

Barrick, Kinross join forces in Chile

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TORONTO - A new filing shows that Barrick Gold Corp. and Kinross Gold Corp. are betting high gold and copper prices will be with us for a long time as they pursue an expensive new project.

This week, Kinross filed a technical report on Cerro Casale, a massive but low-grade copper-gold project in Chile. The project, a joint venture with Barrick, has been beset by soaring construction costs, estimated at US\$4.2-billion.

The low grade and high cost have led some analysts to question whether Cerro Casale would ever be developed, despite its large size. The deposit holds reserves of more than 21 million ounces of gold and five billion pounds of copper.

But in this week's technical report, Kinross explicitly says Cerro Casale has an "acceptable" rate of return. Experts agree -- as long as copper and gold prices remain strong.

For example, the report shows that at a gold price of US\$800 an ounce and a copper price of US\$2.00 a pound, the internal rate of return (IRR) on Cerro Casale is just 5.5%. That is extremely low, as most mining companies want at least a double-digit IRR before they consider building a mine.

On other hand, the project looks good at prices around current levels. Using prices of US\$1,280 an ounce for gold and US\$2.80 a pound for copper, the IRR soars to a robust 15.7%.

The numbers suggest the companies remain extremely bullish on copper as well as gold.

"I'd say on the appearance of these IRRs, Cerro Casale looks to be reasonably acceptable," said Steve Butler, an analyst at Canaccord Genuity.

Analysts say because Barrick is such a large company, it needs huge projects such as Cerro Casale to increase its production. So it can probably live with lower IRRs than smaller mining companies.



But the numbers also speak to how much the metrics of the mining industry have changed. Five years ago, prices of US\$800 for gold and US\$2 for copper were viewed as extremely high. Today, they are probably not enough to justify this project.

Charles Oliver, senior portfolio manager at Sprott Asset Management, said Cerro Casale should have been developed by Placer Dome Inc. about a decade ago. Commodity prices were much lower then, but so were costs and the project would be extremely profitable today. He still expects Barrick and Kinross to build it soon.

"My view is gold prices are going much higher and high copper prices are here to stay. So if they build it reasonably quick, I think they'll have a decent IRR," he said.

In February, Barrick agreed to buy 25% of Cerro Casale from Kinross for US\$475-million, a full price that suggests it is committed to building the project. Barrick now owns 75% of Cerro Casale, while Kinross holds 25%.

Mr. Oliver said Barrick faces high withholding taxes if it takes money out of Chile, which could give it extra motivation to develop Cerro Casale.

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