World news

AUSTRALIA

Time to hit the road

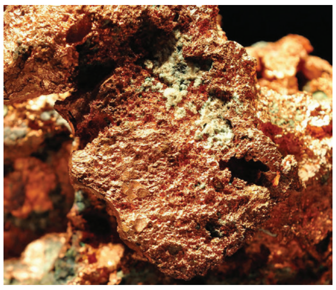
Michael Quinn

Another week, another deal in the Australian gold sector. This week's M&A sees the ambitious multi-metal miner Independence picking up a stake in the budding junior Gold Road Resources.

Depending on who you speak to, Independence holds between 4.4% and 4.9% of Gold Road with 3.7% of that picked up this week and the rest accumulated in small lots over the past few weeks.

That equates to an investment of about A$10 million (US$8.1 million), which is no big deal for Independence given it had cash at the end of the March quarter of about A$110 million and debt of a mere A$1 million. And the cash balance continues to swell with the gold and base-metal miner recording a net profit after tax of A$20 million last quarter.

The appearance of Independence on Gold Road's register is no huge surprise given it was one of a handful of obvious



Independence is in joint venture with AngloGold at Tropicana, a Gold Road/Gruyere 'neighbour'

parties that would have been logically interested in the junior's emerging Gruyere project east of Laverton in Western Australia.

Independence and major joint-venture partner AngloGold Ashanti mine the Tropicana southeast of Gruyere in the same general neck of the woods, while Sumitomo is already in joint venture with Gold Road over other ground in the region.

In more recent times, OceanaGold has been pegged as a possible interested party on account of its project-building capabilities – though it is currently in the process of buying a Newmont Mining Corp mine in New Zealand – while Regis Resources, another of the few with a mine out Gruyere's way, has probably slipped by the wayside due to its well-chronicled operating difficulties.

And then there are the two stars of the gold M&A scene in Australia in recent times, Northern Star Resources and Evolution Mining.

Fair to say, though, that if Gruyere is as good as many suggest, there would be others interested well beyond the immediately obvious. That Independence struck now rather than Tropicana partner AngloGold Ashanti is probably no great surprise either, because generally speaking it and its fellow majors are going to want a lot more answers than all the questions posed by a project yet to reach the full feasibility stage.

(One analyst also made the comment to *Mining Journal* that AngloGold may have modelled Gruyere with its own cost structure and concluded it doesn't look as good as if a junior or mid-tier company were running it).

Significantly, Independence's big move was made after promising metallurgical testwork results were reported last week.

Aside from impressing (or reassuring) Independence, the results led the likes of Macquarie to suggest Gruyere was "shaping up as a major development".

Scoping work completed early this year pointed to an 11-year operation at average output of 190,000oz/y at all-in-sustaining cost of just over A$900/oz and capital costs (all inclusive) of A$360 million.

Gold Road was capitalised this week at more than A$250 million, and started the quarter with cash of A$19 million. Independence was capitalised at A$1.3 billion.

DIAMONDS

Diamond price hits two-year low

Paul Zimnisky*

Lucara Diamond's March operating results showed a 21% drop in production and a 59% decrease in the average price received per carat at its Karowe diamond mine in Botswana.

Karowe, now Lucara's only mine, produced just 90,000ct in this year's March quarter, compared with 114,000ct in the previous quarter. The average price per carat recovered during the period was US$277/ct compared with a $675/ct in the December quarter. The last time Karowe diamonds averaged below US$300/ct was in the March quarter of 2013.

According to the company, the production decrease was due to difficulties associated with processing harder kimberlite ore. Lucara is in the process of transitioning to regular mining and processing of the southern lobe of the Karowe open pit, which hosts higher valued ore relative to the central lobe that is currently being mined.

At the time of the mine's last resource study, released in December 2013, diamonds in the southern lobe averaged US$413/ct compared to the central lobe's US$315/ct. To date an estimated US$45 million of a planned US$55 million in capital expenditure has been spent on the southern lobe section.

Lucara attributed the average price decrease in the March quarter to fewer "exceptional stones" sold during the period, which tends to skew averages, but also to an overall apathetic rough diamond market.

A persisting industry liquidity squeeze, a slowing Chinese economy, and a stronger dollar have all limited global rough prices. Last month De Beers said it would cut production by 6% this year in response to lower prices and demand for rough diamonds.

During the quarter, Karowe produced 153 "special diamonds" exceeding 10.8ct in size, including a 341.9ct diamond, but this was not sold during the period and therefore was excluded from the average price per carat figure. The diamond will probably be sold at a Gaborone tender in May or June.

In 2014, Karowe "exceptional diamonds" sold for an average price of US$32,471/ct. Last year the company recovered notable 203ct, 239ct, and 141ct stones, which were sold for US$8.2 million, US$7.2 million and US$6.1 million, respectively, at tender.

Earlier this month Paragon Diamonds entered into a memorandum of understanding with Lucara for a 75% stake in its Mothae project in Lesotho.

Due to the mine's lacklusttre economics and the company's focus on Karowe, the mine was never put into production by Lucara and the company took a US$21.2 million impairment charge on Mothae in the December quarter of last year.

Under the terms of the deal, Paragon will pay Lucara US$8.5 million in cash for the acquisition, while also granting Lucara a 5% profit royalty from both polished and rough diamond sales on the first 6.75Mt of ore processed.

This appears to be a favourable transaction for Lucara, as the market was implying no value to the company for the Mothae asset. The sale price of US$8.5 million is equivalent to 12.7% of Lucara's full-year net income in 2014.

Paul Zimnisky is an independent diamond industry analyst and consultant.