

Gold Miners

SPECIAL REPORT



Key takeaways

- Production issues prevalent
- Exploration and consolidation to increase ounces amid high gold price
- Super Pit sale could have consequences for broader gold sector
- JVs becoming a more attractive option for juniors developing projects



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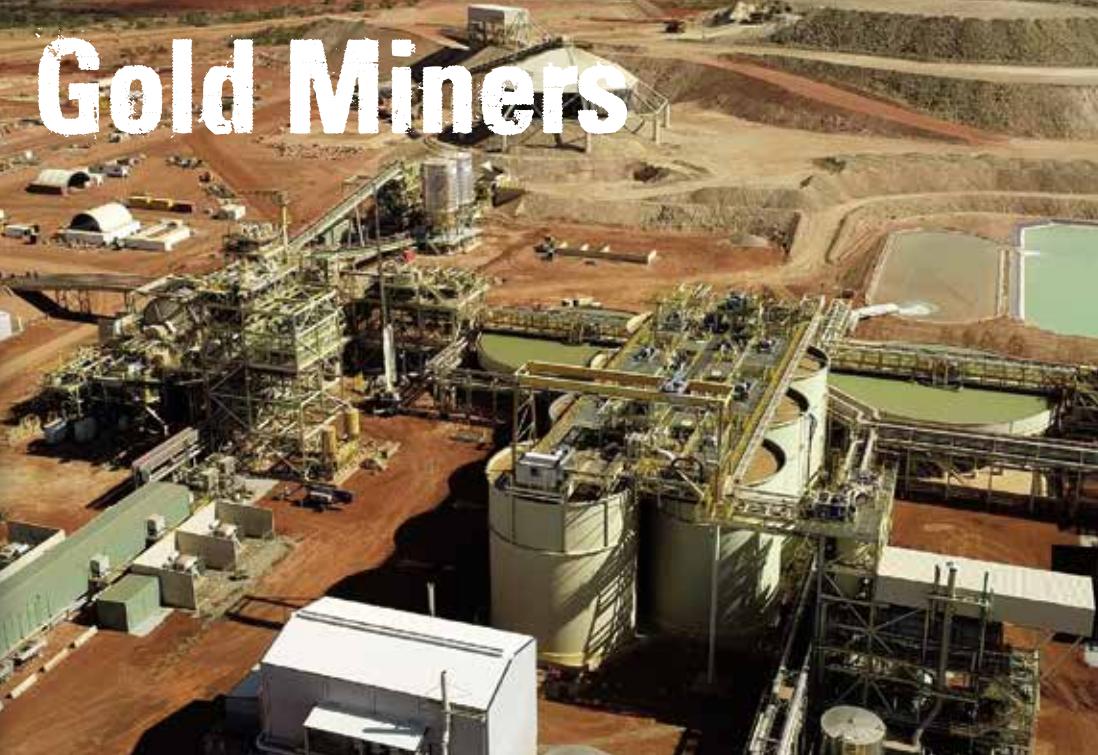
WESTERN Australia's gold majors are seeking to optimise their operations to boost output amid a flurry of consolidation and brownfields exploration currently dominating the local mid-tier market.

While a range of factors has contributed to historical highs for gold prices in recent months, output totals for some producers have not been as positive.

WA's production fell 0.5 per cent to 6.57 million ounces, out of a national total of 10.3moz.

At the top of the WA gold miners list, a 32.3 per cent drop in production to 940,000 ounces at Newmont Goldcorp (see list page 21) stemmed from Bunbury port congestion hitting output at its Boddington mine, and production issues that affected its half-owned Kalgoorlie Super Pit.

Super Pit joint venture partner Barrick Gold is planning an exit from the mine and, by extension, its presence in WA (see page 17).



NEW: The \$621 million Gruyere mine poured first gold in July. **Photo: Gold Road Resources**

Output issues ongoing

The state's gold miners are positioning themselves to take advantage of the commodity's surging value.

1 year gold price history in Australian dollars per ounce



In the middle of the producers' pack, St Barbara had delays commissioning a paste aggregate fill circuit at its Gwalia mine, and produced 48,000 fewer ounces.

The biggest gainers on the BNiQ gold miners list, Dacian Gold and Gascoyne Resources, significantly underperformed as production issues plagued their projects during ramp-up over the financial year.

Dacian had 67 per cent of its share price value wiped off in one day as it missed production

guidance for the second time in a row, while Gascoyne collapsed into administration in June.

South Africa's Gold Fields could soon dethrone Newmont as the state's top producer as Gruyere rolls into commercial production.

The \$621 million mine poured first gold in early July, but production issues have plagued the operation.

Gruyere is expected to produce between 75,000 ounces and 100,000oz this year, which is down on a previous 100,000oz

to 120,000oz guidance due to a delay in the full operation of its ball mill.

The mine's average production is forecast to reach 300,000oz per annum across its 12-year life.

Gold Fields chief executive Nick Holland said the company was unlikely to be adding new mines to its WA collection any time soon.

"We don't want to get too big," he said.

"With Gruyere we're coming up past 1 million ounces per

year in Australia, so our focus in the foreseeable future is going to be optimising our existing operations."

Orminex is set to join the BNiQ list next year after it processed first gold at its Lakewood Mill earlier this month.

However, there is a dearth of significant new gold projects on the horizon, with Capricorn Metal's 100,000oz per annum Karlawinda resource the only project worth over \$100 million in the pipeline.

The \$132 million project was expected to be commissioned in the June quarter of 2019, but has been pushed back until the March quarter of 2021.

Deals and digging

WA's mid-tier miners have been on a mergers and acquisitions frenzy, as the high gold price underpins the desire to add ounces expeditiously to their existing operations.

Ramelius Resources launched a successful \$59.2 million takeover of Explaurum last September, and Silver Lake Resources and Doray Minerals announced a \$252.8 million merger a month later.

The wave of consolidation continued into 2019, with RNC Minerals buying Westgold Resources for \$50 million, Pantoro acquiring Norseman Gold for \$45 million, Saracen Mineral Holdings buying out Bligh Resources for \$38.2 million, and Silver Lake dipping into the market again to secure EganStreet Resources for \$52 million.

Echo Resources' major shareholder, Northern Star Resources, is in pursuit of the junior for \$193 million, but while the board has backed the offer, a blocking stake to the all-cash deal has emerged and complicated matters.

Following the same strategic rationale as the M&As, exploration budgets among the mid-cap players have climbed considerably, with the vast majority of the funds allocated to brownfields exploration.

Northern Star led the way after it budgeted a company record \$76 million for exploration this fiscal year - \$16 million more than the previous period.

"Exploration budgets for companies like Northern Star, Saracen and Evolution are probably the biggest in the world for companies that are relative to their production sizes," Argonaut

analyst James Wilson told *Business News*.

"Northern Star has now got around 170 geologists working for them, and that's an extraordinary number for a mid-tier producer."

Labour woes

However, the rapid increase in activity in the sector has outpaced any movement of graduates back into the industry, which has the potential to stifle the expansion plans of some producers.

A report from the Minerals Council of Australia revealed that close to 300 mining engineers were graduating every year during the resources investment boom, however, based on current enrolments at eight universities across the country, that number is likely to be only 50 graduates a year by 2023.

Additionally, the WA School of Mines has stated that more people are retiring this year than graduating.

Mr Wilson said the labour market in WA was very competitive due to these factors and that poaching of employees was increasingly prevalent.

"A lot of the old mine sites in WA have had to upgrade the quality of their camps to make them more palatable for people to come and work at," he said.

"People think twice and say: 'Well I could go to one that has a Masterchef kitchen instead of one that has thin walls where you can hear the bloke next door to you clipping his toenails'."

Evolution Mining executive chairman Jake Klein said the labour market was one of the big headwinds to the sector.

"We have fewer people seeing the resources space as an attractive career option, this has been a structural shift which is something of deep concern," Mr Klein told *Business News*.

"We're very focused on building a culture within our organisation that is engaging to our employees, so that when someone rings and offers our employee a job up the road they say 'no thank you, I'm happy here'."

Gold Road managing director Duncan Gibbs said the skills shortages were more severe in some aspects of the industry than others.

"Underground mining is very tough to get people, and I certainly experienced that when I was the general manager of Sunrise," he said.

Gold stars prepare for pit fight

Northern Star Resources and Evolution Mining have discreetly emerged as the main contenders to acquire Barrick Gold's share in the historic Kalgoorlie Super Pit.

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BARRICK Gold's half-stake in the Newmont Goldcorp-operated Super Pit is up for sale, but even amid the soaring gold price it may struggle to sell the asset for a premium to its two most likely suitors.

Canada-based Barrick is seeking to offload its only Western Australian interest, which performed poorly last fiscal year, as part of a \$US1.5 billion (\$A2.2 billion) asset sale, following the \$US6.1 billion acquisition of Randgold Resources last September.

Newmont is also conducting its own \$1.5 billion asset sell-off after its merger with Goldcorp, making a move to full ownership of the Super Pit unlikely.

Northern Star Resources has been touted by many as the logical successor to Barrick at the 30-year-old Kalgoorlie landmark, given its abundant cash reserves (\$310 million at the end of the 2018-19 fiscal year), strong presence in the Kalgoorlie area, and an executive chairman seemingly eager to build his gold empire.

In mid-August, Barrick chief executive Mark Bristow even outed Northern Star as "very much one of the front runners" for his company's stake, but added there was no shortage of interest in the ageing Super Pit considering the current booming gold market.

Two weeks later, Northern Star executive chairman Bill Beament tentatively confirmed that interest during the company's full-year results teleconference.

"If a potentially suitable asset like the Super Pit comes up for sale, we'll always have a look, it would be remiss of us not to," Mr Beament said.

But another mid-tier success story led by a similarly ambitious executive chairman could also be interested in the Super Pit.

Following the release of Evolution Mining's full-year results, executive chairman Jake Klein said his company's mergers and acquisitions team was "match fit and ready".

Mr Klein told *Business News* the company had plans to expand into



PLAYERS: Jake Klein (left) and Bill Beament, and their respective companies, are the leading contenders for the 50 per cent stake in the Super Pit.

\$310m NORTHERN STAR'S CASH RESERVES

North America and that WA, where it operated the Mungari mine, was ripe with opportunity.

Mr Klein did not directly disclose specific projects or companies in WA it is targeting, but instead highlighted recent M&As among the big gold players.

"Through the mergers of the majors, with Barrick Gold and Randgold, and Newmont Mining and Goldcorp, they have said they are going to sell assets," Mr Klein said.

"Some of those assets may be attractive to us."

He reiterated this statement when asked specifically whether Evolution had an interest in obtaining Barrick's Super Pit stake.

Hartleys analyst John Macdonald believes the two miners are the most viable prospects for the Super Pit, based on their market capitalisations.

"For those further down the (market cap) list it might be out of their price range," Mr Macdonald said.

Evolution's market cap is in the \$8 billion territory, while Northern Star is around the high \$6 billion mark.

In a research note, Hartleys estimated that using the \$US63 per

ounce Northern Star paid for the Pogo mine in Alaska, Mr Beament could spend \$US320 million (\$460 million) for 50 per cent of the Super Pit.

Barrick previously tried to sell its stake in the Super Pit in 2017, but the process failed when Chinese company Minjar was unable to come up with the funds for its \$1.3 billion offer.

This equates to a \$840 million gulf between Barrick's previous asking price and Hartley's estimate of what Northern Star could be looking to pay.

Additionally, there are indications that WA's most famous gold mine has lost some of its lustre.

Production for the 2019 financial year declined by 32.9 per cent, from 730,000oz to 490,000oz, due to serious geotechnical constraints and pit-wall slippages.

This pushed Barrick down three spots to ninth place on the BNIQ gold miners list (see page 21).

Furthermore, when the Super Pit's mine life comes to an end around 2034, its rehabilitation costs are expected to amount to a nine-digit figure.

Newmont is striving to claw back some of the lost ounces at the Super Pit with its Morrison Starter extension, which commenced production in the first quarter of this

calendar year and has an estimated total production of between 150,000oz and 200,000oz until 2021.

HopgoodGanim Lawyers partner Paul Harley said if either Evolution or Northern Star paid top price for Barrick's stake, it could signal to investors that the gold M&A market, at least in WA, had peaked.

"When we start seeing transactions where miners are making premium deals based solely on just adding gold ounces to their balance sheet instead of making strategic acquisitions to feed into their existing processing capabilities, then we'll have reached the top of the cycle," Mr Harley said.

Neither miner will have tunnel vision for the Super Pit, however.

Mr Beament is currently in pursuit of a \$193 million takeover of Echo Resources, to bolster Northern Star's Junee operations, while Evolution has been bidding its time over the past 18 months in its search for the next big opportunity.

"We are not shy to conduct extensive due diligence to find accretive value," Mr Klein told *Business News*.

It may well be a sellers' market in the gold sector, but it seems Barrick will have its work cut out to convince these two operators to pay top dollar for the Super Pit.

For those further down the (market cap) list it might be out of their price range - John Macdonald

Gold Road's bright deal delivers at Gruyere

Gold Road Resources' lucrative path to production could be the catalyst for change in how gold juniors advance their projects.

MORE: Duncan Gibbs wants to develop another big gold mine in WA. **Photo:** Gabriel Oliveira

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IN 2013, Gold Road Resources made one of Australia's largest greenfields gold finds this century when it discovered the Gruyere deposit around 200 kilometres east of Laverton.

The company developed the project to the feasibility study stage, before it sold a \$350 million, 50 per cent operating stake to Gold Fields in 2016.

Duncan Gibbs, who took the helm of Gold Road from Ian Murray in September 2018, pointed to the deal as a pivotal factor that sustained the company's momentum from the momentous discovery of Gruyere to its current position.

"It meant we did not have to dilute shareholder value, and it also meant we had that extra level of expertise that comes with being partnered with a major gold producer," Mr Gibbs told *Business News*.

"It's difficult as a small company to bring a big asset into production; there are a lot of people and systems you have to establish from scratch."

As with other recent major mining projects in Western

Australia, the Gruyere project suffered cost blowouts, with scope changes, higher labor and equipment costs, and unforeseen extreme rainfall during critical points of construction contributing to its capex rising steeply from \$507 million to \$621 million.

This significant cost overrun could have been enough to bury the company in the ever-growing Goldfields graveyard of juniors.

However, the deal with Gold Fields included a \$51 million capital cost overrun guarantee, and the deep-pocketed major provided the capital to help overcome these issues.

HopgoodGanim Lawyers partner Paul Harley said Gold Road had cut a good deal with its joint venture partner in terms of sharing risk.

"They put the risk of operation, execution and ramp-up with the party most able to execute that and carry that risk," Mr Harley told *Business News*.

"The explorer stuck to what it did best – exploration."

Mr Harley said farm-out agreements, which could have similar arrangements, already existed in the industry, but Gold Road's example could serve as the

impetus for these deal structures becoming more prevalent.

"I think successful joint ventures in the future will involve juniors getting rewarded for doing the early hard yards, and advancement with free carry by the major, because there's no point in sending them out into the world to raise money in this bad equity market when the major has the funds," he said.

Argonaut analyst James Wilson echoed Mr Harley's sentiment.

"Things have been turning around for the gold explorers, but there's still a big disparity between gold miners and explorers in terms of what people value them at," Mr Wilson told *Business News*.

"It is still not an easy task to raise substantial amounts of equity if you're a junior."

While many gold juniors have not enjoyed the share price run of their larger counterparts, Gold Road's stock has soared from 9 cents by the end of 2013 to \$1.35 at the time of publication, with a debut on the ASX 200 this month cementing its success.

Gold Road is unlikely to just rest on the success of developments



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– Duncan Gibbs

at Gruyere, however, as Mr Gibbs has a persistent desire to pioneer the development of the state's next big gold mine.

Gruyere's average production is forecast to reach 300,000 ounces per annum across its 12-year life, which will make it the largest new gold mine in WA, in terms of annual output, since the AngloGold Ashanti-operated Tropicana started operations in 2012.

Mr Gibbs, who managed the Tropicana project from its early exploratory days into production, said he was focused on bringing another major WA gold project online once the dust settled on Gruyere and its operations reached capacity.

"Our game plan at Gold Road is trying to find the next big mine, one that can support a big standalone plant," he said.

"Our overall tenement package in WA is around 180km from one end to the other, and we've spent \$40 million on it over the past couple of years."

"It's one of the largest greenfields gold exploration portfolios in Australia, probably in the world."

Mr Gibbs said despite the current surging gold price, there were not many shovel-ready gold projects in the state, leaving the door wide open for a new endeavour.

"There are a couple there, but they are not big projects," he said.

WA's LARGEST GOLD MINERS

RANKED BY WA ANNUAL PRODUCTION TO JUNE 30, 2019

Rank	Previous rank	Name	Senior WA executive and title	Mine	WA annual production to June 30, 2019 ('000 ounces)	WA annual production to June 30, 2018 ('000 ounces)	WA annual production to June 30, 2017 ('000 ounces)	WA annual production to June 30, 2016 ('000 ounces)	WA annual production to June 30, 2015 ('000 ounces)	WA annual production to June 30, 2014 ('000 ounces)
1	—	Newmont Goldcorp	Mr Alex Bates Senior vice president, Australia	Boddington Super pit (50%)	689 251 =940	733 371 =1104	1,201	1150	1,046	1,314
2	—	Gold Fields	Mr Stuart Mathews Executive vice president, Australasia	St Ives Granny Smith Agnew	365 277 237 =879	370 283 241 15* =894	945	978	1,006	906
3	—	AngloGold Ashanti	Mr Michael Erickson Senior vice president, Australia	Tropicana (70%) Sunrise	363 272 =635	327 284 =611	524	528	591	540
4	—	Northern Star Resources	Mr Bill Beament Executive chairman	Kalgoorlie (includes Kundana 51%) Jundee Paulsens	335 295 0 =630	269 283 22 =575	533	558	573	215
5	—	Newcrest Mining	Mr Steve Cowle General manager, operational projects	Telfer	452	426	386	462	520	536
6	↑	Regis Resources	Mr Jim Beyer Managing director	Duketon South Duketon North	275 89 =363	254 107 =361	324	305	310	269
7	↑	Saracen Mineral Holdings	Mr Raleigh Finlayson Managing director	Carosue Thunderbox	200 155 =355	171 145 =316	273	189	168	133
8	↑	Westgold Resources	Mr Peter Cook Managing director	Meekatharra Cue Fortnum Higginsville*	94 68 58 34 =255	112 9 42 56 =253	267	173		
9	↓	Barrick Gold		Super pit (50%)	245	365	376	366	303	687
10	↓	St Barbara	Mr Bob Vassie Managing director	Gwalia	220	268	265	276	298	285
11	—	Ramelius Resources	Mr Mark Zeptner Managing director	Mt Magnet Edna May	115 82 =197	136 73 =208	125	111	87	74
12	↑	Silver Lake Resources	Mr Luke Tonkin Managing director	Mount Monger	164	158	136	131	122	214
13	↑	Independence Group	Mr Peter Bradford Managing director	Tropicana (30%)	155	140	129	134	149	105
14	↓	Norton Gold Fields	Mr Fang Qi Xue Executive chairman	Paddington	148	159	219	189	NFP	169
15	↑	Dacian Gold	Mr Rohan Williams Executive chair	Mount Morgan	139	34	-	-	-	-
16	↓	Evolution Mining	Mr Jake Klein Executive chairman	Mungari	121	141	214	208	99	80
17	↑	Red 5	Mr Mark Williams Managing director	Darlot/Koth	102	48	-	-	-	-
18	↓	Superior Gold	Mr Lappies Labuschagne General manager, Plutonic	Plutonic	92	87	61	-	-	-

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* Asset since sold

** Calendar year

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