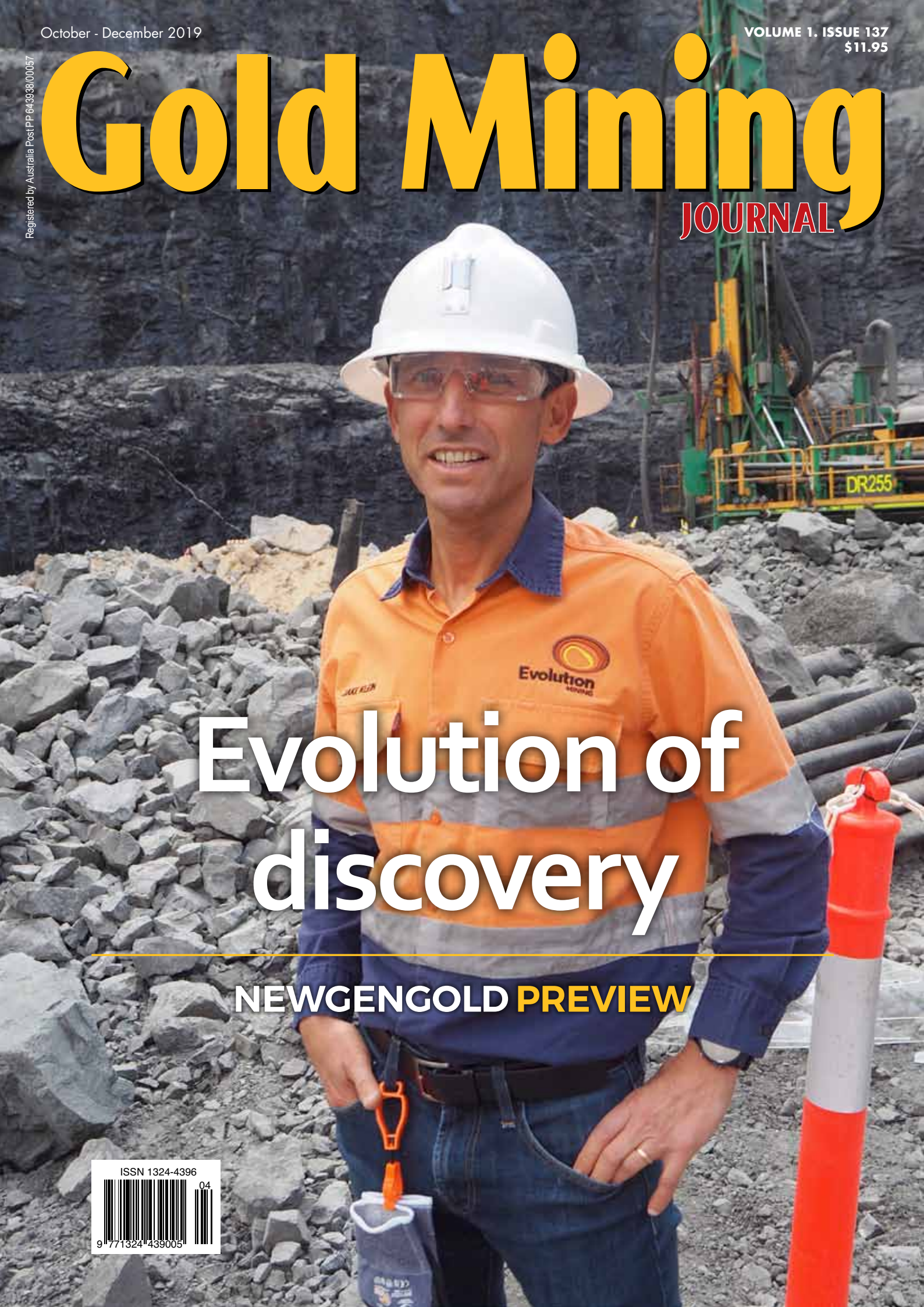


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Evolution of discovery

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Masters of mergers, acquisitions and exploration

by Michael Washbourne

M&A has largely fuelled Evolution Mining Ltd's growth from the moment the Jake Klein-led company began life as Conquest Mining in 2009. By August 2016, Klein and his team were accepting the coveted "Dealer of the Year" award at Diggers & Dealers for their purchase of the Cowal gold mine in New South Wales. Later that month, the company unveiled another transformational acquisition by staking an economic interest in Glencore's Ernest Henry gold-copper operation in Queensland.



Jake Klein

While further M&A remains a possibility for Evolution, exploration and discovery is likely to underpin the company's next phase of growth with more than \$100 million expected to be spent in the ground during FY2020.

Evolution's renewed focus on exploration is far from an overnight snap decision. In fact, that vision was more or less conceived in August 2016 when Glen Masterman joined the company as its new vice-president of discovery.

To outsiders, it may not have been the same as a company-making acquisition such as Cowal or Ernest Henry, but for Klein – Evolution's executive chairman – he knew Masterman's arrival was a critical cog in his company's quest to become a globally-relevant mid-tier gold producer.

"It's not really something that has been visible to shareholders and observers of the company, but when Glen joined us just over three years ago now, that was really the mandate for what you see today with regards to exploration," Klein tells **GMJ**.

"He came to us with a vision that exploration was an area of significant opportunity for Evolution, but one that was going to take time to build the capacity, the team, the focus and the strategy.

"All of that really started three years ago and we now have the team in place, we have the capital in place and fortunately we have the assets which warrant the level of exploration. I'm very convinced that exploration will be a key value driver for us going forward."

Masterman, who had previously headed exploration departments at Kinross Gold Corp and Beadell Resources, was the figurative "kid in the candy shop" upon setting foot inside Evolution.

Previous owners of Evolution's assets had not looked far beyond the mines they were operating, while the company itself had not had a huge focus on exploration, mostly due to capital being required elsewhere in the business.

With those hurdles essentially removed, Masterman was presented with one of the best blank canvases for exploration in the industry.

"I remember one of my earliest conversations with Jake when I joined the team was largely centred on taking Evolution into its future and using exploration as a lever to help get us there," Masterman says.

"Looking back, clearly one of the most attractive elements about Evolution was the portfolio. I saw opportunities and runway in and around our existing assets to discover and grow resources that we would convert into reserves. But, we needed to build a team was capable of delivering on those goals."

Prior to Masterman's arrival, Evolution's exploration team was spread across the country. However, he knew for a group of geologists, geoscientists and geophysicists to be truly effective, there needed to be a greater overlap. Therefore, one of his earliest decisions was to relocate key personnel to the company's Sydney office.

The next big decision was to determine how the company would approach its new exploration strategy. As has been the case with other departments within Evolution, the focus had to be on where additional value could be created.

With an abundance of brownfields opportunities on offer at each of the company's six operating mines, Masterman felt the portfolio needed to be balanced out by some earlier-stage exploration plays.

"When it comes to greenfields, if we succeed in that space, we really do create additional value for shareholders," Masterman says.

"We decided we would play to our strengths and if you look across our operating portfolio and understand the deposit styles that we're currently mining, you can broadly split it into two deposit styles – epithermal and orogenic – and so we set about developing an early-stage portfolio that was consistent with building on our strengths."

It has taken some time, but Evolution has slowly emerged as a partner of choice for promising junior gold explorers. In Queensland, the company has been quietly chipping away at a JV with Andromeda Metals Ltd at the Drummond project,

about 90km south-east of Charters Towers.


Evolution recently committed to Stage 2 of the earn-in agreement whereby it will spend \$4 million on exploration over the next four years and take an 80% interest in the project, having already met the initial \$2 million expenditure commitment within the first year of the scheduled two-year period for Stage 1.

In Western Australia, the company can also acquire up to 80% of Enterprise Metals Ltd's Murchison project by spending \$6 million on exploration over a four-year period. Evolution has also teamed with Musgrave Minerals Ltd at the nearby Cue gold project via an \$18 million earn-in agreement to sole-fund exploration on the prospective Lake Austin area.

Klein believes the industry needs to see more collaborative deals between juniors and mid-tiers.

"I do think the way in which junior companies are currently set up is probably not efficient from a capital usage perspective," Klein says.

"I think it's a model that ought to become more common where there are partnerships between juniors and companies



Musgrave has partnered with Evolution via an \$18 million exploration earn-in at Lake Austin, part of the former's Cue gold project

Cue for funding support

Long-term support for explorers and developers remains a struggle despite a record gold price environment, according to Musgrave Minerals Ltd managing director Rob Waugh.

Musgrave's long-term future looks secure after signing a lucrative earn-in agreement with leading producer Evolution Mining Ltd over exploration of the Lake Austin area within its Cue project in Western Australia's Murchison district. Evolution can earn up to 75% of the JV area by sole-funding

\$18 million worth of exploration programmes over five years, with a minimum spend of \$4 million in the first two years. Musgrave will manage all work during that commitment period. If Evolution does not spend the entire \$18 million within five years, Musgrave will retain 100% of the JV area.

like Evolution because I think the funding of juniors through a straight capital raising programme on the ASX platform is not that efficient both from a capital perspective but also that science, that technology, that capacity, is difficult for a small company to access unless they're in partnership with a group like ourselves."

Evolution spent \$59 million on exploration in FY2019, including \$43.2 million on discovery-focused activities. That expenditure will essentially be doubled in FY2020 with more than half of the exploration budget to be allocated to efforts at Cowal alone.

Cowal's discovery guidance of \$50-60 million includes \$20-25 million for the Warraga underground exploration decline which is being drilled out to extend the 1.4 moz GRE46/Dalwhinnie resource.

With the Stage H pit cutback now in full swing, Evolution has started reassessing some of the other opportunities it identified shortly after completing the acquisition of Cowal from Barrick Gold Corp in mid-2015.

"Once we locked away that pit expansion, our focus shifted to looking at where else on the project might we invest



Speaking to **GMJ** in light of the deal, Waugh said the gap between producers and explorers/developers was widening and any support a junior managed to secure was not necessarily sustainable.

"We have seen some increased support for juniors in the last couple of months, which is great, but generally we haven't seen that sustainable over the last 12-18 months when the gold price has been high in Aussie terms," he says.

"You'll get a period where you might have support for a short period, it might only be 4-5 weeks, but then there will be another lull.

"I don't think there is a perfect strategy, but we saw the best opportunity for us in the longer term was to mitigate some of the risk from funding. Time will tell, but I think for us this has been a good way forward to secure that funding for the drilling we want to do out on the lake environment."

Waugh described the JV with Evolution as a "huge confidence booster" for Musgrave given that a mid-tier producer believed there was potential for a multi-million ounce deposit at Lake Austin.

Evolution was one of several companies to have courted Musgrave over a potential JV for the past 18 months.

"We haven't actively gone out and approached companies, but a number have approached us with the idea of the potential for some big deposits to be found under the lake environment," Waugh says.

"As such, we thought Evolution would be a good partner and one that we could work together with in an arrangement that was suitable for both parties.

"They have a strong exploration technical background, they're quite disciplined in their approach and they're reasonably flexible in their arrangements and deal structures. We found through the due diligence process that they were quite open in dealing with us, so that was quite refreshing, it was good to talk to people in an open manner at a geological level about ideas before anything was brought forward to the table."

Musgrave will pursue its own development strategies for Lena, Break of Day and Mainland which are not part of the Evolution JV.

In September, Musgrave reported further high-grade gold have been intersected below the existing resource at Lena, including hits of 0.7m @ 74.7 g/t from 314m and 2.2m @ 6.5 g/t from 261.8m (including 0.6m @ 14.3 g/t from 261.8m).

Drilling was continuing at Lena at the time of print, with programmes also scheduled for Break of Day and Mainland before the end of the year.

"The idea is to grow the resource on our 100% ground," Waugh says.

"We feel there is significant value already derived from those known resources and we'd like to maximise shareholder value for those resources by looking at options to getting those into production."

capital, particularly in areas that have not been looked at for some time,” Masterman says.

“It became quickly apparent that, even just to the east of the E42 pit, that Barrick and some of the Cowal predecessor companies had done sufficient work to really illustrate that there were opportunities for us to go back to...and that’s really how the underground opportunity east of E42 has developed over the last few years.

“We started with a modest resource underground, we’ve continued to explore that over the last 12 months and we’ve basically doubled the size of what we’ve known there and that’s enabled us then to commit to an underground exploration decline that we’re currently drilling.

“I think it’s probably fair to say that the results at Cowal over the last 12-18 months have really exceeded our original expectations.”

Klein added: “We remain happy and, in some ways, very fortunate owners of this asset because it really has the potential to keep growing and emerge as a truly world-class asset. I don’t think it will be the last \$50 million we spend on exploration and discovery at this asset; I’d expect that number to keep growing.”

Cowal has unquestionably been the most successful purchase in Evolution’s history, while the economic interest in Ernest Henry has generated impressive cash flow and helped the company as one of the world’s lowest-cost gold producers.

Questions continue to linger, however, for some sections



Evolution has budgeted a sector-leading \$80-105 million on exploration for FY2020

of the market over the future of Mungari in Evolution’s portfolio. While the addition of the Kalgoorlie-based operation proved vital to the company’s ultimate pursuit of Cowal, it has not yet delivered the returns many were hoping for, including a new high-grade discovery to replace the depleting Frog’s Leg resource.

Evolution continues to back the operation – operating mine cash flow of \$64 million and net mine cash flow of \$36 million were recorded in FY2019 – with a \$15-20 million budget for exploration across the Mungari property this financial year.

“We feel there are high-grade veins still in that field that have the potential to be discovered,” Masterman says.

“Similarly, we also have opportunities to look for other styles of mineralisation on the Kunanalling shear which are areas where we can expand known resources and where we’ve been exploring over the last couple of years.

“It’s fair to say that we would have liked to have been a lot further down the track with a new discovery with a Frog’s Leg-style vein. We have, over the years, identified a number of high-grade targets, but unfortunately they’ve generally been pretty small.”

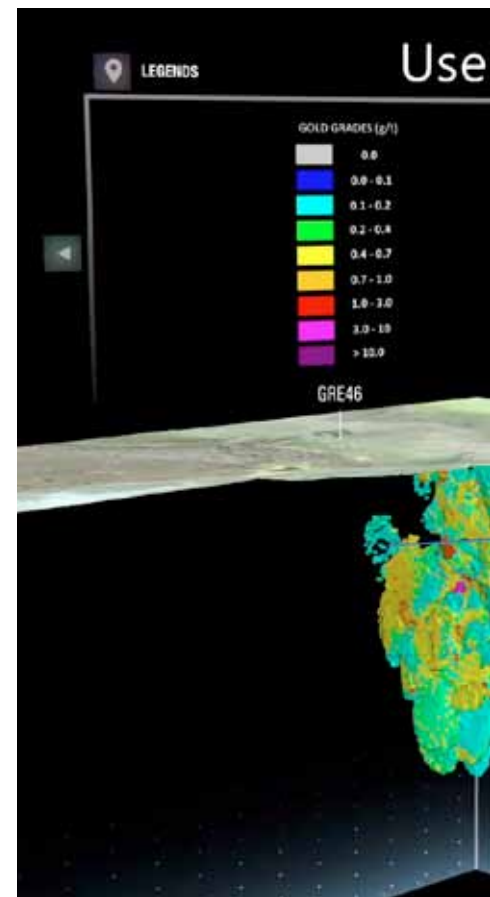
However, in recent months it has emerged that Evolution may have had the breakthrough moment it has long been seeking at Mungari with promising “early signs” reported from the Boomer target, 400m west of Frog’s Leg.

Boomer was an unexpected product of an “explorathon” the company convened in Kalgoorlie at the end of last year.

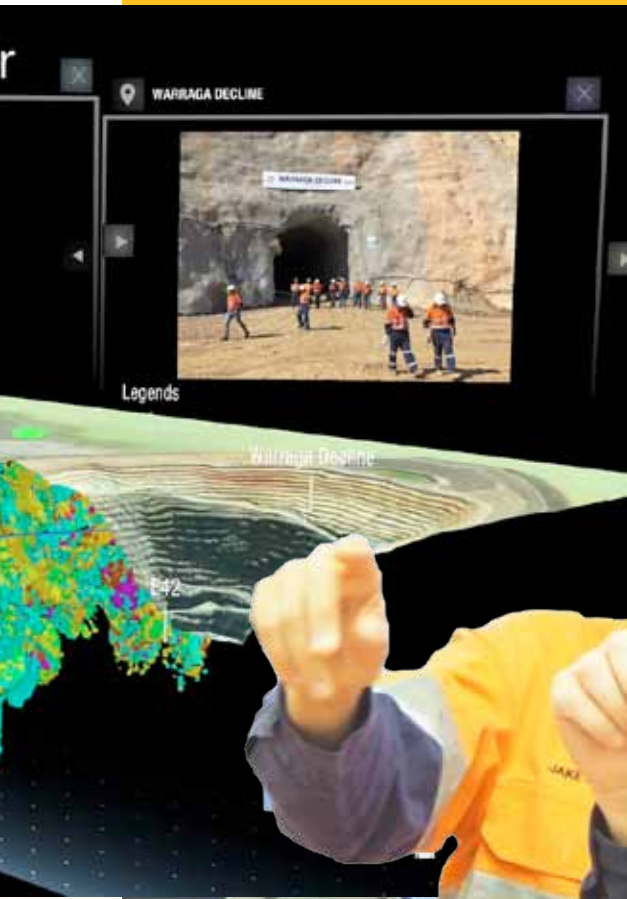
“Explorathon was our take on a hackathon-style gathering of our geologists and geoscientists across the organisation,” Masterman explains.

“We had two main goals; one was to get all of our geologists in the same space and talk about new ideas, but focus attention and brainpower into developing new targets at Mungari, while also assessing existing ones that we knew about.

“Data was made available to every geologist, we split into a number of smaller groups, those groups took the data away,



Thinking in the third dimension: Klein and Evolution chief operating officer Bob Fulker observe the Cowal mineral system



EVOLUTION IN FY2019

Underlying NPAT	\$218.2 million
Sales revenue	\$1.51 billion
EBITDA	\$730.3 million
Operating mine cash flow	\$771.5 million
Net mine cash flow	\$497.8 million
Group production	753,001oz
AISC	\$924/oz (\$US661/oz)
Final dividend	6c/share

EVOLUTION IN FY2020

Production guidance	725,000-775,000oz
AISC guidance	\$890-940/oz (\$US625-660/oz)
Sustaining capital	\$90-130 million
Major capital	\$195-235 million
Resource definition	\$13-20 million
Discovery	\$80-105 million
New dividend policy	Payout of 50% free cash flow

Jake Klein on the gold sector:

“

Who would've thought we'd have a \$2,300/oz gold price?

The gold sector in Australia is in amazingly good shape. We have a thriving and globally relevant group of mid-tier gold companies which there haven't been for a while. It's a real positive step forward for the industry.

My concern is still around the fact that, in time of high gold prices, our sector has tended to let costs go up and erode margins because there's been more focus on volume over profitability.

We've all been in that movie before – pre the peak in 2011 – and we saw what transpired. So, at Evolution, we are committed to ensuring that we build a company that can prosper through the cycle, with a strong focus on margins, profitability and cash generation.”

they went into the field, they looked at the rocks, they did their analysis in 3D and developed a series of targets across the Mungari properties and Boomer was one of the targets that came out it.

“It's really early days there, but we are encouraged by some of the early results...we'll be exploring that as aggressively as we can to understand the full potential.”

Recent trends in exploration have encouraged the adoption of innovative technologies and techniques to find new orebodies, particularly in places like Australia where the obvious deposits have already been found and searches are heading deeper under cover.

While Masterman is an advocate for innovation, he prefers to focus more on the thinking around how new orebodies will be discovered.

“One of my jobs is to continue to challenge our team to look our deposits in ways that can test the boundaries and one of the ways in which we do that is to visualise our mineral systems in three dimensions,” he says.

“Doing that I think has really started to unlock areas of orebodies that we perhaps haven't been able to previously recognise as having potential, so certainly that's something we're deploying at the moment.



“We’re also looking at data science and how we can utilise that technology to really comb through our datasets – and we have huge datasets that have been compiled over years and years of exploration and mining – to understand if there are still opportunities there that we can unlock through artificial intelligence and big data analysis.

“It’s going to be one of those things where we’ll shake the tree to see what we get. But, in the meantime, we’ll deploy tried and tested techniques of exploration as these are continuing to work for us at our assets.”

Attracting the “absolute best brains” to Evolution is high on the agenda for Klein, who has long spruiked how he hopes a person’s time at the company will be remembered as the “highlight of their career”, regardless of the field they worked in.

From an exploration perspective, Western Mining is still the benchmark for discovery success, despite not having existed as a company for two decades. Klein believes having

a long-term exploration strategy is the only way a company like Evolution can possibly emulate those lofty heights.

“Ultimately our biggest asset – our most valuable asset – is our people, so we work hard to try and create an environment where people are given opportunity and runway to grow both personally and professionally,” Klein says.

“We’re three years into a long journey on that, but that’s our vision, to really develop a reputation and a capacity that young smart geologists go ‘I want to be part of Evolution because I think they’re doing interesting things in that discovery space’.

“At the end of the day, if you think about value creation, discovery is the place where it’s absolutely foundational to a gold company. It’s the place where you can create the greatest value. So, discovery is going to be a key value driver for Evolution for a long time to come.”

Evolution’s economic interest in Glencore’s Ernest Henry gold-copper operation continues to deliver significant free cash flow for the company. Below: Glen Masterman

