

In Mexico, Gold Mines Beckon Once More

By NICHOLAS CASEY

MESCALA, Mexico—Here in Mexico, a new gold rush is under way.

The metal's long cycle of high prices, surpassing \$1,500 an ounce, has allowed big outfits like Canada's **Goldcorp** Inc. to set up operations in areas where, in the past, gold wasn't concentrated enough in the soil for mines to make a profit after sifting it out. This year, Goldcorp's Peñasquito site, a massive, low-concentration mine in the deserts of Zacatecas state, is set to produce 500,000 ounces of gold, making it Mexico's biggest gold mine and Goldcorp's most prolific.

Elsewhere in Mexico, discoveries of more highly concentrated deposits have led a host of exploration companies to increase investments and land purchases. These high-grade discoveries include the find late last year of an underground deposit the size of a high-rise building in the mountains of Guerrero—a strike nearly a thousand feet deep and 500 feet wide that mining companies believe to be one of the most highly concentrated discoveries in Mexico in the last 50 years.

"People had said everything had been discovered in Mexico. Now you're seeing a renaissance," said Richard Whittall, chief executive of Canada's **Newstrike Capital** Inc., which discovered the Guerrero site, still under exploration.

Silver has long been the cash cow of Mexico's mining industry. But last year the country joined the top 10 gold producers, mining more than 86 metric tons of the yellow metal, three times what it produced 10 years ago and more than other heavy-

weights in the region like Chile and Argentina.

Mining companies attribute this growth in part to the commodity's surge after a 20-year cycle of low prices of around \$400 per ounce. As financial crises struck the U.S. and Europe, gold prices rose as many people pulled money from more risky investments and bought gold instead. In Mexico, this allowed miners to reap big profits in regions where gold wasn't as concentrated.

Goldcorp's operation here at *Please turn to the next page*

Once known only for silver, Mexico ranks among the world's top 10 gold miners.

the Los Filos mine in Guerrero offers a glimpse of where high prices are taking gold-producing countries like Mexico. People had mined in these mountains since colonial times on a small scale, leaving behind networks of underground shafts and even a few ghost towns.

Los Filos, by contrast, is a vast, open-pit mine the size of its neighboring village in Mescala. Some 2,000 employees work here. More than 70,000 metric tons of earth daily are removed with explosives and bulldozers, then trucked to a nearby site where cyanide pools are used to extract the mineral. The chemicals are recycled by pipes and the process begins again.

After a \$500 million investment, the mine went into commercial operation in 2008. Last year miners extracted 330,000 ounces of gold—a record for the mine, which is expected to remain operational for another dozen years.

Success at Los Filos led the company to make an even bigger investment in Mexico when it bought and began developing the Peñasquito site in Zacatecas in 2010 at a cost of \$1.7 billion, Goldcorp's largest foreign investment anywhere. In addition to an average 500,000 ounces of gold a year, the site will also be expected to produce an annual average of 28 million ounces of silver, along with high quantities of



lead and zinc.

"The open-pit volume has exploded there," said Salvador García, head of Goldcorp's Latin America operation.

Companies say they are drawn to Mexico by its mining laws, which allow foreign firms to reap much of the profits from their investments. Under federal law, companies must apply for a mineral-rights concession through the Mexican government and operate there through a Mexican company. But the local company may be fully owned by foreigners.

The arrangement allows foreign investors full ownership over their operation and the Mexican government the ability to tax them under local law. Taxes include a 34% income tax on profits along with mining duties, which vary by the mine.

This creates a sizable windfall for the government—in 2011, Goldcorp paid \$218.5 million in taxes just for its Peñasquito mine, the company said.

Peter Schulhof, whose company **Westridge Resources Inc.** operates a new gold mine in Mexico's Sinaloa state, said Westridge had been sorting through plans for mines in 60 other countries but eventually opted for Mexico because of its political and legal stability.

While many firms want to explore countries like Venezuela, where mineral quality may be higher, the risks of nationalization are high, too, he says. "The colors of the Rubik's cube lined up in Mexico," he says.

Mexico presents real dangers for investors, however. Authorities have accused crime groups of stealing municipal electricity lines to melt down and sell as copper prices have risen; Mexico's state-run oil monopoly **Petróleos Mexicanos** says the Zetas gang has made off with large quantities its of oil annually—a commodity seemingly more difficult to steal than gold bars.

Goldcorp says it hasn't had any problems with drug gangs, but is still taking precautions, such as building an airstrip in

Los Filos which will allow gold bars to be flown out of the site to refineries rather than pass through Mexican highways.

Another risk relates to the price of gold itself: While buoyed now as an investment safe haven, prices could fall during the life spans of the new Mexican mines. Companies argue that most major Mexican projects were planned before gold prices hit their peak and therefore protected from a dip in price. But they still warn about the need to keep production costs low in the event of a price change.

"If you are a miner that wants to stay, you need to plan to be not just a part of this cycle, but others cycles too," said Armando Ortega, who heads the Latin America division of Canadian firm **Newgold Inc.**

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