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## EDITORIAL: TOP STORY OF WEEK 32

# Gold majors on uptick

As fresh sovereign debt crises unfold and fears mount over a possible second recession, investors continue to look to gold as a leading safe-haven investment.

Reacting to news that France might be next in line to have its debt downgraded by rating agencies, gold soared to new heights on Aug. 10. New York spot gold closed up US\$51.30 to US\$1,795.40 after hitting an intraday high of US\$1,799.20, while Comex gold futures for December delivery touched above US\$1,800 per oz. for the first time, peaking at US\$1,801. After a short-lived pullback the following week, the price of gold climbed once again toward the US\$1,800 level, with New York spot gold closing at \$1,789.00 on Aug. 17.

Shares of major gold miners have received a welcome boost lately after languishing for much of the past two years — this despite the price of gold nearly doubling from around US\$950 per oz. in August 2009, an approximate 89% rise. The S&P/TSX Global Gold Index is up 37.6 points since Aug. 5 and at 408.6 points now sits around a three-month high. The index averaged around 305 points in August 2009, making for a 33% gain over the past two years.

Canada's three largest gold miners have all seen their shares rise sharply as gold has risen over US\$110 or about 7% from its Aug. 5 close of US\$1,663 per oz., when rating agency Standard & Poor's downgraded United States' debt from AAA to AA+. From Aug. 5 to Aug. 17, Barrick Gold rose \$4.66 to \$49.55, Goldcorp gained \$4.93 to \$50.30, and Kinross Gold jumped \$1.09 to \$16.45.

The miners' shares still have a long way

to go, however, if they are to catch up with the price of gold.

Barrick shares went for around \$37.50 in August 2009, shortly before the company got rid of its costly hedge position for US\$5.6 billion. Barrick's second-quarter earnings this year totalled US\$1.18 billion based on gold production of 1.98 million oz. at net cash costs of \$338 per oz., compared with earnings of US\$492 million in the second quarter of 2009 on gold production of 1.87 million oz. at net cash costs of \$360 per oz. Its stock is up 32% over the period.

Goldcorp similarly traded for around \$38 in August 2009, resulting in a 35% gain on paper over two years. During the second quarter of 2011, the company earned US\$489 million based on gold production of 597,100 oz. at net cash costs of US\$185 per oz. It lost US\$232 million in the second quarter of 2009 as a result of a US\$326-million foreign exchange loss, which stemmed from a revaluation of future income tax liability. Second-quarter 2009 gold production was 582,400 oz. at net cash costs of US\$308 per oz.

Kinross traded for around \$21 in August 2009, making it the worst performer of the three majors with a 22% decline. Part of the stock's poor performance can be attributed to Kinross's US\$7.1-billion decision in August 2010 to acquire Australia's Red Back Mining, which many investors saw as overly expensive even at US\$1,200 per oz. gold. The company earned US\$261 million in the second quarter of 2011, well up from net earnings of US\$19 million in the same period two years ago. Gold production increased over the two years to 676,245 gold-equiv-

alent oz. from 560,479 gold-equivalent oz., with net cash costs simultaneously rising to US\$513 per oz. from \$382 per oz.

Helping to keep all three companies' share prices down are concerns over escalating capital costs at major development projects, difficulties in growing reserves as less and less mega-projects come on the market at attractive enough prices, and an unwillingness by many investors to believe today's high gold prices are here to stay over the long term.

Though the world's largest gold miners should stand to benefit from continued safe-haven demand amid record-high gold prices, even they are not necessarily exempt from the effects of another recession. In the throes of the 2008 market panic, for example, Barrick fell to \$22, Goldcorp to \$17.77 and Kinross to \$8.96. As for the metal itself, it dropped from a high of US\$1,002 per oz. in March 2008 to a low of US\$734 in October 2008.

• In other news Northern Miner staff writer Ian Bickis has just returned from a trip to the Yukon where he toured over a dozen projects. "This year's exploration season in the Yukon is nothing short of astounding," he says. "Exploration spending has exploded, with everything from helicopters and drills to hammers and core boxes almost impossible to find in the Territory. Rough estimates of spending for the year are around \$300 million, while last year's total spending of \$160 million was record-breaking at the time." Bickis says one of the biggest complaints he heard was the agonizingly slow turnaround times for assay results but that only shows just how hot the Yukon has become.