

## Evolution prepared for battle

**E**volution Mining Ltd executive chairman Jake Klein has challenged his counterparts in the Australian gold sector to generate maximum returns for investors while prices for the precious metal remain near historic highs.

Having orchestrated what was perhaps the most seamless acquisition in Evolution's history during the first half with the purchase of TSX-listed Battle North Gold Corp for \$343 million, Klein believes his business is "efficiently and effectively" deploying capital to the benefit of its shareholders. However, he is far from convinced the same can be said for some of the company's peers.

"I think Aussie gold stocks have not done brilliantly in the last 12 months for investors and now people have gone into other metals," Klein told **Paydirt**.

"Twelve months ago stock prices were at all-time highs and the gold price was at an all-time high. The gold price has since come off \$400/oz and stock prices have come off a lot more in terms of percentage terms.

"Evolution has done well in that space, but my sense is the Aussie gold sector really needs to work hard to ensure that we maintain our discipline and we really do allocate

capital efficiently and effectively for investors because otherwise we risk kind of being perceived as having inflated our cost base to fit the gold price, rather than maximising margins and return on capital."

Evolution's share price has steadily increased since distributing a fully-franked interim dividend of 7c to shareholders in March on the back of posting a record underlying net profit after tax of \$235.5 million across the first six months of the financial year.

Records continued to tumble in the March quarter, including a new production benchmark under Evolution ownership at Red Lake in Canada and an all-time low AISC of negative \$1,027/oz at Ernest Henry in Queensland.

With the June quarter wrapping up at the time of print, Klein was confident results for that period would be every bit as good as the last.

"The business is doing well. At a \$2,400/oz gold price, Australian gold companies should be doing well. We should be making money and Evolution is," Klein said.

"It's how you deploy that money that is the key differentiator of gold companies and hopefully we've demonstrated a track record

of deploying money into opportunities like Red Lake, Cowal or Ernest Henry very successfully.

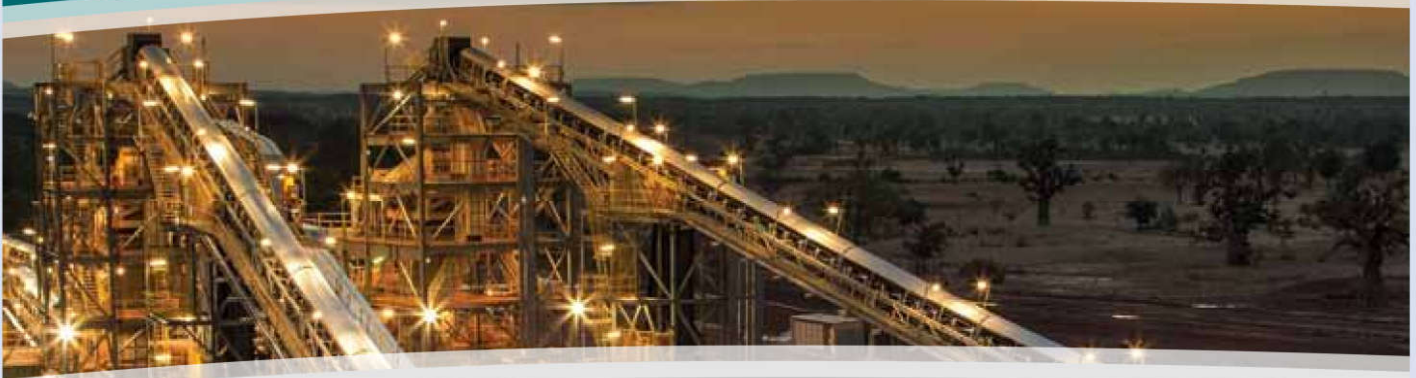
"Having said that, your track record is only as good as your last deal and we've got to keep working on it."

It is hard to argue Evolution's last deal was not a success with the acquisition of Battle North taking just over two months to complete and the transaction receiving overwhelming support from shareholders of both companies.

A five-year loan of \$440 million from a syndicate of eight banks is helping to fund the acquisition. The full Australian dollar currency exposure of the \$343 million purchase price was hedged shortly after the transaction was initiated in mid-March, resulting in a saving of \$9.7 million versus the spot exchange rate at closing on May 20.

Battle North's assets include the Bateman gold project which is contiguous to the Red Lake operation acquired by Evolution in late 2019. A large exploration package on the Long Canyon gold trend near the Nevada-Utah border in the US was also part of the recent transaction.

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Jake Klein

"We're very pleased that we were able to do a public market transaction which had incredibly strong shareholder support from both sides," Klein said. "People just recognised the industrial logic of putting the camp together and we couldn't be more excited about the opportunity and outlook for Red Lake."

Red Lake was Evolution's first major acquisition outside of Australia and so far the former Goldcorp operation has exceeded all expectations, including record output under the company's stewardship of 35,810oz at an AISC of \$1,966/oz for the March quarter.

Despite COVID-related travel restrictions preventing Klein and other members of his team – including vice-president discovery and business development Glen Masterman who identified the acquisition opportunity – from physically visiting the operation since taking full ownership on April 1 last year, Evolution has boosted both the resource (11 moz) and the reserve (2.9 moz @ 6.9 g/t) to the point where it is now the largest and highest-grade asset in the company's portfolio.

"Sometimes you're just fortunate to be at the right place at the right time and Red Lake appears to be one of those opportunities," Klein said.

"When we announced the acquisition in

November 2019 there was a deep degree of scepticism, particularly from North American investors, about what we had done because it was a camp that in the past five years had a really unfortunate record of disappointing. Prior to that, up to 2015, it propelled Goldcorp to be the world's most valuable gold company.

"Twenty months later – and we've owned the asset since April 1 – Red Lake is a key part of Evolution's future, undoubtedly. The upside to the opportunity we have there has surpassed even our most optimistic expectations when we first looked at it in our due diligence in 2019."

The additional processing capacity from the newly acquired Bateman mill will go a long way towards helping Evolution achieve its long-term goal of churning out more than 300,000 ozpa from Red Lake.

Cowal in New South Wales is also tracking towards 350,000 ozpa with the statutory approvals process for underground development progressing to plan and a feasibility study to be completed this quarter.

Since acquiring the former Barrick Gold Corp asset in 2015, Evolution has increased reserves from 1.6 moz to 3.9 moz despite mining 1.3 moz, with mine life on the verge of being pushed out to 15-20 years.

Evolution's economic interest in Ernest Henry is poised to deliver more than \$300 million in free cash flow for FY2021 on the back of ongoing elevated gold and copper prices.

The turnaround at Mungari in Western Australia continues, although Klein conceded his company still needed to find an alternative source of high-grade material to replace the depleting Frog's Leg orebody.

"We've got to make the operation more efficient so that we can treat lower grade material more efficiently," Klein said. "We have opportunities to expand the plant and there's a big endowment in our tenement package we need to be able to monetise efficiently and profitably."

Queensland operations Mt Rawdon and Mt Carlton remain the only foundation assets in Evolution's portfolio with the former enduring a

tough March quarter, producing just 11,930oz at \$2,400/oz compared to 24,306/oz in the December period, as seasonal heavy rainfall severely impacted production.

Mt Rawdon celebrated 20 years of continuous operation in February, but Klein was coy on its long-term future in the Evolution stable, along with that for Mt Carlton which is now banking on satellite feed from the nearby Crush Creek deposit to return to profit.

"We've always said that we're agnostic as to the assets that we own and we've just got to keep looking at things through the lens of improving the quality of our portfolio and we will continue to do that," he said.

"I'm enthusiastic about a pumped hydro opportunity at Rawdon which could present a very neat way of closing an operation like that – when it finally does close – and that's something we're investigating. I think it will also give the industry kudos as to how these mines can be closed and add material value to the community long after it's gone.

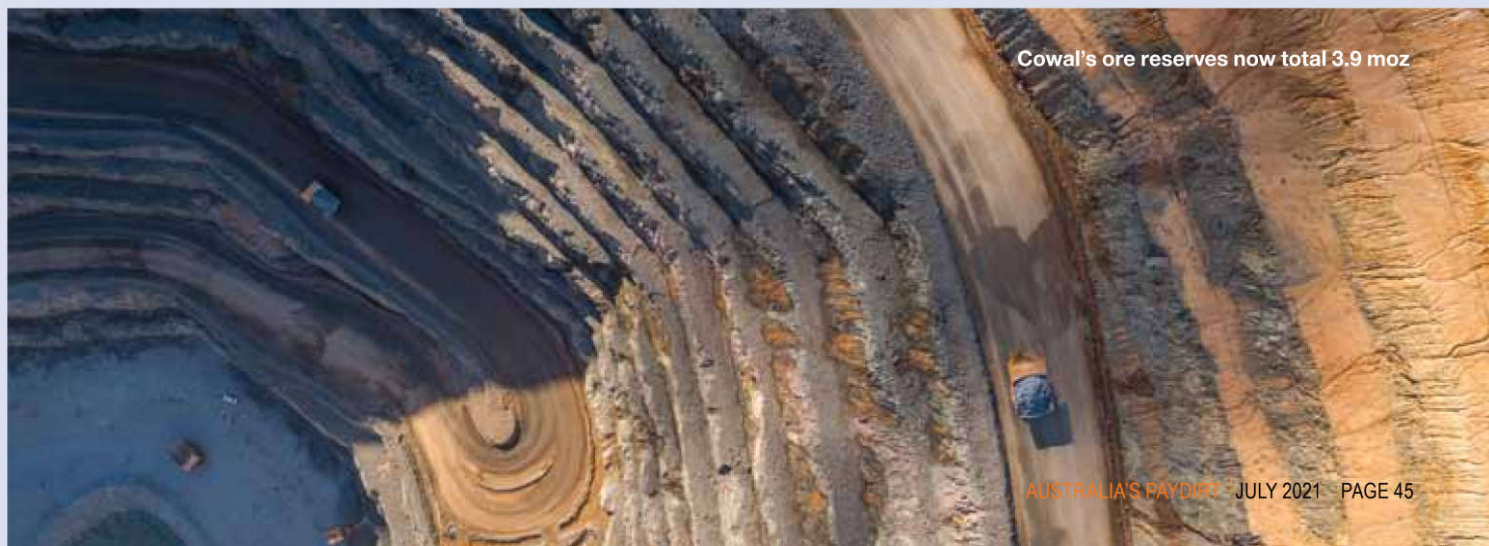
"At Mt Carlton, we continue to look at Crush Creek and see whether it can make a difference to that operation, but we're always looking at the portfolio and assessing how we can improve its quality."

Evolution also became a signatory to the United Nations Global Compact, the world's largest corporate sustainability initiative, earlier this year. Klein said his company – the third largest gold producer on the ASX – must be "ahead of the curve" in the rapidly evolving ESG thematic.

"You can expect to hear carbon emissions targets from us in due course and a strong focus on reducing our reliance on fresh water usage," he said.

"As a resource company, you have to accept that sustainability is going to increase the cost of the business going forward. In our case, we don't think that's going to be material, largely because of renewable energy sources that are becoming available, but it's certainly an increasing area of scrutiny."

– Michael Washbourne



Cowal's ore reserves now total 3.9 moz