

Two Million Ounce a year 2030 TARGET for Victorian Gold sector

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I'm speaking from the heart of CoVid-struck Victoria, the City of Melbourne, which was actually built from the profits of the gold boom in Victoria back in the 1850s.

Before I begin, my presentation today should not be taken as advice. These are merely my opinions and experiences and should not be considered investment advice. I'm going to make some forward-looking statements so please consult your financial adviser if you want financial advice regarding the topics I will discuss today.

Boom – yes, we are in the middle of a gold exploration boom which is completely changing the shape of the Victorian mineral exploration industry, and changing the hierarchy and working habits of all those in the sector. Some players have said Victoria is the hottest destination for gold exploration in the world at present.

The Melbourne Mining Club, founded under the patronage of the late Sir Arvi Parbo in 2001, is delighted to be right in the middle of this boom.

First -- and putting on my stockbrokers hat (equity partner, EL & C Baillieu) – let's look at how the Victorian gold boom has impacted the share market.

As we speak, there are 27 listed companies with exposure to Victorian gold. They range from the mighty Newmont with a postage stamp of exploration ground near Fosterville, to tiddlers like Austar Gold and First AU. A good part of the State is being covered in exploration permits. We have Navarre and Stavely in the West, looking across to Dart Mining and Gladiator in the North and to First Au and Fosterville South in the East.

A total of 27 companies might not sound a lot, but it is a tenfold improvement on just a few years ago and more are arriving every few months. A big test of the market will be the IPO of North Stawell Minerals which will come to the market in mid-September. North Stawell is the first Victoria-centred float since Navarre Minerals a decade ago.

By my reckoning, there is around \$12 billion of market value attributed to Victorian mines or operations, dominated by Kirkland Lake, which is listed in Toronto, New York and the ASX. I am going to be a bit controversial here and suggest that Fosterville is responsible for 60% of Kirkland Lake's sharemarket value and more than 80% of the market value of all the Victorian-focused miners and explorers. Fosterville is the biggest thing to happen to the Victorian gold sector in more than a century.

It's fair to say that Fosterville started the new Victorian Goldrush and continues to excite all comers. In saying that, I don't want to underestimate the impact of the work done by the Geological Survey of Victoria. The GSV really started the ball rolling with the landmark work of Senior Geologist Ross Cayley and the team to rework the understanding of Victoria's geology. This has provided the blueprint of where to go looking for the next Fosterville or in Stavely's case, where to go looking for a look-alike to some of the biggest copper mines in the world.

And it's not just the Aussies joining the search. As you might expect, there is a lot of North American interest in the Victorian boom, perhaps feeding off Kirkland Lake's success. The appropriately-named Fosterville South joined the lists of the Toronto exchange earlier this year and has been one of the best performing stocks in a very good gold share market in North America. The market cap at Fosterville South has grown toward C\$200 million with critical support from some key names in the Victorian story, specifically Eric Sprott, the former chairman of Kirkland Lake, who has a level of ubiquity when it comes to associating with the bigger players in the global gold sector and in Victoria.

The new Victorian Gold Boom owes a debt of gratitude to Eric Sprott for not only chairing Kirkland Lake through the discovery and development of the high-grade Swan Zone at Fosterville, but also for his promotional work while in Victoria. I don't think we had seen anything like Eric with his enthusiasm for a mine which had struggled through the early years and that many of us thought had a limited future. Kirkland Lake proved many in the industry wrong at the former – ironically named -- Perseverance.

The Fosterville name is breeding newcomers with Fosterville South spinning off part of its Victorian portfolio into Leviathan Gold which will have a separate listing in Canada. That will bring to seven the number of Canadian-listed companies operating in the Victorian space – and there's possibly another Fosterville South spin off in the wings.

So, 27 companies, seven of them listed in Canada. There's two tiddlers listed in the UK, the rest are listed on the ASX with the exception of one Singapore listed company, LionGold, which operates the Ballarat Gold Mine, one of the four gold mines of any significance in Victoria.

Victoria produces around 800,000 ounces of gold a year worth more than \$2 billion in revenue. We've mentioned Fosterville and Ballarat. The other two mines are Costerfield, owned by TSX-listed Mandalay, and the privately owned Stawell Gold Mine, first operated by Western Mining in the 1980s.

If I get out my crystal ball, I can see the potential for Victorian gold production to hit 2 million ounces a year by the end of this decade. But it will take positive steps by the current crop of explorers in co-operation with politicians and the resources departments overseeing this sector of the economy.

At today's 800,000 ounces a year of production and with the current gold price, the State should receive around \$60 million of royalties a year. This is the first year the State has been receiving gold royalties after removal of a long-running exemption for the gold sector. Imagine if Victorian production did reach 2 million ounces – those royalties would be worth north of \$100 million, but the bigger impact would be in job creation and investment in regional Victoria.

The pathway to 2 million ounces would involve Fosterville's life being extended by near-mine discovery and perhaps five or six other medium-sized mines being developed. We'd also need to treat Stavelly's copper production as gold-equivalent ounces.

Think about it, a 100,000 to 150,000 ounce a year mine would involve the investment of perhaps \$200 million over a three-year period, employ say 500 people in the construction phase and provide permanent work for say 200 workers. The multiplier effect of this investment would transform many parts of regional Victoria.

But how would that sit with Victorian communities in such a closely settled State as Victoria? I mean, Victoria's goldfields are hardly like the West Australian deserts. Some of this countryside, especially

the rich volcanic plains of the Western District, is some of the best grain and sheep growing country in the world.

Well, I was speaking to a Victorian farmer near Stavely recently, and gently broached the idea he could have a copper mine for a neighbour before too long. I prepared myself for a backlash, but instead received a positive response. "We need jobs," the farmer told me. Again, if you think about it, a mine would occupy the same footprint of a modest-sized sheep or grain farm and yet generate a multiple of jobs, investment and economic output.

Is this pie in the sky?

Well, the Victorian mining industry is investing around \$150 million a year – again most of it at Fosterville – on exploration. You don't invest those sorts of dollars unless there is an outcome expected. Those 27 companies kicking rocks and drilling holes around the great State of Victoria must have an end-game, and the end-game of exploration is to find and develop a mine.

Again, if you peer into the crystal ball, it is possible to see a gold mine at Four Eagles/Tandarra. Chris Cairns may well have a copper mine at Stavely. Navarre might come up with something south of Stawell, Chalice is onto something near Pyramid Hill. These companies are investing real dollars and you don't spend all this money without an objective.

The exploration activity is so intense that it has changed the way explorers operate. In days gone by, the greenfields drilling season was jammed into a few months of the year when things were quiet down on the farm and the weather was fine. This year explorers are drilling through Winter when they would normally be keeping warm in the office planning the next field season.

Exploring has become a year-round activity and 24/7 in some places in Victoria. Our explorers are innovating and experimenting. Drill rigs are being sound-proofed as much as possible for operating in earshot of neighbours. New drilling methods, drill bits and rigs are being developed to suit Victorian conditions. Chalice has brought across from WA a style of pattern-drilling north of Bendigo and has had some success. A greater availability of funding has encouraged the use of new methods and technology.

So where is the money coming from?

Again, outside Fosterville, funding for gold exploration in Victoria is coming out of the share market. Like the rest of Australia, exploration is funded out of equity capital. Nearly \$100m has recently been raised by listed companies in Australia and North America to fund exploration in Victoria. That's an impressive number. You could have bought the entire Victorian gold industry with that amount a decade or so ago.

And the equity funding hasn't been too difficult to find. The combination of a booming A\$ gold price and the prospect of finding the next Fosterville is a powerful motivator behind drawing dollars from the share market into the search for Victorian gold.

If I look into the crystal ball, there are a number of companies still to come to the market for funding. Some will be for ground which has been privately worked and some will be for ground that is caught up in the backlog of project approvals. I am not being critical of Earth Resources department (Victorian Government) in making that statement – the department has important work to do overseeing this booming sector and has been overwhelmed by the gold rush. Perhaps the flow of gold royalties into State coffers will stimulate more investment to help process exploration

permitting and bring the department up to speed with other States. We are not quite as active in exploration or produce as much gold as West Australia – well, maybe not yet.

So we know where the money is coming from to fund exploration and we know about the opportunity, but how can companies deliver?

Well – as Ross Cayley tells me – first you need good rocks. Tick.

Then you need modern exploration techniques to vector in on a target. Geologists, please forgive my dumbing down the process, but I need to distil the process for the benefit of the layman and woman.

Gravity surveys and more recently seismic has more than come in handy. Some are using geochem to refine the targets, but at the end of the day, it's the drill bit that matters. And the more companies drill, the more likely they are to find something.

A popular strategy is to use air core drilling to scout for structure below cover, the right chemical signature and, with luck, a bit of colour. Reverse Circulation (RC) is proving popular in the north of the State and we have even had some innovation in the kind of drill bits used to make it through sediment cover and difficult ground that you encounter in the Murray Basin sediments. Latest stats on drilling show that explorers drilled around 400,000 metres in the 2019 financial year and this number is sure to be exceeded when the numbers come in for the financial year just ended.

But Diamond Drilling (DD) is the real deal and I would say we have a record number of DD rigs spinning in Victoria as I speak and more on the way, according to Stavely boss, Chris Cairns.

These are the strategies deployed in the West, North and Central regions, which begs the question of what is happening in the East? It's fair to say that interest in the Eastern part of the State is only just emerging despite the region hosting such wonderful historic gold mines as those at Walhalla. The GSV has done some interesting seismic work in the East, but follow-up grassroots exploration and drilling is lagging the activity in other parts of the State. You get the feeling that the East is waking up from a long sleep and I notice our Canadian-backed friends at Fosterville South have 'first mover' advantage in the region.

So we have the opportunity, the funding, the people and the market's interest and I come to the final ingredient – community support.

Long-time explorers in Victoria know the importance of community acceptance in order to progress exploration campaigns. The exploration industry must – I repeat must – be a good citizen in the places they operate. I have personally witnessed the lengths to which our explorers tidy up behind them, particularly used drill pads and sumps. Drilling in Winter poses challenges for damage to grazing paddocks. However, where there is a will, there is a way and remediation is a priority.

Explorers also need to be part of the community. I know drill teams can fly in from everywhere – perhaps not in these CoVid times – but the industry knows we need to be part of the community. Buy local. Support local businesses and community groups. Fosterville has done an enormous job in supporting local sporting clubs,, running open days and using communications technology like Facebook to keep locals informed if an exploration program is going on, albeit a drill rig on a roadside, a road closure or a helicopter-survey in the neighbourhood.

Up north of Bendigo, there is an old 'rock kicker' who I call the Mayor of the small town in the middle of the Exploration Lease (EL). He is that involved with the local farmers, the footy club and supporter of the local shops. And it helps – massively.

A useful development would be to formally train local drill teams in community awareness and engagement, and I am aware of a veteran driller who is planning such a move as a TAFE course out of Melbourne.

Victorian explorers have built up decades of goodwill with regional populations, but this can easily evaporate if rules and courtesy are not observed.

The amazing thing about this gold exploration boom is that we just don't know what we don't know terms of how big this thing can become. We haven't seen a gold boom in 170 years.

With gold at and above US\$1,900 an ounce and copper above US\$3 a pound, the conditions are ripe to build a sustainable and broad-based resources business which will bring great credit and create further wealth in Victoria.

And the best bit is that the jobs and investment will be in the regions where development and opportunity are so desperately needed – Regional Victoria.

Thank you for your time and I hope you are enjoying these boom conditions as much as I am.

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