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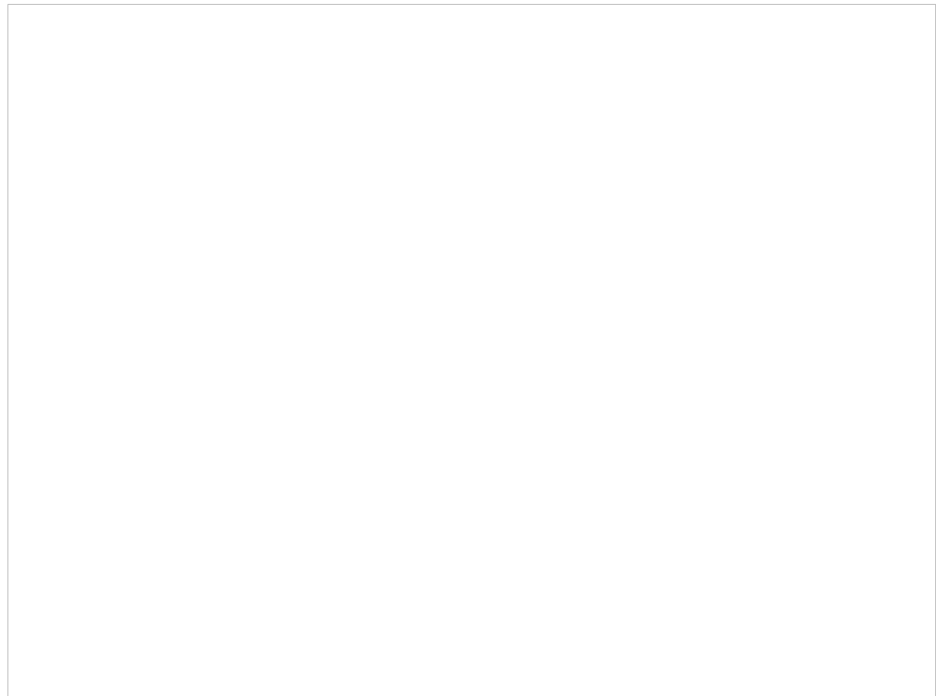
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Barrick Gold Corp to suspend Lumwana mine in Zambia amid huge royalty hike

PETER KOVEN | December 18, 2014 | Last Updated: Dec 18 2:24 PM ET
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Barrick Gold Corp expects to begin reducing the workforce in March, and to finish shutting the mine down in the second quarter. That leaves plenty of time for the government to change its mind and scrap the royalty hike before Lumwana goes offline.

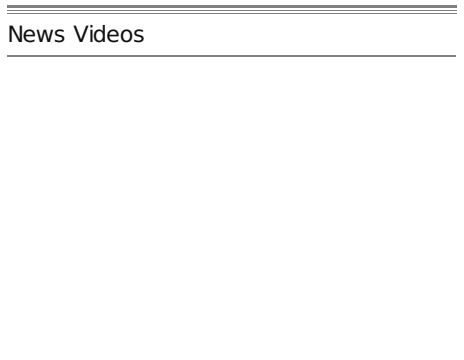
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Barrick Gold Corp. announced Thursday that it plans to suspend its Lumwana copper mine in Zambia because of a massive royalty hike introduced by the government.

The Zambian parliament passed legislation that eliminates corporate income tax but increases the royalty rate on open pit mines to 20% from

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6%. Toronto-based Barrick has warned for months that this legislation, which takes effect in January, would make Lumwana unsustainable.

“The introduction of this royalty has left us with no choice but to initiate the process of suspending operations at Lumwana,” co-president Kelvin Dushnisky said in a statement.

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“Despite the progress we have made to reduce costs and improve efficiency at the mine, the economics of an operation such as Lumwana cannot support a 20% gross royalty, particularly in the current copper price environment.”

Barrick’s move puts pressure on the government to reverse its course. The company noted that the mine supports about 4,000 direct jobs and bought almost US\$400-million of goods and services from Zambian suppliers last year.

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“We sincerely regret the impact this will have on our people, as well as the communities and the businesses that depend on Lumwana, and we remain hopeful that the government will consider an alternative solution that will allow the mine to continue operating,” said Jim Gowans, Barrick’s other co-president.

If the new royalty regime isn’t changed, Barrick expects to take a

writedown on Lumwana in the fourth quarter. The current carrying value of the mine is US\$1-billion.

The company expects to begin reducing the workforce in March, and to finish shutting the mine down in the second quarter. That leaves plenty of time for the government to change its mind and scrap the royalty hike before Lumwana goes offline.

The announcement is yet another setback for Lumwana, which has been a disaster for Barrick. The company overpaid for the asset when it spent \$7.3-billion to buy Equinox Minerals Ltd. in 2011. It then ran into huge operating problems and took a US\$3.8-billion writedown on the operation last year.

Barrick did eventually make improvements at Lumwana, though 2014 has been a difficult year because of a production disruption and a difficult rainy season. The mine produced 75 million pounds of copper in the third quarter at cash costs of US\$1.84 a pound.

TD Securities analyst Greg Barnes noted that a potential Lumwana shutdown would be “yet another hit” to 2015 copper supply, on top of recent production downgrades announced by BHP Billiton Ltd. and Rio Tinto Ltd.

“We believe that rather than a surplus for 2015, the copper market is moving closer and closer to a deficit, which should be supportive of the copper price,” he said in a note.

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Copper prices traded at multi-year lows on Thursday of below US\$2.85 a pound.



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