



October 31, 2011 John Seelmeyer *Northern Nevada Business Weekly*

Exploration successes, better efficiencies further boost mining

Continued high prices for gold and silver are only part of the good news for the mining industry in Nevada these days, finds a study of the industry's economics.

A sharp increase in exploration means that gold reserves grew nearly twice as fast as miners removed gold from the earth of Nevada and improved efficiencies have lowered the operating costs of the state's biggest mining companies.

"The outlook for the industry in the balance of 2011 and going forward have to be viewed favorably in light of gold prices, lower costs and promising developments across the state," said John Dobra, author of an annual study commissioned by the Nevada Mining Association.

Dobra, an economist at the University of Nevada, Reno, specializes in mining issues and heads the school's Natural Resource Industry Institute.

High prices for gold — they averaged \$1,225 an ounce for Nevada miners during 2010, and headed even higher this year — masked a slight decline in production in the state.

Nevada's mines produced 5.34 million ounces of gold in 2010, compared with 5.64 million ounces a year earlier. That's the ninth consecutive year that production of gold has declined in Nevada.

But the decline is not entirely bad news, Dobra noted.

Once again, miners are taking advantage of high prices to mine lower-quality ores that might not make sense when prices are low. That way, they save the higher-quality ores for years when they need to reduce costs to protect their profits. "While lower production levels may seem like bad news in the short term, in the long run it extends the life of ore bodies and enhances the sustainability of the industry," the economist said.

Nevada's mines produce nearly 80 percent of the gold mined in the United States, and account for about 6.8 percent of world production. The state's production is fifth in world, trailing China, South Africa, Russia and Australia.

But even though production of gold fell, value of that output rose to \$6.54 billion in 2010 — an increase of \$900 million — because of higher prices.

And profit margins improved as production costs declined.

Dobra said that the costs of producing an ounce of gold in Nevada averaged \$503 during 2010, down by \$5 from the 2009 figure. (His calculations don't include non-cash costs such as depreciation.)



In part, the lower costs reflect the effects of the recession. The prices that mining companies pay for steel, tires, chemicals, transportation and the like have fallen during the downturn.

At the same time, Dobra said some of the state's biggest mining operations such as Barrick Gold's Goldstrike operation and Newmont Mining's Phoenix Mine have become more efficient.

Higher prices, meanwhile, are behind the growth in proven and probable reserves at Nevada's mines. Those reserves stood at 80 million ounces at the end of 2010 — enough to sustain current levels of mining for 15 years.

And the 5 million ounces of gold added to the state's reserves last year means that producers found nearly twice as much gold as they mined during 2010.

To some degree, Dobra acknowledged, the growth in reserves reflects little more than an accounting change.

When prices are high, mining companies include in their reserves estimates some of the lower-quality deposits that couldn't be mined profitably when prices are low. Those deposits aren't truly discovered, just reclassified.

But exploration activity also is roaring from the Utah border west to the edge of the Sierra.

The State Division of Minerals estimates that \$214 million was spent on exploration in the state last year, a number that Dobra suspects to be very conservative.

Among the hot areas for exploration, he said, are the Pequop Mountains between Wells and Wendover and the Yerington area, which is getting serious attention once again from copper miners.

Copper, in fact, already is the second most-valuable mineral produced in the state, Dobra noted. In 2010, copper production of 181.5 million pounds generated revenues of \$620.7 million.

Silver production totaled 7.2 million ounces in 2010. While that's unchanged from 2009 figures, Dobra said the planned restart of the Coeur-Rochester mine near Lovelock next year is likely to boost production.

Revenues from silver production statewide totaled \$145.3 million last year.

The mining industry employs about 12,210 Nevadans at pay that averages \$83,175 — nearly double the \$42,536 average pay for workers statewide.