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Precious performance

Bellevue, Evolution take out awards

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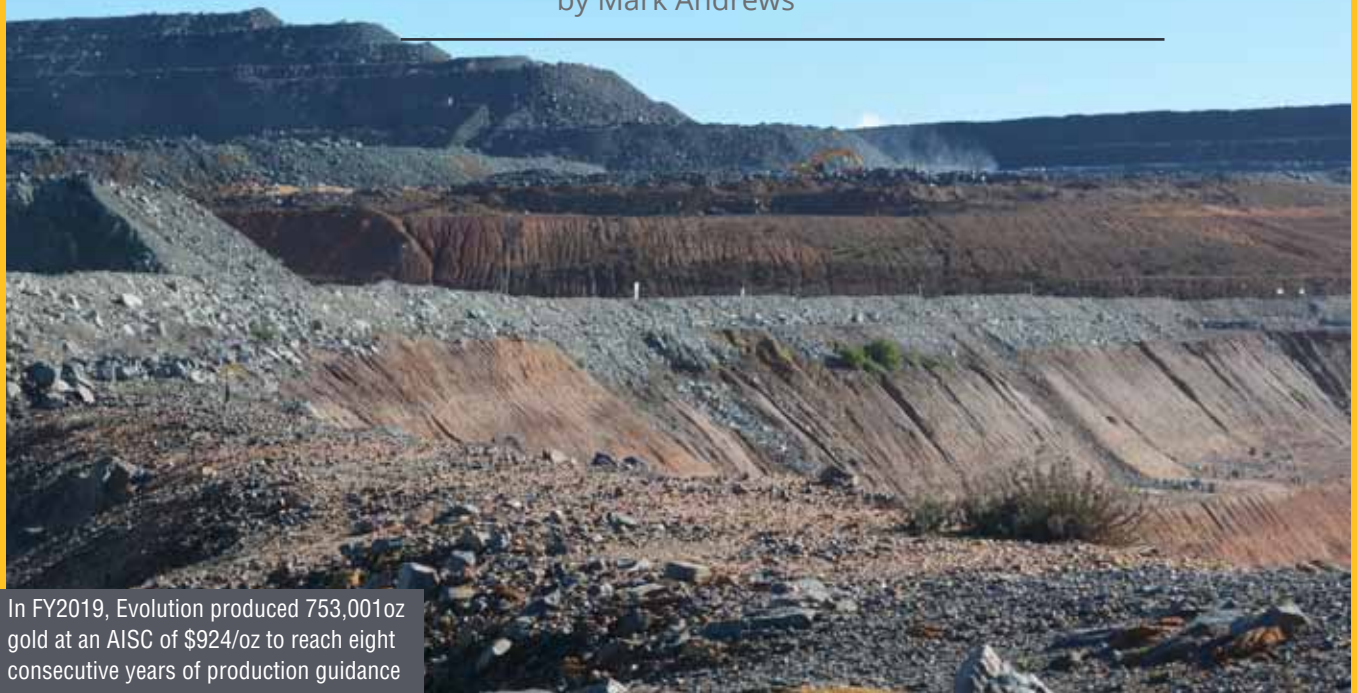
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Evolution spins for the win

by Mark Andrews



In FY2019, Evolution produced 753,001oz gold at an AISC of \$924/oz to reach eight consecutive years of production guidance

Congratulations to Evolution Mining Ltd and Bellevue Gold Ltd for taking out the respective GMJ Miner and Explorer of the Year Awards.

In a year gold producers thrived once again, Evolution's low-cost portfolio and headline-grabbing acquisition in late 2019 was enough for the ledger to be tipped in the company's favour.

Meanwhile, as the exploration sector starts to ramp-up again, many will be hoping to replicate what Bellevue has done. In the past 12 months alone, the company has added 800,000oz @ 11 g/t gold and there appears to be more ounces coming.

Splitting the difference between the performances of an elite bunch of gold miners was a difficult task.

In the end a panel of industry insiders recognised the conscientious efforts of Evolution Mining Ltd as the 2019 **GMJ** Miner of the Year, three years after first winning the award in 2016.

"Production and share price movement makes a good gold miner. Evolution has that and a good deal, which is why they are in for me," industry veteran Allan Kelly said.

Evolution has been in the mix for the award since 2012, often competing hotly with Northern Star Resources Ltd for the honour.

Northern Star was again among the contenders this year, however, as the company continues to transition Pogo, Alaska, to its own business model; judges – Kelly, Regis Resources Ltd non-executive director Lynda Burnett and PCF Capital Group managing director Liam Twigger – were keen to see the outcome.

The challenges bedding down a new project into its own corporate culture is something for Evolution to consider at its new acquisition, Red Lake in Ontario, Canada.

Early reaction to Evolution's purchase of Red Lake has been positive despite CY2019 production from the complex estimated to be 150,000-160,000oz gold @ AISC \$US1,600/oz.



It was a hard task for judges deciding on this year's GMJ Miner of the Year

Evolution will pay \$US375million in cash upon closing of the Red Lake transaction (and up to an additional US\$100million payable upon new resource discovery), which will be funded by a new five-year \$600 million senior unsecured term loan via Evolution's syndicate of lending banks.

"We've given ourselves three years [to hit 200,000 ozpa at less than \$US1,000/oz AISC]," Evolution executive chairman Jake Klein told **GMJ**. "I think there are going to be quick wins, but it's not going to be a straight road, there are going to be bumps in it, so I think the three-year timeframe is appropriate."

Deal-making could not be ignored when assessing the performance of the gold industry's high achievers and the next 12 months will go some way to revealing more about the nature of the corporate activity which unfolded in 2019.

With the exceptions of Saracen Minerals Holding Ltd and Gold Fields Ltd, Evolution, Kirkland Lake (Detour Gold, northern Ontario) and St Barbara Ltd (Atlantic Gold, Nova Scotia) have all looked towards North America to enhance their growth profiles.

St Barbara's \$C722 million takeover of Atlantic Gold was considered expensive and the pressure is on to make the play a successful one, as production at Gwalia has been impacted by the company's two-year, \$112 million expansion project, which is expected to be completed soon.

A strong performer in recent years, St Barbara's plight in 2019 meant it lacked support for a nomination for Miner of the Year.

One company which has proven to be a crowd favourite in the past 12 months is Gold Fields.

Already with three operating mines in Western Australia, the company officially celebrated the opening of its fourth – the \$621 million Gruyere JV with Gold Road Resources Ltd in the Eastern Goldfields – in December.

First gold from Gruyere was poured in June and the mine was fully commissioned in late 2019.

"For me, the jury is still out on Gruyere and given what we have seen with Dacian [Gold Ltd], Gascoyne [Resources Ltd] and these lower-grade things, I want to see more of how Gruyere

works. We've seen the likes of Millennium [Minerals Ltd, in receivership], the 1 g/t orebodies are tough work and it is going to come down to how they work," Kelly said.

It was not all smooth sailing bringing Gruyere online, with the project going over budget by about \$85 million and delays in commissioning openly reported.

Despite the setbacks at Gruyere, Twigger was still impressed by what Gold Fields had been able to achieve.

"Gold Fields has done a fantastic job in bringing Gruyere into production. Everyone else has failed pretty much and gone bust. If they get the opportunity, they need to sell South Deep [South Africa] and their valuation will go through the roof," Twigger said.

"What makes a good gold miner? It's about line and length, keep delivering and do everything you say in guidance. Then the next step is bringing in a new operation; Evolution has done a good job, Gold Fields has done a good job, Saracen has done a good job. That's the difference compared to some of the other companies that have fallen over and within that Gruyere is a standout."

Drawing equal adulation from Twigger was Saracen's approach to growth through buying a 50% stake in the Super Pit, Kalgoorlie, for \$1.1 billion.

It was thought Northern Star and Evolution were the frontrunners to take Barrick Gold Corp's interest in the Super Pit, with Saracen somewhat the surprise buyer.

Kalgoorlie Consolidated Gold Mines (KCGM) – the Newmont/Saracen JV vehicle at the Super Pit – will be headed by Newmont Goldcorp executive Ben Wessely as general manager.

A JV sub-committee structure comprising exploration and growth, technical and operations plus financial and commercial has been agreed upon, with the sub-committees will report to the KCGM executive committee of two Newmont and two Saracen representatives.

"It is a huge deal, a good deal and I am not doubting that by any means, but they [Saracen] are not running it, although they might end up running it, but it is a passive stake right now," Kelly said.

All judges agreed that Saracen's purchase of half the Super Pit was on the money, with Twigger labelling it "monumental and good for WA", while Burnett said it may prove to be a bargain buy.

"They have grabbed that one-off opportunity where their share price is running and they have grabbed that opportunity," Burnett said.

“In a few years it might look cheap, so long as nothing goes wrong. I know they are doing a lot of exploration there and are adding ounces. That is the risk in my view; if they do end up getting the whole thing [100% of the Super Pit] and if something goes wrong fundamentally they have all the risk.”

Evolution itself will waste no time putting its stamp on Red Lake with an investment of \$US100 million committed to on existing operations, with a further \$US50 million in exploration over the first three-year period under its ownership.

“Evolution pretty much hasn’t missed a beat with every acquisition,” Burnett said.

Essentially, it has been the precision and discipline of gold production at its six mines across Queensland, New South Wales and WA, over a sustained period of time which enabled Evolution to create one of the world’s premier gold companies.

In FY2019, Evolution produced 753,001oz of gold at an AISC of \$924/oz to reach eight consecutive years of production guidance. Evolution has guided FY20 group gold production of 725,000-775,000oz at an AISC of \$940-\$990/oz.

“We’re ending the year in great shape; lots of opportunities, but

also some challenges, and that’s what makes this industry so exciting,” Klein said.

“You need to be meeting the promises you’re making to shareholders and that’s producing gold safely and at the costs you said you were going to produce it at. Then are you spending that money appropriately on behalf of your shareholders or alternatively are you giving it back to your shareholders? At Evolution, we’re doing both.”

As the company goes from strength to strength and the potential for more assets to fall from the stables of Newmont and Barrick, it would be no surprise to see Evolution in the queue to put its midas touch on another unwanted project or expand its horizons elsewhere.

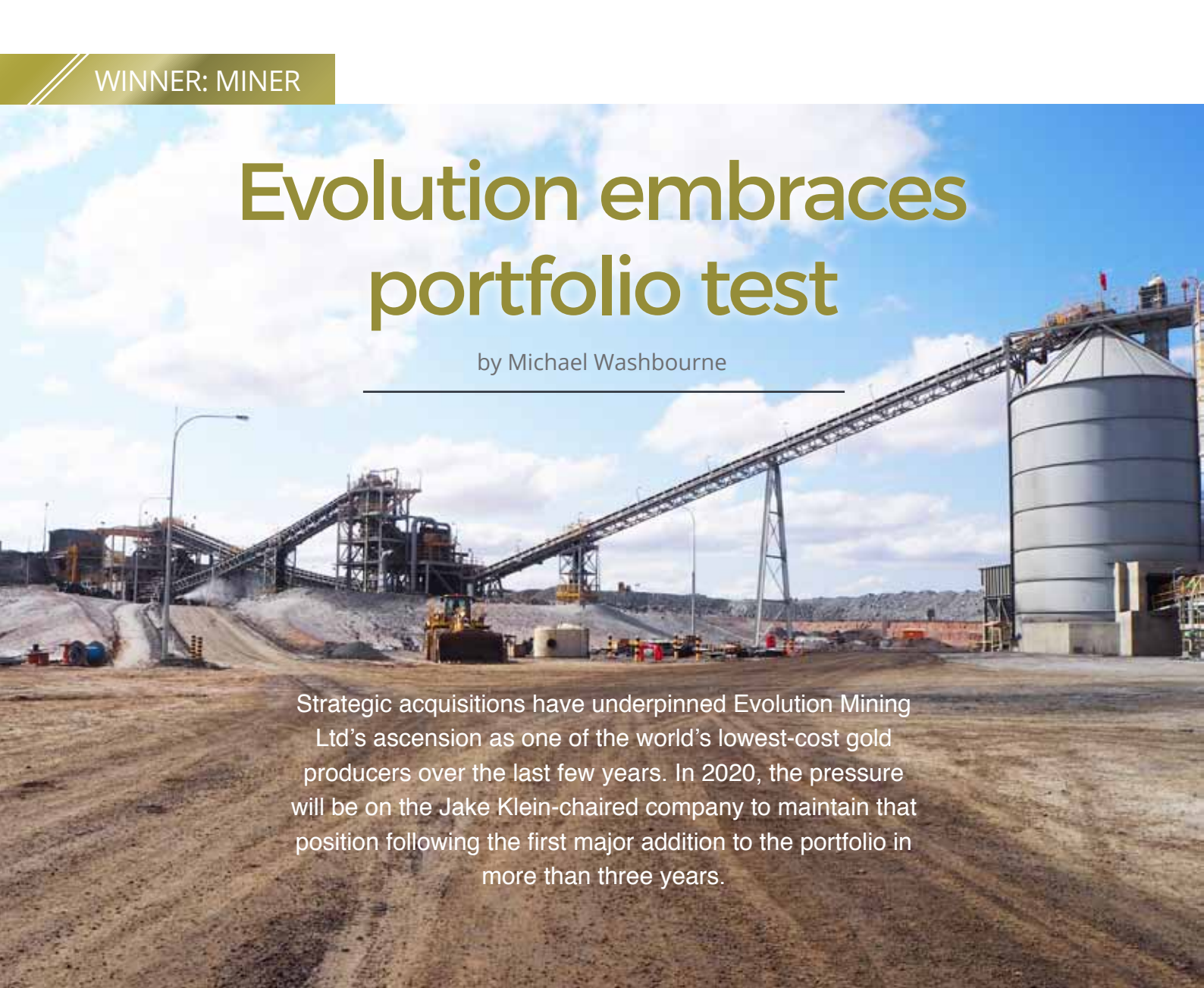
“We’re going to keep looking,” Klein said. “We’ve said 6-8 assets [is the optimal portfolio]. We want to be a globally relevant mid-tier that prospers through the cycle, so we have a good portfolio, but the portfolio can always get better and in order to do that we need to keep shining the mirror at ourselves and understand where our strengths and weaknesses are and continue to try and improve that quality.”



Jake Klein

Evolution embraces portfolio test

by Michael Washbourne



Strategic acquisitions have underpinned Evolution Mining Ltd's ascension as one of the world's lowest-cost gold producers over the last few years. In 2020, the pressure will be on the Jake Klein-chaired company to maintain that position following the first major addition to the portfolio in more than three years.

Evolution is purchasing Newmont Goldcorp's Red Lake gold complex in Ontario, Canada for \$US375 million, plus a contingent consideration of \$US100 million for the addition of up to 5 moz over the next 15 years.

The Red Lake acquisition will be funded by a new five-year \$600 million senior unsecured term loan through Evolution's syndicate of lending banks. The company expects the deal to be completed by the end of March.

Since first production in 1949, Red Lake has churned out more than 25 moz at an average grade of above 20 g/t gold. However, the last five years has seen the mine's output decline and its operating costs climb.

In 2015, Red Lake produced 376,000oz gold at an AISC of \$US906/oz. Three years later the output was 276,000oz at \$US988/oz AISC. Last year production was expected to fall back to 150,000-160,000oz at an AISC in the realm of \$US1,600/oz.

Evolution's group AISC for FY2019 was \$924/oz (\$US661/oz) and prior to the addition of Red Lake the company had guided \$890-940/oz (\$US625-660/oz) for FY2020.

“ We need to demonstrate that we've bought well, that we're going to add value and that this will become a cornerstone asset for us.

Speaking to **GMJ** in early December, Klein conceded Red Lake's rising cost profile and recent underwhelming production numbers were a concern for Evolution during the due diligence period.

“We considered it very deliberately and I think very appropriately, but you don't get to buy an asset that was performing like it was five years ago for \$US375 million,” Klein said.

“[Evolution vice-president of discovery and business development] Glen Masterman keeps referring to the fact that everybody who goes to university to study geology learns about Red Lake, so the address is great. And, as one analyst I think quite appropriately described it, it's a renovator's delight.

“We've got a lot of work to do to restore it to being a low-cost productive mine, but we can see a lot of the levers that need

Evolution's group AISC of \$US661/oz for FY2019 ranks it among the lowest-cost gold producers in the world

to be pulled to do that. It's definitely got the hardware and now it's going to be a case of getting the site team embracing the opportunity. And I think they already have; some of the best ideas are on site right now."

Evolution believes it will take up to three years to transform Red Lake into a plus-200,000 ozpa operation capable of consistently churning out gold for less than \$US1,000/oz. The company has committed to spending \$US100 million on capital and mine development over that period, as well as \$US50 million on exploration and discovery.

Red Lake was an acquisition almost three years in the making, according to Klein. With viable and affordable opportunities in Australia drying up soon after Evolution acquired an economic interest in Glencore's Ernest Henry operation in August 2016, the Sydney-based miner started looking abroad, mainly in North America, for other Tier 1 assets.

Klein revealed his company bid unsuccessfully on a handful of other assets prior to landing Red Lake, while also turning down other potential acquisitions which did not fit into the company's vision.

"We've maintained our discipline and haven't wanted to overpay because it comes back to that view of if you're not going to spend your shareholders' money in an appropriate way and get them an appropriate return, you're better off giving it back to them," Klein said.

"This was an asset that just ticked all of the boxes. It's the largest, highest grade gold camp outside of South Africa and if you reflect on the last five years of history there, you can quite clearly see there's going to be a huge amount of opportunity to create value because this is a classic case of an asset being lost in a portfolio which had other priorities.

"It's very similar in many ways to when we bought Cowal; a great asset but just couldn't get the focus and attention that it needed in the Barrick [Gold Corp] portfolio. Like-wise for Red Lake; it didn't get the focus and attention in the Goldcorp portfolio and neither in the Newmont Goldcorp merged entity.

"Red Lake hasn't been a cornerstone asset for at least the last five years for either of its previous owners, but it will definitely be a cornerstone asset for Evolution going forward and it will get the focus and attention which I think the site team has been craving and wanting. That was reflected in our first engagements with them, they couldn't have been more welcoming and more positive about being part of Evolution and wanting to be an important part of our future."

Having already had a taste of overseas mining early in his career with Sino Gold Mining, Klein holds no fears about taking on an operation in Canada. However, he is not underestimating

the challenge of integrating a foreign mine into a portfolio which to date was focused exclusively on Australia.

"Geopolitically it's a fantastic place to mine, the safety record at Red Lake is outstanding and I'm sure there's a lot of things that we can learn with respect to that to bring to our sites in Australia," Klein said.

"We've been saying for some time that the complementarity of geopolitical risk with North America and Australia makes sense, but we're also cognisant of the fact that we're the fourth group to acquire something in that part of the world and investors should appropriately say 'well, show me why it's good for us' and that's the challenge we have in front of us.

"We need to demonstrate that we've bought well, that we're going to add value and that this will become a cornerstone asset for us."

Reflecting on 2019, Klein is once again delighted with the performance of the company's Australian portfolio – Cowal (New South Wales), Mungari (Western Australia), Ernest Henry, Mt Carlton, Mt Rawdon, Cracow (all Queensland) – which collectively produced 562,754oz gold at an average AISC of \$953/oz for the nine months to September.

From the company's perspective, the key highlights over the past 12 months were the commissioning of the float tailings leach project at Cowal which is set to increase recoveries by 5% and the discovery success achieved with the GRE46 orebody at the same operation.

"We now have the problem of trying to decide what size the underground mine at Cowal should be," Klein said. "We've said it's going to produce more than 300,000 ozpa for a long time going forward and the question we will have in front of us for 2020 is how much more than 300,000 ozpa.

"I'm pleased our portfolio of assets continues to demonstrate the importance of having a portfolio because some of the mines which were stellar performers in the first quarter, Mt Carlton being one of them, is now being helped by Mungari, which wasn't a great performer in the first quarter.

"You're only as good as your next year, so we have to put past results behind us, stay humble and stay true to our core values."

As Evolution enters its 10th year, Klein is especially proud of being able to say his company never once deviated from its original vision of creating a "globally relevant mid-tier gold miner". In particular, he singled out past and current employees for helping to build a culture which made that possible.

"The thing which makes me proudest – and we talk about it a lot in Evolution – is we want everyone's time at our company to be a highlight of their career," he said.

"We hope it's a long time, but the number of people who do move on to better and bigger jobs and do reflect on the fact that their time at Evolution has been a highlight of their career is a driving force in our company and a recognition we're doing things right."



Jake Klein