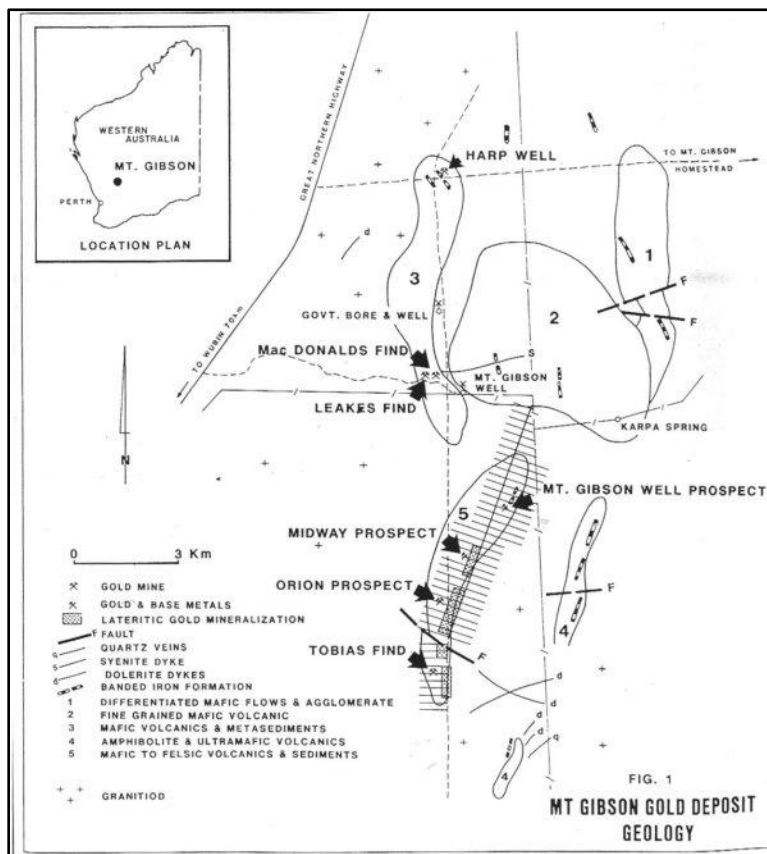


# The 1990 Karpa Spring Fiasco in Western Australia A possible link to the Bre-X Debacle

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Those who heard Steve Van Nort's fascinating talk on Bre-X/Busang at the June AGS meeting may be interested in a case of salting which might have been a prologue to the main event at Busang.

First, some background. In the mid-1980's, Reynolds Australia Mines undertook a fairly substantial gold exploration program following their discovery of the Boddington laterite-hosted gold deposit south of Perth, Western Australia. The Boddington gold deposit occurs within the much larger bauxite deposit (220+ million tonnes) then under development by the Worsley Alumina jv. Reynolds Metals held a 40% interest in the joint venture and was managing partner. The other partners were BHP (30%), Shell-Billiton (20%), and Kobe Alumina Associates, a Japanese consortium (10%).



With the Boddington model as a guide, Reynolds Australia Mines' geologists began to explore the vast areas of Western Australia masked by laterite. This effort resulted in the discovery of a small laterite-hosted gold deposit at Mt. Gibson, some 280 kilometers NNE of Perth.

As interest rates were sky high at the time, and Reynolds was strapped for cash due to the enormous outlays required at Worsley (\$1.2 Billion) and at Boddington, they accepted an offer from Forsayth NL, an Australian junior, to form a joint venture. Forsayth agreed to bear the cost of bringing Mt. Gibson into production in exchange for a 50% interest, and Reynolds Australia geologists would be in charge of the geological work. Since Reynolds had only about a half million dollars invested in the exploration at the time, it was a fantastic deal, and Reynolds jumped at it.

At Mt. Gibson, ore-grade laterite occurred right at the surface, and about half the deposit could have been stripped with a broom. The mine began production in 1986 with reserves of 5.3 million tonnes of lateritic ore grading 1.6 g/t Au, and mining costs were the lowest in Australia. The reserve was enlarged somewhat with the discovery of some high grade ore in the bedrock beneath the laterite. By the time the mine closed in 1997, it had produced about 800,000 troy oz Au.

In 1990, Perilya Mines reported a major gold discovery at Karpa Spring, right next door to the Mt. Gibson deposit. Figure 1 shows the location of Mt. Gibson with respect to Karpa Spring. The roughly north-south line slightly to the right of the center of the map is the boundary between the Mt. Gibson mineral tenement on the west and Karpa Spring ground to the east.

Naturally, Reynolds' management in Richmond wanted to know how the Reynolds Australia geologists could possibly have missed it. Reynolds' Aussie geologists were very good and insisted that they had been all over the neighboring ground when they explored Mt. Gibson, and turned up nothing worthwhile. As the press releases mounted, announcing ever greater reserves and higher and higher grades, Reynolds' Aussie geologists went over in the dead of night and sampled cuttings from as many RC holes as they could find. Assays of the cuttings revealed no significant gold. Shortly thereafter, the Karpa Spring balloon came down in flames.

The connection with Bre-X/Busang is very tenuous, but according to Trevor Sykes, who writes a column under the pseudonym "Pierpont" for Australia's Financial Review, Karpa Springs was discovered by three prospectors, Clark Easterday, and Len and Dean Ireland. High grade intersections were reported from reverse circulation drilling, including one of 38 meters grading 34 grams Au per tonne. Reported strike length was 1500 meters and open in all directions. Eight drill holes were said to have ended in mineralization.

The Karpa Springs prospectors offered the prospect to a geologist named Mike Novotny, who in turn took it to mining entrepreneurs Bill Galbraith and Geoff Stokes. The three formed the Aracus Syndicate, bought into Karpa Springs, and sold a half interest to an Australian junior company, Perilya Mines, who had an association with Noranda. Noranda and Perilya were to buy a 30% interest for \$6.15 million Australian, with an option to buy a further 20% for \$4 million, with Aracus retaining a 5% royalty.

According to Trevor Sykes, Perilya paid the first \$6 million, but one of their executives had some doubts, and went to a warehouse in Kalgoorlie to check out the samples supposedly stored there. He found no samples, and notified Perilya's managing director. After a meeting with the promoters, it was decided to stop payment on the checks already written and do some check drilling.

The check holes showed "a complete absence of gold," and Perilya sued the three prospectors to recover their money. The prospectors were charged with fraud, convicted of salting the samples, and served prison terms.

The link with Busang? Mike Novotny, the promoters' geologist, had once been a director of Pelsart Resources which was involved in several joint ventures in Kalimantan, Indonesia with another junior company called Jason Mining. One of Jason's directors was John Felderhof. Pelsart's field geologist was none other than the late (or maybe not) Michael de Guzman who later teamed up with Felderhof to sell Busang to Bre-X.

One curious thing which never appeared in print anywhere was that when the Karpa Spring scandal initially broke, Reynolds Australia geologists heard rumors that the Karpa Spring samples had been salted with placer gold from Indonesia. Since there is no shortage of placer gold in Western Australia, it seemed odd at the time that they went so far away to get it. Now, with a link established between Karpa Spring people and those at Busang, perhaps not so odd after all.