



**OceanaGold Corporation**

**Date of Lodgement: 10/10/11**

**Title: “Company Insight – Update on Projects & Long Term Value”**

**Highlights of Interview**

- Gives thorough explanation of Didipio financials.
- Explains impact on Company-wide production with Didipio in production.
- Explains how New Zealand operations are tracking against new guidance.
- Outlines exciting exploration in New Zealand.
- Didipio construction on track and successful initiatives with local community.
- Strong potential for new ore bodies around Didipio.
- Strong funding position & attractions for new CEO to join OGC.
- Growth strategy and achievable vision to get to 600,000 oz gold eq. per annum.

**Record of interview:**

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OceanaGold Corporation (ASX, TSX, NZX code: OGC; market cap of ~US\$620m) announced in the June Quarter 2011 that its Board had approved the development of the Didipio Project in the Philippines. On 7 September you provided an update, which mainly focused on the progress with the logistics of construction. You reiterated average annual production of 100,000 ounces of gold and 14,000 tonnes of copper at a gold cash cost of US\$356/oz (net of by-product credits) over a 16 year mine life. Can you give more details on financials (NPV, IRR, capital payback), more of the main project parameters (throughput, recoveries) and financial assumptions?

**MD & CEO, Mick Wilkes**

The gold operating cash costs for the first six years are particularly attractive being negative after the copper by-product credits. At a copper price of US\$3/lb, the gold cash costs average negative US\$79/oz over those first six years and that also coincides with a tax holiday, making the project extremely attractive in the early years.

The reason the cash operating cost is so low in that period is because the copper production is higher with grades being higher in the shallower sections of the ore body. We actually average 18,000 tonnes per annum of copper in those first six years. Secondly, the mining costs on a per tonne of ore basis are lower in the early years of the open pit operation.

It means the operating cash flow at sport prices in the early years averages US\$150 million per annum after royalties.

The economics of the project are therefore very robust with a capital payback of 1 to 2 years based on capital costs of US\$185 million. That's using a conservative US\$3/lb copper price. Once the capital cost has been spent – and we have US\$193 million cash as at 30 June 2011 – the NPV will be over US\$400 million. That will mean a significant addition to OceanaGold's balance sheet.

The other thing we've done is to defer the higher cost underground mining to later on in the mine life by making the open pit a larger scale. We're also considering an expansion of the processing plant by taking it up from 3.5mtpa to 5mtpa within a few years of start up. That will then make Didipio quite a significant producer at around 300,000 ounces per annum of gold equivalent.

Overall, there is a large upside in financial returns from a relatively modest capital outlay and we don't believe there is any value currently recognised in our share price for Didipio.

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Once Didipio is at full production, how will this impact company-wide production and cash costs (i.e. including the New Zealand operations)?

**Mick Wilkes**

Didipio will transform OceanaGold from a New Zealand-based gold mining company to a low cost, multi-national gold and copper miner. Our cash costs will fall from around US\$850/oz to around US\$450/oz. That will make OceanaGold very competitive with our peer companies.

It also provides us with the basis to develop more mines in South East Asia because we will have both the cash flow resources and technical capability to construct more mines.

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In your ASX releases for the June quarter 2011 results you gave adjusted guidance for the New Zealand operations, for the full year to December 2011, of production of 255,000 to 270,000 ounces of gold (down from 260,000 to 280,000 ounces) and cash costs of US\$850 to US\$890 per ounce (up from US\$645 to US\$685 per ounce). Can you briefly reiterate why – particularly on cash costs? How are you tracking against this adjusted guidance?

**Mick Wilkes**

We adjusted our production down because of some issues at the Reefton operation on the West Coast in New Zealand. The reconciliation of our mining results didn't meet the predictions of the ore body model. Having said that the reconciliation since Reefton was commissioned has overall been positive. We do expect these lower than anticipated results to reverse again, but just in case we have approved a drilling program to improve our confidence in the resource model.

Productivity in the pit at Reefton has also not been up to our expectations as we transition into other mining areas and also some of our workforce has been poached by larger companies operating in Australia. The downgrade of production at Reefton has had an impact on our cash costs, but the largest impact on our cash costs has been the appreciation of the New Zealand dollar against the U.S. dollar, particularly in the second and third quarters. We were doing our budgets at around US\$0.70 at the end of last year whereas the New Zealand dollar actually reached around US\$0.88 in July. That has an impact on our cash costs because we report them in US dollars, but around 70% of actual costs are in New Zealand dollars.

Thirdly, we have a higher cash cost this year because we have capitalised less mining costs, which have been booked as operating costs. For example, we haven't capitalised as much pre-stripping as in previous years.

Fundamentally the business hasn't changed and is performing pretty well and we expect to report more normal numbers in the next few quarters. The cost per tonne of ore milled in New Zealand dollars is as budgeted and it really has been due to the higher New Zealand dollar that has mainly resulted in higher reported US dollar cash costs. Of course, a weaker US dollar generally results in a higher gold price and this has helped maintain high margins.

We're on track to meet the revised production and cash costs for the full year, but I'd like to point out that the September quarter will be similar to the June quarter in terms of production and costs.

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On 28 July you stated that "Our exploration program in New Zealand is also delivering consistent and exciting results.....". Can you give an update, particularly where you are finding the best results in terms of extension of mineralisation, new mineralisation and the best grades? How will it impact your New Zealand operations?

#### **Mick Wilkes**

We're spending US\$10 million on exploration in New Zealand this year and increasing to US\$15 million next year. The majority of that is being spent at Reefton. Reefton is an historic gold field that produced around 10 million ounces between 1870 and 1950. There are around 30-odd shafts in that tenement package which we now own 100% of and that covers a 30km strike length. We're mining our Globe open pit deposit at Reefton at the moment. We're taking out the gold from the old workings that sit in the sulphides around the quartz reefs. These quartz reefs are typically about 1-2 metres wide and average around 1 ounce per tonne.

The current business model is that we mine down through the old workings, produce a concentrate and transport that to Macraes. So, we want to find more deposits that sit around the old workings, but we also want to find the quartz reefs that haven't been exploited by the old timers. One of the main reasons they haven't mined them in the past is that they wouldn't have outcropped at surface. We've been doing some geochemical sampling at surface over the past 18 months and we've come up with some interesting anomalous zones that indicate the presence of buried quartz reefs.

A couple of months ago we started drilling the Big River prospect and some of the best intersections have been 15 metres true width at 8 g/t. We've intersected both quartz reefs and sulphides that sit around the quartz. This was one of the deposits that didn't outcrop and therefore was not discovered by the old timers. That's a good example of the prospectivity at Reefton.

There's another mine at Reefton, Blackwater, that we intend to re-open. This produced around 740,000 ounces at a head grade of 14.6 g/t. This closed in 1951 because of a fire which effectively froze the mine in time. We know the ore body is open at depth because of a previous drill hole that showed the continuity of the mineralisation to at least several hundred metres below the old workings. We're commencing a new drilling program next month to test the extent of the mineralisation. We'll then develop a decline to get to the top of the ore body and start production again. It's quite an exciting project for the Company and our engineering studies show that it could produce up to 50,000 ounces per annum at less than US\$600/oz from a small tonnage, high grade mining operation. Big River and other new mines could be similar to that.

In summary, exploration around Reefton is very encouraging.

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Back to Didipio - how is the project tracking against forecasts?

**Mick Wilkes**

It's early days as we just started construction in June, but it's going to plan. We've almost finished the upgrade of the access road, we've started construction of the accommodation and we've almost finished bulk earthworks for the plant site. We're about to start civil works for the plant and we plan to start pouring concrete by November for the mill foundations. We're mobilising contractors and all the equipment and long lead items are ordered or in our possession and the rest should be delivered soon.

The engineering design is going well and is around 75% complete. This is being done by Ausenco in its Brisbane, Australia office and we expect to have that finished by the end of the year. Importantly, another reason we are confident of delivering the project on time and budget is that we are building the project ourselves. We have a very experienced project management team based around Martyn Creaney who has worked on many major mining construction projects in the region including Misima, Big Bell, Granny Smith, Kidston, Porgera and the Lihir expansion.

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In the ASX announcement of 7 September on Didipio, you explained some initiatives to contribute to, and engage, the local community. How supportive is the local community (after these new initiatives) and how supportive are the local and federal governments in general?

**Mick Wilkes**

The community around Didipio is now very supportive of the project. We have provided health and education programs for some years now. We set up a trust fund to provide local services and infrastructure which is run by the local people. We participate in the national reforestation programs and are planting 10s of thousands of seedlings in the area. We have continued to sponsor our students at university and so far 150 have graduated under our scholarship program. Hopefully many will work for us in the future.

So the project is well received by the community and local and national governments.

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What permitting approvals remain for Didipio? What are the major risks to the project? Will rainfall be a potential hindrance to construction and production?

**Mick Wilkes**

Under our "Financial or Technical Assistance Agreement" we already have all our permits approved by the national government and the local government and we're working through our building permits with the local council.

The major risk to the project is delays from weather. We have experienced several typhoons in the Philippines this year. They are not uncommon and we expect more of them, but we're putting in management strategies to cope. The engineering is well advanced and, as I said, all equipment and long lead items are ordered. We are doing construction management ourselves and so have very tight control over that.

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What is your strategy on exploration at the Didipio Project site and regionally? How prospective do you believe exploration is?

## **Mick Wilkes**

We hope to start drilling at Didipio before the end of the year and we're already targeting new ore bodies. The Didipio porphyry stands by itself, but there is strong potential for another porphyry system within our Didipio tenements. There are other options for new ore bodies and we're confident we will be successful in exploration at Didipio, but getting into production is the main objective. We'll be spending around \$5 million per annum on exploration to extend Resources and Reserves.

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As at 30 June 2011, cash on hand was US\$193 million. What remaining funding is required at Didipio? How will you fund that remaining capital expenditure, plus exploration and ongoing capital expenditure in New Zealand?

## **Mick Wilkes**

The capital cost at Didipio is US\$185 million and we've spent US\$30 million to date. We have around US\$190 million in the bank so Didipio remains fully funded. The cash flows from New Zealand are well positive and that's funding our exploration and capital projects. We have some convertible notes that mature at the end of next year and we expect to be able to fund those through cash flow. However, as insurance, we're talking to a number of banks about setting up a revolving credit facility.

Overall, we're in a strong financial position to fund all our growth activities and other commitments.

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What attracted you to join OceanaGold?

## **Mick Wilkes**

At the personal level it was an opportunity to be a Managing Director/CEO, but I also liked the challenge of being able to help build a project in the Philippines. The country is very prospective geologically, but it is often maligned for its inability to get mining projects into production. Most of my career has been working in developing countries including PNG and Laos. I really enjoy working in South East Asia and I find it an interesting challenge to get Didipio into production.

There is a lot of value to be created for the community and shareholders in making the project work.

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In terms of the longer term growth strategy for OceanaGold and adding value for shareholders, in which geographical regions will you focus? What level of production and cash cost for new projects would be acceptable as a minimum?

## **Mick Wilkes**

We will focus on the Asia Pacific region. It's hard enough to run one business in New Zealand let alone run two in different parts of the world. We will grow in a steady and thorough manner. We have the experience in this region to do that.

We're targeting multi-million ounce projects in the bottom half of the world cost curve. We would like to either discover or acquire these and bring them into production – rather than buy a mine already in production.

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Finally, OceanaGold has a corporate vision or objective to become a 600,000 ounce per annum gold producer and to have a pipeline of growth projects. How do you plan to achieve this?

**Mick Wilkes**

I want us to excel at exploration, development and operations. There is plenty of opportunity for organic growth. Once we have Didipio in production, we'll look at taking it to stage two at 5mtpa of throughput. There is also the potential of an expansion of the Macraes open pit and the development of the Reefton projects. Then there is further exploration success possible in other regions of the two countries.

So when you look at all that potential there is a real possibility of us becoming a 600,000 ounce per annum of gold equivalent producer based on our current assets – and then we have the objective of acquiring undeveloped resources as well.

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Thank you Mick.

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For more information about OceanaGold, please visit [www.oceanagold.com](http://www.oceanagold.com) or contact Nova Young, Investor Relations Officer or Darren Klinck, Head of Business Development, OceanaGold Corporation, telephone + 61 3 9656 5300.

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