

Life returns to gold graveyard

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Most shallow deposits have already been mined out, so goldminers have to dig deeper to find deposits. **Photo: Arsineh Houspian**

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Gold is back in Ballarat. The first gold pour by mining company Castlemaine Goldfields, which could happen as early as today, is an important event in the gold renaissance building across historic Victorian towns as high prices for the precious metal instil life in once uneconomic projects.

The bars that will result from that pour will add to an excitement that can be felt on the main street of Ballarat, a town that has been battered as local industry has struggled in recent times.

But the people truly buzzing in Victoria's mining industry are those who gambled on buying distressed or out-of-favour gold assets in recent years only to watch the price of the precious metal rally by about 35 per cent over the past 12 months and 70 per cent over the past two years.

The high-stakes nature of the punt they have taken has been brought into stark relief over the weekend as gold prices tumbled.

Gold futures for December delivery fell \$US101.90, or 5.9 per cent on Friday, to \$US1639.80 an ounce on the Comex in the biggest decline since March 2008, as recent gold investors were forced to liquidate holdings of the metal to offset other losses. In two days, the metal dropped 9.3 per cent, the sharpest drop since February 1983.

Castlemaine's purchase of the Ballarat goldmine from Lihir Gold last year is one of the best examples of miners banking on sustained high prices. Castlemaine paid \$4.5 million in cash and a 2.5 per cent royalty, capped at \$50 million, to get its hands on the mine.

The price covered the cost of equipment, inventory and buildings at the site, so the emerging miner got the gold deposit for next to nothing in cash.

That deal was further sweetened when Castlemaine recouped \$2 million from the sale of surplus mobile equipment. The miner is aiming to produce 50,000 ounces of gold a year from the mine, which is forecast to generate an operating profit of \$53 million a year at today's gold price.

"There wasn't a lot of interest generally in gold when Lihir put the Ballarat asset on the market," says Castlemaine chief executive Matt Gill.

"There is also a view out there that central Victorian goldmining is too hard because it is not a big gold province, and because of the start-stop track record for goldmining in this region."

Goldmining in central Victoria is a high risk/high reward proposition, as the easy to reach gold has largely been mined out already and explorers have to dig deep to find deposits.

Furthermore, gold veins tend to be relatively narrow and "nuggetty" and that makes the precious ore harder to find.

Sentiment towards goldmining in the state was also hurt when a number of big gold producers, such as Western Mining Corporation, gave up mining there.



Central Victoria has stop-start goldmining track record, says Castlemaine CEO Matt Gill, left **Photo: Arsineh Houspian**



Mining may bring jobs and renewed prosperity to central Victoria. **Photo: Arsineh Houspian**

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Whether Victoria can change that negative perception of the state held by the industry and investors will largely depend on the ability of these miners to generate robust returns.

“I am sceptical at this stage,” says Acorn Capital resource analyst and Unity Mining director David Ransom.

“Victorian gold has been a graveyard for investors for at least 30 years.”

Another miner that is sitting on a goldmine, in every sense of the word, is Morning Star Gold, which is aiming to restart production at the Morning Star mine after a 50-year hiatus. The mine is scheduled to come online next month after a false start in March.

Morning Star’s mine is just outside the small historic gold town of Woods Point, which lies 120 kilometres north-east of Melbourne.

In fact, Western Mining once owned the Morning Star mine, which was Australia’s largest gold deposit at one point in the 1940s. But it shut the mine in 1959 as a depressed gold price of about \$US35 an ounce and high power costs took their toll.

Morning Star Gold bought the rights to the mine in 1993 for \$70,000 and then spent \$35 million on drilling and development to bolster the underground known resource to 724,000 ounces at 11.2 grams of gold a tonne.

This resource is considered to be relatively high grade and that should help keep cash costs to about \$750 an ounce, leaving the miner with an operating margin of about \$1000 for every ounce of gold produced.

“For our initial target, we’d like to produce in the order of 15,000 ounces a year from October but we hope to get to 50,000 ounces a year over the next three years,” said Morning Star chairman Nicholas Garling.

Castlemaine and Morning Star are carrying the heavy burden of expectation.

The strong gold price has spurred a number of new listings, with nearly 40 per cent of the 13 junior goldminers in the state coming on the market since late 2009 as the price of the precious metal decisively broke through the psychologically important level of \$US1000 an ounce.

Some of the latest to list on the Australian Securities Exchange this year include Timpetra Resource, Octagonal Resources and Navarre Minerals. Navarre is the only one of the three miners trading above its initial offer price of 20¢. Its share price closed at 41.5¢ on Friday.

But it isn’t only local companies that have made the calculated gamble. Canadian-listed Northgate Minerals Corporation must also be feeling pretty good about the \$280 million takeover of struggling goldminer Perseverance Corporation in early 2008, when the gold price was averaging about \$US700 an ounce on a 12-month basis.

Perseverance was going through a difficult time in terms of operational issues, liquidity problems, rising costs, a depressed share price and a management shake-up when Northgate came on the scene and took over the Fosterville Gold Mine, which lies 20 kilometres east of the Victorian gold town of Bendigo and the Stawell goldmine north-east of Ballarat.

Those two mines generated about \$US63 million in operating profit last year when the gold price was averaging about \$US1200, and profit could double this year, based on the mid-point of Northgate’s guidance and an average gold price of \$US1500 an ounce.

Northgate is the target of a friendly \$US1.46 billion offer from AuRico Gold, which is listed on the Toronto and New York stock exchanges.

There is more at stake for central Victoria than just share prices. The success of these miners and the sustainability of the high gold price will attract much needed private and public investment to the region. That is sorely needed, given that manufacturing, once the backbone of regional Victoria, is suffering a slow and painful decline.

“[The federal government] is always interested in how we grow jobs and skills, and capitalise on natural assets of regions,” says the federal member for Ballarat and parliamentary secretary for infrastructure and transport, Catherine King.

“Historically, gold has been a natural asset for Ballarat, and if there is future growth of jobs in that space, then I am sure the federal government would be very interested in knowing how it can assist with that.”

The chief executive of the Mansfield Shire Council, David Roff, is also hopeful the new lease of life for Woods Point, which falls within his local government area, will help with its lobbying efforts to get the state government to inject funds into the region to improve roads.

“Morning Star has been very good in the community,” says Roff. “It created jobs and contributed to the refurbishment of a [town] hall down in Woods Point.”

Castlemaine’s Gill estimates that each mining job leads to the creation of four supporting jobs, while the University of Ballarat has recorded a 40 per cent to 50 per cent jump in the number of students pursuing postgraduate degrees in mining. It is building a \$40 million mining and engineering centre.

The head of the mining and engineering department at the university, Michael Tuck, suspects the high gold price is behind the jump in interest from professionals looking to break into mining.

“The high gold price probably does help as it gives more confidence to people that the industry is going to be sustainable at last,”



Ballarat residents hope to see another gold rush. **Photo: Arsineh Houspian**

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says Tuck.

While the going is still not easy for Victorian goldminers, at least they won't have to worry too much about community objection to their operations, given the strong links between mines and nearby townships and the fact that many residents know the stories of the last gold rush.

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