



## Gold's low-grade future – Dryblower

Monday, 4 September 2006

**GOOD news, déjà vu, or both? That's the question which has had *Dryblower* scratching his thinning thatch since last Thursday's decision by Crescent Gold to proceed with the low-grade Laverton gold project in WA.**

The answer, but it only came after deep thought, is both.

The Laverton mine is good news, but it also has a déjà vu feeling to it because of its location, the source of some of the plant, and the grade of the ore – these are all things that marked the start of the last big gold boom around 1982.

*Dryblower*, who fears he dates himself somewhat by that admission, remembers the day Sons of Gwalia floated on the ASX, complete with plans to retreat the dumps at its namesake gold mine just down the road from Laverton in Leonora.

No one really took much notice at the time. After all, what would a couple of Kalgoorlie lawyers, the Lalor brothers, know about gold mining.

Over the next 20 years, it became obvious that they knew quite a lot, perhaps too much as the sticky end of their company demonstrated when Sons of Gwalia was caught with a messy hedge book, with parts of it still trapped inside a legal nightmare.

Skipping lightly over what happened in the early years of this century and looking back at the final decade of the 20th and it is possible to see a series of parallels in the gold sector – some good, some bad.

The really interesting aspect to this reminiscing is to ponder whether we are watching a re-run of the early 1980s, when the gold price was strong, and a flotilla of new miners entered the game to give Australia its best gold years since the 1890s.

It's the low-grade nature of Crescent's project that really catches *Dryblower's* eye. The average of around 1.5 grams a tonne of the ore in the Sickle and other pits near Laverton is about the same as the backyards of a Kalgoorlie suburb.

Making money from low-grade dirt was the key to some of the companies that sprang up in the 1980s. The mines at Meekatharra that made St Barbara famous, briefly, are another example of survival by keeping costs low and throughput high – and hoping that extra ore could be found to keep the mill turning.

Crescent aims to do much the same, with cost control a key to its success, while it looks for more ore to add to its skinny four-year start-up life.

Ticking off the parallels between what happened in the early 1980s, and what's happening at Laverton leads to an obvious question: is this the start of a new era for Australian gold?

Perhaps. There's no doubt that Crescent is repeating history by developing a project based on near-surface, oxide material, which will be easy to crush and process.

There's also no doubt that the location is roughly the same, and that part of the plant being used is ex-Sons of Gwalia equipment.

Differences can also be identified. The most obvious being the cost of power, with Crescent planning to buy a diesel "cap" to lock in the future price of fuel, which represents an estimated 27% of its costs.

But even with the higher fuel costs, the financial numbers look as attractive as the low-grade mines of the 1980s, with Crescent predicting \$96 million in cash generation from a project costing \$15.4 million for an internal rate of return of 99%, thanks to the operating cost being kept down to \$582/oz to yield a profit margin of \$268/oz – and perhaps more if a bit of forward selling is used.

Does all this mean a return to the low-grade glory days? The answer to that is in the gold price itself because if it stays above \$800/oz, then it becomes hard to resist the easy money generated by gold – money that is certainly easier to earn than producing iron ore, copper, or just about any other commodity simply because there is no marketing involved.

Gold is cash, and cash is always king.