

# HIGH GRADE

DRILLING DEEPER FOR THE NEWS

COVER STORY

Mon 25/02/2008

## Golden opportunity

By Richard Roberts, 25 February 2008



FEW in Australia's shrunken gold sector, even the true believers, are toasting a new golden age despite bullion prices which a decade ago would have unleashed a wave of euphoria. For now the mood is eerily subdued reflected in the caution being shown by equity investors and those developing new projects. Elusive exploration success remains the key to real revival.

Last week's confirmation by one of Australia's self-proclaimed emerging mid-tier gold miners, Monarch Gold, that it was struggling to get its production build-up out of first gear followed, at the one end of town, minnow View Resources' failed attempt to revive the Bronzewing mine in Western Australia, and at the other, news of a major development cost blowout at Boddington in the state's south-west.

Boddington, owned by Newmont Mining and AngloGold Ashanti, will be Australia's biggest single gold producer with forecast annual output in its first five years of operation of one million ounces plus 30-35,000 tonnes per annum of copper. Initial production from the 80Mtpa mine/35Mtpa processing plant is expected early next year.

Barrick Gold chief Greg Wilkins' warning last year about escalating project development costs making the Australian production environment less globally competitive was echoed in Newmont-AngloGold's revelation that Boddington's construction cost could be as much as \$US2.4 billion, or about 40% higher than their previous worst-case scenario. How rising fuel, labour, equipment parts and maintenance, and mine consumable costs will affect Boddington's operating margins won't be known for 12-18 months.

Elsewhere though, the impact is clear. Particularly where ore grades aren't flash, Australian gold produce lacking scale are struggling to come to grips with the high-cost environment. The battle to build scale continues to claim casualties. Even the big guns, such as Newcrest and its large Telfer mine in WA's north have ongoing problems containing costs due to staff retention and training issues.

Analysts and investors have reacted to the margin squeeze at the top by harshly marking gold exploration companies. According to the executive chairman of emerging producer Tanami Gold, Denis Waddell, this threatens to slow a long-awaited and much needed build-up in greenfields exploration.

"One of the frustrating parts of the market at the moment ... for smaller producers, notwithstanding the improvement in the gold price, is the reluctance [of investors] to get behind the junior explorers and miners who are usually the ones pushing harder on the greenfields front," he said.

"The cost base now for any producer, whether it's gold or other metals, is substantially higher than it was even five years ago," Waddell said.

"The gold sector has lagged relative to the bulk commodities and it has made it more difficult to compete across the board and especially on the labour front. The gold price needed to firm and needs to continue firm for the gold sector to compete economically with the other commodities.

"I think we're really only just seeing that happen now. A number of companies – even producers – have got into difficulty because of the capital and operating cost base, and if the gold price doesn't continue to firm a lot of the mines will still continue to struggle, particularly where they have relatively low grade ore. The costs of moving dirt these days are significantly higher than even a few years ago, so grade becomes very important in a market where costs are increasing."

Gavin Wendt, head of mining and resources research at Sydney-based Fat Prophets, says the situation is certainly not confined to Australia. He cites South Africa, where country-wide power disruptions are "just another nail in the South African gold industry coffin in our view", and Peru as being worst affected by the industry's cost conundrum. "According to the [latest] Gold Fields Mineral Services (GFMS) report, gold companies right across the globe were hit by an increasingly difficult operating environment last year, where competition for consumables, labour and key plant items hampered projects," he said.

"The US and Canada also suffered declines in output. In addition to China, higher mine output was seen in Indonesia, Brazil and Ghana, with Australian production remaining relatively stable."

According to GFMS, total world gold production dropped by 1% last year to 2444 tonnes, as Chinese gold production rose by 12% from 247t in 2006 to an estimated 276t last year. South African gold production fell by 8% from 296t in 2006 to 272t in 2007. Australia's output this year is not expected to change much from the 2006-07 total of 251t – well off the 1997-98 peak of 318t, which would be worth a staggering \$A10.2 billion today.

"What we are currently witnessing in the world gold industry does not make sense in terms of textbook economics," Wendt said.

"But it is a reality that highlights the difficulty in accessing new supply. We are seeing a simultaneous decline in global gold production at a time of increasing demand and record gold prices. There are enormous supply-side restrictions affecting gold [and] this supports the strong long-term gold price outlook that we have held and maintained for years."

The head of a Melbourne-based Australian gold research group was optimistic that Australia could challenge for the world No.1 producer mantle, but doubtful that the country's output could top 300t again "in the short or even the medium term".

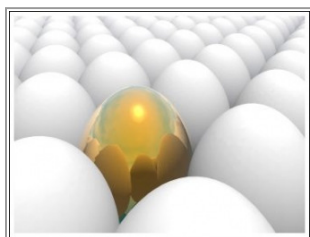
"If you have a look at the list of projects that are under construction or under development, like Avoca's Higginsville, Boddington, which is the big one – you're looking at another 30tpa of gold there in one hit; Prominent Hill will add some ... and there are some smaller projects that will come on," he said. "It wouldn't surprise me to see in a couple of years production get back up to 270t, perhaps a bit more.

"But the hardest thing in forecasting is not getting information on the new projects coming on, it's the existing mines that will go out of production. We've seen what has happened in South Africa, in a high-cost environment. That's probably a bit of a warning sign for Australia.

"One of the other points we continue to make is that just because the gold price is high it doesn't necessarily mean there's going to be an overall increase in gold production in any country, because if you are an existing producer and you are in a position to blend a bit of low grade stuff in with your run-of-mine material, you can profitably treat that material. Your head grade goes down as a result and your

production will fall. I think that, at least to some extent, that is going to offset production coming in from operations which were previously marginal under a lower gold price."

### Greener fields



The big hope for a major turnaround in the fortunes of Australia's gold sector remains significant greenfields exploration success and it is in this area that, predictably, optimists have re-emerged in greater numbers while conceding there is also more competition on this front – inside and outside Australia – than in the past.

Metals Economics Group data shows that while last year gold exploration expenditure made up a hefty 42% of the world's \$US11.4 billion exploration budget for non-ferrous minerals, the proportion in Australia fell from 43.8% in 2005-06 to 36.9% in 2006-07 (and 32.4% in the third quarter of last year). This was at a time when annual gold exploration expenditure in Australia increased from \$A399.6 million to \$A455.9 million.

"Africa, China, Canada and South America have under-explored regions too, and some are investing proportionally more in gold exploration than is Australia," said a Sydney-based gold analyst.

"We have advantages over many of our competitors, especially in terms of political stability and infrastructure, but with increased investment in those countries some of our advantages will disappear. C the whole, we face the same barriers to productivity as do other nations, such as shortages of equipment and, more critically, of the skills required both in industry and academia to generate new exploration models.

"We even have some comparative disadvantages, such as a rigorous approvals system that provides wor class environmental and financial safeguards but also, for better or worse, slows the development proces and makes some projects sub-economic.

"It's difficult to predict which nation will be the top gold producer over the next decade. Like most people think it will be China in 2008 but the long-term "title" will hang on the ability to make discoveries – not j of individual deposits but also of entirely new gold-producing regions, mostly beneath cover. Will such discoveries occur in Australia? Certainly, given sufficient investment, but they'll be made elsewhere, too.'

St Barbara, another Australian company that has set itself some lofty production goals to achieve over th next five years, appears set to make an early start on exploration at targets generated by its national "BigGold" study. The company, which wants to be producing at a rate of 450,000ozpa from its Leonora a Southern Cross operations in WA by the end of 2008, and up to 1Mozpa by 2010, planned to "accelerate BigGold exploration", chief executive Ed Eshuys said this month.

"We are of the view that strong gold and base metal prices will be sustained for the medium term, and th brings onto the radar screen a range of deposit types, including Yilgarn gold, Queensland epithermals an NSW copper-gold," St Barbara general manager exploration, Peter Thompson told **HighGrade**.

"These [gold] prices demonstrate that deep, large deposits can be viable, and there will be a shift toward deeper discoveries in future.

"St Barbara has completed targeting and ground acquisition in a number of mineral provinces in Australia and in 2008 is commencing active grassroots exploration in NSW, Victoria, South Australia and WA. These targets have emerged from several inputs, including improved deposit models, and improved geophysical

processing and analysis, and will utilise further leading-edge technology, particularly in spectral scanning and geophysical depth modelling.

“We are optimistic of further significant discoveries and have laid the foundations for this to happen.”

A company that has similarly spent considerable time drilling mountains of data to narrow its gold exploration search is bullish about the prospects for new, world-class gold finds.

Clancy Exploration managing director Mark Stewart said the extensive use of digital geological and geophysical data in probability-based targeting – specifically, the Geoinformatics process of Clancy’s Canadian parent – had thrown up several promising targets in a region currently drawing new interest as rising levels of exploration expenditure, the NSW Lachlan Fold Belt (see separate story this edition of **HighGrade**). He believes discovery rates can improve despite perceptions that exploration is becoming more difficult.

“Technology and the power of computers that can be brought to bear on large data sets must be the single most important development in the recent decade allowing explorers to visualise large terrains in three dimensions and providing the ability to manipulate the data and in the process throwing up new opportunities,” Stewart said.

“The next generation of world-class deposits are going to be found under cover and so we need to be as smart as we possibly can in using all relevant available data to help us see through that cover and to risk manage exploration so we don’t end up wasting shareholders funds drilling unnecessary holes into highly speculative targets.

“There are other areas we have identified that lend themselves to the approach we have taken in the Lachlan – that is, taking a whole-of-belt approach in a prospective terrain and pulling it apart, acquiring the important and relevant regional scale data and building a three-dimensional geodynamic model of the terrain which is then interrogated to provide targets which are then ranked according to their probable chances of success to ensure that the exploration dollar is always being spent on the highest ranked targets.”

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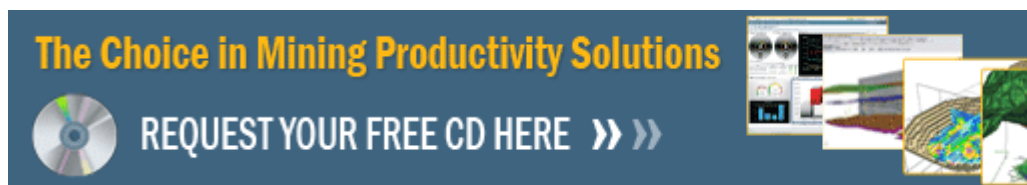
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