

# Owner of Amador gold mine looks to start digging again

**Mark Anderson, Sacramento Business Journal, 10-18-10**

The owner of Sutter Gold Mine in Amador County is finalizing a study to determine whether cranking up the 21-year-old mine is economically feasible.

Last week, regulators approved the company's plans for waste disposal units at the mine, a necessary step toward getting the mine operating.

The rising price of gold has spurred interest in reviving the mine, which has been used primarily as a tourist destination. Gold is trading at record levels, reaching \$1,370 an ounce Wednesday.

Today's prices are double what they were in 2005. Gold traded at less than \$300 an ounce in 2002.

"We're finishing a preliminary economic assessment," said Robert Hutmacher, chief financial officer of Sutter Gold Mining Inc.

The publicly traded company based in Vancouver, British Columbia, is majority owner of the mine.

The preliminary study should be completed by the end of the year.

The company's goal is to move 200 to 300 tons of rock per day out of the mine. It would have to build a mill on-site to crush the stone and extract the gold.

Earlier this year, Sutter Gold replaced the water treatment plant at the mine, located just south of Sutter Creek.

And in September, Sutter Gold received approval from its lender to access more than \$4 million for exploration and development.

Due to the high price of gold, there have been increased efforts to prepare for gold mining, said Don Drysdale, spokesman with the California Department of Conservation. The department oversees the above-ground effects of mining.

In 2008, Australian mining company NewGold started surface mining in Imperial County's Mesquite, located at the very southeast corner of the state. It is an industrial-scale operation that uses loaders and dump trucks bigger than houses.

Mining in the Mother Lode tends to be underground, hard-rock mining, rather than surface mining. But the hard-rock mining tends to find higher-grade veins of gold, said Michael Miller, chief executive officer and director of the Original Sixteen to One Mine Inc. in Alleghany, about 30 miles outside Nevada City. The Alleghany mine has been operating continuously since 1896.

From the start of the Gold Rush in 1848 and up through the 1940s, the 120-mile-long California Mother Lode produced 13 million ounces of gold. Almost 8 million of those ounces came from the 10-mile district between Jackson and Plymouth, where the Sutter Gold Mine is located.

But Sutter Gold Mine is not some throwback to the Forty-Niners and the great California Gold Rush. The mine first opened in 1989, using modern equipment. The main shaft is bored out to 20-feet high — big enough to drive a municipal bus more than 3,000 feet into the mine.

Gold mining is highly regulated in California by federal, state and regional governments, Miller said. That regulation and very high startup prices have kept most efforts at bay for decades.

For more than a decade, the Sutter Gold Mine, which was developed as a working mine, has been used primarily as a tourist destination, offering a hard-hat mine tour that takes visitors in mining buggies about 1,000 feet into the mine.

Despite not being active, the mine's various owners have kept the mine close to operational and have updated its permits.

"They seem to have their ducks in a row," Drysdale said.

Gold has been trading at more than \$700 an ounce since 2006. A rally in gold prices in January 2008 saw the price peak at more than \$1,050 an ounce before sliding to the most recent low of around \$750 an ounce in October 2008. In the past two years, the price of gold has trended upwards, with prices hitting a record \$1,355 an ounce earlier this month.

"Prices are always back and forth. It is always buyer beware when buying gold," said Miller, with the Sixteen to One Mine.

That mine is a small operation, with eight miners working a network that includes 35 miles of tunnels.

"I always say California is the most proven gold formation in the world with the least production. The mines didn't run out of gold, they ran into bad economics," Miller said. "Most people think the gold is gone. It's not gone, people stopped going after it."

California's gold mines started going dormant after World War II when the price of gold was set at \$35 an ounce by the government. After World War II and the Korean War, inflation outstripped the value of gold, Miller said. Because gold doesn't earn any interest, it loses some of its allure as an investment during a period of high inflation and high interest rates.

The current low-inflation economy paired with very low interest rates play into gold's favor. But there are still risks.

"Can a person realistically look at the price of gold today and expect to get that in five to seven years? I don't know. No one knows, and that's the risk of buying gold," Miller said.

In addition, gold mining demands a tremendous amount of capital, Miller said. Although the Sixteen to One mine is technically open and operating, it needs about \$6 million in investment to replace timbers, lay 2,500 feet of rail and sink a new shaft.

"Any of these mines needs a substantial investment. It takes a lot of money for the deadworks, timber, plumbing and electrical," he said. Deadwork is the process of digging out overburden layers to find a deposit of ore or gold.

Banks, financial companies and pension funds historically have not been interested in investing in gold mining, Miller said.

Other investors want core samples and statistics for proven reserves, Miller said. "I'm not going to lie to them. I don't know. What I do know is that we have gold in this mine, and we are working to go after it."