# Outlook for Junior Gold Companies Is Strong

**By Melissa Pistilli**

Despite the upsurge in gold price, global gold production has continued to steadily decline since 2000. Today, major gold mining companies find themselves confronted with two key problems: drastically diminished reserves, and rising exploration and production costs. Junior mining companies with large in-ground resources that can be mined economically are fast becoming prime take-over targets as majors seek to replace their dwindling gold reserves.

The ever-decreasing supply of above-ground reserves and increasing demand, brought on by India's and China's rising economies, plus insecurities over the American dollar, have resulted in record breaking gold prices. And the world's major gold producing companies are eager to take advantage.

### Major Dilemma

At current annual production rates the reserves of the world's major gold producing companies will be depleted in less than ten years. In order to replenish their in-ground supplies, the majors have two options: they can spend money on exploration or decide to buy up advanced exploration stage juniors.

Option one could take years to pay off. On average, it takes most companies three to five years to make a discovery. After discovery, production is still six to ten years away. And with the rising costs of exploration, option two seems much more viable.

A takeover of a junior company is a good move for a major producer because it significantly cuts out the hefty costs and lengthy time involved in making new discoveries and bringing them into production. In recent years, exploration costs have risen significantly, including the cost of diesel fuel and drilling. Undoubtedly, these enormous costs have caused many majors to back off grassroots exploration, which has in recent years become the domain of junior companies. Today, junior exploration companies are responsible for 75% of all discoveries.

**Nevada is the leading gold producing region in the U.S. (83% of the country's gold production).**

**Cortez mine is the oldest continuous gold operation in Nevada.**

The lean times experienced by the resource industry during 1997 to 2002, when low commodity prices were low, are very much responsible for decreased production and a decline in above ground reserves that we see today. Exploration programs were slowed or, in most cases, halted as many companies had to cut their exploration budgets by over 65%. Given the near decade required to bring an exploration project through to production, it is no wonder that today few new high-grade mines are opening. Even worse, because the average gold mine has a lifespan of eight years, those that are producing are on the verge of running out of ore.

### Opportunity for Juniors

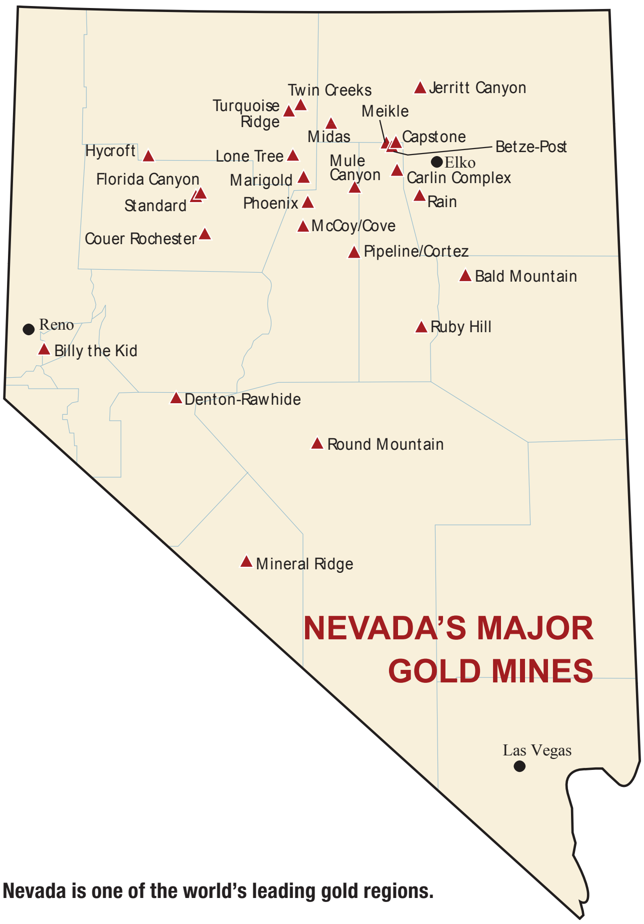
According to industry consultant, Ralph Bullis, major producers won't endure over the next 5-10 years at current production rates unless they replenish their reserves. Those majors wishing to survive and cash in on gold's bullish market have begun eyeing juniors with known resources, particularly those in close proximity to existing mines, and established infrastructures are no doubt the most attractive and cost effective.

While the prospect of depleted reserves is one huge headache for majors in the gold sector, the decline provides a huge opportunity for juniors such as Coral Gold Resources Ltd. Coral owns the Robertson Claims, which lie within the Cortez Gold trend in north-central Nevada. The property adjoins the Pipeline mine (Cortez Hills), which is just south of Robertson in Crescent Valley. Robertson's most attractive features include its strategic location, over 2 million ounces of drill indicated inferred mineral resources, and Carlin-type gold mineralization in lower plate rocks north of Pipeline.

To the west, Robertson adjoins the Excluded Claims, which are a joint venture between Coral (39%) and Barrick (61%). Located approximately 4,000 ft north of the Pipeline open pit mine, the property contains several important structural elements, such as the northward extension of the ore-hosting Pipeline fault.

Until earlier this year, Cortez was a joint venture comprised of Barrick Gold Corp., the world's leading gold producer, and Kennecott Minerals. In February, Barrick announced a US$ 1.7 billion buyout of Kennecott's stake in the Cortez Hills Project, a move that gives Barrick sole ownership of a mine that produced approximately 422,000 ounces of gold in 2006. When Barrick acquired Kennecott's interest in the Cortez project, the company also secured full rights to the 61% interest in the Excluded Claims.

No doubt, the news was well received by Coral Gold's management, which is well aware of the fact that Barrick is actively seeking to replenish its gold reserves. It's no secret that several of its smaller North American mines are experiencing declines in production as they approach the end of their lives. To counteract the decline, Barrick has devoted one-third of its $200 million exploration budget to North America. CEO




**Nevada is one of the world's leading gold regions.**

Gregory Wilkins says the company will invest $10 billion in new mines over the next five to seven years.

### Nevada

This year, Barrick plans to make Nevada a primary focus. The company currently operates seven gold mines in Nevada, from which it draws a substantial amount of its annual production. However, Nevada majors, like Barrick and Newmont, are producing ounces much faster than they are replacing them.

Nevada is the leading gold producing region in the U.S. (83% of the country's gold production) and third in the world behind China and South Africa. Over forty mines are currently in production along the Carlin and Cortez trends, Nevada's most abundant regions; however, the majority of total production comes from a handful of mines. The region is among the most favourable in the world to mine, and possesses some of the richest deposits of gold in the world. The state's long mining tradition provides companies with the skilled labour force, geological expertise, and infrastructure needed to bring mines into production quickly and economically.

In 2006, Nevada mines produced 6.3 million ounces of gold. But, despite its rank among the world's top producing zones, Nevada is not immune to the decreasing production rates affecting most of the world's producers. As its mines mature and production rates slow, the state's major producers, such as Barrick, are scrambling to replace their depleted reserves.

### What the Future Holds

Although higher gold prices will eventually lead to new exploration and an increase in supply, nobody is certain of when we will see an impact on the market. According to Dr. Martin Murenbeeld, chief economist of the Dundee Group of Companies, "We're seven years past the bottom of the gold price, so certainly for the next three or four years we're going to see mine supply be relatively weak." As the industry struggles to catch up with rising demand, the price of gold will only go higher and the outlook for junior gold companies will remain strong.

## Links and References


- Barrick Gold Corp.
- "Barrick to invest record $10bn in new gold mines, says CEO Wilkins," Bloomberg, Mar. 21, 2008.
- Burgess, Luke. "China Gold Demand Now 2nd in World," GoldWorld, Feb. 29, 2008.
- Coral Gold Resources
- Coral Gold Excluded Claims
- Cortez Hills Project
- CNBC South Africa interviews DundeeWealth Chief Economist Dr. Martin Murenbeeld (19.7 MB .wmv file)
- Dundee Group of Companies
- "Gold Mining Output 2008," BullionVault, Feb. 6, 2008.
- "Gold Jewelry Booming in India," BullionVault, Feb. 5, 2008.
- Hill, Liezel. "Barrick buys Rio out of Lucrative Nevada Gold Asset as Hunt for New Ounces Intensifies," Mining Weekly. Feb 21, 2008.
- Hommelberg, Eric."Gold and Juniors, Chapter IX," Gold Rivers. May 29, 2005.
- Hommelberg, Eric. "Junior Festival 2006," Jan. 5, 2006.
- Kennecott Minerals
- Kosich, Dorothy. "Newmont Predicts All Major Gold Miners will see Production Decline," Mineweb. Feb. 11, 2008.
- Nevada Gold
- "Nevada Gold Production slips behind China, Australia." The Daily Reckoning. May 7, 2007.
- Ogden, Reginald. "West Africa's Birimian Trend - The Next Carlin / Cortez," Sep. 24, 2007.
- Pipeline mine (Cortez Hills)
- Robertson Claims
- Roulston, Lawrence. "Nevada Gold Rush," Kitco. Sep. 2, 2005.
- "U.S. Economic Insecurities on Verge of Boiling Over," Business 24/7, Feb. 17, 2008.
- "Why Global Gold Mining Output is Dwindling," CommodityOnline, Feb. 7, 2008.


Click here for full list of links: http://go.mining.com/july08-a8