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Barrick faces new setback over Zambia mine

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Concern over Zambian copper mine adds to woes as industry grapples with weak gold prices and acquisitions gone wrong

Barrick Gold Corp. may idle its Zambian copper mine if the African government imposes a higher royalty, a potential blow to the Canadian company, which has worked hard to turn its fortunes around.

The world's largest gold producer was in discussions with the government about reducing the proposed 20-per-cent rate when the Zambian president died this week, adding more uncertainty to the negotiations.

"At the end of the day if we are in a position where through a new tax regime the project doesn't make money, then certainly we would have to consider suspending for a period of time," Kelvin Dushnisky, Barrick's co-president, said in an interview.

"The copper remains in the ground. It's not going anywhere. It wouldn't make sense for us to run the mine just for the purpose of paying royalties and taxes."

It's another sign that the challenges are not over for Barrick, which like the rest of the gold industry continues to grapple with the fallout from weaker gold prices and expensive acquisitions gone wrong.

"The gold producers are stuck between a rock and a hard place," said **Pawel Rajszel**, analyst with **Veritas Investment Research**. "There's just not much the gold producers can do, except hope for a higher gold price."

After two years of tumult, Barrick has emerged as the lowest cost producer among the big gold miners. But Barrick continues to carry a lot of long-term debt.

The company on Thursday said it plans to reduce its net debt to \$7-billion (U.S.) from the current \$10-billion through its cash flow and proceeds from any potential asset sales.

Even after Barrick reported a third-quarter profit late Wednesday that beat analyst expectations and reduced its costs for the second time this year, investors were displeased.

Barrick stock dropped 4 per cent to \$13.75 (Canadian) a share on Thursday, well below levels it traded at before the start of gold's 10-year bull market, which peaked a few years ago.

Gold prices have retreated sharply since, dropping more than 2 per cent Thursday to below \$1,200 (U.S.) an ounce. Other gold companies such as Kinross Gold Corp. have suffered from the sharp drop in bullion prices. Kinross was trading below \$3 (Canadian).

Even market favourite Goldcorp Inc. dropped 13 per cent to \$20.84 on weaker quarterly results.

Lumwana has been problematic for Barrick since the day it acquired the mine through its Equinox Minerals purchase in 2011. Shareholders, bewildered over the gold company's foray into copper, panned the deal. Then Barrick had to write it down. Idling the mine would be another disappointment.

The book value of Lumwana is now \$1-billion (U.S.), a fraction of what Barrick paid.

It is not known whether the company will have to record another impairment charge on the mine.

For most of this year, Barrick has said it is focused on Nevada, where some of its best performing gold mines are located. Investors have been confused over Barrick's strategy and have wanted to know whether the company wanted more copper or another commodity after the former and current chairmen talked about diversification.

Mr. Dushnisky said the company does want to be a significant copper producer in the future, but said there were no immediate plans to buy more of the red metal, used in construction and energy generation.

"We are really focused on our gold assets right now," he said. "Priority one is doing the best we can with our gold portfolio."

Earlier this year, Barrick unsuccessfully tried to merge with its competitor in Nevada, Newmont Mining Corp., to consolidate operations. But Mr. Dushnisky reiterated that Barrick was not talking to Newmont.

"At this point we are focusing on our own assets."

When asked if Barrick would sell Lumwana, Mr. Dushnisky said nothing is off the table.

"We think there is still more value to be derived from Lumwana," he said.

"Outside of our core assets, nothing is sacred. So if it makes sense that we can get full value then we will consider it."

Mr. Dushnisky would not place a price on Lumwana except to say it would be lower than the \$7.3-billion (Canadian) Barrick paid for Equinox.