



## Write-downs Fast Becoming the Name of the Game in Goldland

### Description

**Kinross** (TSX:K,NYSE:KGC) has announced that it's walking away from Fruta del Norte, the company's \$1.2 billion project located in Ecuador. The asset's carrying value will be written down by \$720 million after a dis-agreement with the country's government over a proposed 70% windfall tax could not be overcome.

This is just the latest in a series of charges that have occurred, and are expected to continue to occur, in the gold sector. Prior to this, the most recent took place just last week when Australia's biggest miner, **Newcrest**, announced a \$6 billion hit as the lower gold price has reduced the value of the company's reserves.

This issue with writing-down reserve values is expected to touch many in the sector, but particularly those who are using an elevated long-term price to "value" these assets. Of the majors, this list includes **Barrick Gold** (TSX:ABX,NYSE:ABX) and **Goldcorp** (TSX:G,NYSE:GG). Both companies are currently carrying their long-term reserves at \$1,500/oz and \$1,350/oz respectively. With the price of gold currently trading at a spot price of \$1,370/oz, these long-term assumptions appear rather aggressive.

To be clear, the Kinross write-down of Fruta del Norte is not reserve based. They appear to be packing up camp and leaving the asset behind, due to a rift with the government. Perhaps this will turn out to be a bargaining tactic, but, in the grand scheme of things, Kinross taking a stand on this issue could be viewed as a good thing. The industry has gotten into the mess that it's in after years of spare-no-expense growth. To see Kinross making a seemingly math-based, economical decision is a refreshing breath of fresh air.

### Foolish Takeaway

Mining is notoriously cyclical and carries a striking (although more protracted) resemblance to the life-cycle of a binge drinker. After years of over-indulgence, we're currently in the hangover stage of the cycle in the gold mining industry. Kinross's call to walk away from Fruta del Norte however is a sign that the recovery stage is approaching.

While gold miners have been beaten up and appear to be trading at attractive levels, their performance remains heavily influenced by the price of gold. We have created a special **FREE** report that profiles 3 dominant businesses who dictate their own rules. Simply [click here](#) and we'll send you "**3 US Stocks Every Canadian Should Own**" – **FREE!**

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*Fool contributor Iain Butler is short \$32 July 2013 put options on Goldcorp and owns shares of Barrick Gold. The Motley Fool holds no positions in any of the stocks mentioned at this time.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

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2. TSX:K (Kinross Gold Corporation)

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