Major Gold Miners Slash Reserves, Announce Write-Downs

Revaluations, However, Come as Metal Hits Highest Level in Three Months

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Machinery working at Barrick Gold's Pascua-Lama mine, which straddles the Chile-Argentina border. Several large gold-mining companies have cut the size of their reserves. *Reuters*

A host of the world's largest gold miners slashed the size of their reserves and announced further asset write-downs, highlighting the extent of the damage that last year's 28% drop in the price of gold has inflicted on the sector.

But the revaluations came as gold hit its highest level in three months, as weaker-than-expected U.S. economic data bolstered the case for a slower rollback of the Federal Reserve's bond-buying program. Gold's rise boosted companies' share prices despite the slew of large losses.

On Thursday, Barrick Gold Corp. ABX.T +1.27% cut its estimate of how much gold it has in reserve by 26% and Goldcorp Inc. G.T +2.29% **Goldcorp Inc.** cut its by 15%. That followed Kinross Gold Corp.'s K.T +1.06% **Kinross Gold Corp.** announcement Wednesday of a 33% cut and Agnico Eagle Mines Ltd. AEM +0.75% **Agnico Eagle Mines Ltd.**'s 4% cut the same day. Miners are using a lower gold price to determine the value of their reserve, rendering some of their deposits unprofitable to mine.

The four companies notched up $4.25 billion worth of impairments between them. That adds to the billions of dollars' worth of write-downs miners have already made in the last year. Barrick alone announced $11.4 billion in after-tax impairments in 2013.

Few investors were surprised by the reduction in reserves, since the fall in the price of gold has made some ore unprofitable to mine and some companies have been selling or closing mines.

After last year's rout, gold prices have been boosted in the past three months by worries about the health of some developing economies, as a swoon in equities markets renewed demand for alternative assets.

Instead, some investors are focusing more on the amount of cash that gold production is generating at the moment. "***The more important thing isn't the reserves right now, it's cash flow and the improvements in cash flows," said Pawel Rajszel, an analyst at Veritas Investment Research in Toronto.*** Barrick, up 6.1% on Thursday, was in particular being rewarded for improved cash flow, he said.

According to BMO Research, gold miners have been recently estimating their reserves at $1,400 an ounce, which is well above where gold trades. The bank expects that most reserves will now be calculated at $1,100 to $1,300 an ounce. Gold currently trades around $1302 an ounce.

Analysts said Barrick, the world's largest gold miner, has been particularly aggressive in cutting its reserves. The Toronto-based company said it calculated its reserves for the year using a gold-price assumption of $1,100 an ounce, it said, well below the $1,500 an ounce used in 2012.

"We were more conservative than our peer group [on the reserve price]… but it doesn't mean those assets have gone away," CEO Jamie Sokalsky said in an interview.

Miners say the cuts in reserves put them in a good place for potential upside if the price of gold continues its rally. Still, many gold analysts do not expect that. Nor do all mining executives, at least in the short term.

Chuck Jeannes, the CEO of Goldcorp and typically bullish on the price of gold, believes the price will remain range bound over the next 6 to 12 months.

"We still need to get past the [Fed] tapering and the [quantitative easing] discussion in the U.S.," he said in an interview.

—Ira Iosebashvili contributed to this article.