For whom the gold tolls: Finding value when markets are shut

by Dominic Piper

The romantic ideal of Australian gold is the junior company which grows into a producer on the back of a greenfields discovery. Shareholders dream of finding such a company, but the journey is so fraught, even the most impressive of juniors are unlikely to complete it. So, what are the alternatives, and how can companies ensure their promising discoveries don't turn into a chimera?

Partly it comes down to a question of size. The standard parameters for a junior gold development have not changed over the last 20 years – it has to be 1 moz, producing 100,000 ozpa over a 10-year mine life – that is the target for any aspiring producer.

However, while those parameters haven't changed, others have shifted. Project debt providers are more conservative in their appraisals of new projects and equity investors are reticent to support first-time gold developers after witnessing a string of failures in the last decade.

"A 1 moz reserve at 100,000 ozpa used to be worth it, it's not anymore," Morgans institutional sales director Paul Carter tells **GMJ**. "Investors don't want to see single-asset companies, the risk is too high. A company can afford to have only one mill, but you need multiple sources feeding it."

In this environment, juniors with marginal projects are compelled to investigate other ways of delivering shareholder value. And while they may not have the idealism of going it alone, M&A activity in the gold space over the last few years has delivered shareholders the kind of low-risk returns not possible in development assets.

Musgrave Minerals is a recent example. Having made high-grade discoveries on its Cue project in 2019 when trading at less than 5c/share, Musgrave pushed a development agenda on the project but, despite the high-grade nature of the 900,000oz resource, found itself stuck on the uneconomic side of marginal. Instead, it courted the interest of neighbouring producers and by August 2023 had accepted a 34c/share bid from Ramelius Resources Ltd.

Rob Waugh was managing director of Musgrave throughout its existence. He says it is crucial gold juniors do not remain wedded to the notion of becoming a miner.

"Even when the project is strong, there is so much risk involved, and inevitably larger corporates can extract more value," Waugh explains to **GMJ**. "They don't need to raise the capital, they can

Auric Mining managing director Mark English with the first bar poured from the company's toll-treatment campaign

develop it off their own balance sheet and just see the profit.

"They also have the in-house expertise in project development, mining and permitting so it makes sense. Whereas, with one-timers investors see risk, even if individuals in the company have experience, the company itself doesn't. A lot of first ups have failed in recent years and that weighs heavily on investors' minds."

Magnetic Resources NL is facing a similar dilemma to that which Musgrave encountered, having made a promising discovery at its Lady Julie gold project at Laverton, Western Australia.

First picked up in 2017, the project has rapidly grown into a sizeable asset, particularly since the discovery of the Lady Julie North 4 (LJN4) deposit in 2022. The global resource for Magnetic's entire Laverton-Homeward Bound South project is now 24.9mt @ 1.66 g/t for 1.33 moz gold.

A PFS released in March highlighted the project's overall potential but Magnetic managing director George Sakalidis is clear-eyed about where the greatest value for shareholders lays.

"In our first six months we went from zero to 600,000oz and in the next six months we went from 600,000oz to 1.2 moz," Sakalidis tells **GMJ**. "But the goal was always to make ourselves attractive to others. We are surrounded by producers and the clever people know you don't get a project like this often."

The PFS demonstrated Lady Julie's potential while also showing why going it alone could prove risky.

The study showed a nine-year project capable of producing 87,000 ozpa with pre-tax IRR of 85% and pre-tax NPV of $547 million, based on a capex of $93.4 million for a 1.8 mpta operation.

For Sakalidis, the robust PFS opens multiple options for Magnetic.

"The approach we are taking now is to go down the development path – get the mining licence, do more feasibility study work to get ready for production – but at the same time continue discussions with our neighbours in the region and even other players who are starting to show interest," he says.

"We know those groups are after material and we assessed early on that a friendly deal would be preferable to a hostile takeover. That is why we have kept up the dialogue, but now the PFS is out, everybody can see for themselves the value of this project."

Magnetic is also blessed by Lady Julie's location, on the outskirts of Laverton and within trucking distance of Genesis Minerals Ltd's Mt Magnet, AngloGold Ashanti Ltd's Sunrise Dam and Gold Fields Ltd's Granny Smith.

Carter and Waugh acknowledged the advantages location could deliver.

"Ramelius pioneered that hub-and-spoke model and I think we see a lot more of that coming because the last thing the Eastern Goldfields needs is another 2 mtpa mill," Carter says.

Like Magnetic, Musgrave benefitted from its proximity to several operating mines.

"Smaller operations work but the reality is, they must be close or at least truckable to existing infrastructure," Waugh says. "If you want to be in that M&A space, you need to have multiple opportunities to trigger. If you don't have that, the bigger companies can just drag it out, unless they become desperate themselves."

With established producers increasingly eager to capitalise on rampant gold prices, there is a chance they could soon show such desperation.

"Consolidation is going to continue because for the established producers, it is cheaper to buy ounces in the ground," Carter says. "Exploration is more expensive and if you can find something which is advanced, that has much more value than exploration because the market is not prepared to back exploration."

Magnetic is conscious of the shifting stakes.

"We think the real story is in that interest of neighbours and we have been talking to people for a long time," Sakalidis said. "But there is more to come. The PFS created more interest but as I think once that deeper drilling kicks off, given the targets we have at depth, it could blow everything out of the water. Normally, when you drill deeper you don't get that continuity, but this is different, and it is going to spark even more interest.

"In some way, the longer it takes companies to get into position, the better off we will be because ultimately it will be a bigger resource. And, because of the gold price, lots of companies are looking for assets to fill these big, hungry mills they have."

It may be assumed that an all-time record gold price would catapult smaller projects into economic status but there is still a chasm between the performance of the spot price and junior gold equities.

"The bigger, multi-mine producers are all doing well on the market but the smaller players just aren't catching fire," Carter observes. "They are all struggling for market attention, investors don't need the single-asset risk, they've seen too many failures in the recent past. At the same time, mine approvals are taking longer and capex and opex for new developments are going up all the time. If the market isn't supporting a company, they have to look to consolidation."

Brightstar has found an invaluable revenue source by toll-treating its Selkirk deposit

Development of Cork Tree Well at Laverton looms as a longer-term proposition for Brightstar

Magnetic has built a 1 moz gold resource on its Lady Julie project and is now considering its development options

It is here, in the twilight zone of actual versus perceived value where management teams must get their marketing and timing correct. The company's job is to make the asset as attractive as possible, but if the intention is to exit before development, they can't afford to push too hard.

"If the asset is good, don't get wedded to it, sell it and return the cash to shareholders," Carter warns. "The danger is you pump up the tyres too much, then it becomes over-valued and you have no option but to build it."

At Musgrave, Waugh was responsible for performing the balancing act, ensuring the company advanced the project while still maintaining its appeal to larger miners.

"We did actively engage other groups early on but on a closed book basis," he says. "Most companies are very amenable to that, but you are better off not showing because it will always give the acquisitor an advantage. Then, if someone does make a bid, you're better off opening the data room to everyone.

"In the Musgrave case, it could've played out differently. If we had waited another three months, we could have been in real trouble – it was getting very expensive to build projects. Another three months on top of that and things were settling down again.

"The aim is to not focus solely on the takeover, people know you ultimately want to sell, so put that aside and get on with the job of increasing your options. Appoint an engineer for the project development, getting permitting underway. That allows you to say to those companies stalking you: 'you guys do what you want, we'll keep doing what we want'. Meanwhile, you keep exploring, adding ounces and making it bigger."

Magnetic will be hoping its release of the Lady Julie PFS unleashes the same corporate interest as Musgrave's PFS for the Cue project in 2023. That study activated the M&A teams, with Westgold Resources Ltd launching an unsolicited bid, which in turn motivated Ramelius to make its move.

Magnetic gathered $12 million through an oversubscribed

Brightstar teamed with BML Ventures to mine the Selkirk pit at Menzies earlier this year

capital raising straight after the PFS was released and is now back drilling to prove up further ounces.

"Every time we put out a decent resource, the stock goes up," Sakalidis says. "We have three rigs out there now, drilling at 300-400m and we are still hitting mineralisation. We want that competitive tension and the longer these companies wait, the bigger the project they are going to be bidding for."

In Meekatharra, a group of juniors are facing a similar, if slightly nuanced dilemma. There, four explorers – Meeka Minerals Ltd, Ora Gold Ltd, Odyssey Gold Ltd and Great Boulder Resources Ltd – have defined promising projects without any demonstrating true standalone potential. Concurrently, established producer Westgold Resources Ltd has, in the 1.8 mtpa Bluebird mill, a plant which would benefit from an injection of high-grade material.

In the current scenario, each company is cautiously looking at their peers.

"We have a group of companies all with half a project each," Ora Gold managing director Alex Passmore admits. "They are all attractive but everyone has their hurdles. With time, we believe Ora can build the scale required but maybe in the current price environment we should be doing something sooner rather than later?"

Ora Gold has a high-grade 240,000oz deposit on its Crown Prince licence and while the company continues to advance the project, exactly what that 'something' is has not been defined.

"We could either consolidate with our peers and build a larger resource base but we also must be aware of bigger companies around us and the opportunity they present.

"It is about looking at all options and assessing what unlocks the most value.

"At a project level we can only focus on de-risking project; drilling out the orebody, understanding the met, dewatering, etc. The near term it is about growing the resource to get scale and focus on grade and ounces on the ML. That will derisk it for us or anyone who want to acquire us. Then, with gold in the plus-$3,000/oz territory, there are other options, small-scale campaign mining, etc, you can consider."

While Magnetic and Ora Gold pursue a corporate deal or standalone development which can deliver 80,000 ozpa in one hit, Brightstar Resources Ltd and Auric Mining Ltd have chosen a different path, taking advantage of the record gold price and hungry mills in the Eastern Goldfields to strike toll-treatment arrangements for their smaller resources.

Auric has been mining its Jeffery's Find deposit 50km east of Norseman on a campaign basis since October.

The company struck a 50/50 JV agreement with small-scale mining contractor BML Ventures Pty Ltd to mine 175,000t out of Jeffery's Find and process it through FML's Greenfields mill in

Coolgardie, producing 9,741oz.

Auric managing director Mark English said the project and circumstances made the campaign/toll-treatment option a compelling one for Auric.

"When we bought it, we knew Jeffery's Find was only a small resource with little room for growth," English said. "We decided then we had to monetise the asset. There are a lot of companies out there who have ambitions to be a producer, our feelings was 'get on with it!' It was always our intent to do it this way but the gold price has been the cream on top."

With more than $4 million already in the coffers from the campaign, Auric is gearing up to mine 300,000t this year. From there, it will move onto its Munda project at Widgiemooltha where it intends to repeat the toll-treatment strategy, albeit at a larger scale.

"We will do the studies, understand the geology and build the mine plan because Munda will run from 2025 till 2028," English said.

Despite forgoing the standalone option, Auric has enjoyed investor support, according to English.

"The reaction has been fantastic," he says. "We were a penny dreadful before we started mining but when we began putting money in the bank, investors took notice."

BML is also in JV with Brightstar. In October, they launched a mining campaign at their Selkirk deposit on its Menzies gold project. The ore was processed through the Gwalia mill under a toll-treatment agreement with Genesis Minerals Ltd, producing 8,049oz gold in doré bars. The campaign was estimated to deliver more than $26 million in revenue, off the back of $12-24 million total project costs.

The campaign at Selkirk was the first step on a path which Brightstar managing director Alex Rovira believes will lead to the creation of a 100,000 ozpa producer. The company has two main project areas – at Menzies and Laverton, where it controls a dormant mill – and has devised a strategy which will see it incrementally add ounces from various sources, all the time keeping capital requirements to a minimum.

Rovira thinks the current state of the Australian gold sector means leaping from zero to 100,000 ozpa in one go is almost impossible.

"I don't see greenfields projects getting up in the next few years, Rovira tells **GMJ**. "Debt is expensive and hard to get and even when you do get it, it comes with some very tight handcuffs around hedging and repayments. And that is the easy side of the equation, because no institutional investor is writing a cheque for a gold development at the moment.

"When you put that lens over Brightstar, by starting at the size we are, you are reducing capital and reducing risk, using the least amount of money possible to get started. From there we can build a business which can reach 100,000 ozpa."

In September 2023, Brightstar released a scoping study which showed the two combined projects could deliver 40,000 ozpa over eight years, using cashflow from Menzies as a catalyst to refurbish the 480,000 tpa Laverton mill.

"Everything we have done is about moving the assets forward and monetising them," Rovira says. "The scoping study said the first lot of capex goes to Menzies to generate cash through toll-treatment and onto Laverton, from which point that is our plant, our gold, our cash.

"We investigated doing them concurrently and that scenario looked good for three years of production but would require $90 million capex and would mean four mines in two different locations and the refurbishment of the mill.

"But everything we do we try to apply our learnings and there

Ora's position in the Meekatharra district presents optionality for its exploration plans

Auric's John Utley, Catherine Yeo and English at the first Jeffery's Find gold pour at the Greenfields mill in Coolgardie

have been several start-up failures in recent years, so we looked to do what we could to avoid previous mistakes. For Brightstar, that means: build what we can, optimise what we have, then look at inorganic growth and exploration."

The PFS into a Laverton restart is ongoing but in the meantime, Brightstar has activated the inorganic segment of its strategy, striking a deal with Linden Gold Alliance Ltd to acquire the privately-held miner and its own Laverton assets in March.

The $23.7 million all-scrip deal will bring the operating Second Fortune mine and Jasper Hills development project, both in Laverton.

Rovira sees the deal as an obvious one for both parties.

"This deal was always going to make sense at some point, especially with the gold price being where it was," he says. "There are a load of operational synergies; we are closer to Second Fortune than Gwalia, their haul road runs to our plant and our plant is the closest to Jasper Hills.

"On top of that, Linden was looking for a liquidity event but the IPO market is essentially closed for now."

Brightstar will continue toll-treatment arrangements already in place for Second Fortune ore to go through the Gwalia mill and released a scoping study for Jasper Hills on the same day as the merger announcement.

The study found a $12 million initial investment could build a four-year project capable of producing 35,000 ozpa.

Those results will now be combined into a wider group PFS which Rovira believes will deliver all the elements Brightstar needs to become a fully-fledged gold producer.

"We will have $20 million in the bank post-deal with a producing asset at Second Fortune, no debt, no hedging and a development project we can turn back on," he says. "We will undertake a combined feasibility study, to be completed by the end of 2024 and take FID in the first half of 2025."

The incremental approach could take Brightstar close to 100,000 ozpa within three years, even before the mill is refurbished.

"Menzies is a $22 million capex, Jasper Hills is $12 million and both will be toll-treated," Rovira says. "That is $34 million capex to be doing 70-75,000 ozpa and Second Fortune takes that to 95,000 ozpa."

At those levels, Brightstar becomes an established miner, without committing the capital to build its own mill.

"You do lose some of your margin by toll-treating, which means you are potentially reducing how many economic ounces you have but it comes down to the owners of the mill and their circumstances as well, it is a function of where those operations are at in their lives," he says. "Gwalia has never run to capacity, and Mt Morgans is similar. Genesis wants to switch Mt Morgans back on next year at 3 mtpa but will be relying on a lot of low-grade ore.

"If we can show we have high-grade ore, there is a logical conversation to be had."

Rovira knows, however, that eventually the company must consider its own processing facility.

"True value comes when you are doing it yourself," he says. "I've spoken to a lot of stakeholders about the strategy and toll-treatment is quite polarising, some are dead against it and say we should be masters of our own destiny, while others look at the risk of refurbishment and say that we should take the option.

"The question it comes down to is; which generates better returns, refurbishing the mill or toll-treating it?

"The integrated PFS will show us the most logical development plan and assess capex of refurbishment versus milling solutions. It is X versus Y. We have organic capacity, the technical ability and the assets to become a 100,000 ozpa producer and that is where we see opportunity – owner-operator feeding our own refurbished mill. That is the most value but also the most risk, so you have to do your homework.

"There is a definite trend towards bigger is better but you don't necessarily need to be at 100,000 ozpa. I would prefer to be profitable at 80,000 ozpa than be pushing the mine and the mill to get 100,000 ozpa.

"A good example of what can be achieved is Alkane [Resources Ltd]. They wouldn't have had the ability to drill the big Boda porphyry discovery if not for the cash being generated out of the 80,000 ozpa Tomingley mine.

"The philosophy of doing well takes precedent over size."

Up the road at Magnetic, Salakidis knows it's the simplicity of the Lady Julie project which will prove attractive.

"This is turning into one of the highest-grade open pit resources in WA," he says. "The gold price means interest is spreading and we have a lot of companies looking at us now."

According to Carter, the combination of rampant gold price and risk-off equity markets means asset sales are an inevitability in the junior space.

"It is tough for juniors to develop projects but the definition of insanity is doing the same thing over and expecting a different result," he says. "We have seen too many times the risk of building a gold mine and then falling over when things get hard."

"At the same time, you have miners with cash looking for opportunities. If people are prepared to pay for a project, that is what it is worth."