Looking Beyond USD for Gold

written by Peter Clausi | March 10, 2022
Note from Peter Clausi: On June 24, 2019 I originally published this piece. Today, it is arguably even more relevant; and as such are re-publishing for your review.

Gold is glittering again, having its strongest week since April, 2016. Many reasons are offered for this long-expected global run, including natural economic cycles, industry consolidation, the new-normal of rape talk in The White House, conflicts in the Middle East and trade uncertainties.

Whatever the reasons, a higher gold price has a trickle-down impact on the junior exploration companies, the ones in the field doing the high-risk heavy lifting to bring new projects into development and production. It’s a well-known axiom to search for gold in the shadow of a headframe, which is why gold camps develop. You find gold near to where someone else already found gold.

Many of these gold camps were historically in production but became economically non-viable when the gold price fell below all-in sustaining costs. I remember attending the world’s greatest mining show, PDAC in Toronto, in 2001 when gold was under USD$300 an ounce – a very grim time to be in the mining industry! Mines and exploration projects were shuttered because the anticipated revenue from the deposits was less than the cost of running the mine, which left no cash for corporate operations, and that’s not a recipe for success.

Those same projects will be back in play, likely in new hands if gold is able to sustain this run.

PDAC 2012 was giddy as gold had hit its all-time high of

USD$1,900 per ounce the previous August. Projects with iffy economics were being green-lighted to try to exploit that price. We all know how that ended.

Gold is almost always quoted in USD. That's the revenue number, the price at which the producer can sell the gold. What's very interesting is that the majority of costs on a gold project are incurred in local currencies, not USD, so it's important to track not only the USD sale price for gold but the movements of gold in the local currency. If the revenue number is up and gold is sold in USD, and the costs are held steady and incurred in local currencies, the opportunity exists for miners in those jurisdictions to increase their margins. What were barely viable projects can be made economically healthy due to exchange rates. This isn't another trick of accounting from those ivory tower theorists under IFRS. This is the real world of real cash flow.

Look at Australia. The Frasier Institute recently pronounced Western Australia to be the world's second most attractive mining jurisdiction. Gold there is not flirting with a mere $1,400 an ounce. No, gold quoted in AUD hit an all-time high of $2027 last week, and closed out the week above $2,000. (Thanks to goldbroker.com for the chart below.)

This gives the Australian gold projects an advantage in attracting foreign investment capital. If costs are incurred in Australian dollars, and the inflation rate continues to be under 2%, the expanded gross margins will see Australian projects on a fast track. Previously worked mines that had to be shuttered due to the fall in gold will be re-opened.

(Note this only speaks to gross margins. Australian mining companies have the stereotype for being lifestyle companies for their directors and management team, killing the net margins.

The shareholders must ensure that new investment capital goes into the ground, not the Managing Director's pocket.)

Canada is in a similar position. Gold closed the week at CDN$1,852, and Canada had an inflation rate of 2.4% in April, 2019. Low inflation plus a rising revenue number equals renewed global interest in Canadian gold projects.

Saskatchewan finished third globally in that same Frasier Institute report. Quebec, the Yukon, Northwest Territories also made it into the Top 10 globally. Nunavut came in at 15, Ontario at 20. Of the fifteen provincial or territorial mining jurisdictions in Canada, six finished in the top 20 globally. That's impressive, and that's why that same report ranked Canada as the #1 mining jurisdiction on a national level beating out (who else) Australia.

There's more to gold than USD.

Treasury Metals' Greg Ferron on the gold market and the Goliath-Goldlund gold projects

written by InvestorNews | March 10, 2022

InvestorIntel's Tracy Weslosky spoke with Greg Ferron, CEO of Treasury Metals Inc. (TSX: TML | OTCQX: TSRMF), about Treasury Metals' Goliath gold project and their recent acquisition of the Goldlund project. "We are next to a very prolific camp – Red Lake," Greg said. He added that after Treasury Metals' Goldlund acquisition, "we are now one of the largest undeveloped gold projects in Canada with more than a 3 million ounce deposit."

Greg also discussed how investors looking to diversify are increasingly turning to gold, especially in stable, mining-friendly jurisdictions. He says that Treasury Metals' appeal lies in several factors: "We are right on the Trans-Canada Highway. That keeps our cost down. We have all the infrastructure, we have skilled labor, we have a very high-grade open pit and attractive underground grades."

Greg also provided an update on Treasury Metals' recent $11.5 million financing.

To access the complete interview, click here

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Nic Earner on Alkane Resources' 2019 gold investment strategy

written by InvestorNews | March 10, 2022
"If you look at our gold investment strategy, we want to assist companies to come into production and therefore make money for our shareholders…" States Nic Earner, Managing Director of Alkane Resources Ltd. (ASX: ALK | OTCQX: ANLKY), in an interview with InvestorIntel Corp. CEO Tracy Weslosky.

Tracy Weslosky: We want to talk about gold for the holidays. I was reading the New York Times this weekend and it said this is the one year that stuffing your cash in a mattress may have actually put you further ahead. Let us talk about gold. This would be a good time to invest in gold. Nic, what do you think?

Nic Earner: Naturally I am a bit of a gold bull. Certainly we are really happy with how the year has gone for Alkane Resources. We are in Australian gold. We have seen the rise and fall of U.S. dollar gold, certainly the Australian dollar has corrected broadly as well. Last financial year, which was finished in Australia at the end of June, we sold our gold for an average of around $1,720.00 Australian. We have seen similar price levels this year in Aussie dollars. For a cost base, for us, of below $1,000.00 an ounce Australian it has been a wonderful period of time. If you look historically, at the moment in Australian gold there has been sort of 9 or 10 quarters in real terms over the history at these price levels. Certainly it is an excellent time to have been in Australian gold.

Tracy Weslosky: Nic, in our last conversation you said at the end of September you had $82.4 million in cash and bullion and you have been accruing that cash up. Talk to me a little bit about what you are doing with your gold acquisitions that you were working on.

Nic Earner: Thanks Tracy. We have been making investments into other near-term development prospects. There were two that we were chasing in Australia. One has been successful. One has been unsuccessful. The successful one has been in Calidus Resources. The ASX ticker for that is CAI. They have got ground and reasonable prospects which are going through scoping and feasibilities at the moment up in the Pilbara region of Western Australia. We are helping them to get through to feasibility, just through. Investment they manage and we formed a technical committee to help maximize value of our investment. We really like that one. We like the size of the deposit. We like its exploration potential. We like its capacity to bring near-term development cash. With Explaurum we were looking to do a similar thing; to be part of a placement, help them go through to feasibility, but they were also subject to a takeover offer from another company called Ramelius. Ramelius increased their offer and the directors of Explaurum accepted that offer so Alkane is no longer part of that, c’est la vie. If you look at our gold investment strategy, we want to assist companies to come into production and therefore make money for our shareholders because in general you get this tension where you have raised the ounces on your resources, which you have to mine and it becomes a funding crunch point. Working through that point brings value for the next lot of investors or the same investors and we want to be part of that…to access the complete interview, click here