

Unit: Royalties & Advisory Services

Branch/Division: Geological Survey of New South Wales
Division of Resources & Geoscience

Subject: Cowal Gold Operations – Modification 14 (Processing Rate Change)
Economic Assessment

Introduction

State significant development is regulated under the Environmental Planning and Assessment Act 1979, which requires a proponent to apply to the Department of Planning and Environment for development consent, supported by an Environmental Assessment (EA).

This Economic Assessment conducted for the Cowal Gold Operations Processing Rate Modification - Modification 14 (the Modification or the Project) by the Division of Resources and Geoscience (the Division) is designed to review the resource/reserve estimates stated in the proponent's EA and whether the Project will deliver significant social and economic benefits to New South Wales from the efficient development of the resource and that resource recovery is optimised and waste minimised. It is also to ensure an appropriate return to the State from developing the resource. As such the Division has conducted an independent calculation of the royalty to be generated over the life of the Project.

The objects of the *Mining Act 1992* are to encourage and facilitate the discovery and efficient development of coal resources in New South Wales. Of particular relevance to this resource assessment is:

Section 3A Objects:

- (a) to recognise and foster the significant social and economic benefits to New South Wales that result from the efficient development of mineral resources, and
- (d) to ensure an appropriate return to the State from mineral resources.

The relevant section of the State Environmental Planning Policy (Mining, Petroleum Production and Extractive Industries) 2007 is Part 3, Clause 15: Resource Recovery requires that resource recovery is efficient, optimised and minimises waste.

Evolution Mining (Cowal) Pty Ltd (the Proponent) is the owner and operator of Cowal Gold Operations (CGO) located approximately 38 kilometres northeast of West Wyalong in New South Wales.

CGO has identified an opportunity to maximise the ore processing rate at their existing processing plant. The current approved capacity of the processing plant is 7.5 million tonnes per annum (Mtpa). This Modification is seeking to increase the maximum rate to 9.8 Mtpa. The major change to the processing plant would be the installation of a secondary crushing circuit. The Proponent is of the opinion that the Modification, if approved, would improve the financial viability of CGO.

Mining operations at CGO commenced in 2005, and are currently approved until 31 December 2032. CGO is the equal second largest producer in value terms (around the same value as the North Parkes operation) of metallic minerals in New South Wales, with only Cadia Valley Operations being larger in the value of metallic minerals produced. As such CGO is important economically to both the local region in which it operates and to the wider New South Wales economy.

The following aspects of CGO would remain unchanged:

- mining methods
- maximum Run-of-Mine (ROM) rate
- duration of mining operations

Economic Benefits of the Resource

Over the life of the Modification, the value of the additional gold produced would be worth around \$378 million in Net-Present-Value (NPV) terms using a 7% discount rate. All of CGO's gold is exported from Australia.

Export income is vital for the health of both the New South Wales and Australian economies, export income contributes to the Nation's balance of trade which provides positive benefits to both the New South Wales and Australian credit rating. This additional export income will contribute to the approximately \$23 billion (2016-17 total) of mineral exports annually from New South Wales. Gold exports are second only to coal in the value of mineral exports from New South Wales.

The modification, if approved, would provide an additional ten full-time positions at CGO, and 100 jobs during the construction period. Capital investment for this Modification would be of the order of \$85 million.

The Division also notes the following economic benefits from the Proponent's EA (conducted by Gillespie Economics):

- net production benefits to Australia of \$62 million
- net production benefits to New South Wales of \$27 million
- total indirect benefits to New South Wales of \$33 million

Royalty Calculation

The Modification relates to an operating gold mine (with a minor amount of silver produced in value terms) and as such a royalty rate of 4% applies to all refined metal produced, this rate is applicable to the net revenue. Net revenue is the price received per ounce of refined metal minus any allowable deductions.


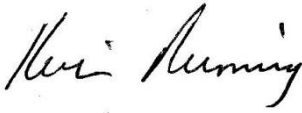
Allowable deductions are:

- realisation (transport of product to market)
- mineral processing expenses
- depreciation on assets (excluding mining and rehabilitation)
- onsite admin expenses (33.33%)

The Division has estimated that if the Modification is approved, around 16 million tonnes of additional ore would be extracted as a result of the Modification. The Division has also estimated that around an additional 460,000 ounces of gold would be produced as a result of the Modification.

Using the above parameters the Division has calculated that the State will receive around \$11 million (NPV at a 7% discount rate) of additional royalty as a result of the Modification.

Approvals:

Position	Signature	Date
Approving Officer: Matt Gagan Manager Royalties & Advisory Services		7/5/18
Endorsing Officer: Dr Kevin Ruming Director Strategic Resource Assessment & Advice (02) 4931 6701		8/8/2018