

# Evolution on a path to the top



Jake Klein

Evolution Mining Ltd executive chairman Jake Klein believes his company still has a way to go before it can lay claim to the tag of benchmark producer, particularly on a global stage.

Despite lifting Evolution to the esteemed position of Australia's second largest gold producer on the back of a carefully executed acquisition strategy, Klein continues to remain humble as supporters and industry colleagues sing the praises of him and his team.

Evolution now boasts a market cap of more than \$4 billion, having been transformed from a sub-\$500 million unheralded producer at the start of 2015, surging past the likes of Northern Star Resources Ltd, OceanaGold Corp, St Barbara Ltd and Regis Resources Ltd on the Australian gold producer index.

However, the job is far from over for Klein and he has set his sights on gaining much wider recognition by challenging some of the world's biggest gold players for a place at the top of the sector.

"I often ask investors who they think are the best companies in the world – excluding Evolution – and the response is always Agnico Eagle [Mines Ltd] and/or Randgold Resources [Ltd]," Klein told *Paydirt*.

"Those two companies have delivered over more than a decade, whereas Evolution is probably only three or four years into its delivery path, so I think it's early days to say we're a benchmark.

"We certainly aspire to be the benchmark, but we recognise that we still have a way to go yet."

Klein's honest remarks are in contrast to a recent peer comparison report by Global Mining Research which shows Evolution is a runaway leader when free cash flow is plotted against enterprise value.

Net mine cash flow from Evolution's operations totalled \$324.4 million over the first nine months of FY2017, allowing the company to wipe \$200 million of debt off its books during that period, with the promise of a "big repayment" to come in the June quarter.

"Clearly, the Ernest Henry transaction last year, on the back of the Cowal transaction in 2015, has significantly shifted us down the cost curve," Klein said.

"Evolution is not the lowest, but it certainly is among the lowest cost gold producers in the world. Three or four years ago there wouldn't have been many Australian gold producers who were any better than the third or fourth quartile. Evolution certainly wasn't in the position it is now."

Klein freely admits Evolution – current holder of the Miner of the Year gong awarded by *Paydirt's* sister publication *Gold Mining Journal* – is further ahead of where he expected his company would be at this point of its lifecycle.

Following the addition of the Cowal and Mungari operations two years ago,

Evolution last year bolstered its portfolio with another tier one asset by acquiring the gold rights to Glencore's Ernest Henry mine in Queensland.

Evolution has experienced only one full quarter of attributable production from Ernest Henry, with 22,246oz of payable gold at a negative AISC of \$447/oz added during the March quarter.

"If it's not the best [asset in our portfolio], then it's pretty close to the best," Klein said.

"I'm very pleased with where we're at. The thing which has opened my eyes is just the size of the opportunity which I think is still largely in front of us. Australia is the second largest gold producing country in the world and there is no reason why we shouldn't have at least one of the world's leading mid-tier gold companies [listed on the ASX]."

Evolution formed in 2011 following a merger between Catalpa Resources and Klein's Conquest Mining and will soon celebrate hitting guidance for a remarkable sixth consecutive year.

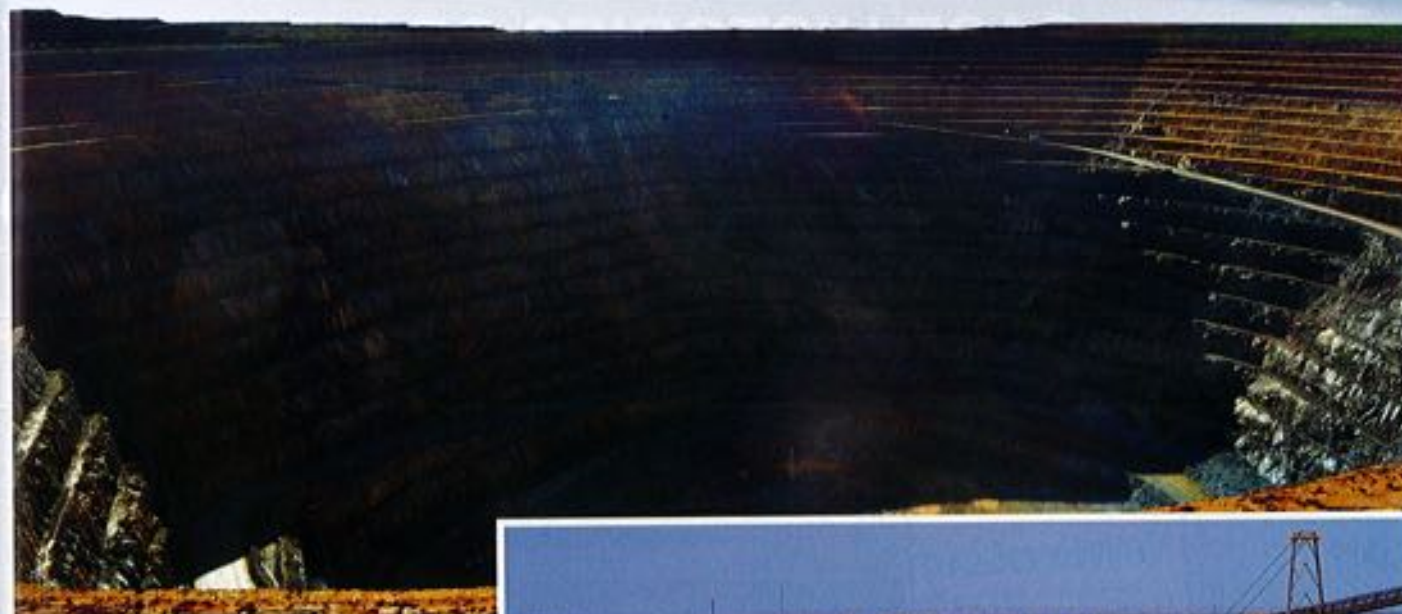
At the time of the merger, investors were sceptical of Evolution's ability to maintain a sustainable portfolio, which comprised four mature mines and the undeveloped Mt Carlton project in Queensland.

History will show Mt Carlton has gone on to become a key plank in Evolution's rise, with consistent production from Mt Rawdon, Cracow, Edna May and Pajingo (sold to Minjar Gold Pty Ltd in September last year) combining to play a vital role in the M&A which followed.

"Having a portfolio of assets allows you to deliver a far more consistent return than is deliverable as a single-asset company," Klein said.

"We now have seven assets and that really does allow you to deliver a consistency which investors want and which is very difficult to achieve unless you have a portfolio because there have been times over the last six years where some assets have performed better than others."

Evolution took the unusual step last year of announcing a three-year production and cost guidance, such was the confidence in its portfolio and the long-term outlook for gold. The company expected to churn out 800,000-860,000oz at \$675-720/oz AISC in FY2017, with 820,000-880,000oz at \$630-675/oz AISC forecast in FY2018 and 830,000-890,000oz at \$625-675/oz AISC in FY2019.



Klein said addressing investors' concerns around sustainability of performance was critical to driving longer term success.

"I think people have been surprised by the upside in terms of the sector's – and Evolution's – capacity to deliver cash flow," Klein said.

"In our case, our costs in US dollars are down over 40% over the last five years. In Australian dollars, they are down over 24%. So while there's been a significant improvement in the cost profile in Australia, the key question investors have is how sustainable that is.

"At Evolution, we now have an average mine life in our portfolio of over eight years on a reserve basis, not assuming any conversion from resources to reserves. That's starting to give a level of confidence to investors that it is sustainable and will allow us in time – if we can demonstrate it – to close the gap on enterprise value over cash flow."

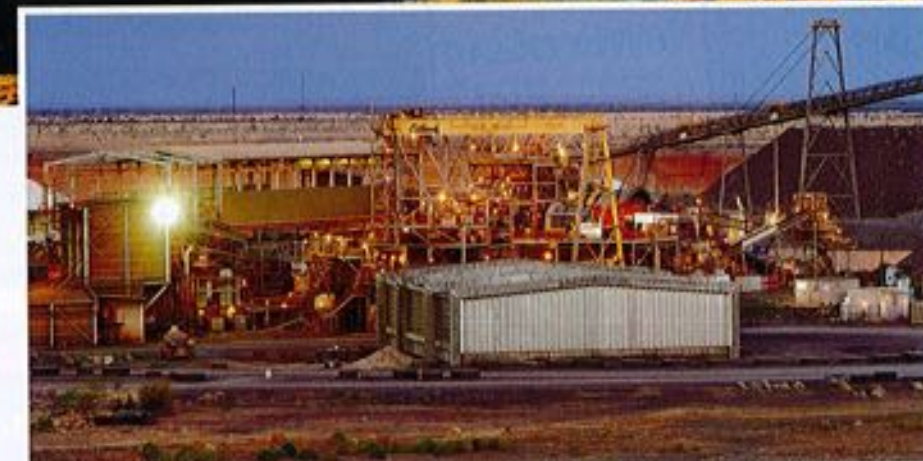
Evolution produced 202,926oz across its portfolio of assets for a record low \$840/oz AISC during the March quarter, with the company also surpassing the 3 moz mark in the three-month period.

In February, the company's board approved the E42 Stage H cutback at Cowal, near West Wyalong in New South Wales, as well as construction of a dual leach circuit in the processing plant.

Preparatory works for the E42 Stage H cutback were under way at the time of print, with material movement planned to ramp up later this quarter. Engineering design works for the dual leach project have also kicked off, with construction targeted for the December quarter.

Klein said the mine continued to exceed the expectations the company had for it at the time of the acquisition from Barrick Gold Corp in mid-2015.

"Cowal is in a different league, it's a very exciting asset," he said. "It has



Evolution's board has approved development of the E42 Stage H cutback at Cowal, NSW. Inset: Ernest Henry delivered a negative AISC of \$447/oz for Evolution during the March quarter

scale, it has mine life and it is a province-type opportunity. We think we are still in the relatively early stages of demonstrating that potential."

Cowal was added to Evolution's portfolio five weeks after the company picked up the Mungari operations, near Kalgoorlie, from La Mancha Australia Pty Ltd. Before 2015 had come to a close, Klein and his team had consolidated 980sq km of prospective ground around the project from the takeover of Phoenix Gold.

"It's probably been more challenging than we understood at the time, but we're really enthusiastic about the exploration potential," Klein said. "It's a new district, we're now getting our heads around the geology and we are building momentum in what is a new district."

"The key driver is going to be finding a replacement for the Frog's Leg deposit as it depletes, but we're up for that challenge."

Evolution has attracted interest from some of the world's biggest gold investors over the last two years, including Egyptian billionaire Naguib Sawiris, who claimed a 31% stake in the company following the Mungari acquisition and played a key role in the subsequent play for Cowal.

Prolific North American investors are also closely following the company's progress, however, Klein believes the chance to jump on the fast-moving Australian gold train may have already passed for some.

"We have had very good traction from pre-eminent Australian institutions, including groups like AMP, Colonial and Australian Super," he said.

"Some of our biggest shareholders are Australian pre-eminent institutions and I think while there is still an opportunity for us to engage and attract interest from the North American market, I think Australian institutions have been somewhat quicker on the uptake."

As Evolution prepares to enter its seventh year, Klein has once again promised his company – winner of last year's Dealer Award – will not deviate from its original aim of being a sustainable, low-cost producer that will prosper through any stage of the gold cycle.

"It's about keeping to that strategy and not doing what the gold sector has done so many times before, which is lose its head and do some value-destructive deals when the sector is in a good space," Klein said.

– Michael Washbourne