

# Sweden's gold standard

Gold-Ore Resources finds itself in a sweet spot: reducing costs as gold prices increase

BY GARETH TREDWAY

**T**HIS year, a material number of single mine, sub-100,000oz/y, gold producers have been boosted by an ever stronger gold price. This has given the respective boards a nice problem – to decide where to allocate cash flow and on the corporate use of their better priced paper.

So far in calendar 2010, the gold price has averaged US\$1,171/oz, about US\$200/oz more than 2009. The price currently sits around the US\$1,246/oz level.

For example, Anglo Asian Mining plc has been able to begin repaying the expensive debt it took out from the International Bank of Azerbaijan to build its Gedabek mine two years ago.

## “They are maximising the potential on the gravity side”

Pan African Resources plc, verging on production of 100,000oz/y, is also making healthy margins from its South African operations. The company is using its increased cash to raise dividends while it looks at acquisition opportunities. Pan African recently announced that it had assessed 43 projects during the year to end-June.

Uruguay's Orosur plc, meanwhile, reported operational cash flow of US\$7.3 million in the fourth quarter to end-May. That compares with the US\$9.4 million generated in the entire previous financial year. The company produced 56,050oz in the latest financially year from its San Gregorio open-pit, and soon to be underground, mine.

*Mining Journal* recently attended a site visit of another small producer, Gold-Ore Resources Ltd, owner of the Bjorkdal gold mine, near Skelleftea in Sweden.

The current 40,000oz/y gold mine has been operational since 1988, recently reaching its one-millionth ounce of production.

Gold-Ore Resources left its Nicaraguan past behind in 2005 as management bought into what it

described as an “exploration project with a gold plant” for US\$8.8 million from Minmet plc.

Three executives manage the company's assets and corporate affairs: Glen Dickson, a geologist with the role of chief executive and chairman; Robert Wasylshyn, also a geologist, who is the chief operating officer and president; and Ron Ewing, vice president, corporate affairs.

The mine historically ran purely as an open pit, with the narrow quartz veins still clearly visible in the pit, extending underground.

Mr Wasylshyn describes the mine as “a labyrinth of veins”, adding that at last count there were “about 50”.

The underground operation has now been running for seven quarters, and management recently made the decision to switch from contract to owner-managed mining on some parts of the operations. While contracting has been retained for the tunnelling and development portion of the mine, the switch has resulted in a significant reduction in costs.

Mr Wasylshyn says management has identified a number of cost “elephants” (contract mining was one of them) that will reduce costs substantially towards, and possibly below, the US\$650/oz level. In the quarter to end-June, cash costs decreased 10% to US\$723/oz.

The stoping and roof-bolting machinery only arrives in January, but the underground development along reef currently generates enough ore to feed 50% of the plant, with the other half coming from the open pit.

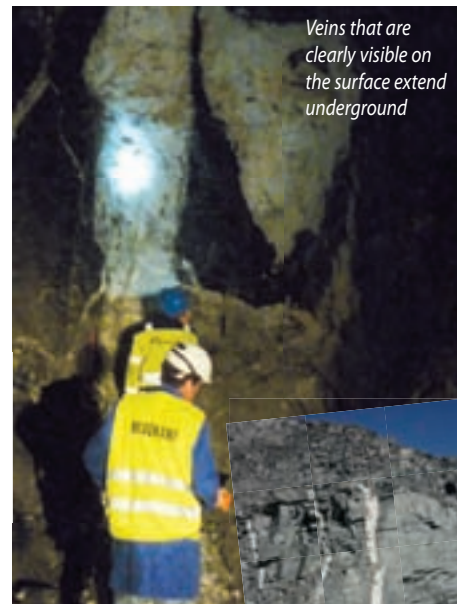
Ore grades currently average about 0.9g/t from the open pit and 1.8g/t for the underground, making it one of the lowest-grade underground mines in the world.

### INCREASE POTENTIAL

If bolting works as hoped, the vein extraction may become more efficient, with less dilution, once stoping resumes early next year. Once mining by the owners starts, a greater percentage of higher-grade ore from underground could be fed to the plant, possibly around the 70:30 ratio, thereby boosting metal production.

Because of the development and tunnelling currently taking place, Mr Wasylshyn says the company has up to 2.5 years of stopes to extract.

The plant is running at its full capacity of 3,200t/day, and the company produces most of its gold from coarse crushing, milling and gravity concentration (which is sent to Germany). A flotation circuit is used for the remaining gold-bearing pyrite, with an overall recovery rate of about 90%.



Veins that are clearly visible on the surface extend underground

The fine tuning of the extraction method seems to have gathered a bit of a reputation. Vassilios Carellas, chief executive of London's Ortac Resources plc, says his company has sent a sample from its Slovakian asset to Bjorkdal to assess overall recovery potential on the ore with results expected this month. “They really are maximising the potential on the gravity side,” he says.

Management has a number of options regarding its cash flow, with particular consideration being given to further exploration to expand mineable reserves. There are a number of exploration targets outside of the immediate mining area that lie within the company's 76km<sup>2</sup> tenement. The payment of a dividend is also something that might be considered.

The market has started to take notice, with the Gold-Ore Resources share price jumping almost 60% during the past three months. In addition, one fund manager has accumulated a 10% stake in the business.

Mr Dickson and Mr Ewing were this week on a road show in London and North America, fitting in a stop to ring the opening bell at the Toronto Stock Exchange following a move from the Venture Exchange earlier this year.

Most of the gold is recovered using gravity separation