Cash flow could fund 2nd gold mine

It's great news from South Africa, where the second part of the scoping study on our giant TGME (Transvaal Gold Mining Estates) gold project indicates the potential for a second low-cost mine funded by cash flow from the first.

The initial scoping showed we could expect to produce up to 60,000 ounces a year from the first mine, Rietfontein, at a potential C1 cash operating cost of US$417 an ounce, starting in early 2018. That would require about US$31 million, using our existing TGME processing plant and establishing initial underground development and related infrastructure.

The second part of the scoping study, which focused on our Beta deposit, indicates that a combined Rietfontein and Beta hard-rock development could produce up to 100,000 ounces a year. There would be a mine life of nine years, with the capital cost of the second stage funded internally through cash flow from Rietfontein. Of the nine-year mine life, seven-and-a-half years would be at full production.

The pair of deposits are both close to the million-ounce, 10 grams a tonne (g/t) threshold that signifies a world-class high-grade gold mine.

Rietfontein hosts 2.55 million tonnes at 11 g/t gold, for 905,000 ounces, while Beta is projected at 4.72 million tonnes at 6.6 g/t, for one million ounces.

Rietfontein and Beta are at the heart of our total present mineral resource base (measured, indicated and inferred mineral resources) of 26.6 million tonnes at 4.34 g/t, for 3.72 million ounces (115.7 tonnes) of gold. And they will be first cabs off the rank, with the scoping study vindicating our plan to develop Beta with funds from Rietfontein about 18 months after starting Rietfontein.

Using our own cashflow will keep the need for external capital low. We estimate that if we were to develop both Rietfontein and Beta at the same time, we would need about US$65 million (A$87 million), excluding working capital, but the staged approach using cashflow from Rietfontein keeps this peak funding requirement down to US$29 million (A$39 million).

The plan, which we're currently discussing with South African mining contractors, is to target improved development rates by running a 24-hour-a-day operation. Ore from Beta will be trucked 2.5 kilometres to the TGME plant.

The all-in-sustaining-costs (AISC) for the combined operation, which includes operating cost, sustaining capital and royalties, is estimated at US$624 an ounce of gold sold, which potentially places the TGME project among the lowest quartile of global gold mines. We estimate the life-of-mine revenue, before deduction of royalties, at US$816 million ($1.09 billion), based on a gold price of US$1200 an ounce, and seven-and-a-half years of operation at full production.

Rietfontein and Beta are the priority but we fully expect to add further projects to the TGME operation as we progressively reassess the more than 40 historical hard-rock mines in our ground portfolio in the Pilgrim's Rest gold province. Cashflow from Rietfontein and Beta will also help to fund this work.

Rietfontein is fully permitted, but we're still waiting for our prospecting right at Beta to be converted to a mining right, for part of the mine.

Next up on our schedule is a drilling program at Rietfontein, with the aim of upgrading the current resources. We want to increasing the confidence level of the resources by moving some from the 'inferred' to the 'indicated' category, defining reserves, as well as test for strike and depth extensions. As this work progresses, we're confident that the project will become very attractive for development funding.