

HD How do **iron ore** producers, explorers and **mining** service providers survive a capital drought?

BY Brent Van Staden

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In brief - Sound legal, financial and business strategies can help you weather cyclical upheavals

Miners, explorers and **mining** service providers should be aware of their options for capital raising, restructuring, director and officer risk avoidance and **company** risk management.

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Iron ore price predicted to continue to fall

The **iron ore** price recently hit a five year low, at under \$75 a tonne, falling almost 50% in a year. Most are predicting it will continue to fall to as low as \$60 a tonne next year. Comparisons have been drawn to the troubling recent experiences in the aluminum and nickel markets when **China** flooded supply to drag down prices.

Voluntary administrations an indicator of difficult conditions

While the price should still be significantly above the largest miners' break-even points, analysts are saying that junior producers, many of which operate in the \$85-\$100 a tonne range, will struggle to break even. This is borne out by the flow of voluntary administrations - Termite Resources in June, Sherwin **Iron** in July, Western Desert Resources and WDR**Iron Ore** in September and Pluton Resources Limited in November.

More than \$10 **billion** of value has been wiped from four of Australia's largest **iron ore** miners this year alone. Smaller **operations** have been even harder hit, with Arrium's share price diving 50% since September.

The depressed conditions don't only reduce producers' profits. They also limit the availability of capital to explorers. They affect the flow of work (and risk) to **mining** service providers, including consultants, suppliers and contractors. And they contract the appetite for investment.

Strategies to help **mining** industry participants survive and thrive

Successful resource companies don't just weather cyclical upheavals. They know that they often present the best conditions to outperform the market and their competitors. To take advantage of these conditions, they make sure that they are aware well before their competitors of the range of legal, financial and business strategies available to their business.

For example, miners, explorers and service providers usually have a range of strategies for:

Capital raising, including backdoor listings, **bonds**, investment, divestitures and off-take arrangements

Structuring and restructuring, including consolidation, cooperation and deeds of arrangement

Director and officer risk avoidance, including in relation to regulatory requirements relating to trading, listings, corporations law, environment, health, safety and anti-bribery/corruption

Company risk management, including in relation to procurement, compliance and insurance

Importance of preparation, experience, sound judgment and good advice

There can be dire consequences when such legal, financial and business strategies are not in place. This was underscored most recently when Forge's liquidator claimed an entitlement to \$50 million in turbines which Forge was leasing from APR - something that might have been avoided if APR had registered an interest in the turbines on the Personal Property Securities Register (PPSR).

There is no substitute for preparation, experience and sound judgment.

Brent Van Staden Scott Hedge Nick Crennan Julian Mellick
bvs@cbp.com.au sgh@cbp.com.au edc@cbp.com.au jcm@cbp.com.au

Energy and **mining** law
CBP Lawyers

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

Mr Brent Van Staden

CBP Lawyers

Level 42,

2 Park Street

Sydney

2000

AUSTRALIA

Tel: 28281 4555

Fax: 28281 4567

E-mail: exl@cbp.com.au

URL: www.cbp.com.au/Expertise

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