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South Sea story

GEOFF Loudon remembers how he discovered his first mineral deposit. He was watching a scraper preparing an area for what was to be the tailings dump for the Marcopper mine on Marinduque Island in the Philippines.

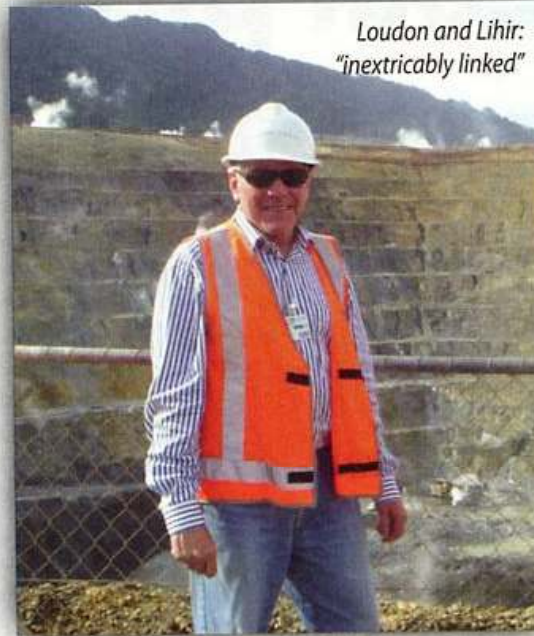
"I watched it digging up the clay and saw the texture was exactly the same as the orebody we were about to mine."

He suggested to his boss that they do some drilling to make sure the tailings area wasn't mineralised. His boss turned him down. He wanted to press ahead quickly with the job their employer, Placer Dome, had sent them to do – construct the Marcopper mine. But when his boss went off on holiday, Mr Loudon commandeered a small drill, tested the tailings area and confirmed that it was heavily mineralised. He was hauled over the coals by his boss. But many years later the deposit he discovered became the San Antonio copper mine.

At Marcopper, Mr Loudon began a lifelong friendship with David Lowell, a man these days often described as the world's greatest explorer. Mr Lowell is co-author of the Lowell-Guilbert porphyry copper genetic model which has contributed to the discovery of major copper mines by many other people.

Mr Loudon had passed on to Placer the bad news that the main Marcopper deposit had an untreatable laterite cover. This represented about one-third of the deposit. Placer sent Mr Lowell to check Mr Loudon's findings – and to check on the brash young geologist who had been the bearer of bad news. Mr Lowell confirmed Mr Loudon's findings.

That first meeting was in 1970, and Mr Loudon says they have become more like family than just friends. And recently, Mr Loudon provided some



seed capital for Mr Lowell's latest public venture, Toronto-listed Peru Copper. He is also an adviser to that company.

Mr Loudon is perhaps best known for his association with the discovery of the Lihir gold deposit on the island of the same name in Papua New Guinea (PNG). He says serendipity was involved, as his description of the events leading up to the discovery testifies.

First, there was the fact that Ken Rehder, an Australian married to a local, wanted to stay in the manager's house he was living in on PNG's mainland when the company that owned it decided to pull out of PNG. So Mr Rehder seized the chance to buy the mining leases – including the ground on which his house was standing – from the departing company. Mr Loudon put up A\$10,000 to help buy the leases

and a friend, John Dowling, contributed a further A\$10,000.

Mr Loudon acquired a listed 'shell' company, changed its name to Niugini Mining, and he and Mr Dowling vended in the leases when Niugini raised some more cash.

"With Niugini I came up with the idea of having a board that wasn't paid, but had stock options. We had no employees, only contractors to do the work. We raised A\$2 million, put it on deposit at 10%, so the income covered the cost of the work," says Mr Loudon. That was in 1980.

Another of Mr Loudon's geologist friends, Peter Macnab – formerly US Steel's representative in PNG – became involved, and Niugini assembled 17 areas with the potential to host low-grade bulk gold deposits. Kennecott (then the mining offshoot of Standard Oil) agreed to a joint venture and to finance the exploration work.

Kennecott sent a geologist, Gavin Thomas, to liaise with Niugini. He soon joined Niugini, and Mr Thomas, like Mr Loudon, is inextricably linked with the Lihir story. Today, among other things, Mr Thomas is chief executive of Kingsgate Consolidated.

However, not one of Niugini's 17 PNG prospects showed much promise. Worried that Kennecott might withdraw, Mr Loudon did a deal with Nord Resources to gain some ground on the Tabar Islands, ground that was known to have gold in it.

This took Niugini to a different part of PNG, so Mr Thomas and Mr Macnab suggested other islands in the area should be investigated. In June 1982, Messrs Macnab and Rehder set off in a speedboat, moving from one island to another and testing beaches for gold. They found traces on all the islands, but on Lihir there was more than a trace. They moved 400 m inland and got similar excellent results – rock chips

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yielded samples averaging 1.79 g/t Au.

Lihir eventually turned out to be one of the world's great gold mines, producing about 600,000 oz/y. Mr Loudon is still a director of Lihir Gold, which is listed on the Australian Stock Exchange.

However, it wasn't until October 1995, some 13 years after the discovery, that construction of the Lihir mine began. Apart from the extreme technical difficulties Lihir presented, construction was delayed because Kennecott changed ownership, first to BP Minerals and then to RTZ (now Rio Tinto). Bob (now Sir Robert) Wilson, then RTZ's managing director, was reluctant to give up his group's share of such a big deposit, but the project did not meet the internal rate of return RTZ set itself. Mr Wilson insisted RTZ must find a way to recoup the US\$200 million Kennecott had already spent on the project before Lihir could go ahead. This created tensions between RTZ and Niugini, with Mr Loudon in the front line.

After travelling ten times between Sydney and London in a year, in 1992 Mr Loudon decided to move to London, setting up home within walking distance of RTZ's head office in St James's Square. He has kept his London base ever since.

Mr Loudon says: "The great thing is that Rio stayed in and completed the mine. Rio and I started out needing each other. But once they had signed up to the project, I became good friends with [the late] Bob Adams, who did the negotiating for them."

Mr Loudon, now 63, was born in Sydney. He

served a cadetship (equivalent to an apprenticeship) with the New South Wales Geological Survey which sponsored his geology degree at the University of Sydney. In return, he was bonded to serve five years with the Survey. He also took a post graduate diploma in mining engineering, metallurgy and mineral economics.

His first mentor was John McManus, who urged him to leave the Survey, introduced him to Placer and advised him to start his new career by becoming involved in mine development – "then, when you start exploring, you know what to look for".

He spent ten years with Placer, in Canada and Australia as well as the Philippines.

Then came a big switch of direction. An offer to double his Placer pay and the prospect of an eventual partnership persuaded Mr Loudon to join Hattersley & Maxwell, a Sydney stockbroker later absorbed by the Kleinwort Benson investment bank.

Mr Loudon started as an analyst and later became part of the underwriting team, learned how to raise money and what investment banking is about. He was still at Kleinwort when he set up Niugini Mining.

Apart from working on the Lihir development, Niugini bought from Mr Lowell leases in Chile that became the San Cristobal heap-leach gold mine, a technical, but not a commercial, success. The company also acquired the Red Dome open-pit mine in Australia where it recovered gold and copper by-products from the old stockpiles.

But Mr Loudon's main job was "keeping an eye

on Lihir", but plans to raise US\$80 million for the project were dashed by the stock-market crash of October 1987.

Eventually, Niugini took US-based Battle Mountain Gold as its partner. But by 1996, Battle Mountain was getting restive and made a bid for the 49.5% of Niugini it did not then own.

Mr Loudon opposed the bid and was subsequently ousted. "Battle Mountain had knives in my back but didn't kill me. Bob Adams insisted I stay on the Lihir board," he says.

About ten years ago, Mr Loudon decided to retire and spend his time skiing, taking other holidays and becoming a "cornerstone" investor in projects that captured his imagination.

Today he is involved with three companies that are about to seek listings on various stock exchanges: L&M Petroleum, a New Zealand company that expects to list on the Australian Exchange; Sterilox Technologies, which owns the rights to a Russian-designed, non-toxic sterilisation system, and which he hopes to bring to London's AIM before long; and Nautilus Minerals, where Mr Loudon is chairman and is expected to list on the TSX Venture Exchange soon via a reverse takeover.

Nautilus is the first company to be commercially exploring the ocean floor for gold and copper seafloor massive sulphide deposits. It has licences covering a big area off the coast of PNG (MJ, August 19, 2005, p9).