

Gold

Australian miners buck trend by piling back into gold

Weak currency and low debt push groups to make big bets on prospecting



The township of Kalgoorlie next to the Fimiston Open Pit mine, known as the 'super pit' © Bloomberg

AUGUST 17, 2017 by: Jamie Smyth in Kalgoorlie

John Jones has spent half a century prospecting the dusty land around the Kalgoorlie “super pit”, one of the world’s largest gold mines.

“This has been the golden anchor for Kalgoorlie that has allowed prosperity to flourish,” says the executive chairman of Anglo Australian Resources NL, pointing to the 600-metre deep pit owned by [Barrick Gold](#) and [Newmont Mining](#).

“We are drilling 14km south of here and I think there is a good chance we’ll find gold.”

About 60m ounces of gold have been mined from the area around the super pit since the metal was discovered near Kalgoorlie 125 years ago. [Anglo Australian Resources](#) is one of a new generation of companies prospecting in Western Australia, bucking a global trend of declining gold exploration.

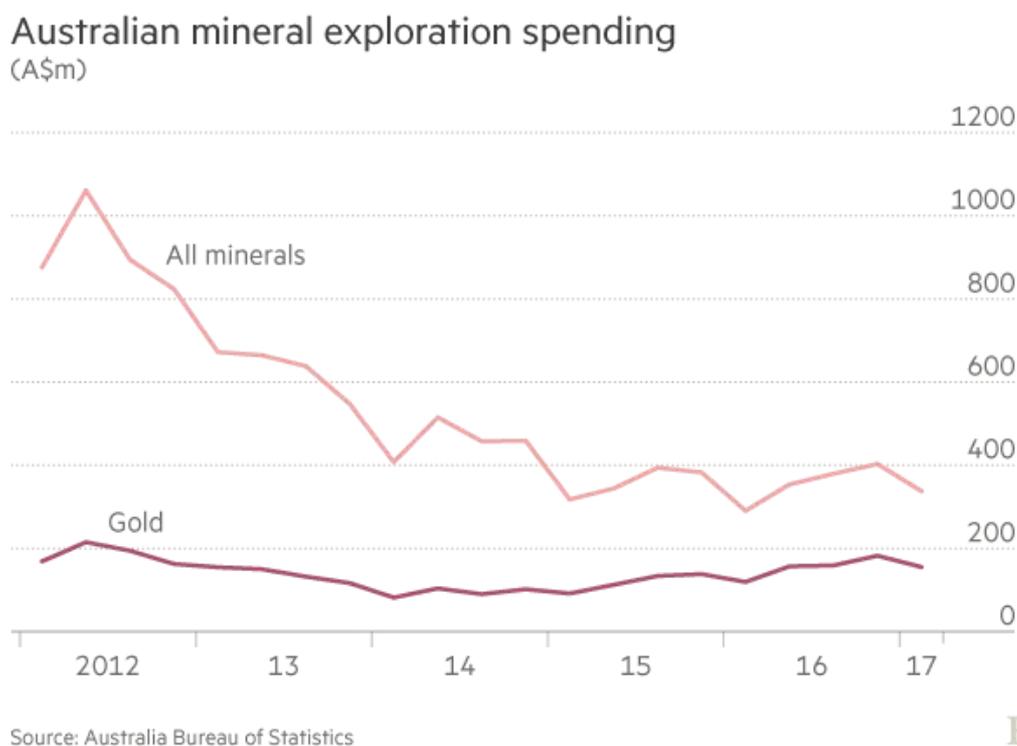
In 2016, gold exploration declined to its lowest level since 2006, dropping \$643m, or 16.3 per cent, to \$3.30bn, according to a report by S&P Global Market Intelligence. The decline was part of a belt-tightening policy by resource companies, which caused some experts to forecast a [gold shortage within a decade](#).

“There is a finite number of existing gold mines and these can’t go on forever,” says Justin Osborne, executive director Gold Road, a miner in nearby Perth. “The industry needs new greenfield exploration.”

In Australia a recovery is gathering pace with spending on gold exploration rising 30 per cent to A\$653.5m in the year to end March compared with the previous 12 months, according to the Australian Bureau of Statistics. This enabled Australia to overtake Canada as the biggest spender on gold exploration last year for the first time since 2003, says [S&P](#).

“ASX-listed gold companies were able to resume exploration in Australia earlier than their global colleagues due to the weakness of the Australian dollar, which lifted margins and lowered the US dollar costs from 2013,” says Trent Allen, analyst at Citi.

Global gold prices averaged \$1,250 last year, down from an average of \$1,668 in 2012. But the Australian dollar price of gold averaged a record high of A\$1,680 an ounce in 2016, which was due to a weaker local currency. This has boosted profit margins for local producers.



Lower prices charged by mining contractors due to the wider downturn across the sector have also helped. And while most of the big global gold producers have focused recently on [repairing their balance sheets](#), Australian miners have stepped up exploration.

Gold Road, which is spending A\$30m this year on greenfield exploration — drilling aimed at discovering new gold deposits — has experienced some success.

In 2013 the company discovered the Gruyere resource in Western Australia, which is a 3.5m-ounce gold deposit with a mine life of 13 years. Gold Road sold a 50 per cent stake in the site to

Gold Fields, the South African miner, in November for \$350m.

“We discovered Gruyere at less than \$10 per ounce, which is world-leading,” says Mr Osborne, with reference to the cost per ounce of finding this gold.

Northern Star Resources, another miner in Perth, has spent heavily on brownfield exploration, which is aimed at finding deposits near existing mines. It spent A\$60m in 2017 on a targeted drilling programme that enabled the company to increase its total reserves last week by 2.3m ounces to 3.5m ounces.

Australia is a God’s gift to miners

JAKE KLEIN, EXECUTIVE CHAIRMAN OF EVOLUTION MINING

“There is more optimism in Australia and that is on the back of new discoveries and development projects but that is different to the global trend of declining reserves,” says Stuart Tonkin, Northern Star chief executive.

He says Northern Star has managed to add to its gold resource at a cost of \$21 per ounce, which compares to a global norms of up to \$200 per ounce.

“Gold is getting harder to find and more expensive to extract,” says Mr Tomkin.

Last week the Diggers & Dealers mining conference in Kalgoorlie attracted its highest number of participants since 2012.

“The atmosphere felt very upbeat, and rightly so, given the state of the sector,” says Paul Hissey, analyst at Royal Bank of Canada.

“Australian gold miners are largely debt-free, there is capital available and some larger gold producers are forming joint ventures with smaller explorers.”

In March Newcrest teamed up with Alice Queen Limited, an ASX-listed miner, to explore in New South Wales. Last month Evolution Mining signed a joint venture deal with Menninnie Metals to explore in South Australia.

Jake Klein, executive chairman of Evolution Mining, says Australia remains one of the most friendly locations in the world for explorers.

“Australia is a God’s gift to miners,” he says. “It’s a vast underpopulated mining-friendly, resource-rich region where the rule of law can be relied on — and you can’t say that about too many other countries in the world,” says Jake Klein, executive chairman of Evolution Mining.

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