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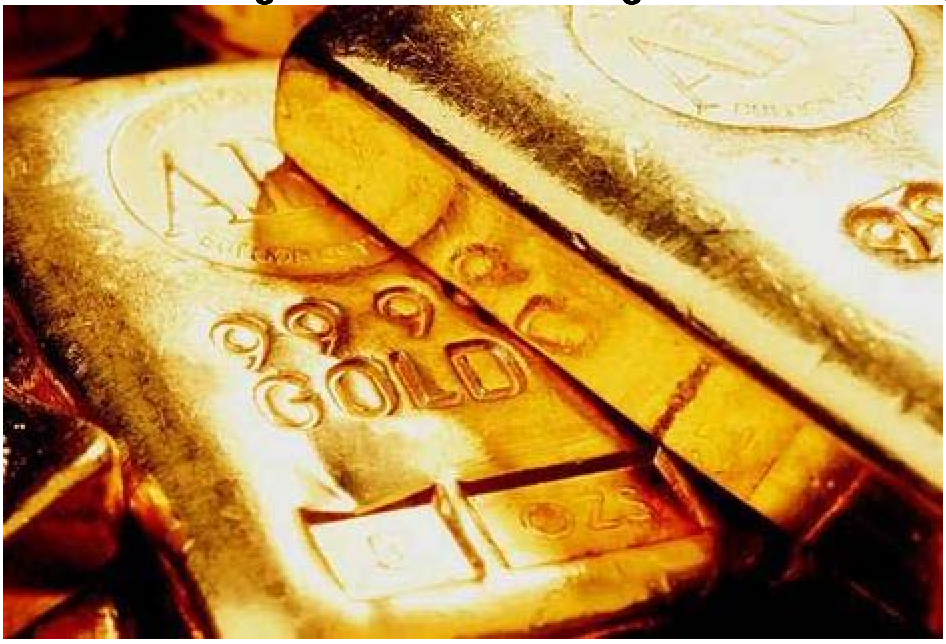
Gold's rush gives investors a good view to higher returns



Bulls chase some bullion gains.
Photo: *Greg Newington*

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GARIMPEIRO

GOLD'S return to six-month highs of $US666 an ounce has injected some much needed sex appeal back into the gold equities sector.

The sector lost out big time in 2006 as investors chased nickel, zinc and iron ore juniors like there was no tomorrow.

But gold's appeal as a hedge against inflation has driven the price 9 per cent higher in the past 30 days and 18 per cent higher in the past 12 months.

Convert the US dollar gold price into the local currency and the resultant $A856 an ounce is a price about which no one in the industry could or should complain.

Investors are starting to agree, with a noticeable pick-up of interest in the plans of junior and mid-tier gold stocks in recent weeks.

View Resources is one stock to benefit. It has the added benefit of having a nickel leg that could well produce a game-changing boost to its projected net cash inflows in the near term.

Recent share price strength has taken View to 33¢, or near-on $100 million all up — a level that means it also has the grunt to be a player in the flurry of merger and acquisition activity that many suspect will occur in the junior to mid-tier gold sector this year.

For the time being at least, View's flagship project is the Bronzewing operation in Western Australia's north-eastern goldfields.

Acquired for the knockdown price of $9 million from US giant Newmont in 2004, it is coming back as a fully funded 120,000-ounce-a-year gold producer in the June quarter.

Its return is based on an initial 463,000-ounce gold resource, the size of which View expects to add to by spending up on exploring its substantial ground position on the Yandal belt.

Encouraging owners of stranded gold deposits within 100 kilometres of Bronzewing to run their ore through the plant will also be a feature.

View has gone to great lengths to make Bronzewing, with its expected average grade of about two grams of gold a tonne, as bomb-proof as it can. That has been done by protecting the downside in gold prices while keeping most of the upside in a hedging program (175,000 ounces at $A900 an ounce in forward contracts and 150,000 ounces at $A830 an ounce in put options).

Protecting cash margins, forecast at $A256 an ounce, has also been extended to hedging 23 million litres of diesel fuel, its biggest consumable.

The "let's sleep easy" approach to Bronzewing comes as **Mincor Resources** is doing its best to make its nickel joint venture with View at Carnilya Hill near Kambalda (View 30 per cent) a winner.

Mincor wants to see the old WMC/BHP mine beef up its own nickel reserves/production profile and has indicated that an initial resource estimate, based on last year's successful exploration program for down-plunge mineralisation, should be available by the end of the March quarter.

Given nickel's continuing fancy price, and Mincor's ability to bring it back on line quickly, it won't take much in tonnes of contained nickel for the market to get excited about Carnilya's cash flow potential, for both Mincor and View.

TOM EADIE'S **Copper Strike** has not been around all that long.

So it wasn't a bad effort by Eadie to get to the point last week where, after being seen taking in the lunchtime telecast of the Super Bowl at a Melbourne watering hole, he was able to release the feasibility study into the development of the Einasleigh copper project in north Queensland.

The study found that an $88 million development producing some 15,000 tonnes of a copper annually would provide an internal rate of return of about 20 per cent at current copper prices.

While that was favourable all right, the need to cut capital costs and extend mine life to beef up Einasleigh's protection against the copper price losing any more of its boom-time levels was obvious.

The market response was to send Copper Strike shares sharply lower.

But the sell-off has been short-lived, with the group's shares rebounding 3¢ to 36¢ on Friday.

The return of buying support for the $23 million company — it was a $6.5 million float back in November 2004 — was belated recognition that Copper Strike is not a one-trick pony.

Thanks to last year's exploration success at the Chloe property, 20 kilometres south-west of Einasleigh, Copper Strike's push to become a metal producer is going to be all that much easier.

The nice zinc/lead/silver hits uncovered at Chloe have prompted the decision to take the Einasleigh feasibility study as a staging post on the way to a much bigger and more robust regional development that would involve the joint development of Einasleigh and Chloe.

Eadie doesn't intend messing around, with an updated feasibility study planned to be completed before the end of the year.

An aggressive drilling program kicks off in the next week or two at Chloe in support of the study's timetable, with the aim being to get indicated (Chloe East) and inferred (Chloe West) resource estimates in the bag.

Given Chloe's recent history of yielding juicy zinc hits, the stock could be worth watching ahead of the joint development story unfolding later in the year.

Einasleigh also gets a workover, with a program to increase its high-grade copper position.

This is underpinned in part by a new structural interpretation that has the potential to add project-sweetening tonnage.