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HD **Stokes bets on Ball and BC Iron**
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Media guy turned **mining** and **energy** aspirant Kerry Stokes is nearing a productive end to his decade-long play at owning real operating **iron ore** mines in the Pilbara.

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But to get across the finish line, the **billionaire** has agreed to cede control of his ambitions by selling his 52.7 per cent of **Iron Ore** Holdings into a takeover offer by **iron ore**'s thriving junior, BC **Iron**. BC **Iron** is a **company** that thought small and won. Stokes will now become its biggest shareholder, owning just more than 23 per cent.

He will be in good **company**. Through his half-controlled Fortescue Metals Group, Andrew Forrest presently speaks for 25 per cent of BC **Iron**'s key Nullagine project.

Finding **iron ore** in the Pilbara seems to be a fairly routine task. The real art is finding some way of getting what you find to the raw materials markets of **China**, Japan and Korea.

So, having found a deposit that would support 6 **million** tonnes a year of production for maybe 10 years or so, BC **Iron** went out and did the first and, so far, only third-party access deal with one of the three Pilbara majors. That rail owner was Fortescue and the price of getting on the Third Force's tracks was high but necessary to absorb with a smile. Fortescue emerged with a 50 per cent **stake** in the Nullagine project. But, with rail access firmed, the junior was able to secure finance and bank the community of customers necessary to get on with business.

The Fortescue deal was done in June 2009. By February 2011, first tonnes from BC **Iron**'s Nullagine project were being loaded at Port Hedland. By the end of that year the **company** had moved its first 1 **million** tonnes. And less than a year on, BC **Iron**'s numbers were strong enough to allow it to spend $190 **million** on buying half of the Fortescue **stake** in the Nullagine JV in a deal that delivered much-needed cash to the Third Force during its brush with financial crisis in the second half of 2012.

Today Nullagine ticks like a clock, producing 6 **million** tonnes per annum, with 4.5mtpa of that being owned by BC **Iron** shareholders.

Now, when you put that into the context of the majors like Rio Tinto that are on track for 360mtpa, it all sounds like small beer. But, as the craft brewers can tell you, small beer can be profitable if you get your costs and marketing right.

And that is what BC **Iron** has done.

As a result, BC **Iron** is delivering its owners a healthy dividend flow while seeking growth opportunities that have, until now, focused mainly on Brazilian plays because the cost of entry is lower than Australia and the upside just as attractive.

BC Iron's focus on its owners rather than the egos of its management has seen it sustain an enviably high share price. Now, in what might be received as a slightly unwelcome change of direction, management has decided to parlay that value into a company-changing opportunity.

Certainly, the multiples would suggest BC Iron has again paid a high price to secure new production tonnes. Based on Friday's close, the scrip and cash offer values Iron Ore Holdings at $1.59 a share, which works out at a 79 per cent premium to the 60-day VWAP.

So what are BC Iron shareholders getting for a deal that offers imminent new tonnes and some blue sky but at the cost of a 36 per cent dilution of their holding and that will not require their approval? Well, Iron Ore Holdings arrives at this deal with production imminent at its Iron Valley project and feasibility work maturing on its Buckland project. Iron Valley is a 5mtpa operation that will see product sold at the mine gate under a 20-year deal with Mineral Resources.

But Buckland is a real step up. Close to the coast and hosting reasonable quality and quantum of iron ore, it is proposed to be a $900 million development that will ship 8mtpa. The investment thesis so far has IOH digging and shipping the product. Pricing trends in iron ore would suggest Buckland might yet be too big an ask. But if there is any operator with a legacy of skills and achievement to make a financial fist of it, then you would have to be betting on Morgan Ball and his BC Iron crew. Exactly what Stokes is ready to do.

Hey, and one final point here, the bloke at the heart of BC Iron's rise to the top of iron ore's smaller ranks was Mike Young. A likeable Canadian who arrived here to work for Rio Tinto, Young was the chief executive who did the Fortescue deal and who kept BC Iron's ambitions bite-sized.

By favouring speed to market over bulk, Young and his board ensured BC Iron enjoyed a few years under the sun of boom-time iron ore pricing.

Young is still a guy to watch. He is chairman of Energy & Minerals Australia, a uranium junior run by former Fortescue executive Julian Tapp. Young is also chairman of Cassini Resources, which recently acquired the West Musgrave nickel prospect at a knock-down price from BHP Billiton. West Musgrave was a generator of some considerable excitement at WMC late in the last century but it never cracked the tier one mustard under BHP's stewardship.

Pretty much everything in hard rock mining starts with a massive bang.

But just because there is something profoundly elemental about managed and massive explosions doesn't mean their technologies are either simple or incapable of improvement.

For the past three years a team of Orica researchers, led by a chemical engineer named Geoff Brent, have been working on ways to blow the earth up just that little bit more effectively. The result of all that work is something called Ultra-High Intensity Blasting. Its basic idea is to make two carefully timed patterns of explosions so that the first creates a firm, crushed, energy-trapping cap on the second. By trapping the forces of the second explosion, the blast produces a greater volume of fine-grade ore than can be achieved through traditional techniques.

For good measure, the technology developed by Brent's team allows for blasts to more accurately target ore bodies and for less energy to be expended smashing stuff that will end up on waste dumps.

Now, that might not sound like such a massive step forward. But let me tell you, its promise is rich indeed in an era where the name of the game in mining is the mitigation of post-boom pricing through higher volumes and incremental productivity gains.

According to Orica's managing director, Ian Smith, independent modelling has indicated that this step-up in explosive energy "can lead to increases in mill circuit throughput of up to 40 per cent and savings in the tens of millions annually".

Crushing and grinding (or comminution, as the industry would have it) accounts for 53 per cent of energy use and 10 per cent of cost for the global hard-rock mining sector.

The industry reckons that comminution annually uses about 3 per cent of all electric power generated globally – equivalent to Germany's annual electricity diet.

Ore grades are on the decline across most of the world's great ore deposits, so miners will be digging and crushing more material just to sustain their output. Yet the data says that demand for basics like copper and nickel is only going to rise as the new middle classes of China and south-east Asia expand and mature.

So, as well as potentially cutting costs, refining the art of explosions the Geoff Brent way could translate into a 30 per cent reduction in carbon dioxide emissions, according to Orica.

I say potentially because,while Bent's work on UHIB has earned him peer group recognition, the industry will take some convincing yet that his technology is worth the cost and time of retrofitting their drilling and crushing systems.

So far the only full-scale test blasting has occurred at South American **copper** mines. And even there they have had trouble securing campaigns long enough to generate the sort of affirming mill throughput figures that Orica is going to need here. In the end then, for Brent and his innovators, getting the technology right may be the easy part of their task.

CO ironoa : Iron Ore Holdings Ltd.

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