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Aurora buys DRDGOLD's ERPM plant

[miningmx.com] -- AURORA Empowerment Systems, the company that has spent R1bn buying four marginal South African gold mines, has bought the processing plant at DRDGOLD's defunct ERPM mine for R20m, a strategically critical move.

Aurora, an unlisted company, is headed by anti-apartheid icon Nelson Mandela's grandson Zondwa Mandela as managing director and Khulubuse Zuma, the nephew of ruling president Jacob Zuma, as chairman.

Aurora bought the Orkney and Grootvlei mines during the liquidation of Pamodzi Gold. It bought the small Primrose gold operation and then a 60% stake in DRDGOLD's remaining underground asset Blyvooruitzicht (Blyvoor), for a total of R1bn.

The mines need to be recapitalised, with new equipment and development being priorities. This funding may come from private investors, a bond issue, a listing and long-term debt. The scale of recapitalisation is not immediately clear but management wants enough cash to give it a war chest too to continue growing the company as opportunities arise.

The Orkney mine does not have its own mills and has to toll treat its gold-bearing ore at nearby plants operated by AngloGold Ashanti and Simmer & Jack. The terms are expensive for Aurora and management has spoken of the need to buy its own mills.

The treatment charges were blamed by Pamodzi Gold as one of the reasons it was unable to turn the mine to account after buying it from Harmony Gold, which had negotiated far more favourable terms.

With the purchase of the ERPM plant and its ten mills, Aurora could bypass that pitfall, Mandela told Miningmx. Five of those mills will be sent to Orkney, three to Primrose and two to Grootvlei.

ORKNEY IS BLEEDING

Orkney is described as "bleeding", but having its own mills will go a long way towards stemming losses, cutting out the fees needed to pay other mining companies to treat its ore. It would be cheaper to truck ore to Blyvoor some 50km away than remain in the current arrangement.

Aurora plans to extract gold from the ERPM plant as it is broken down. Historically, this has proved a rich source of gold, which is trapped in concrete, foundations, walls and pipes. Mandela said there could be "a couple of hundred kilograms at least" of gold that could be extracted and go towards paying for the plant.

The payment terms are an upfront payment to DRDGOLD of R5m in cash and the rest paid in tranches.

Aurora, with its Grootvlei acquisition, now has what Mandela calls the largest tailings dumps on the East Rand. DRDGOLD has switched its strategy to becoming a predominantly surface treatment company, which offers a safe and cheap source of gold. DRDGOLD is drilling Aurora's tailings with a view to treating them. These could potentially offset the purchase cost of the ERPM plant.

The plan is to list Aurora's gold assets, for which each shaft will become a business unit and management of those units will focus almost purely on mining them profitably. The upper management levels within Aurora will deal with other issues like sourcing capital and relations with the government for example.

The initial listing will be on the JSE, with a possible secondary listing in the Far East, maybe in Hong Kong. Most of the money funnelled into Aurora so far has come from investors in the Far East and the Middle East.

Aurora is receiving hefty backing from AM Equity, a Malaysian group, which has so far pulled all the finance together. It's not clear what AM Equity and its members' exit strategy from Aurora is at this point. AM Equity has a stake in Aurora and its Dato' Raja Zainal is on the board as an executive director.

Aurora is pushing corporate governance hard as it prepares the listing of the company and it wants to convince potential investors that it is doing things differently from other companies, particularly those like Pamodzi Gold where ambition outpaced its funding.

The next critical aspect to sort out will be putting in place skilled mining people to run all these assets. A number of highly skilled people left the Pamodzi Gold mines as it slid deeper into debt and was unable to pay salaries. Aurora will come under intense scrutiny after investors were badly burnt by Pamodzi Gold.

The once-listed Pamodzi Gold is now under investigation by its liquidators to find out how it failed, running up debt of some R1.5bn and putting 13,000 jobs at risk.

Aurora's acquisition of Orkney and Grootvlei from the liquidators is on track and should be completed in coming months, Mandela said.

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