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# Cash burn cuts a swathe

CALL Carbine Resources and executive chairman Rob Brierley is most likely to answer the phone these days.

It is a measure of how the capital-starved legions of small exploration and biotechnology companies listed on the Australian Securities Exchange are eking out what's left of their money, by whatever means.

Giants like BHP and Rio Tinto might be sacking thousands to cope with a dramatically changed economic environment, and to appease similarly gargantuan professional investors, but at the bottom end of the market (where institutional investors rarely tread) it is all about survival.

Cancellations of deals, surrendering of mineral tenements, selling all or part of potentially lucrative assets that they can no longer afford to develop on their own are all being tried by companies anxiously striving to reduce their cash burn.

Pessimists say that by the end of this financial year there could be more than 200 companies — about 10 per cent of companies listed on the ASX — classed as empty shells unless conditions improve.

David Blake, co-founder of Bioshares, which monitors and researches biotechnology companies, produces a quarterly *Survival Index* of more than 90 companies and is still compiling the December-quarter edition.

He thinks between 20 and 30 companies on his list might not survive this year — and that is not necessarily a bad thing.

“You are going to see a leaner, meaner sector — and in some ways, a more attractive sector,” Blake says.

Warwick Grigor, research

director and a founding partner at BGF Capital Group, has spent more than 30 years specialising in emerging mining companies in the local market. He says he has never seen conditions quite like these.

“The next six months are going to be very tough for the junior sector,” Grigor says.

“It's like falling down a mine shaft with a bungee rope on your ankle, not knowing if you will bounce before you hit the bottom.”

An analysis of more than 80 companies' December-quarter cash reports reveals that about two in every five have only enough money to get them to the end of 2009 if they continue to spend money at current rates and cannot persuade sharemarket investors to part with more cash.

Bank finance for any company with neither a certain mine nor a sure-fire medical device or pharmaceutical product is a distant dream. Those that do have hard assets have been doing things like issuing convertible notes to specialist financiers, who take the asset as security. The notes can often convert later into a huge percentage of the company's shares — but that is the price being paid for new money.

At Carbine, directors' payments have been voluntarily suspended and Brierley's salary has been cut to get costs down to \$30,000 a month.

Carbine's latest quarterly report acknowledged it had less than \$900,000 in hand. Brierley, a stock-broking analyst before trying his hand running a company, thinks he can make that last a couple of years — or at least until the company has the right story to sell to fresh investors.

“We made a decision some time

ago to preserve shareholders' capital,” Brierley says.

“That leaves us with enough money to keep the tenements in good standing and leaves a bit of time for me and the rest of the board to look at (acquisition) opportunities.”

He is not alone in seeing the tough times as opportunities as well as trials. Assets in mining and biotech are flooding the market.

Opportunist buyers are bidding their time, not just waiting for the prices to fall but knowing that when you do not have a lot of cash you cannot afford to buy the wrong asset.

Jason Beckton, managing director of China Yunnan Copper, is also on the hunt for acquisitions. He is in the comparatively more luxurious position of having a “big brother”.

China Yunnan's biggest shareholder is Yunnan Copper Industry, a multibillion-dollar giant happy to fund the small Australian group not only to develop its own mines, but to buy strategic mines from others. For how much, and how long, may depend on how China works through its rapidly decelerating economic growth. The local company had \$2.9 million in cash at the end of the December quarter, but spent almost \$1 million in those three months. On the face of it that suggests China Yunnan has less than a year's worth of money in the tin.

Beckton knows he can tap his backers more easily than many other companies, but is acutely conscious that whatever his group chooses has to work.

So far they have looked at more than 50 possibilities, and only a half-dozen are still “live”. Maybe by

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# Cash burn cuts a swathe

◀ From **BUSINESSDAY 1**

the end of this quarter they will have settled on one.

Beckton, who says his savings are also on the line, has kept operations tight at China Yunnan. Head office in Brisbane consists of one person, although there are more staff in Mt Isa and Charters Towers, where it is exploring.

Grigor estimates it costs about \$500,000 a year just for a company to stay listed and alive. He thinks more companies may save money by sharing secretaries and other infrastructure.

That still leaves outgoings such as ASX listing fees of about \$15,000 a year for companies with a market

worth of \$10 million or under, plus paying share registries such as Computershare to keep track of who owns the company, producing annual reports, holding shareholder meetings and paying rent.

Grigor says many of the explorers that floated in Western Australia during the boom, for example, paid high prices for office space at a time of soaring demand.

Now many have leases they can ill afford.

Brierley agrees, saying he has noticed a lot more vacant office space near the company's office in West Perth — a suburb that could be dubbed Exploration Central for being home to so many mineral companies.

Blake says one unfortunate outcome as companies wind back and make staff redundant is the loss of brain power.

In science-based companies that is irreplaceable knowledge if those people get out of the industry completely.

On the upside, he hopes the tough times will shake out what he calls "Attila the Hun" operators who raid the market for money but are less dedicated to building a business than they are to an expense account.

Blake is referring to "bandwagon" capital raising — where market-savvy operators put together companies featuring whatever is the current investment flavour.

Nearly a decade ago, com-

panies that had been mineral explorers were suddenly reinvented as internet bravehearts in the tech boom, and bust. More recently, moribund companies became searchers for uranium and iron ore, before the price fell, and there are signs that climate and environment listings might be next.

Grigor thinks the best mineral to be in now, given the state of world economies and commodity prices, is gold.

"If you are in iron ore now, forget it," he says.

"It doesn't matter how much you have, they will never develop it. They should just walk away."



## CASH AND CARRY ON DECEMBER QUARTER

COMPANY	STARTING CASH (\$)'000	CLOSING CASH (\$)'000	QTR INCOME (\$)'000	ESTIMATED QTRS*
PEPLIN	12,823	33,770	20,947	n/a
CITYVIEW CORP	362	697	335	n/a
PROBIOMICS	82	404	322	n/a
DIVERSA	3532	3560	28	n/a
NATASA MINING	4124	47,266	43,142	n/a
KTL TECH	331	536	205	n/a
ERG	12,964	19,164	6200	n/a
ENEABBA GAS	2544	5145	2601	n/a
AUGUSTUS MINS	7171	7817	646	n/a
AVONLEA MINS	2209	2742	533	n/a
RURALAUS INVEST	2481	3400	919	n/a
VESTURE	545	611	66	n/a
IFC CAPITAL	1162	1790	628	n/a
PHARMANET GROUP	407	549	143	n/a
BRAIN RESOURCE	19,036	19,273	237	n/a
VENUS RES	840	905	65	n/a
C/MAINE G'FIELDS	862	1950	1088	n/a
SILVER LAKE RES	3029	5829	2800	n/a
CATALPA RESOURCES	1997	3226	1229	n/a
EASTERN CORP	1461	1453	2913	n/a
QUESTE COMMS	3849	3895	46	n/a
<b>QTR SPEND</b>				
▼ CARBON MINERALS	920	835	85	10.0
▼ GLOBAL PROPERTIES	1420	1254	166	7.5
▼ AFT CORPORATION	2291	2162	129	17.0
▼ BIOMD	1211	862	349	2.5
▼ PANORAMA SYN	481	445	36	12.0
▼ SUNSHINE HEART	8160	5762	2398	2.5
▼ GLOBAL PETROLEUM	34,162	34,024	138	247.0
▼ GREENEARTH ENERGY	6908	6252	656	10.0
▼ ORT	45	26	19	1.4
▼ TYRIAN DIAGNOSTICS	8357	6628	1729	4.0
▼ CARBINE RESOURCES	1774	899	875	1.0
▼ OIL BASINS	254	141	113	>1.0
▼ BLACKFIRE ENERGY	2420	2168	252	9.0
▼ QUICKFLIX	1488	1064	424	2.5
▼ LAKES OIL	7468	5699	1769	3.0
▼ EURO GOLD	8669	8624	45	192.0
▼ SCARBOROUGH EQUIT	55	51	4	13.0
▼ ATTICUS RESOURCES	2995	2890	105	27.5
▼ GENESIS BIOMED	571	394	177	2.0
▼ CHINA YUNNAN	3866	2867	999	3.0
▼ LEGEND MINING	10,386	5003	5383	1.0
▼ RAND MINING	2716	2188	528	4.0
▼ TRIBUNE RESOURCES	10,768	6922	3846	2.0
▼ MEO AUSTRALIA	33,979	29,565	4414	7.0
▼ BIOPHARMICA	766	463	303	1.5
▼ GLOBAL HEALTH	676	707	31	n/a
▼ RECO FIN SERV	1625	1105	520	2.0
▼ WINDY KNOB RES	1514	710	804	<1.0
▼ UNITED MIN RES	16,657	13998	2659	5.0
▼ STH BOULDER MINES	3010	2665	345	8.0
▼ IRON ORE HLDGS	19,702	18,220	1482	12.0
▼ COAL OF AFRICA	238,543	202,523	36,020	6.0
▼ RED METAL	6333	5944	389	15.0
▼ EXTRACT RES	28,422	20,533	7889	2.5
▼ UNIVERSAL RES	2281	1161	1120	>1.0
▼ VITAL METALS	2034	691	1343	<1.0
▼ CRYOSITE	1411	1336	75	18.0
▼ TALISMAN MINING	5706	4236	1470	3.0
▼ URANIUMSA	1874	1349	525	2.5
▼ DART MINING	1344	512	832	<1.0
▼ CARDIA TECH	5610	5144	466	11.0
▼ ATHENA RESOURCES	136	201	65	3.0
▼ BLUGLASS	5089	3624	1465	2.5
▼ PANCONTINENTAL O&G	1027	574	453	1.0
▼ CITADEL RES GRP	25,288	20,241	5047	4.0
▼ AZURE MINERALS	2283	891	1392	<1.0
▼ EMPIRE RESOURCES	1639	1261	378	3.0
▼ AZUMAH RESOURCES	2272	1990	282	7.0
▼ COMMSTRAT	535	531	4	133.0
▼ GRANDBRIDGE	258	193	65	3.0
▼ ATCOR MEDICAL	3326	2924	402	7.0
▼ RUM JUNGLE URANIUM	9906	8413	1493	6.0
▼ EMMERSON RES	14,188	11,745	2443	5.0
▼ WAG	1503	1408	95	15.0
▼ COPPER STRIKE	4531	2740	1791	1.5
▼ SOUTHERN PACIFIC PET	1429	1362	67	20.0
▼ FORTUNA MINERALS	18	5	13	<1.0
▼ SIPA RESOURCES	6899	6598	410	16.0
▼ BATAVIA MINING	14,136	13,565	871	15.5
▼ INTEC	2044	718	1326	<1.0
▼ GENERA BIO	3243	2517	726	3.5

\*SOME COMPANIES MAY HAVE EXTRA BORROWING CAPACITY

SOURCE: ASX