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HD **Nice for Eric, but not so good for Mount Gibson**

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Until very recently Koolan Island was home to a remarkable oceanside iron ore mine that employed 360 workers and to a massive old salt water crocodile named Eric.

Pretty soon the ageless Eric could be the last resident on the 12-kilometre stretch of sandstone and hematite that sits on the fringes of the Indian Ocean just off the Kimberley coast.

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Koolan was a unique iron ore mine: the main pit and the ocean were separated by a thin stretch of rock and heavy clays that form a protective sea wall. It was sort of like an infinity pool in reverse. The past tense is apposite here because just over a week ago, after two minor shifts in a critical point of the hanging wall, the mine was flooded by a high tide that promptly filled the pit with an estimated 10 billion litres of sea water.

This might be good news for Eric but it is devastating for everyone else involved in the Koolan story.

The mine site is owned and operated by plucky Mount Gibson Iron. On Friday the company accepted nature's judgment and place its mine on "care and maintenance" while it considers what to do next. As a result, 200 Koolan miners were made redundant on Friday and Mount Gibson indicated that the majority of the remaining 160 island employees would share that fate as mining was progressively wound down.

Koolan sits in Mount Gibson's books at $630 million; the company says it will be reviewing that carry value. It told shareholders to expect a substantial non-cash impairment when the December interim numbers are published next year.

Rather hopefully, Mount Gibson said there will be a full assessment of its options before a decision can be made on the mine's future. The issues that will shape this review include the cost of recovery (lots), the outlook for iron ore (lower for longer and the Australian dollar (the same). But just a layman's look at the damage wrought by the ocean's recovery of Koolan suggests that this might be a challenge too far for the company.

Mind you, if any company understands the challenges of rehabilitating the pit, it is the team at Mount Gibson. They have done this before after all.Northern outpost of BHP

The Koolan mine was one of the original northern outposts of BHP's interests in iron ore. Having started digging up the stuff at Iron Knob in South Australia, the Australian steel company opened mines at Koolan and nearby Cockatoo Island back in the 1940s. The attraction of both was very high quality iron ore. The ore on Koolan, for example, averaged about 67 per cent through the 50 years BHP mined there.

BHP eventually found bigger but similarly high quality deposits in the Pilbara and the inevitable decline of the Koolan resource resulted in BHP closing the island mine in 1993. And, as part of BHP's environmental mitigation agreement, the sea wall was blasted so the pit was left flooded.

In 2006, at the dawn of the **iron ore** price boom, work began on recovery of the Koolan pit and some of the inland pods of **iron ore** left behind by BHP, made suddenly quite valuable again by **China**'s appetite for steel's raw materials. Eventually, after a pause in progress caused by the global financial crisis, Mount Gibson reopened, the main pit was recovered in 2010. The mine was at the mid-point of the recovery program before this devastating leak.

Ironically, outside of the fact that Eric has been delivered a spanking new fish pond, the timing of this disaster is about the only positive here. Mount Gibson had planned to invest up to $350 **million** on a push-back of the landside wall of its pit to open access to a new shelf of Koolan's **iron ore**. In effect, costs were about to rise substantially as overburden was removed, but the payback was going to be four years of very low cost **mining** from 2018.

At best that investment is going to delayed for quite some time. At worse, it will not happen at all. And that rather leaves Mount Gibson looking for a new reason to be.

To some degree, the event at Koolan merely brings forward a strategic reassessment that was already under way. Koolan had an estimated seven years left in it and the horizon of the **company**'s other two smaller mines is even shorter.

Mount Gibson is sitting on $360 **million** of hard-earned, boomtime cash and it is substantially debt-free. And it had already made it clear that expansion options other than **iron ore** were under review.

To pick where it might head, you might start by looking at what interests its two main shareholders. Mount Gibson is 26 per cent owned by **Hong Kong**-based APAC Resources and 14.54 per cent owned by **China** Inc's Shougang Fushan. Both rate themselves as **iron ore** and **coal** traders. Given the real possibility that Koolan's future has been washed away and that life on the margins of an oversupplied **iron ore** market was getting very tough anyway, the feeling is that Mount Gibson will look to coking **coal** as its next adventure.

Talking of adventures in **mining**, the news flow seems suddenly all pretty good for our favourite project anywhere in the **mining** globe, the Rio-Tinto-managed Resolution **copper** prospect in Arizona.

The joy of Resolution for me is its back story as a **mining** disaster and an Apache sacred site. But its increasing attractiveness to Rio is that it is big (the third-biggest undeveloped resource in the **copper** world), it is relatively high grade and it sits in the traditional **copper** heart of the world's biggest economy.

Resolution sits pretty much directly under the mine that nearly destroyed BHP before the turn of the century. In December 1995, BHP paid $US3.2 **billion** for a US **copper company** called Magma. It owned the newest flash smelter in the US and a mature **copper** mine called Superior.

It quickly emerged that Superior had less economic **copper** than expected and it was condemned to closure by a sudden and dramatic fall in **copper** prices. The smelter was closed and scrapped and a 55 per cent share of the lease was eventually delivered to Rio.

It then defined a massive **copper** resource another kilometre pretty much directly below Superior. Which is OK for BHP only because it retained a 45 per cent **stake** in a thing that Rio now reckons can sustain a 600,000-tonnes-a-year project.

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