Kinross Pays the Price for Mine Delays in West Africa

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Stock plunges 21 per cent on news extra time needed to study and plan Tasiast project

Kinross Gold Corp.'s K-T drubbing by investors over delays at its trophy gold mine in West Africa is a fresh reminder of the gulf between the fortunes of those who dig for gold, and the metal itself.

While gold continues to trade at historically high levels - closing up $24.80 at $1,655.60 an ounce Tuesday - gold miners are contending with market antipathy due to rising costs and a string of unpopular and costly acquisitions. In such an environment, tolerance for bad news is low.

Kinross discovered that the hard way Tuesday, after saying it would take six to nine months more than expected to study and plan its Tasiast mine in Mauritania, delaying development and possibly negatively affecting production.

Kinross chief executive officer Tye Burt said in an interview that Kinross was acting in "a prudent, carefully considered and conservative" way by rationalizing its capital and project management, a process that could also affect timing of development projects in Ecuador and Chile. The company said it will also write down the value of Tasiast.

Investors drove down Kinross stock. It was a major decliner on North American stock exchanges, plunging more than 21 per cent in Toronto to close at $10.39 in heavy trading. Shares in gold miners, including Barrick Gold Corp., Goldcorp Inc. and Newmont Mining Corp., also fell.

"I think the market is anxious for more news, more information, and we simply haven't completed our work yet," Mr. Burt said.

"What we're doing is responding to a volatile market environment ... by managing the risks incurred with large project construction."

He said the company is building three projects almost simultaneously - the combined costs are between $6-billion and $7-billion - and wanted to avoid the problems of other gold miners.

Tasiast is expected to cost more than $3.2-billion to develop and to fuel 70 per cent of Kinross's growth in the coming years. But observers are equally concerned about the mine's potential to drag on the company's fortunes.

"It seems that capital and operating costs are facing significant upward pressure," TD Securities Inc. analyst Greg Barnes said in a research note, adding production in the first eight years of operation could be lower than the 1.5 million ounces annually that was initially expected.

Kinross picked up Tasiast as part of its $7.1-billion purchase of gold producer Red Back Mining Inc. in 2010, a deal that was criticized for being too expensive and for exposing Kinross to significant geopolitical risk.

"Kinross's fate largely lies in the development of a single mine in Mauritania," ***Veritas Investment Research*** *analyst* ***Pawel Rajszel*** said in a research note last week, citing several issues.

Mr. Burt played down the risks of operating there, saying the company did its homework and the mining sector in Mauritania had been largely shielded from the country's political tumult.

Kinross plans to pay for its development projects through a combination of cash and debt. But ***Mr. Rajszel*** cautioned in a research note Tuesday that with the company forecasting this week higher operating costs and higher-than-expected capital expenditures on top of the development delays, Kinross could generate negative free cash flows through 2014, even at current gold prices.