



10 May 2013

## ASX & MEDIA RELEASE

# STRATEGIC REVIEW OF THE BUSINESS

### Overview:

- Full review of all aspects of the business has been undertaken
- **Carosue Dam Plant expansion suspended indefinitely**
- **Deep South Underground Development on hold**
- **Whirling Dervish pit cutback to continue as planned**
- Exploration annual expenditure budget reduced to \$8 million
- **Mining fleets reduced from 4 to 2 decreasing open pit mining costs by ~30%**
- **Non-executive Directors' base fee reduced by 20% each**
- Debt to be kept to a minimum
- **Revised production and cost guidance for FY 2014 & 2015** (refer page 4 for details)
- Adoption of "all in" cost of production method

In response to recent volatility in the gold price, the Directors of Saracen Mineral Holdings Limited (ASX: SAR) ("Saracen" or the "Company") have undertaken a comprehensive review of the Company's operations with the aim to reduce costs of production, minimise exposure to debt and insulate against any further potential movement in the gold price. A range of gold price scenarios were modelled including prices below those reached during the recent sharp price fall.

The Company has re-evaluated all capital, operating, administration and discretionary expenditures to ensure that there is a disciplined approach that reflects a risk-averse strategy.

### The key outcomes from this comprehensive review are:

1. **Plant Expansion** – a decision has been taken for an indefinite suspension of the plant expansion. The \$25m capital investment involved the introduction of a tertiary crushing circuit and other downstream infrastructure. Saracen awarded the EPC contract for the expansion to GR Engineering Services Limited ("GRES") on the 25<sup>th</sup> February 2013 but their construction crews are yet to mobilise to site. Saracen is working closely with GRES in regard to suspending all activities and quarantining elements of the work that are capable of being later resumed without significant cost impost.

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- Capital expenditure incurred on the plant expansion to date is in the order of \$5m, of which \$3m is in physical assets (crushers and screens) which can be stored and utilised should the expansion resume in the future. Approx \$1m has been spent on downstream infrastructure that will enhance existing plant performance. Outstanding costs of approximately \$2m will be incurred to finalise the suspension of the works.
  - **Capital costs savings are in the order of \$18m.** The expansion decision can be re-visited following the completion of the Whirling Dervish pit cutback and/or a return to a higher gold price environment. Should the expansion be restarted it is estimated the cost to complete the expansion would be in the order of \$19m.
2. **Existing Plant** – there will be a focus on operational efficiencies and other capital effective initiatives that can enhance performance and provide incrementally higher throughput above the plant’s nameplate capacity of 2.4mtpa. This may include re-configuring the secondary crushing circuit to optimise its output and reduce bottlenecks. Saracen is currently exploring low capex solutions with GRES on this aspect.
  3. **Whirling Dervish Cutback** – Re-optimisation studies of the Whirling Dervish cutback utilising lower gold prices **confirm that the pit’s economics remain robust**, with no change to the ultimate pit design. Pre-strip mining remains on track with first ore expected this quarter.

The Whirling Dervish pit will provide the majority of the mill feed over the next 2.5 years, with free cashflow margins increasing as higher grades are accompanied by lower strip ratios as mining deepens towards the ultimate pit design.

4. **Deep South Underground** – Despite encouraging results from the feasibility study and a significant grade overcall of the open pit reserve (+55% year to date), the Board has decided to defer the development of the Deep South underground mine. This decision is based on the objective of reducing capital outflows whilst volatile gold prices persist and other capital intensive projects remain ongoing (Whirling Dervish cutback). The mining of the Deep South open pit was completed ahead of schedule in early May, and the mine has been placed on care and maintenance for the foreseeable future. Planning and design for the underground mine will continue so that a decision to develop can be implemented quickly once the above mentioned factors are resolved.

Exploration work is ongoing at Deep South where there is significant near term potential to extend the existing resource/reserve along strike.

**As a result of this deferral, capital expenditure will be reduced by in the order of \$23m in FY2014, with a further \$14m of on-going capital expenditure saved in FY2015.**

5. **Red October** – Production from the Red October underground mine continues as planned. Recent results from within the Central lode and outside the current ore reserve envelope have been encouraging (refer March Quarterly Report) and a significant underground exploration program is underway to test extensions both at depth and along strike.

**Even at lower gold prices, the Red October underground mine remains viable from an “all in” cost perspective and carries the potential for significant upside.**

The existing proved and probable reserve base would see production continue until the end of FY2014. The production profile provided below assumes production and costs would cease at that point although we remain confident of increases in reserves based on results received from recent exploration drilling.

6. **Operational Expenditure** – Numerous initiatives were tabled during the comprehensive review to reduce operational expenditure, with many to be implemented over the course of the next six months. The key initiative is the reduction from 4 open pit mining fleets to 2. The Deep South mining fleet has recently been off hired, while the Karari fleet will be de-mobilised at the end of the quarter. **This will result in ~30% saving in current open pit mining costs.**

Optimisations for planned future pits will be re-visited and include a review of cut-off grades and changed costs due to the decision to suspend the plant expansion offset by lower mining operating costs.

7. **Exploration & Tenements** – Saracen has already acted to reduce exploration expenditure following a successful program over the past two years that saw reserve ounces exceed 1moz for the first time. **Exploration expenditure has been cut to \$8m per annum (from \$10-15m per annum).** Depending on the prevailing gold price, this discretionary expenditure can be further adjusted accordingly.

Saracen has also committed to a critical review of all non-core tenements in light of the reduced exploration budget. Non-core tenements may be disposed of via sale, joint venture or relinquishment.

8. **Hedging** – The Board will continue to look at various options with respect to the hedge book, which is well in the money and represents a valuable asset. **At the end of April 2013, Saracen had gold hedging in place for 184,400 ounces at average price of A\$1,698.**
9. **Debt** – Suspending the plant expansion and reducing capital expenditure on other projects, coupled with our hedge position, will reduce the amount of debt required to be drawn down from the Macquarie Bank facility, including the assumption that lower gold prices persist for the next few years.

The maximum amount of debt drawdown is envisaged to occur in the June quarter 2014. Debt drawn at the end of April 2013 is \$22m.

10. **Corporate Expenditure** – With the recent appointment of Raleigh Finlayson to the position of Managing Director, Guido Staltari will move from the role of Executive Chairman to Non-Executive Chairman after a transition period.

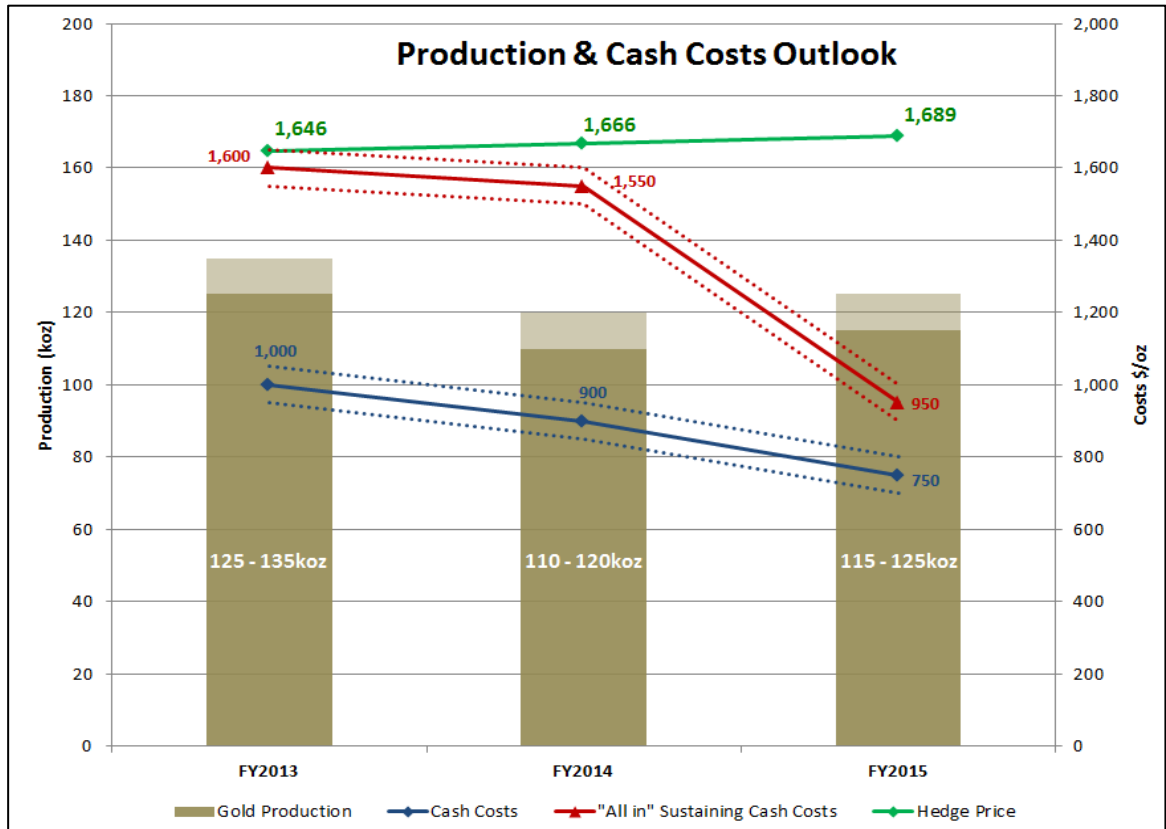
The Company's three **Non-Executive Directors** are mindful of the need to demonstrate commitment at all levels to these initiatives and **have each agreed to a \$20,000 per year reduction in their base fee, or 20%.**

The Managing Director's remuneration is also under review in light of the economic conditions and the Board's commitment to reduce costs across the Company. Full details of the Managing Director's base salary and short and long term incentives will be provided once finalised.

11. **Organisational Structure and Remuneration** – A review of Saracen's organisation structure is underway to ensure that each position continues to add value in light of the aforementioned changes. A review of current and future staffing

requirements and remuneration levels is ongoing with the objective of balancing staff retention required to execute our revised plans with reducing the cost of production.

12. **Resultant Production Guidance and Outlook for FY2014 & FY2015** – The sum of all the above mentioned actions will result in significant capital expenditure savings and removal of marginal ounces from the production profile.



Cash Costs include the following:

Mining	Cash costs for open pit and underground mining, including load & haul, drill & blast, grade control, mine services, dewatering, rehabilitation and mining overheads
Ore Cartage	Cash costs for ore cartage from mine to mill
Processing	Cash costs for ore processing
Site Administration	Cash costs for site administration, including village, OH&S, training, environmental and supply
<b>Cash Costs</b>	<b>Cash costs of production for mining, ore cartage, ore processing and site administration, exclusive of accounting adjustments for ore stockpile and gold in circuit</b>

"All in" Cash Costs include the following:

Royalties	Cash costs for royalties
Capital Works	Cash costs for capital works including surface and underground infrastructure, roads, tails storage facilities
Open Pit Development	Cash costs for open pit development, including pre-strip development and waste development at an average strip ratio
Underground Development	Cash costs for underground development, including decline development and waste access development
Active Mine Exploration	Cash costs for active mine exploration, including all underground exploration and surface exploration within the immediate environs of an active mine
Corporate	Cash costs for corporate overheads
<b>"All in" Cash Costs</b>	<b>"All in" costs of sustained production</b>

Total "All in" Sustaining cash costs are forecast to fall significantly from current levels of around \$1,600/oz to \$975/oz as a result of the reduction in capital expenditure over the next two years. During the same period, Saracen's percentage of hedged monthly gold production increases to just under 50% at an average price of A\$1,689/oz.

Cash costs are forecast to fall significantly from current levels of around \$1,000/oz to \$750/oz as a result of the removal of higher cost ounces from the mine schedule. This highlights that, despite not having the benefit of the expanded plant throughput, marginal ore is being replaced with higher grade material, therefore maintaining margins and cashflows.

Saracen will adopt this cost reporting structure for all future forecasting and reporting purposes to provide the market with greater transparency of all in costs. Saracen has adopted this format as we believe it best presents actual cash costs of production in cashflow terms.

**The above production profile also represents a 'back to basics' mine plan for Saracen consisting of a large open pit adjacent to the existing milling facility generating solid cashflows over the next two years.** The Red October underground mine is scheduled to deliver high grade ore into the mill in FY2014 with potential to extend reserves and mine life into FY2015 and beyond. Saracen will no longer be required to source ore from multiple pits (up to five different deposits at times) to deliver its guidance.

### **Production & Guidance Update**

Gold production for April 2013 was approximately 12,300oz, which takes production for the FY2013 year to date to approximately 111,000oz. Saracen's original guidance for FY2013 was 120-130koz, which was lifted to 125-135koz in December 2013 following a strong first half. Production is likely to be at the higher end of the revised range due to a significant overcall in grade from the Deep South open pit and 20% more ounces from Red October than forecast.

### **Conclusion**

Managing Director, Raleigh Finlayson said "We are confident that we have developed strategies for different gold price environments, even in an extremely depressed gold price scenario, that will ensure we remain cash flow positive and operationally robust."

Should higher gold prices return and/or other conditions change, the key capital projects that are being suspended/deferred can be reinstated with higher production targets as a result. This decision will be based on delivering the optimum free cashflow."

The Board has acted quickly and decisively when confronted with a lower gold price environment, with changes implemented to lower capital outlays and ensure lower debt levels, while retaining adequate head room between the "all in" cost of production and the prevailing gold price."

**Raleigh Finlayson**  
**Managing Director**  
**Saracen Mineral Holdings Limited**

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## **About Saracen**

Saracen Mineral Holdings Limited (ASX:SAR) owns 100% of the Carosue Dam operations, 120 km NE east of Kalgoorlie, in the South Laverton region of WA, home to many other gold mines and deposits including Sunrise Dam, Granny Smith, and Wallaby.

Carosue Dam's 2.4 million tonne per annum processing plant is forecast to produce approximately 125,000 to 135,000oz in FY2013. The Company is forecasting production rates of 110-120,000oz in FY2014 and 115-125,000ozs in FY2015.

As at 30 June 2012, Gold Resources stood at around 4.1 million oz while Reserves stood at 1.1 million oz.

The Carosue Dam operations area contains a large number of known gold deposits and is divided into the Southern and Northern regions (see location map below).

Gold production is from the Karari and Whirling Dervish (currently under development) open pit mines in the Southern region ("Southern Operations") supplemented by high grade underground operations at Red October mine in the Northern region ("Northern Operations").

**Project Location Map**

