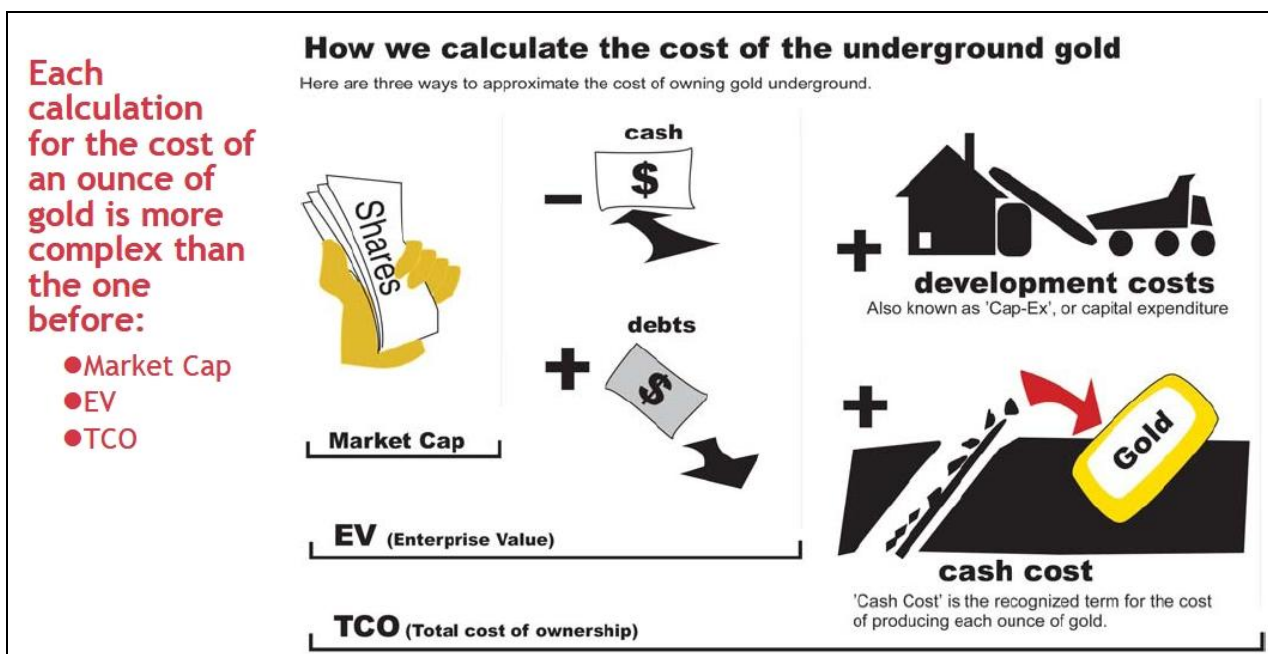


GOLD STOCK SUMMARY – USERS GUIDE

The following is an overview of how to use and interpret the new Gold Stock Summary report. As in the past, it is built around the GoldNerds **Total Cost per oz (TCO)** concept. Companies eligible for inclusion must have a project with at least a scoping or preliminary assessment study. Categorization is by the development stage of key projects. Producers are further sub-categorized by market capitalization. Major gold mining companies (Market Cap larger than \$3 billion) have been excluded due to the small sample size (3 companies). A new financial strength indicator called **Net Financial Assets (NFA)** has been included to complement and reinforce the findings derived from our TCO analysis. We finish off with a look at share price performance data.

TOTAL COST PER OZ (TCO)

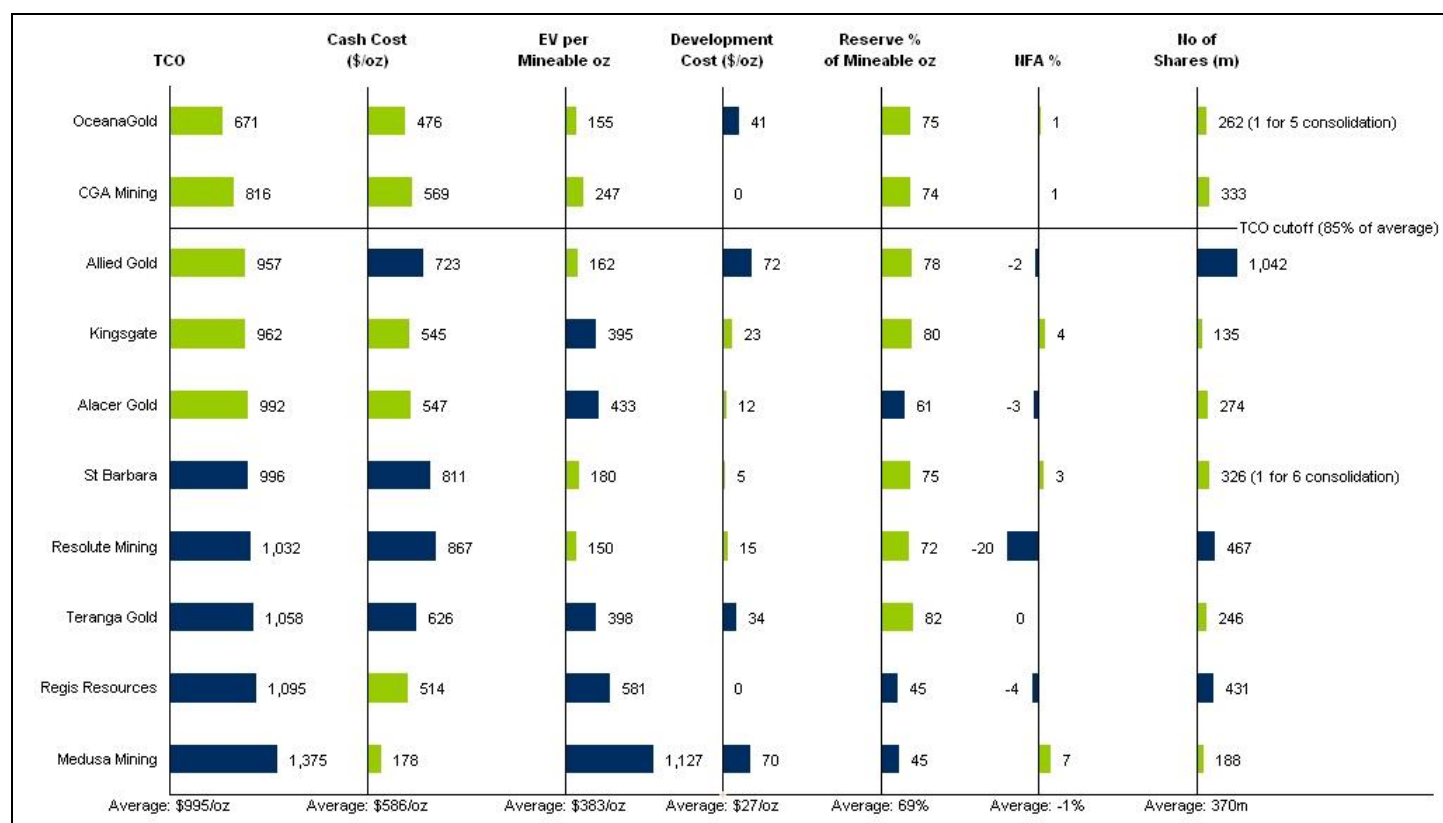
I am sure many of you have read or seen gold mining company presentations which include charts comparing the Enterprise Value (EV) per resource oz and or reserve oz for a number of different companies. The company doing the presenting will usually boast a low EV per oz and use this chart to demonstrate how undervalued their company is. If the chart is half reasonable, it will compare companies at similar development stages (apples with apples). I have seen a number of exploration stage companies, however, compare their EV per resource oz with producers! This, as most astute investors are aware, is deeply flawed based on the premise that all gold oz are not created equally. GoldNerds developed the Total Cost per Oz indicator for this reason. It is designed to take these simplistic charts you see in company presentations and add some important components. The result is a much more accurate and complete picture.



We incorporate cash costs and any associated development costs into the above equation. The result is a more indicative number, you the investor are paying, for the estimated **mineable ounces** of gold within a company's portfolio of projects. Combine TCO with some other useful indicators and you can build an

accurate picture of the Australian gold sector and its various participants. Going to the trouble of building this picture makes it much easier to discover undervalued opportunities.

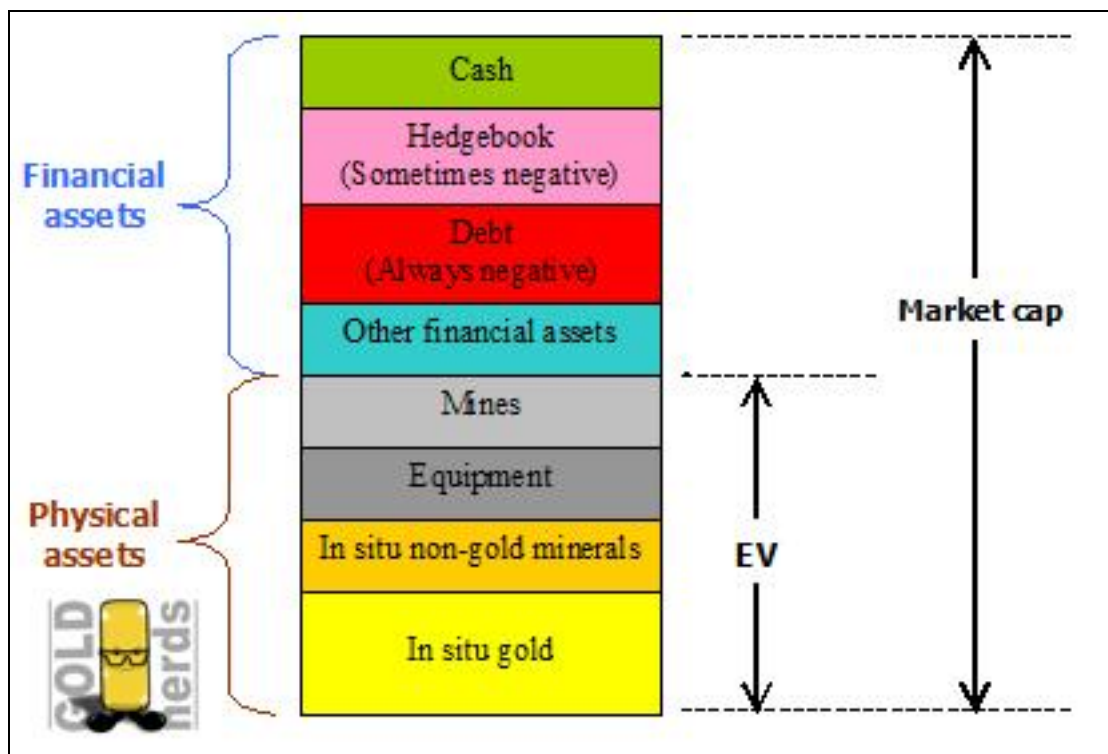
PRIMARY TCO GRAPH (EXAMPLE: INTERMEDIATE PRODUCERS)



Each category of companies has the above chart along with a share price performance chart, which we will touch on later. We will now step you through each of the indicators from left to right.

- Total Cost per oz (TCO):** $\text{Cash Cost} + \text{EV per mineable oz} + \text{Development Costs per mineable oz}$. Companies are sorted from the lowest to highest TCOs. Note the green bars signal better than average and the blue bars below average. For the producer categories, the focus stocks we provide commentary on (in the body of the report) have TCOs no more than 85% of the average (note the horizontal line). For the Development stage categories (no producing assets), we focus on the companies which have a better than average TCO (no discount is applied to the average).
- Cash Costs:** All our focus companies must have a cash cost better than the category average (in the above example: A\$586/oz). Unless otherwise stated in the commentary, the cash costs reflect a rolling 4 quarter average for producing projects and or an estimate based on project mining studies for development stage companies.
- EV per Mineable oz:** This is the Enterprise Value of the company divided by an estimate of how much gold the company can realistically mine from its projects (Mineable oz). The **Enterprise Value**

is an approximation of what value the market is presently placing on the company's non-financial assets and can best be explained diagrammatically below:



In calculating **Mineable oz**, we count 100% of any reserves (for producing and feasibility study stage projects) and 20% of the resource over and above the reserve in recognition of the capacity for reserve conversion. We also include 10% of any non-JORC compliant potential. For the Scoping Study category, we treat the mine plan oz (as indicated by the company) as a surrogate reserve and include 100%. We then add 20% of the resource and 10% of any potential as previously explained.

Typically the companies with the lowest EV per mineable oz also have the highest cash costs and or development costs. In other words, the market is discounting the value of these ounces due to their marginal nature or development risk. In recognizing this, you start to gain an appreciation of the incomplete nature of what many mining companies provide in their EV per Resource/Reserve oz charts.

- **Development Costs per Mineable oz:** This simply represents any outstanding development costs on new projects or expansion plans on existing production projects divided by the **Mineable oz** for the company. Note for the established producer categories, only a handful of companies have any development activity. Producing companies, which have development projects, often tend to trade at a discounted TCO. This reflects the risks associated with bringing a new project into production. OceanaGold makes for a good example in the Intermediate Producers category (commentary in the report will elaborate on this).

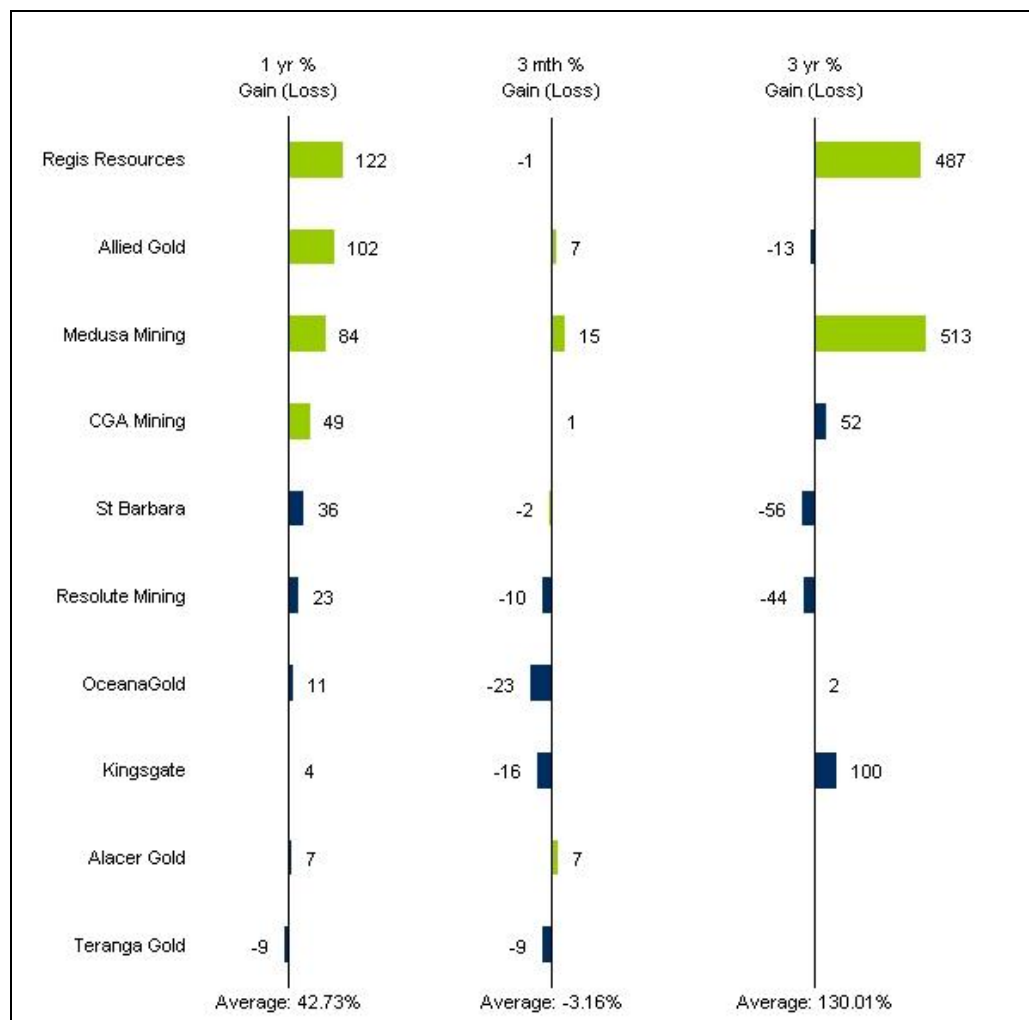
- **Reserve (%) of Mineable oz:** This indicator is included to give you a feel for the makeup of the Mineable oz number. Companies with a resource base significantly larger than their reserves have a lower % of reserves comprising their mineable ounces. This adds an element of risk. Alternatively, the higher this % is, the higher the proportion of mineable ounces represented by reserves. This adds more conservatism to the analysis (a safety factor if you like). For the Scoping Study category we replace Reserves with the company's Mine Plan. This adds a slightly different dynamic. If the mine plan for example represents 100% of the Mineable ounces this means the company has used their entire resource base as part of the study. If alternatively the mine plan represents just 50%, this means the company has used a segment of their resource base in their plan leaving room for exploration upside.
- **Net Financial Asset Position (NFA):** This takes the Market Capitalization, subtracts the Enterprise Value and then divides the result by the Market Capitalization. The resulting figure gives you a % of the Market Capitalization made up of net financial assets (or net financial liabilities if you get a negative percentage). We hope to add this indicator to the GoldNerds product within the next month.

In most cases, if a company is generating surplus cash flow from its operations, this number will be better than average. If this isn't the case, it ought to prompt some questioning. Is the company investing the bulk of its surplus cash flow into value adding exploration and development projects? Has the company recently brought a new project into production or acquired an existing project? It is not uncommon for a balance sheet to be burdened with debt associated with construction costs or the purchase price of a new asset. This needn't be a problem provided the project is performing at a satisfactory level (a better than average cash cost). **Investors need to be mindful of the risks associated with companies with significantly below average NFAs. This NFA % gives you an indicator with which to follow the company's progress. We have found anything generally worse than negative 25% to be a significant risk factor. Especially if the cash costs of the operation continually underperform.**

- **Shares Outstanding:** The last indicator we include allows us to see how many shares it has taken each respective company to achieve its present level of development (relative to its peers). As a rule, the number of shares outstanding for a company needn't matter if the proceeds from capital raised generate company value. Generally, we have found this to be the exception rather than the rule. In reality, much of the valuable investment dollars contributed by shareholders **merely sustain unviable operations and fund the salary, wages and retirements of the company's workforce.** We hence find this statistic very valuable in our analysis. Generally speaking, as investors, we prefer this number to be as low as possible, provided the company has the working capital required to sustain and grow its operations. Any value the company subsequently creates therefore gets spread over fewer shares, meaning greater share price appreciation for you.

Many companies undertake share capital consolidations which can muddy the waters. Share consolidations are akin to re-setting the odometer of a car to 0. The car is no closer to being new again than many (not all) of these companies are to being more disciplined with their share capital. We have added a small note next to the companies in question.

SHARE PRICE PERFORMANCE CHART



Finally, we take a look at the share price performance of the companies. One needs to be careful when looking at this information in isolation. It is easy to fall into the trap of focusing your attention on the best and worst performing companies over the shorter term (3-12 months). It is then easy to make the assumption that these companies must be “good” or “bad” based on price action alone. There are two mistakes being made here.

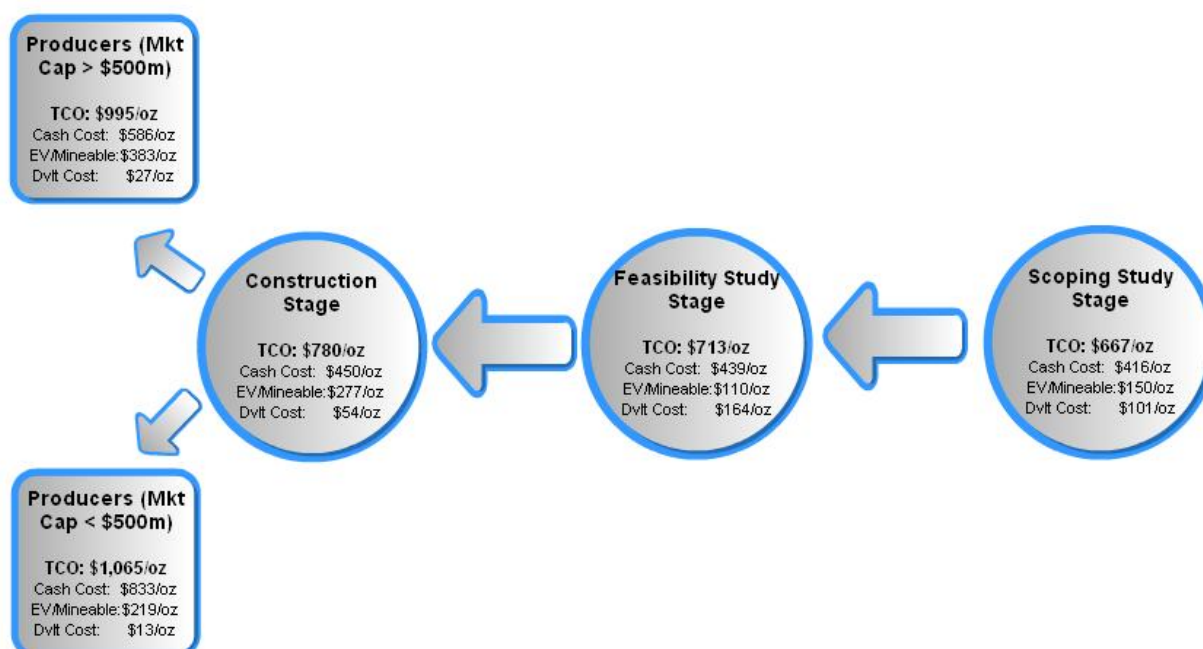
The first is called emotional reasoning and is one of the primary factors of why an overwhelming number of participants in this sector lose money. A company’s share price, over the short term, can fluctuate for any number of reasons. These price movements, more often than not, serve as a distraction. Secondly, there is no such thing as a “good” or “bad” mining company. Labeling companies as good or bad is far too simplistic. A mining company is forever evolving with many moving parts. The circumstances and conditions under which they operate also constantly change. It is easy to fall into the trap of dismissing poorly performing companies only to see them implement changes which turn their fortunes around. On the flipside, it is equally as easy to become complacent when a company has been operating strongly over a long period of time. A few poor decisions or an event outside of the company’s control (the GFC or a weather event) can change everything!

The other important thing to note is all projects have a finite life and will need to be replaced at some point. This creates a serious challenge for mining executives.

Share price performance data becomes useful when combined with the indicators we have discussed above. We typically like to focus on companies with a below average share price performance over the shorter term (3-12 months) coupled with above average indicator readings. This strategy has served us well over time. Note many of the worst performing companies (share price wise) also have the worst indicator readings. This is no coincidence and makes our process of elimination that much easier.

IN SUMMARY

Our indicators are designed to help investors gain an understanding of the interrelationship of different factors which give a gold mining company value. It is a useful exercise to look at the different development stages and see the value added as a project moves through each stage. Note how the average TCO gradually builds under each progressive category.



Source: December Quarter 2010 Gold Stock Summary Report

As an investor, your goal is to ultimately see a better than average portion of the TCO made up by the EV per mineable oz. This component of the TCO is primarily linked to share price activity. **Theoretically, the smaller the costs of getting the gold out of the ground (cash costs and development costs) relative to the gold price, the more value the market will attribute to the mineable ounces.** For example, in the above summary, notice how the average development and cash costs per oz under the Scoping Study category are

less than those under the Feasibility Study stage (\$416 + \$101 versus \$439 + \$164). This provides a simple explanation as to why, despite the Feasibility Study stage companies being further advanced, the EV per mineable oz is larger under the Scoping study category (\$150/oz versus \$101/oz).

As we enter the construction stage, we start to see more value being attributed to the mineable oz (\$277/oz). Some of this represents a simple transfer from the Development Cost section (which declines as the mine gets built). The rest is attributable to the market starting to value these ounces more as the project advances towards the all important production stage.

In this last stage, a company becomes either a mid tier producer (> than \$500m) or a junior producer (< than \$500m). Notice how the better economies of scale for the mid tiers is largely reflected by a lower average cash cost of \$586/oz versus \$833/oz. This, in turn, is again largely reflected in the EV per mineable oz figure (\$383/oz versus \$219/oz). Also notice how the average cash costs for the production categories are significantly higher than those under the development stages. **Mining studies nearly always present a project under the best case scenario (it helps with the financing stage).** The reality will usually be somewhat different, with cash costs being anywhere from 50-100% higher than the underlying studies (based on the statistics above). This largely explains the discount we often see in a TCO for companies with significant development stage projects.

The companies which experience development success in terms of emulating their mining studies, will see a larger proportion of their TCO reflected in EV per Mineable oz (not the cash cost). In addition, having less shares outstanding, means this success will translate into much stronger share price appreciation. Medusa Mining makes for a wonderful recent example of this.

As an investor looking for prospective stocks, you typically want to look for companies with a better than average cash cost and TCO, not to mention a sound share structure (at least below average). It then becomes a simple game of patience. You wait for the market to bid the EV per mineable oz and the TCO up to a level reflecting the operational performance. If in the mean time the company can build reserves as well as improve the operational performance, this will only serve to further your cause.

We trust you will find this new format of the report a vast improvement. Whilst most of the foundation concepts are in place, it is important to note that this remains a work in progress. We have immediate plans to further strengthen the GoldNerds TCO concept and look forward to sharing the results with you.

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