According to Pramoko, Mitsubishi is also keen to buy more tantalum, as Japan is expanding production of surface acoustic wave filters (SAW), a device used in the production of mobile phones. "Mitsubishi has confirmed



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that there is a strong demand for the tantalum oxide we are producing, as the world is hungry for smartphones," Pramoko notes.

In the week of July 6, executives from Mitsubishi will be in Perth to view and test the tantalum produced by AMA. Pramoko has no doubt his customers will be impressed. "The concentrate, [whose chemical name is] tantalum pentoxide, has 40% of tantalum, which is higher than the rest of the world's concentrate of 25%," he says. The higher the tantalum in the concentrate, the higher the price it can command.

The refining result is also better than the initial reports AMA provided Mitsubishi. "Once Mitsubishi is happy with the content of AMA's concentrate, the company will start selling concentrate to Mitsubishi and ramp up production for sale," Pramoko says. He is hoping to ship the initial tantalum concentrate to Mitsubishi soon after the visit by company executives. "They have offered prompt payment upon receiving the bill of lading [a trade finance bill describing the shipped goods]. This will take place in the next few weeks," he says.

Slow start

AMA was listed in July last year at 23 cents, and its share price has since fallen to around 13 cents because of a dearth of news from the company on its progress. One problem was that activities at the mine were stalled because the requisite licences were not granted as quickly as expected. "We waited almost a year for all the licences to come out. That's what put us back," Pramoko says. The final licence was received last December.

This year, AMA began mining tantalum ore and has built up a stockpile of around 18,000 tonnes. In the past two months, it has also been operating its two processing plants.

Pramoko says he has been careful to keep costs low and use labour as efficiently as possible, as miners are expensive to hire in Australia. "In our primary plant, on our site, we've got seven people, including those operating the processing plant. It's a very small crew. The plant is manned by only two people," he says.

Accounting standards in Australia won't recognise the mine is in production unless capacity has reached 90%, though. Hence, AMA is unlikely to book revenues and cash flows until next January. At 90% capacity, AMA will be capable of producing 100 tonnes of tantalum. "Unless we reach 90% of our capacity, we will not say we are in production," Pramoko says.

He is confident he can find a buyer for the tantalum not taken by Mitsubishi. "We are in the process of finalising a deal with potential European and American off-take partner" he says. Tantalum sourced from mines in Australia tends to fetch higher prices than that from mines in Africa. This is because tantalum ore from African mines contains sufficient levels of thorium and uranium to be classified as radioactive when it is handled and transported, according to the Tantalum-Niobium International Study Centre (TIC).

Of course, the amount of radiation from mobile phones and other devices that include tantalum as a component is harmless. And, it is unclear whether any radiation emitted by these devices actually comes from the tantalum that is used. Nonetheless, tantalum from African mines, much of which makes its way to China, is priced significantly lower than that from Australian mines. Tantalum concentrate in China is currently priced at US\$70 to US\$75 per lb, compared with a global price of US\$80 to US\$83 per lb, according to a report by TIC.

The global supply of tantalum is tightening, thanks to the Dodd-Frank conflict min-

erals legislation, which has led to a de facto embargo on tantalum from the strife-torn Democratic Republic of Congo. According to a report by Roskill, demand for tantalum is expected to exceed supply by 2016. "Bald Hill is the only mine operating to produce tantalum in Australia," Pramoko says. "The mine has a track record of production and at one stage was the fourth-largest producer of tantalum oxide globally."

The first few shipments of tantalum from Bald Hill Mine are likely to be booked as negative expenses by AMA. "If we are in production, we would have to pay tax. We are following the accounting standards to the letter," Pramoko says. "We anticipate by January 2016, the ramp-up will be finished, and that is when we can say the word production."

In the meantime, AMA will probably not need more cash, according to Pramoko. "We have enough working capital to get us to production," he says. "We recently had discussions in Singapore with regard to prepayment of product, signing of a long-term off-take agreement with Mitsubishi and financing of AMA's future expansion plans. All details are confidential at this stage, but Mitsubishi is very supportive of AMA's development. The fact that it is also willing to negotiate to give us prepayment will be of great help to AMA."

Within the Bald Hill Mine tenement, tests have shown the presence of gold, lithium, niobium, tin and rubidium, which could provide scope for AMA to earn additional revenues. "In the ore, there is a suite of elements. Once the tantalum is extracted, we have to process for other minerals. We have gold and lithium," Pramoko says. "We are talking to a company that wants to do due diligence on our gold in the ground."

Interest from new investors

Pramoko also hints that AMA might get new investors. Notably, a Hong Kong-based commodity trading company is in talks with AMA's management. "We've got the licences, processing is proven to be working and we are a very cheap target. AMA is ready to produce. People have approached us — not only people but companies," Pramoko says.

Pramoko and his family were originally property developers. They invested in quarries to secure materials for construction and subsequently began investing in gemstone mines. It was through their gemstone mining business that they learnt of the opportunity to acquire Bald Hill Mine. The former owner of the mine, Sons of Gwalia, was Australia's third-largest gold producer and once produced half the world's tantalum. However, Sons of Gwalia went into receivership in 2004 following a gold mine mishap and hedging losses.

Pramoko acquired Bald Hill Mine for around A\$13 million in 2008. In all, his family spent around A\$18 million getting the mine and its processing plants working again. Last year, AMA raised \$10 million in an IPO. Based on AMA's outstanding 393.9 million shares, Pramoko's cost works out to about eight cents a share. Anchor investors who got in pre-IPO paid the equivalent of 14 cents a share.

For 3QFY2015 (it has a June year-end), AMA reported a net loss of A\$431,379 (\$581,394), down from a loss of A\$1.18 million for the same period last year. Both operating and free cash flows are still very much in the red. That could be reversed once AMA starts booking revenues and cash flow in 1QCY2016. As at March 31, the company's net asset value stood at 6.3 Australian cents a share. **E**

