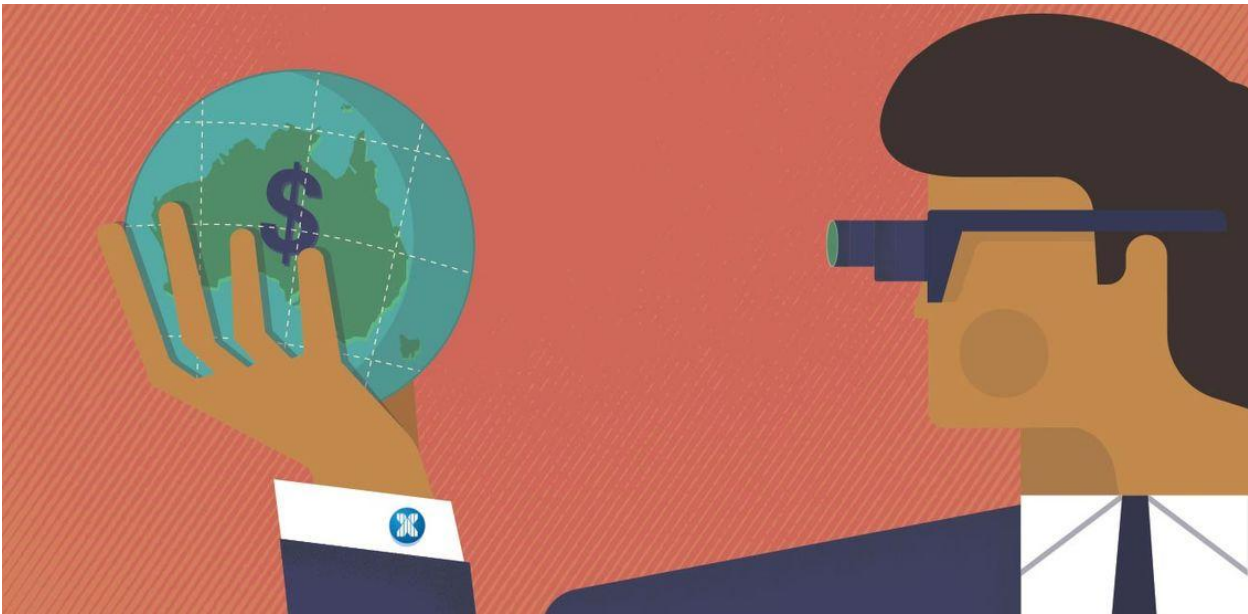


Miners, survival and cockroaches

Black Mountain Resources is adding to an already uniquely colourful past. As it scampers to newer ground, think 'cockroaches'.

John Robertson*



12 April 2018

Black Mountain's eye popping 300% share-price rise in the past week made it the strongest performing stock on the ASX.

The catalyst for the uncharacteristically positive return was the company's announcement that it had signed two option agreements over exploration properties prospective for lithium in the Democratic Republic of Congo.

The deals could still fall apart. The options provide exclusive due diligence periods during which farm-in terms and conditions will have to be finalised.

At the same time, the company announced it had raised A\$500,000 (US\$388,000) through the issue of a short-term convertible note to help bridge an awkward financial predicament. At the end of December, 2017, Black Mountain had cash assets of just A\$31,000, borrowings of A\$1.9 million and owed deferred advisory fees in excess of A\$4 million.

The sole operating asset of the company, the Namekara vermiculite mine in Uganda, was bleeding cash at an annual rate of more than A\$1 million. As a result, the company's principal financier forced Black Mountain to dispose of the African property it had described in April 2016 as "an immediate production and cashflow asset".

The Uganda deal was always akin to a terminally ill patient relying on medical treatment from someone on life support.

A July 2016 independent expert report had concluded Black Mountain was worthless or, more formally, valued at nil cents per share. Even this, it turned out, was too optimistic because the assets valued by the expert, namely, silver development properties in the US, sold for just one seventh of his valuation in September 2017.



Cockroaches may neglect or ignore more favourable conditions for their survival simply to be with their smelly mates

The expert noted that the Uganda mine was loss making and undercapitalised. Any rejuvenation would rely, he concluded without any evident sense of irony, on the financial backing of Black Mountain.

The expert opined that the transaction, involving parties related to one of the Black Mountain directors, was fair and reasonable

because there was nothing better on offer making it a risk worth taking. A weaker endorsement of a fledgling corporate strategy would be hard to find.

Black Mountain was not the first company to try its hand at the Namekara mine. Gulf Industrials relinquished the asset in 2014 after itself having underestimated the working capital demands of the same mine, the difficult logistics and the specialised marketing skills needed. After cancelling a A\$4.9 million loan, its primary creditor confronted exactly the same problem before bequeathing the opportunity to an eager Black Mountain.

During 2017, the company also faced multiple changes of directors and chief executives that added to the peripatetic corporate history described in my August 14, 2015, Mining Journal column about the company.

That column described a company persistently missing targets barely a few weeks away for over three years before giving up and putting its US silver mines on care and maintenance.

The pre-Ugandan Black Mountain melodrama plumbed new depths in August 2015 with an announcement that it would finance a search for bullion worth US\$2 billion in Irish Sea shipwrecks.

The company lost its London listing after being dumped by its broker and shunned by potential replacements.

Events off-piste were just as problematic with former executive director Peter Landau being sued by two of his stable of public companies for siphoning off funds and the Australian corporate regulator taking out asset preservation orders against him amidst claims, denied by Landau, of corporate law breaches.

Another director resigned as chief executive of one of Australia's leading FIFA-affiliated football clubs to take up an executive position with the company after the club was expelled from the finals of the national competition for rorting salary cap rules.

Despite all of that, there would have been some investors in the past few days kicking themselves at having missed one of the best trades of the year.

Black Mountain joins other junior miners exciting investor interest in recent weeks by heading to the DRC - one of only three countries with the lowest possible rating in the 2017 Investment Risk Index within the Mining Journal World Risk Report (feat. MineHutte ratings).

There is nothing new in small miners reinventing themselves after unfulfilled exploration ventures, unanticipated market conditions or investor ennui.

Highly regarded industry analyst Richard Schodde has often likened the extraordinary resilience of the

smallest and most underfunded stocks in the market to cockroaches in a nuclear winter.

Schodde's cockroach analogy may offer more insights than he imagined. Studies published by Belgian researchers in respected journals *Science* (November 16, 2007) and *Proceedings of the National Academy of Sciences* (April, 2006) have demonstrated how cockroaches choose where they reside.

The biologists empirically verified their theoretical mathematical models of cockroach decision making using tiny robots programmed to behave like the scaly creatures. Apparently, real cockroaches will readily interact with autonomous mechanised counterparts if the latter are doused with a pheromone carefully extracted from males of the species.

With the help of the robots, researchers discovered an absence of group leadership. An initial tendency to wander without direction is overcome by encountering other cockroaches and joining with them until a critical mass is achieved.

The researchers also found, by reprogramming the faux cockroaches, that their crowding tendency could overpower the cockroaches' own best interests. They may neglect or ignore more favourable conditions for their survival simply to be with their smelly mates.

A newly formed cockroach group will utilise a common shelter at least until one of the residents is separated and, largely by accident, encounters similarly wandering new companions with whom it will join.

Whether Black Mountain can ever adequately compensate its historical investors remains highly doubtful. More certainly, if the DRC replicates the company's prior experiences, the company will look for new shelters in much the same unguided manner as cockroaches choose where to live.

**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*