

WHY GOLD STOCKS SHOULD BE A PART OF YOUR PORTFOLIO

PAUL BURTON,
Senior Equities Analyst,
THOMSON REUTERS GFMS

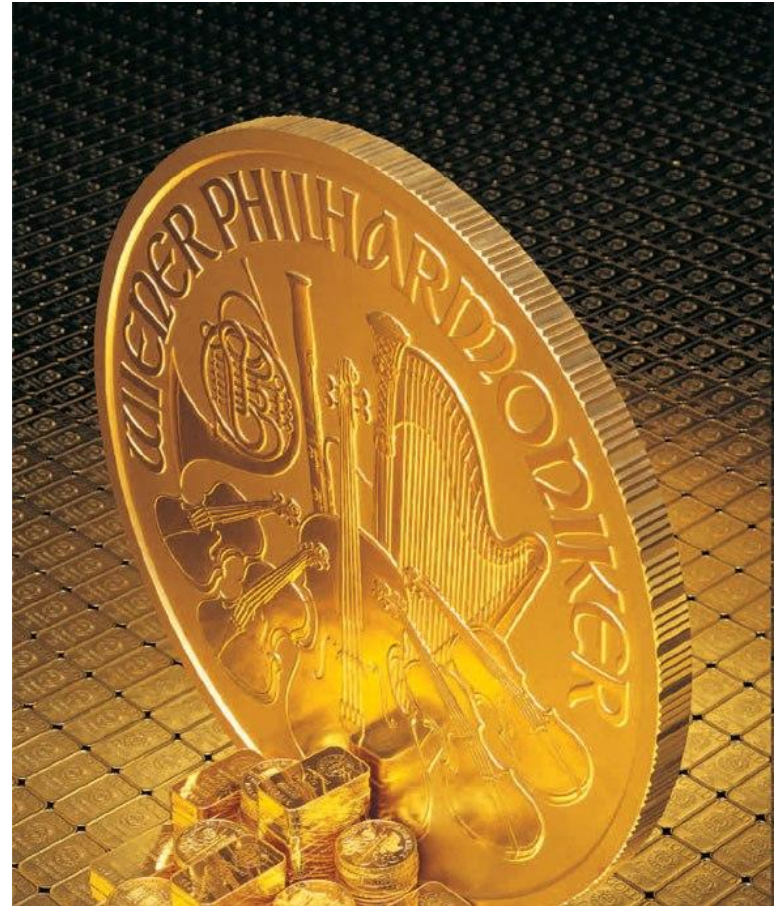
Academy Finance Global Resources Investing Conf
Thursday, June 14, 2012
Zurich

GFMS

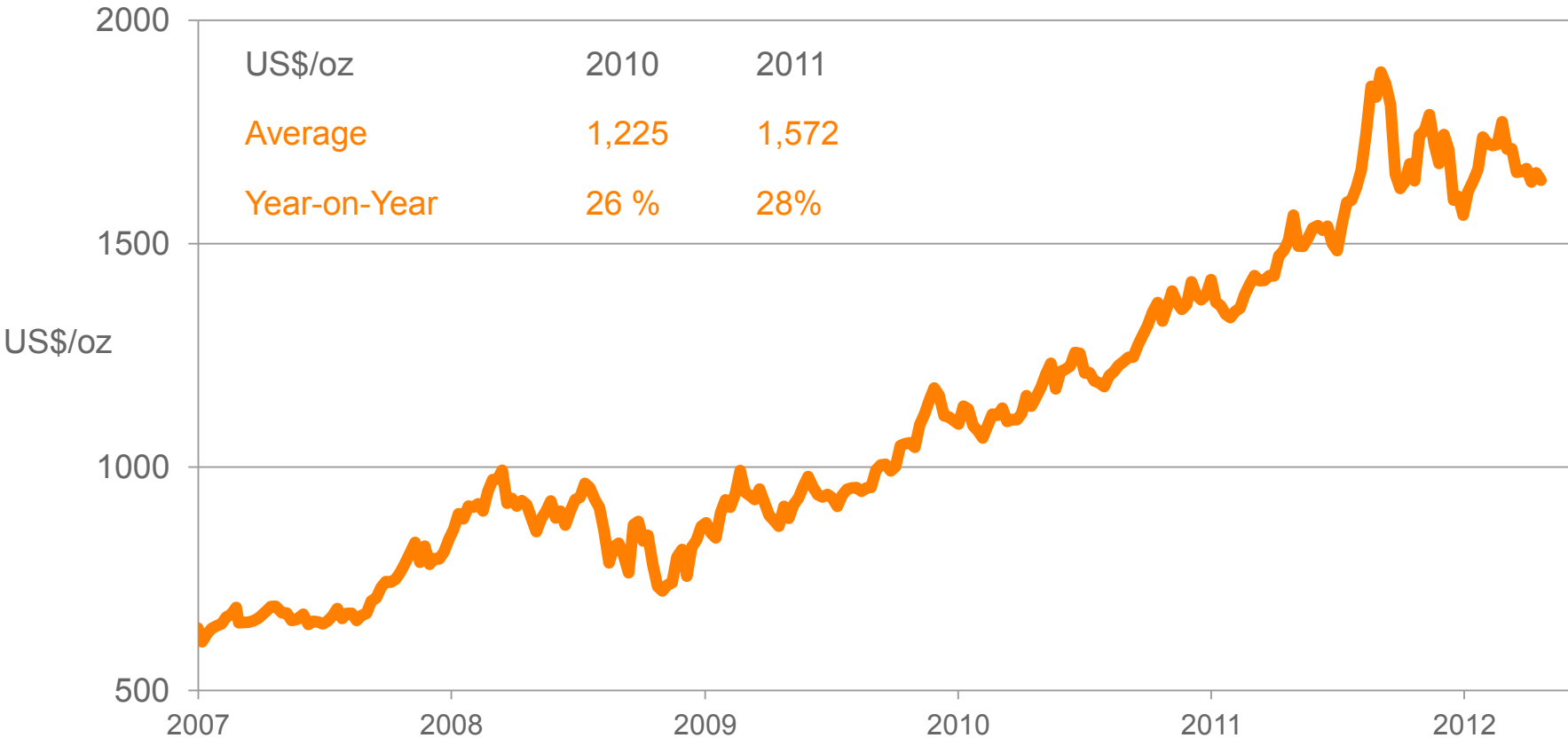


THOMSON REUTERS

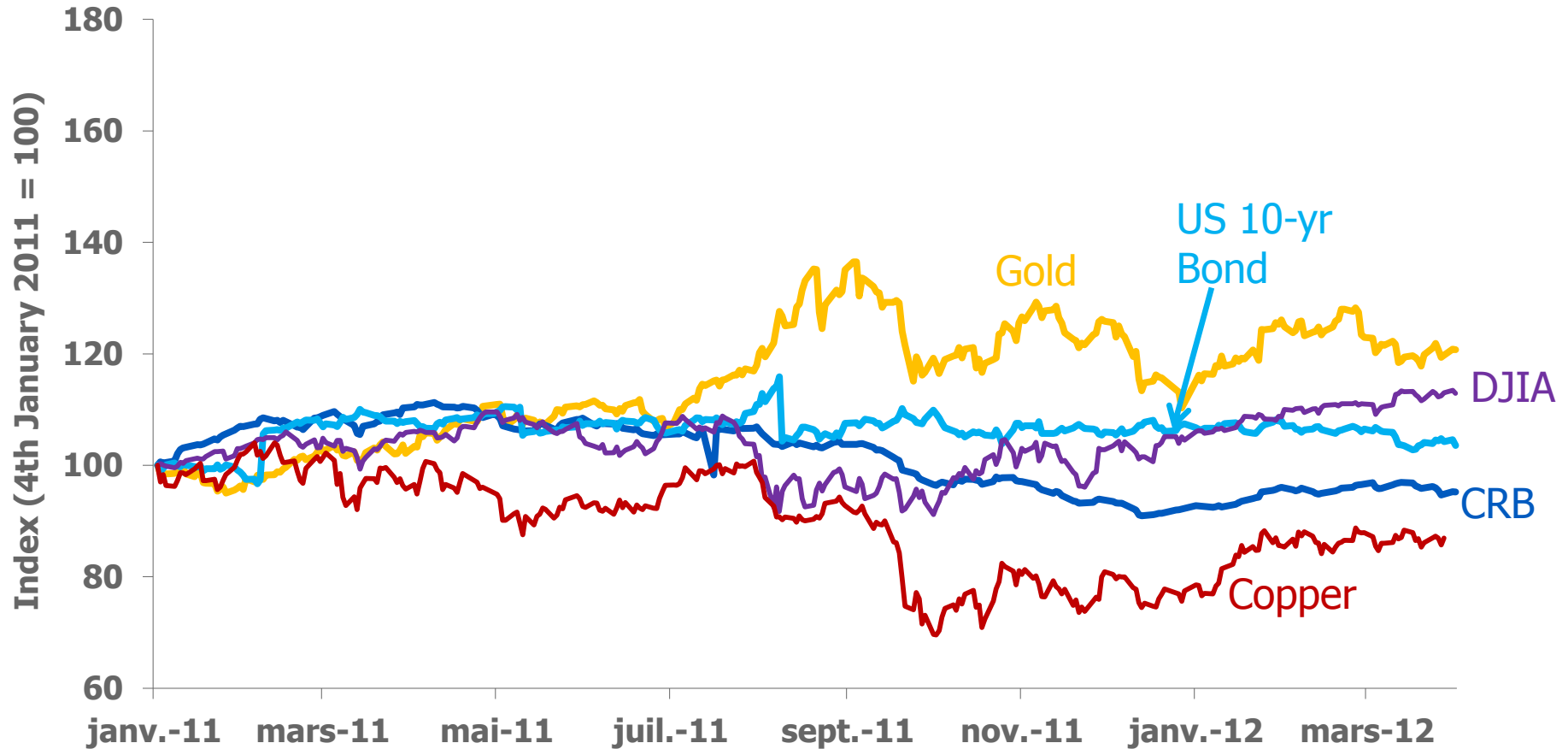
1. CURRENT MARKET CONDITIONS



GOLD PRICE RISE



GOLD AND OTHER ASSETS & METALS INDEXED DAILY SERIES



Source: Thomson Reuters GFMS

SUPPLY HEADLINES

Mine production hit new record in 2011, up 4%, and expected to rise again in 2012.

Scrap down slightly (despite 28% rise in gold price).

Official sector on supply side? No! For the second time since 1988, central banks were net buyers!

Producers hedging again in 2011

Source: Thomson Reuters GFMS

DEMAND HEADLINES

Jewellery has slumped to 63% of 2000 figure and after a partial recovery in 2010, up 16%, 2011 was down slightly.

Official sector has swung to demand side and jumped by 460% in 2011.

Physical bar investment up strongly (36%) but other investment down sharply.

Source: Thomson Reuters GFMS

GOLD FORECAST

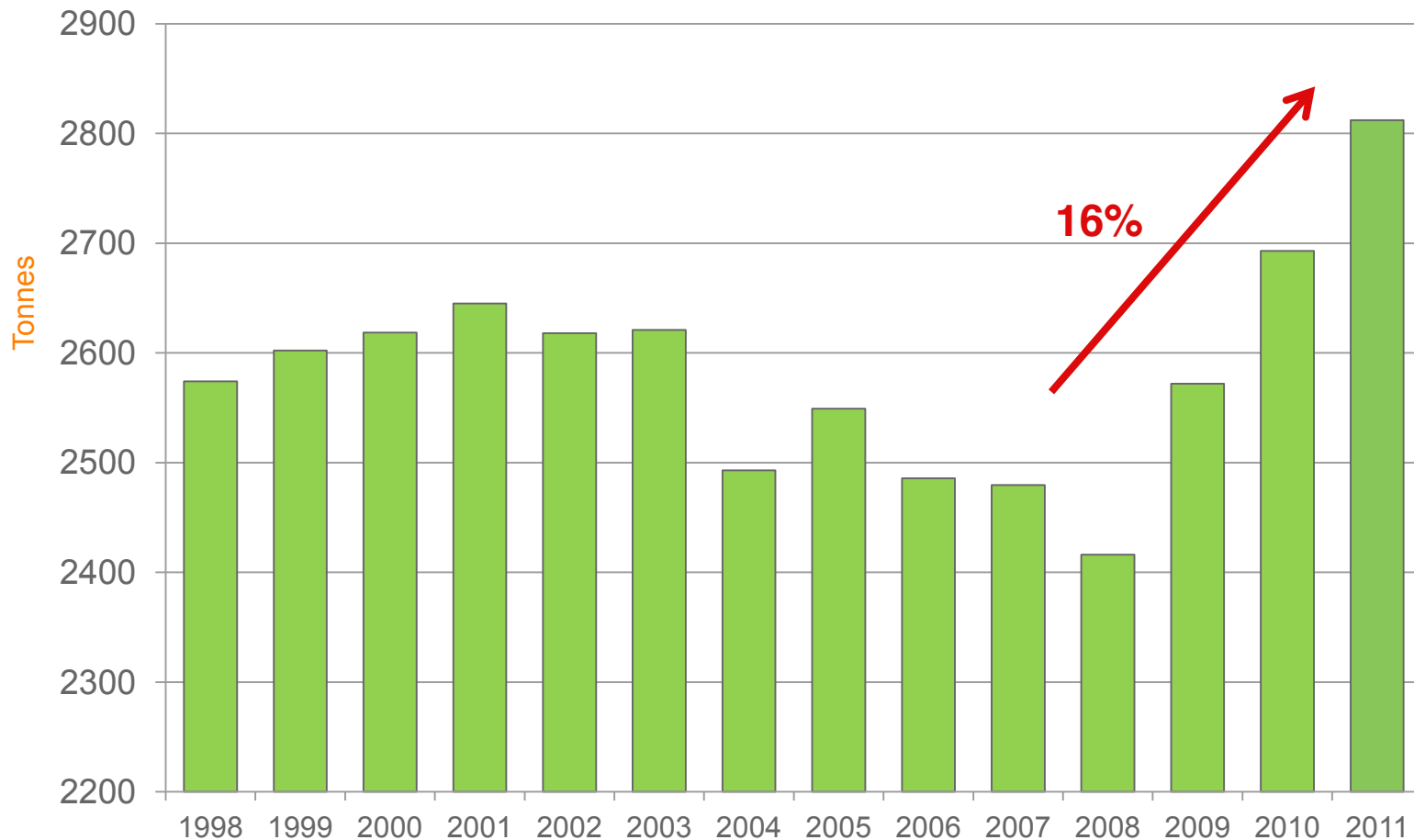
- Early June's rally suggests that gold has regained some safe-haven status after struggling under investor risk-aversion.
- Sideways trading expected over summer but then bullish for Q3 & Q4
- Investment interest expected to return through into 2013 on economic drivers such as negative real interest rates, inflationary pressures, banking and debt crises.
- GFMS expects gold to challenge US\$1,980 in early 2013.

THE STATE OF THE GOLD MINING INDUSTRY

- High gold price
- Gold production up for 3rd year
- Rising production costs
- Record exploration spending
- Huge number of exploration companies active but constraints on raising cash
- Poor market valuations for explorers & producers

If you believe the gold price will continue to be strong....
it's a good time to find undervalued stocks!

MINE PRODUCTION



COSTS – THE REALITY

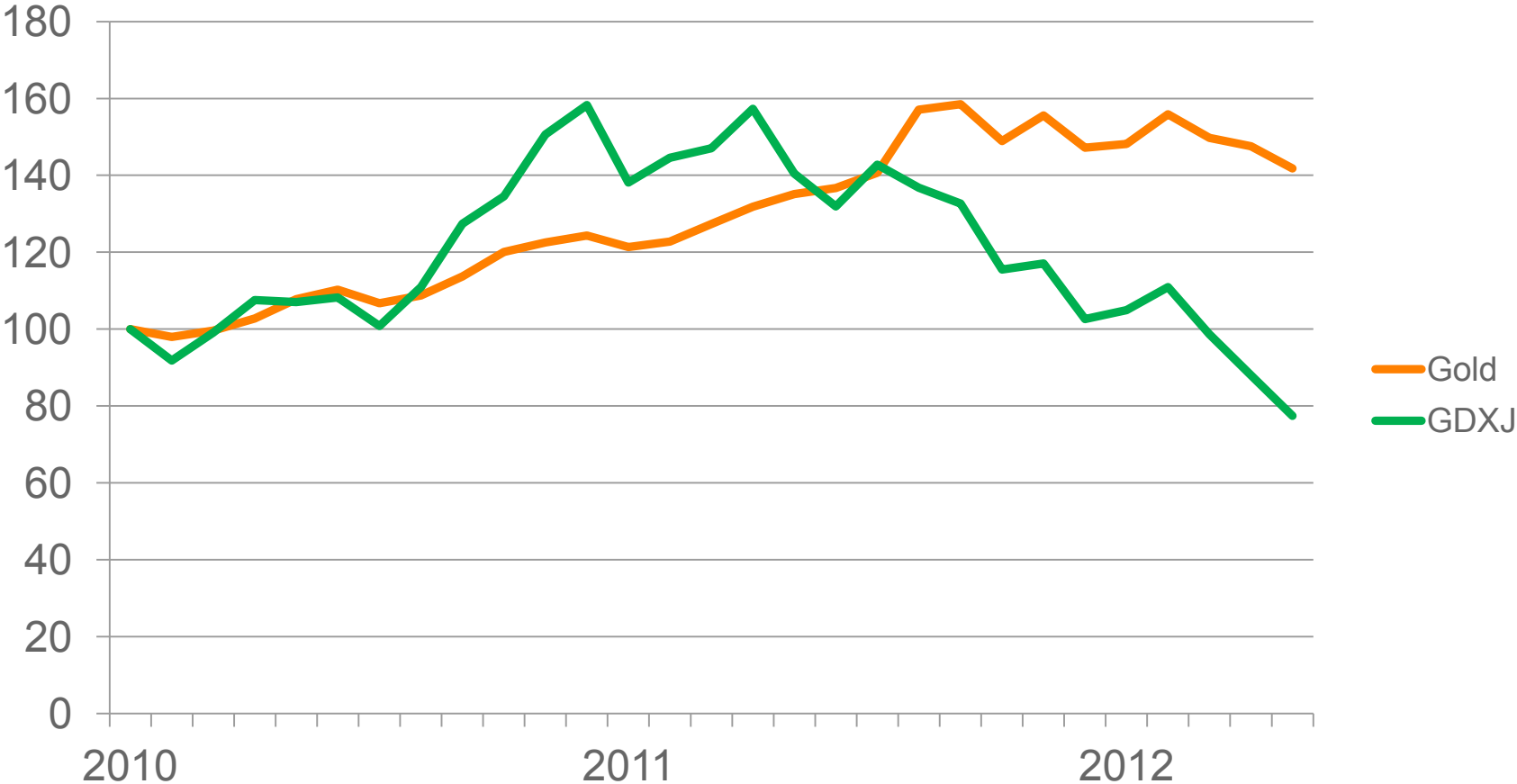
2011 GLOBAL AVERAGE ALL IN COST BREAKDOWN



Source: Thomson Reuters GFMS

	\$/oz Au
Mining	315
Ore Processing	202
General & Administration	94
Mine Site Cash Cost	611
Smelting and Refining	14
By-Product Credits	-28
Royalties	46
Total Cash Cost	643
Depreciation/Amortisation, Inventory Change	166
Total Production Cost	809
Corporate Administration, Interest	50
Extraordinary Costs	63
Sustaining Capital Expenditure	121
All in Cost	1,044

GOLD v JUNIOR MINERS' INDEX



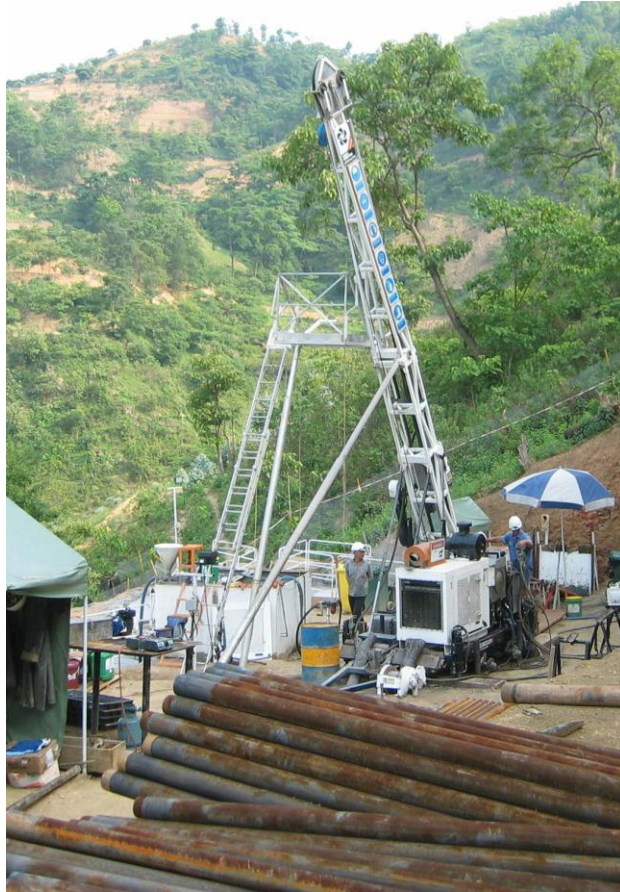
WHY THE DISCREPENCY?

- Physical gold investment demand strong, especially in India and China.
- Speculative money going into silver
- Competition from gold ETFs
- Redemptions for cash
- Uncertainty over gold's bull run
- Cost pressures for producers
- Explorers - Risk appetite diminished

2. CHARACTERISTICS OF GOLD STOCKS



KEY POINTS TO LOOK FOR IN A JUNIOR



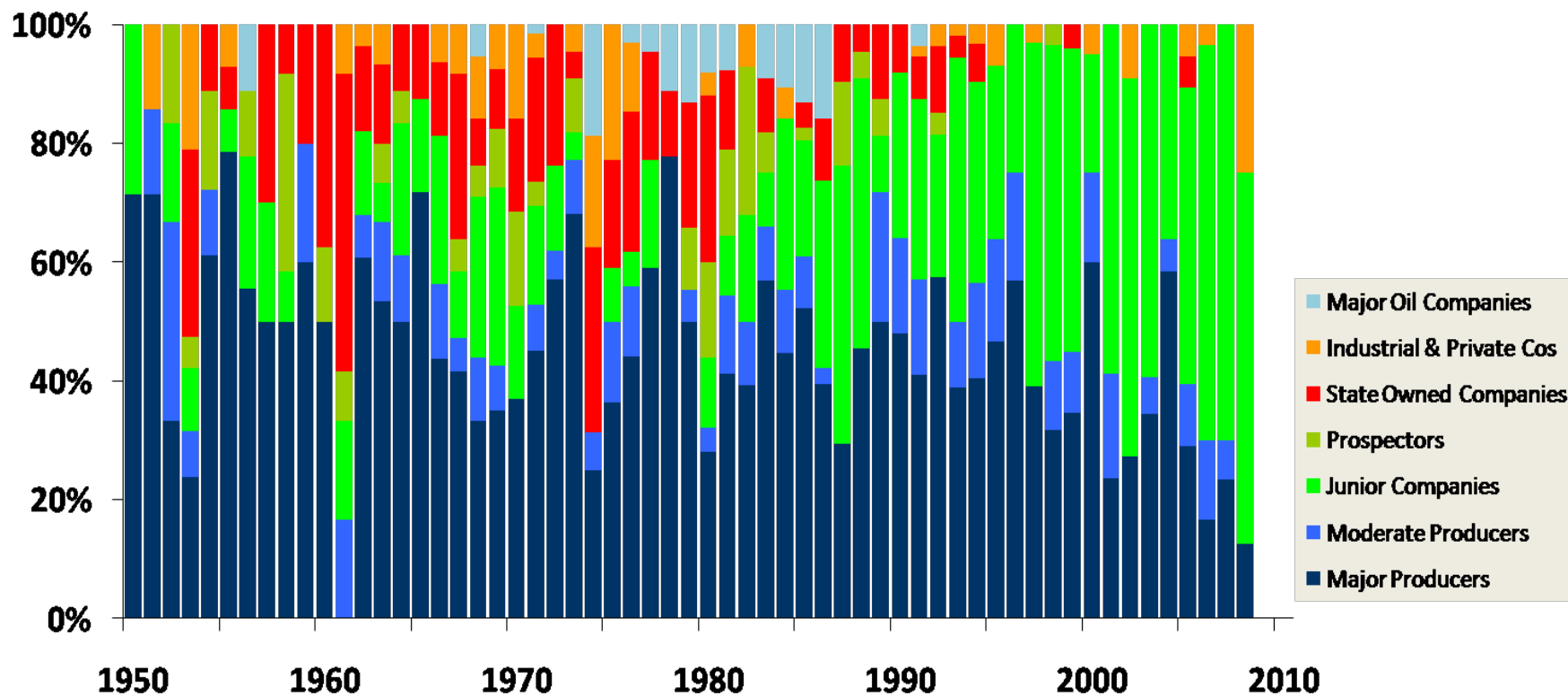
- **MONEY**
- **MANAGEMENT**
- **LOCATION** – Country/region
- **PROJECT**
 - OWNERSHIP
 - TYPE (U/G, O/P)
 - RESOURCES (tonnes, grade)
 - LOCATION (camps, geology)
 - INFRASTRUCTURE
 - PERMITS

JUNIOR EXPLORERS

- The performance of junior explorers is not linked to the short-term gold price.
- In the longer term, however, a strong gold price attracts investors that fund their exploration programmes.

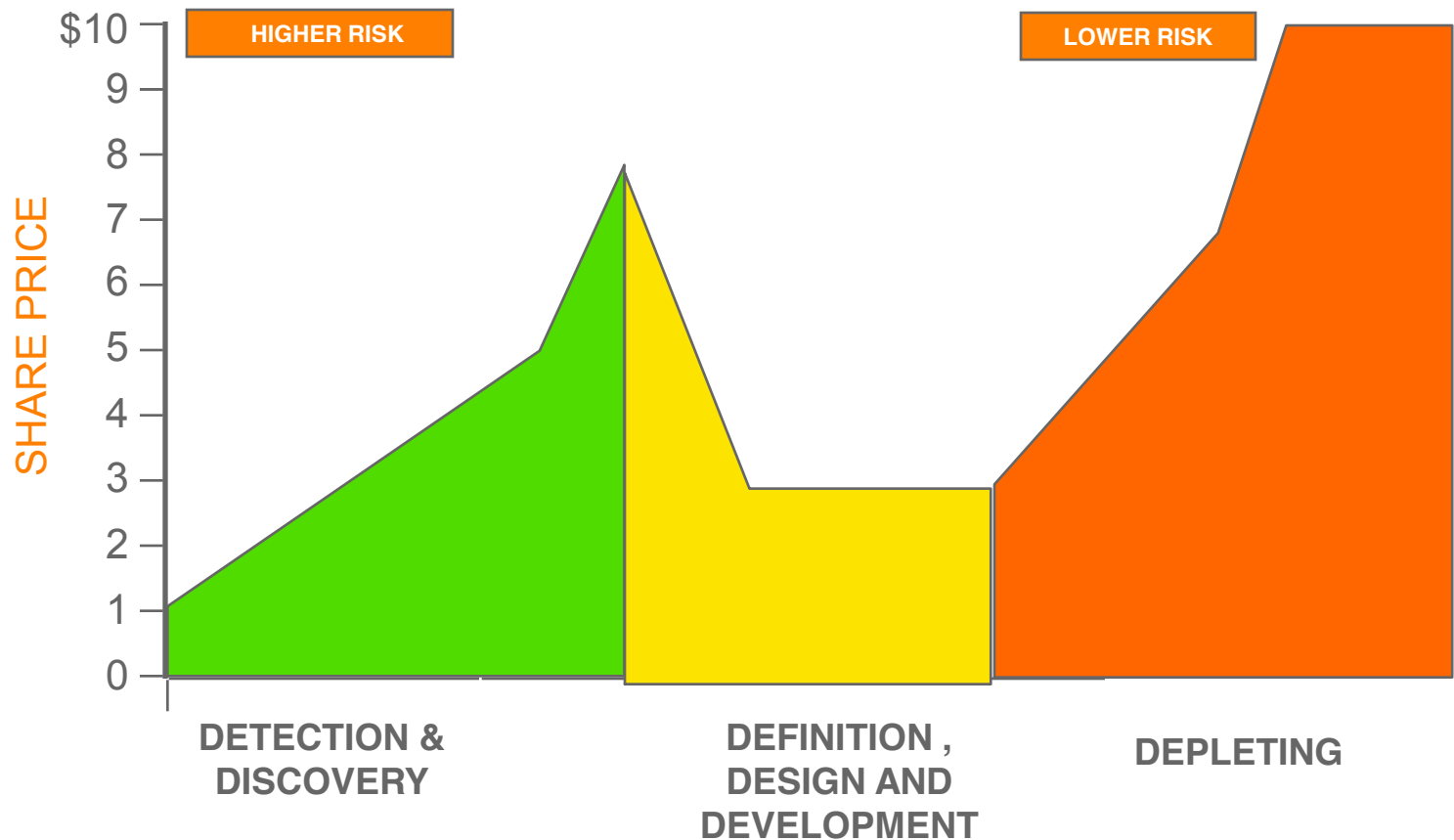


IMPORTANCE OF JUNIORS



Source: MinEx Consulting March 2010

LIFE CYCLE OF A MINING SHARE



6D MODEL OF MINING

High Risk



Lower Risk

DETECTION – traces of gold in soils or geophysical anomalies on maps.

DISCOVERY – drill results with grades & widths. Some idea of potential.

DEFINITION I – Resource, so idea of size. Initial valuations

DEFINITION II - Pre-feas provides forecast costs & revenues to within +/-30%.

DESIGN – definitive feasibility study. High confidence in all technical input figures. Capital committed.

DEVELOPMENT – construction. Capital being spent.

DEPLETING – ultimate proof. Expect some technical teething problems on start up.

ROUGH GUIDE TO GOLD COMPANIES

	DETECTION	DISCOVERY	DEFN I	DEFN II	DESIGN	DEVEL	DEPL
FUNDING	Insiders Friends	Insiders Friends Market	Market	Market	Market Banks	Banks	Banks Cashflow
TECH EXPERTISE	Geology	Geology	Geology	Geology	Engineering	Engineering	Engineering
KEY RESULTS	Targets	Drill results	Resource increases	Resources Reserves Production Costs	Plan Timing Capex Costs	Funding ECPM contracts Permits Progress	Production Cash costs Cashflow Growth
INVESTMENT TACTICS	Invest early Warrants	Trade on drill results	Trade on resources	Buy Hold	Buy Hold	Buy Hold	Buy, Hold Dividends Take profits

3. INVESTING STRATEGIES



INVESTING STRATEGIES – BASIC APPROACH

- Gold price strength to continue:
 - US\$ weakness - jobs data
 - Geopolitical situation
 - Inflation fears
 - China demand
 - Central bank buying
- Gold and gold stocks are out of sync.
- Gold companies will realign with the price.



INVESTING STRATEGIES

DEPLETING - Producers will benefit first on a price rise on increased profitability. Majors offer lowest risk and value.

DEVELOPMENT - Then interest will flow down through the 6D model. Quality projects will be most sought after.

DESIGN & DEFINITION - In terms of many criteria gold stocks are relatively cheap and the next few months represent a great buying opportunity.

DISCOVERY & DETECTION – Exploration companies will continue to be driven by results but a sustained gold price rally will bring investors back to this highly risky sector and give opportunities for refinancing.

4. COMPANIES TO WATCH



GENERAL PRINCIPLES FOR INVESTING TODAY

- Quality projects
- Well-financed companies
- For producers, those that:
 - Hold precious shares
 - Concentrate on ROE, eps, cfps
 - Do not undertake M&A for the sake of getting bigger
 - Margins are high so return capital to shareholders - dividends



SUMMARY



- Bullish on gold price. Q3/Q4 rise expected and test US\$2,000/oz in 2013
- Gold stocks undervalued and a sharp price rise expected to realign gold and stocks.
- Majors will move first but longer term developers and explorers may benefit most.
- Look for cashed up, quality companies.
- Use P/NAV, EV/oz etc to screen and discover absolute and relative value.