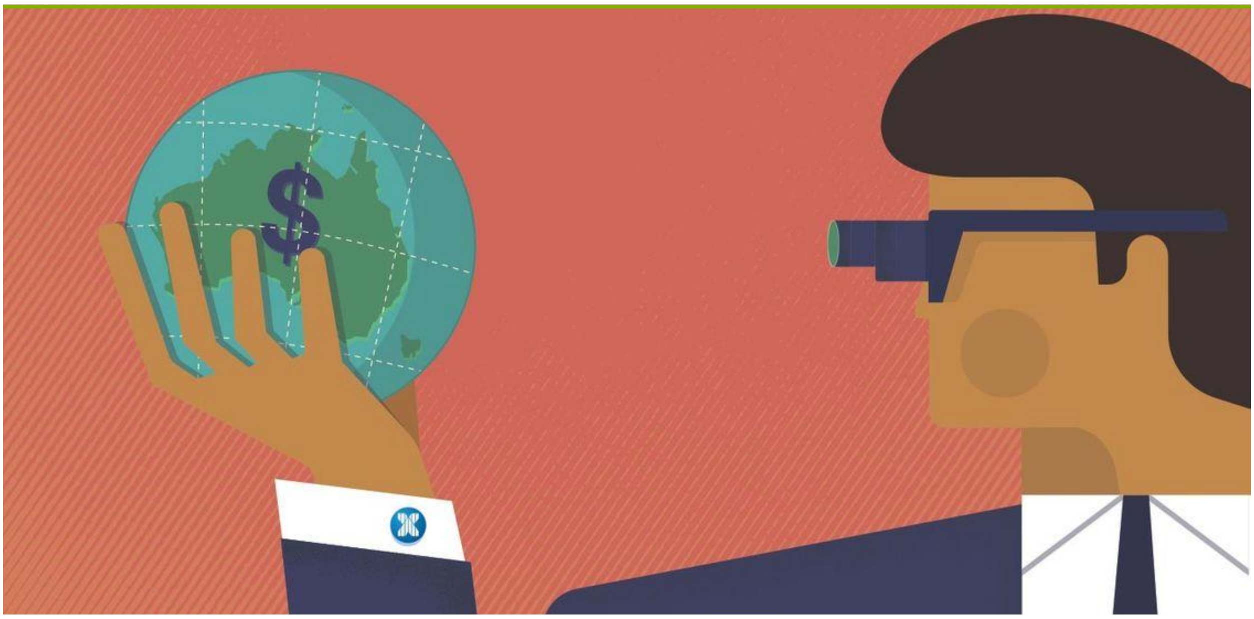
Mining Journal

Another black eye for Blackham

Blackham Resources directors should use a 1960s Johnny Cash song for guidance when revisiting their disclosure practices.

John Robertson*



7 February 2019

Moving from successful exploration to mine development and then targeted production, all in a timely fashion with appropriate financial outcomes, is unlikely for any junior. Competence plays a role but the complex nature of the task itself predestines disappointment somewhere along the path.

So, explaining risks, encouraging realistic expectations and managing the associated disclosure obligations should be a core competence of anyone on the board of a listed mining company.

Sound disclosure practices, such as directors carefully monitoring public statements of company intent, make sense under any circumstances. A patchier than normal record in meeting investor expectations should require heightened boardroom sensitivity to a company's disclosure obligations.

Earlier 'From the Capital' columns (March 2018; June 2017) have documented the accident-plagued attempts by Blackham Resources to rejuvenate the Wiluna gold camp in Western Australia, an area with a long history of gold production but a graveyard for corporates.

Blackham's first gold production occurred in October 2016 (and not in 2018 as the company's most recent corporate presentation sloppily claims). At the beginning of 2018, the company had foreshadowed a gold production rate of 40,000-45,000 ounces in the first half of the year on the way to a 100,000oz annual production target, followed by a swift move to 200,000ozpa.

The outlined trajectory would have been a considerable achievement for a company that had managed a little over 60,000 ounces for the whole of 2017 when lower than expected production and higher costs had left it financially stretched.

After its share price shed a whopping 94%, the company had been in dire need of good news. Even so, it fell short of the lower end of its production target for the first half of 2018.

> **The shrinking population of investors with enough residual confidence to back the prior guidance were also seriously out of pocket**

In November 2018, the company claimed to have reached "operational stability" with production over nine months of 59,000oz. At the same time, directors guided investors to expect production of 77,000-89,000oz over the 12 months ended June 2019, including a December quarter outcome of 20,000-23,000oz. They reiterated a move to a production rate in excess of 200,000ozpa.

Nothing more of a formal nature was said about the production targets until last week (January 31), the last day on which the company could meet its obligations under ASX listing rules to file quarterly activities and cash flow reports.

Of course, companies will always try to portray less than welcome news as something different. Blackham directors described the December quarter outcome as consistent with the prior quarter and 2018 production as a significant improvement on the 2017 result.

The company's December quarter gold production of 19,049oz had fallen short of the lower end of the range to which investors had been guided in late November, well after the commencement of the quarter and by which time there should have been some inkling of things going awry.

Ostensibly to take account of a 1,000-4,000oz production loss, the company cut its guidance for the year to the end of June 2019 to 72,000-80,000oz.

The fresh guidance contained some ambiguous messages. The company said it had changed how it monitored openpit mine grades to prevent repetitions of the December quarter problem. The company's revised quantitative guidance, on the other hand, included the possibility that production in the six months to June could be as much as 10% below production in the six months to December.

A day prior to the release of the quarterly statement, the Blackham share price had pushed to its highest level since July 2018. By the next day, after release of the report, any gains had been eliminated. Worse was to come.

In response to a query from ASX on January 31, directors responded disingenuously that the heightened turnover over the two days - more than 10 times the daily average over the prior three months - was due to an increase in the Australian dollar gold price "which generally increases interest in junior gold producers".

The Blackham directors did not address why their share price was dropping like a stone while the ASX gold share price index was sitting atop levels last seen in October 2012.

In dumping their bad news into the morass of other quarterly reports held back until the very last moment, Blackham directors looked dodgy as well as needlessly aggravating anxiety about their operational competence. Even the most naïve observer would be hard pressed to brush off the episode as having no reputational consequences.

And, more ominous with the benefit of hindsight, the company had announced the resignation of a well qualified director on Christmas Eve. He had been appointed as recently as August.

Blackham would have incurred a black eye no matter what for having missed another target. Now, the shrinking population of investors with enough residual confidence to back the prior guidance were also seriously out of pocket.

ASX rules - and an efficient market - require continuous disclosure not periodic disclosure or disclosure when the whim arises. Giving the Blackham directors the benefit of the doubt would require an assumption that they were unaware of the production shortfall until 30 January, the day before the quarterly report deadline.

Extraordinary coincidence is one explanation for the adopted disclosure path. A one-off misjudgement arising from slipshod boardroom governance practices is another. A culturally ingrained unwillingness to recognise the duty owed to shareholders by a self-proclaimed "very experienced board and management" is a third. No other possibility comes to mind.

Blackham directors, along with others holding similar responsibilities, should recall the words to the song 'Wildfire' by Johnny Cash when framing their disclosure governance practices. The man in black warned that "bad news travels like wild fire; good news travels slow". A wildfire is extraordinarily hard to control if its beginnings are not doused promptly. The better course is to prevent the build up of material that fuels its destructive path.

**John Robertson is the chief investment strategist for PortfolioDirect, an Australia-based equity research and resource stock rating group. He has worked as a policy economist, business strategist and investment professional for nearly 30 years, after starting his career as a federal treasury economist in Canberra, Australia*