

Gold Sector Overview

Equities set to rise

September 2011

- Stocks to re-rate higher following significant gold price increase
- Strong cashflow and pricing differentials to promote mergers / acquisitions
- Preferred producers – Alacer Gold, Regis Resources and Integra Mining
- Preferred emerging producers – Red 5 and Crusader Resources



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Gold Sector Overview

Equities set to rise

Gold continues to be a standout commodity driven by strong investment demand, central bank buying and stagnant global production. Gold price has decoupled from the US\$ and is rallying in all currencies which is bullish for gold companies. A\$ gold prices have risen A\$335/oz (+24%) over the past 2 months to A\$1,705/oz. Equities have not kept pace and have fallen 6% over the same period. We believe the scene is set for stocks to outperform as cashflow generation rises and merger & acquisition activity increases. Our preferred producers are Alacer Gold (AQQ), Regis Resources (RRL) and Integra (IGR). Our preferred emerging producers are RED 5 (RED) and Crusader Resources (CAS).

Gold sector highlights

- US\$ gold price has decoupled from A\$US\$ (Figure 1).
- A\$ Gold price is very strong at A\$1,705/oz (Figure 1).
- Equities have underperformed gold price (Figure 2).
- Consensus forecast prices are conservative (Figure 3).
- Significant upside exists at spot prices (Figure 4).
- Company balance sheets are strong (Figure 5).
- Pricing differentials provide consolidation prospects.
- M & A activity appears to be increasing.

Figure 1: Gold prices vs. A\$US\$ Exchange rate (2 yrs)

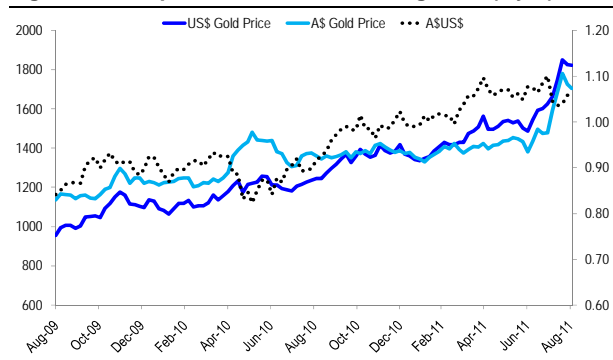


Figure 2: Gold Price vs. ASX Gold Index (2 yrs)

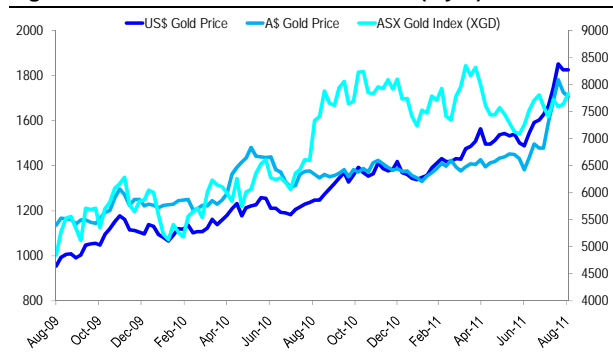


Figure 3: Consensus Forecast Price Assumptions

Calendar Year	2011	2012	2013	2014	LT
Gold (US\$/oz)	1457	1438	1358	1290	1005
A\$US\$	1.03	1.01	0.93	0.88	0.82
Gold (A\$/oz)	1415	1424	1460	1465	1225

Figure 4: Spot Price vs. Consensus

Calendar Year	2011	2012	2013	2014	LT
Spot Gold (US\$/oz)	1825				
Spot A\$US\$	1.07				
Spot Gold (A\$/oz)	1705	1705	1705	1705	1705
Spot vs. Consensus	+20%	+20%	+17%	+16%	+39%

Figure 5: Gold Stocks (in order of Mkt Cap)

	Price A\$ps	MktCp A\$M	Cash A\$M	Debt A\$M	EV/Resource
Newcrest Mining	40.25	30771	185	800	213
Alacer Gold	10.36	2870	134	199	239
Perseus	3.60	1534	100	85	192
Medusa Mining	8.05	1513	101	0	657
Regis Resources	2.93	1266	34	30	218
Kingsgate	9.12	1233	36	108	208
Catalpa / Conquest	1.55	911	73	61	127
CGA Mining	2.61	864	124	44	102
Resolute Gold	1.63	760	11	102	84
St Barbara	2.07	674	80	12	80
Oceana Gold	2.29	601	193	217	72
Beadell Resources	0.86	562	49	0	111
Gryphon Minerals	1.73	518	50	0	234
Integra Mining	0.56	470	38	26	183
Silver Lake	2.60	465	23	0	134
Ramelius	1.53	444	100	0	99
Ampella Mining	1.99	407	35	0	169
Troy Resources	4.47	393	28	29	493
Saracen Mineral	0.73	357	19	0	103
Focus / Crescent	0.07	312	38	0	63
Adamus Resources	0.65	291	21	60	174
Red 5	0.20	257	20	0	212
Gold Road	0.60	190	9	0	170
Azumah Resources	0.51	139	32	0	89
Crusader Resources	1.26	139	20	0	64
Papillon Resources	0.49	101	15	0	131
Indochine	0.17	83	20	0	33
Unity Mining	0.16	82	42	0	195
Castle Minerals	0.35	40	5	0	219
Weighted Average					214

Equities have underperformed – time to play catch-up

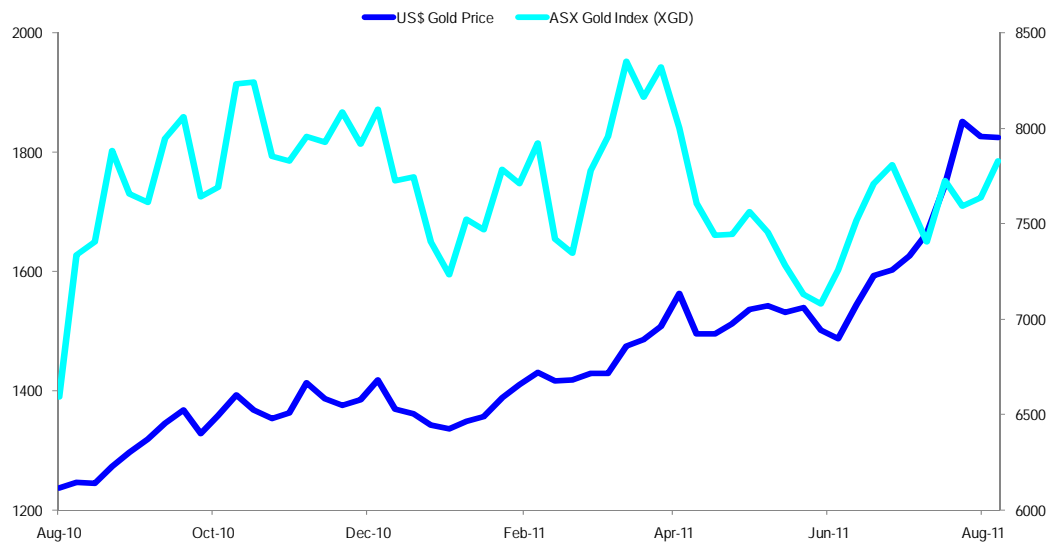
US\$ gold prices are currently at impressive levels of US\$1,825/oz (Figure 6). Gold is benefiting from (i) strong investment demand reflecting a flight to hard assets in the current global economic turmoil, (ii) negative real interest rates in the US and Europe, (iii) ongoing weakness in the US\$, (iv) central bank buying from China, Mexico, Thailand, Korea and other emerging markets, and (v) flat/declining global gold production. We believe these factors will continue to support gold over the medium term.

Equities have not kept pace with gold price and have underperformed significantly since April (Figure 6 & Figure 7). Over the last 5 months, gold price has risen 24% in US\$ and A\$ terms, whilst equities have fallen 6%. We believe equities will close this gap in the coming months as cashflow generation increases and merger & acquisition activity continues.

Figure 6: Gold Price (US\$/oz) vs. Gold Equities (XGD) – 1 Year

Equities have underperformed gold price by ~30% since April this year.

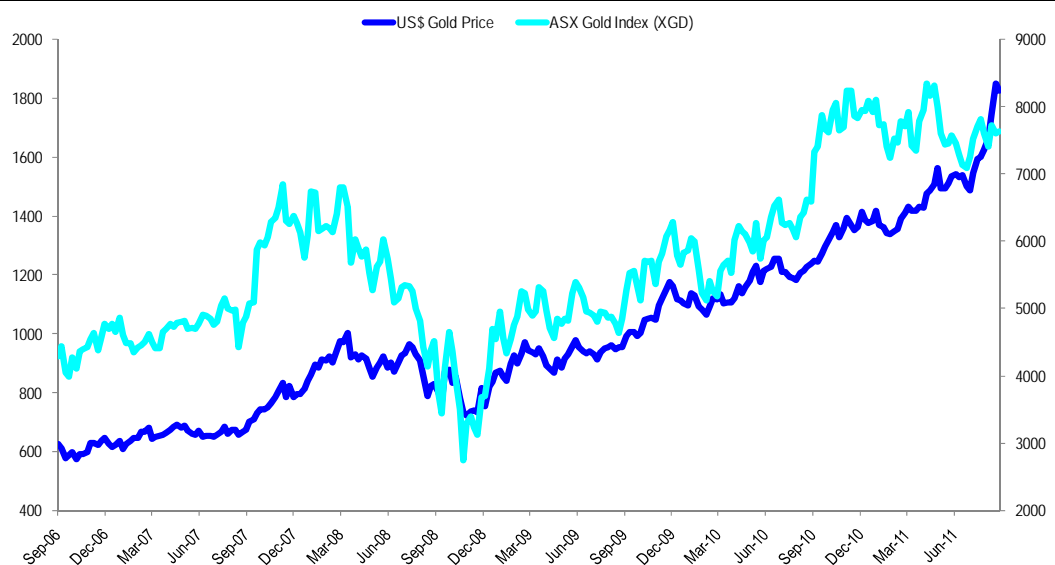
Equities appear cheap versus gold price.



Source: IRESS, Petra Capital

Figure 7: Gold Price (US\$/oz) vs. Gold Equities (XGD) – 5 Years

We expect equities to rebound in the short term following the recent strong gold price rise.



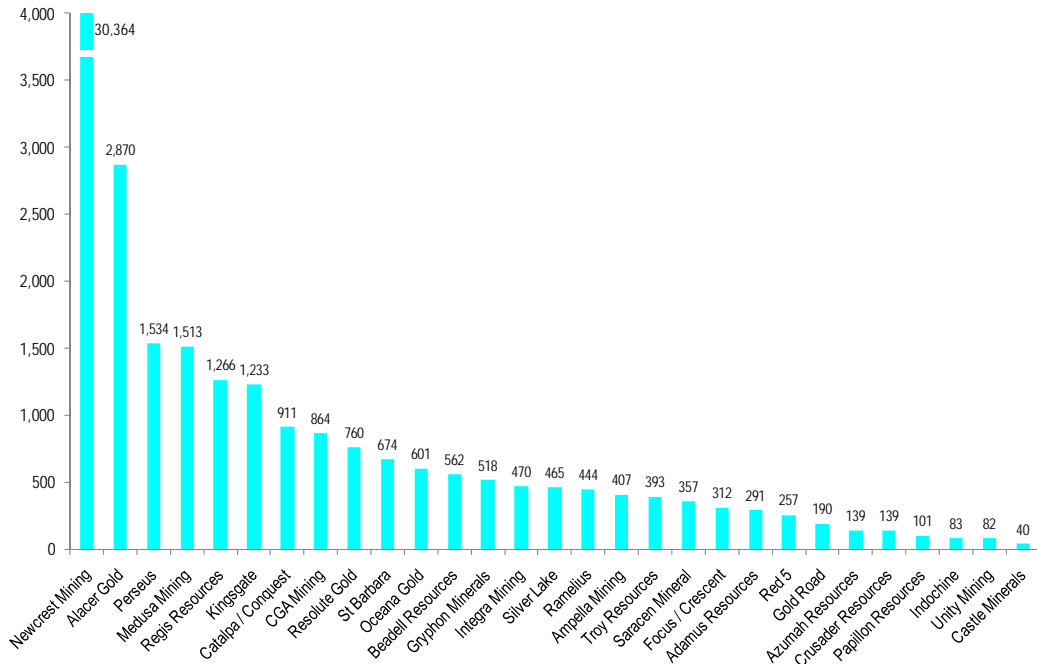
Source: IRESS, Petra Capital

Peer Group Comparisons

Newcrest is the market leader on the ASX and attracts a premium to peers due to its sheer size. The spread of companies within the gold sector below provides opportunity for merger and acquisitions (Figure 8 & Figure 9).

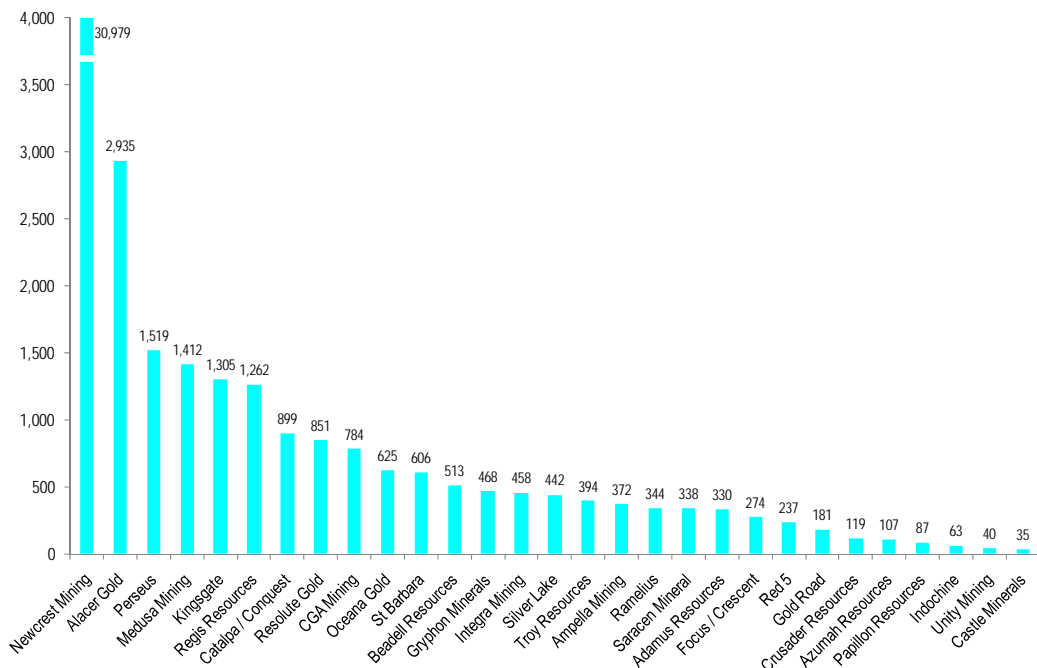
Figure 8: Market Capitalisation

The report covers 29 gold stocks listed on the ASX.



Source: Petra Capital

Figure 9: Enterprise Value



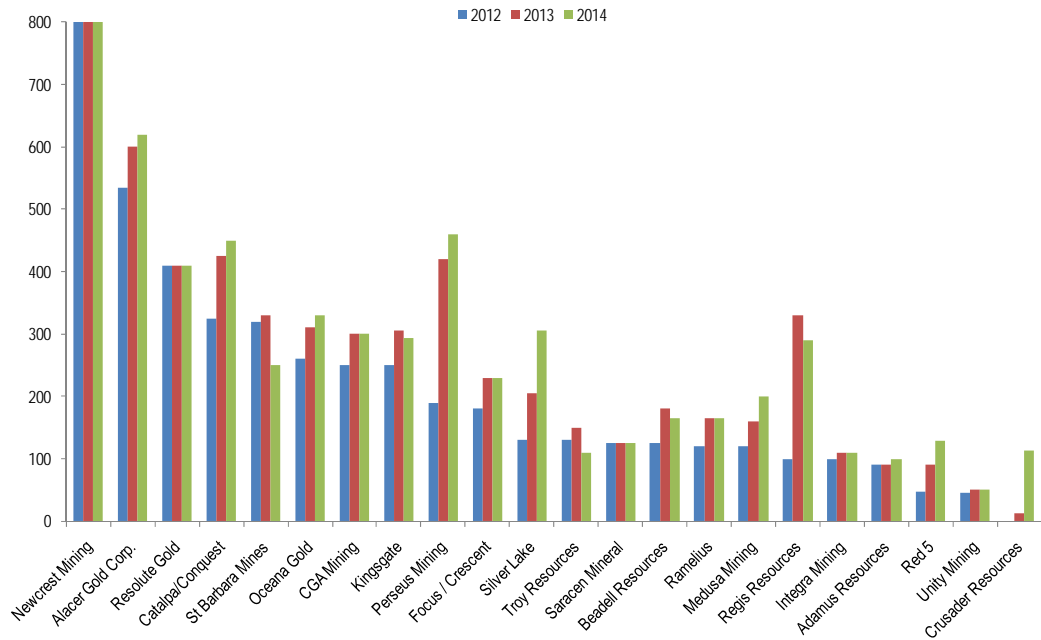
Source: Petra Capital

Production and Cash Costs

Companies with the most attractive production growth profiles (Figure 10) are Alacer, Catalpa/Conquest, Perseus, Silver Lake, Medusa, Regis, Red 5 and Crusader Resources.

Figure 10: Production (koz) 2012-2014

Companies with attractive growth profiles generally attract premiums in the market.

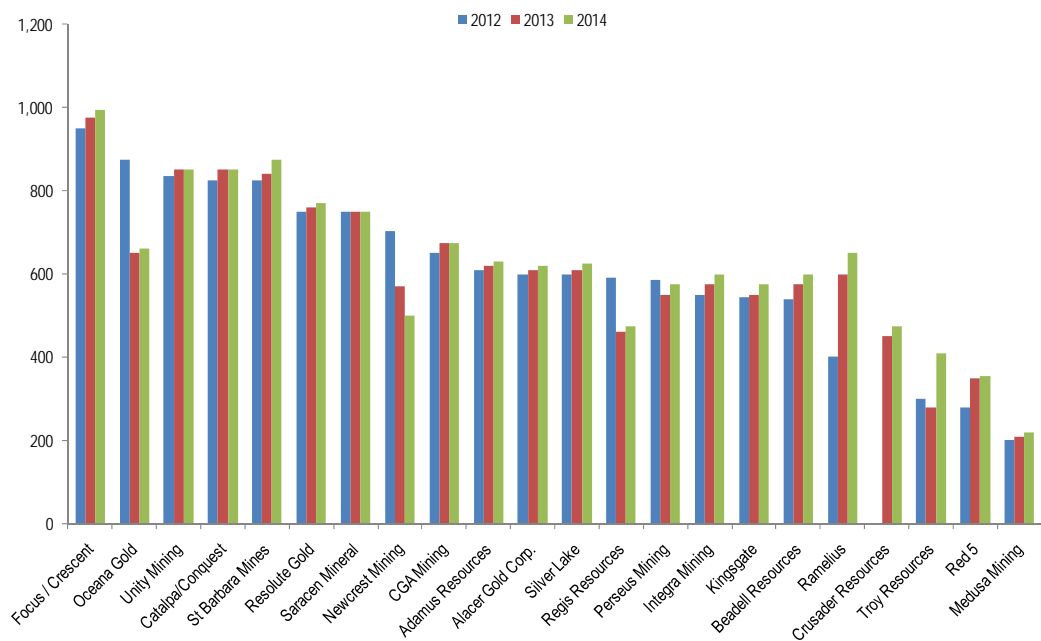


Source: Petra Capital

Medusa, RED 5, Troy Resources and Crusader Resources have the lowest cash cost profiles (Figure 11), Focus Minerals appears to be highest cost.

Figure 11: Cash Costs (US\$/oz) 2012-2014

Low cash cost producers are currently receiving excellent margins of >\$1,200/oz.



Source: Petra Capital

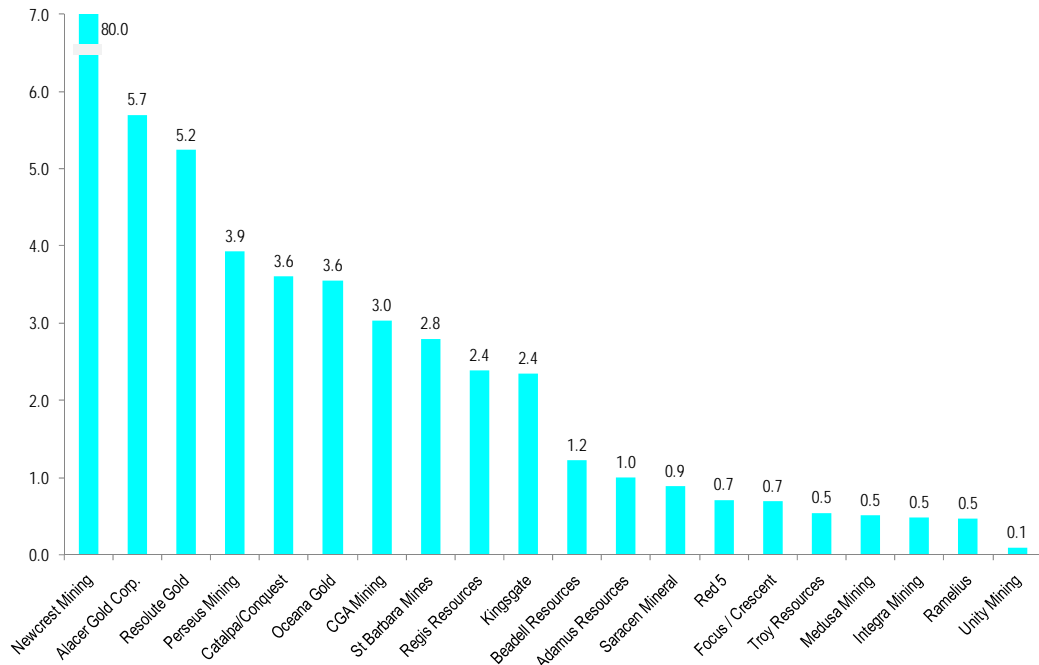
Reserves & EV/Reserves

The chart of reserves (Figure 12) appears to show a divide between larger caps at >2Moz, and mid-small caps at <2Moz.

Figure 12: Gold Reserves (Moz)

The median reserve is 1.8Moz.

Reserve growth is driven by a combination of exploration and merger/acquisition activity.



Source: Petra Capital

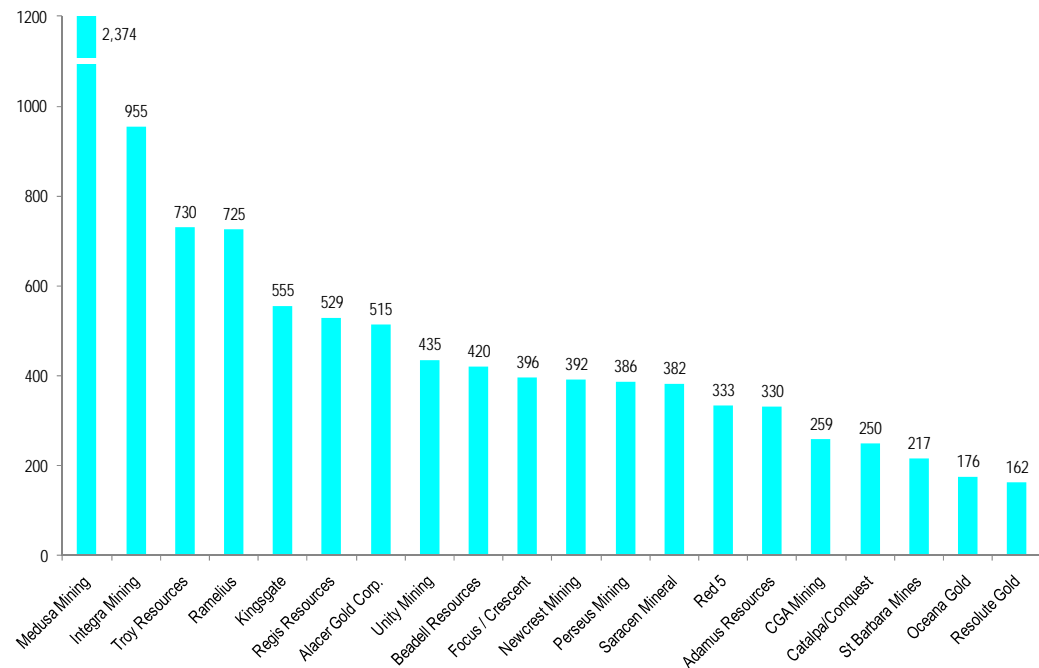
Medusa and Integra appear to be expensive on EV/Reserve (Figure 13) whilst Resolute, Oceana and St Barbara appear to be cheapest.

Figure 13: EV / Reserve (US\$/oz)

The median EV/Reserve oz is \$394.

On a weighted average basis by market capitalisation, EV/Reserve is \$463.

A number of companies appear attractive on EV/Reserve given current gold prices of US\$1,825/oz.



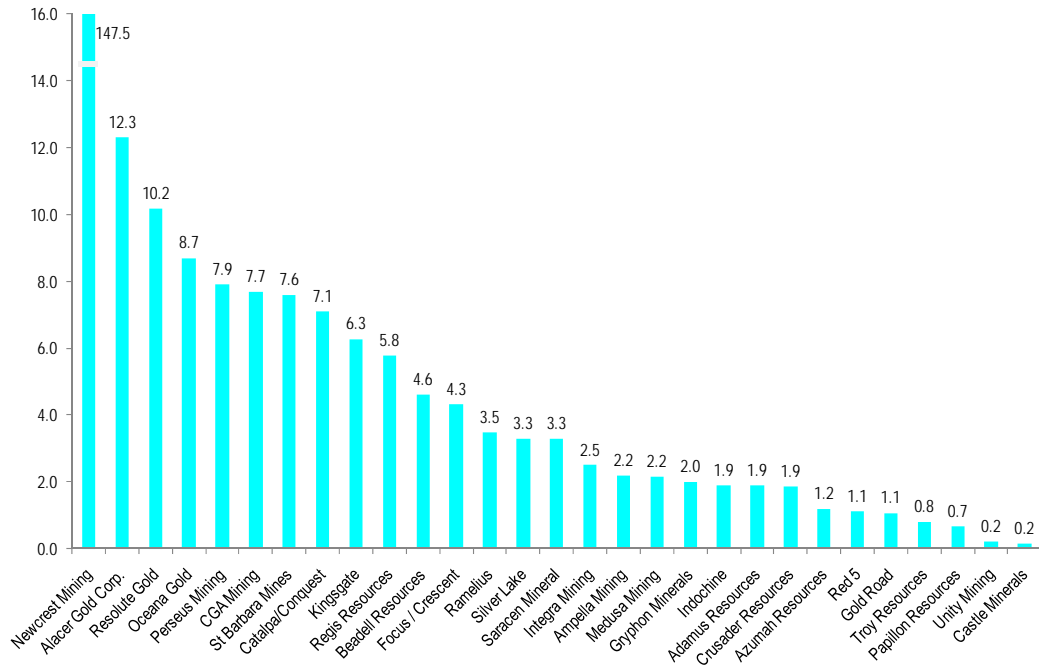
Source: Petra Capital

Resources & EV/Resources

The field widens considerably in the sector when looking at total resources with a large spread (Figure 14). We expect significant increases in resources from Crusader and Indochine in the short term.

Figure 14: Gold Resources (Moz)

The median resource is 3.3Moz.



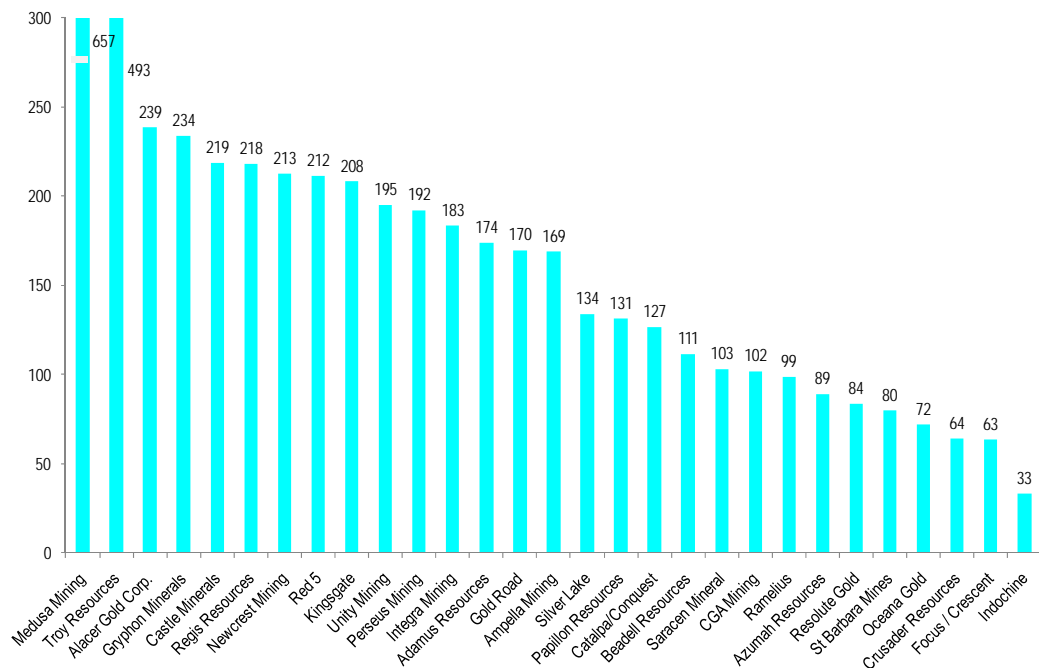
Source: Petra Capital

Medusa Mining and Troy Resources appear most expensive on EV/Resource (Figure 15) whilst Indochine, Focus and Crusader Resources are cheapest.

Figure 15: EV / Resource (US\$/oz)

The median EV/Resource oz is \$169.

On a weighted average basis by market capitalisation, EV/Resource is \$214.



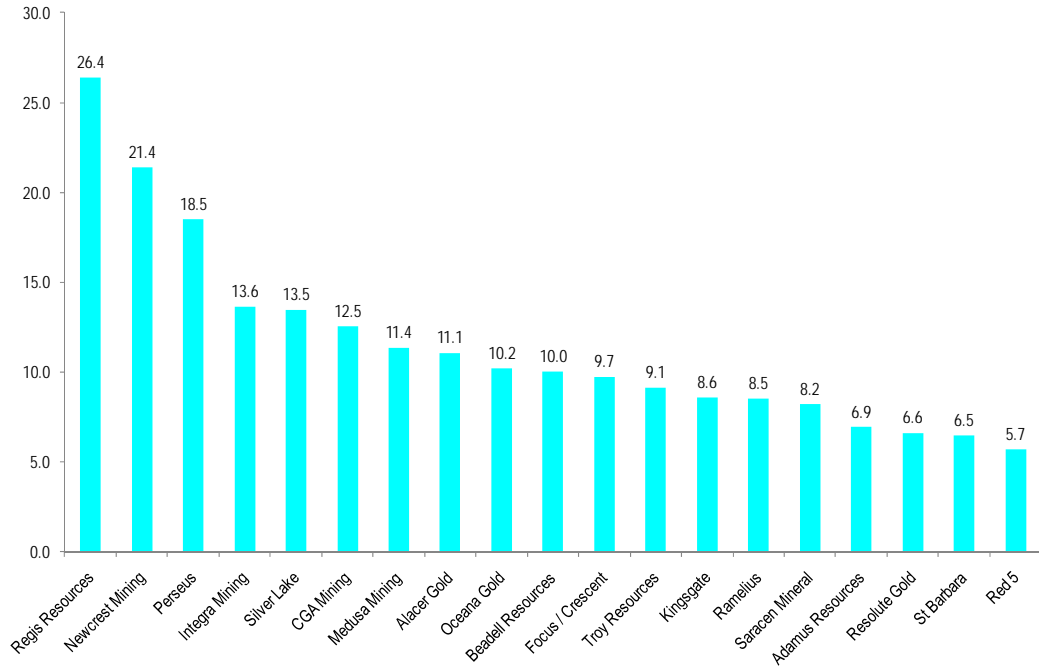
Source: Petra Capital

PEs and PCF (2012)

For 2012, Regis and Newcrest appear most expensive on PEs (Figure 16) whilst Red 5 and St Barbara appear cheapest.

Figure 16: PE (X) 2012

For 2012, the median PE is 10x.

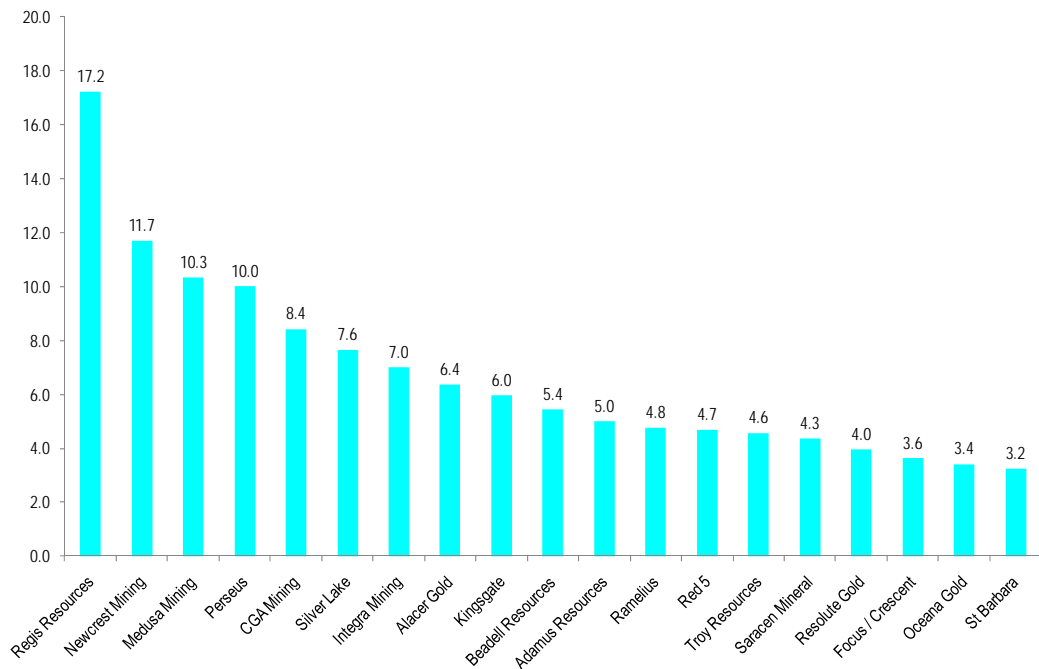


Source: Petra Capital

Regis and Newcrest appear most expensive on PCF (Figure 17) while Oceana Gold and St Barbara appear cheapest.

Figure 17: PCF (X) 2012

The median PCF is 5.7x.



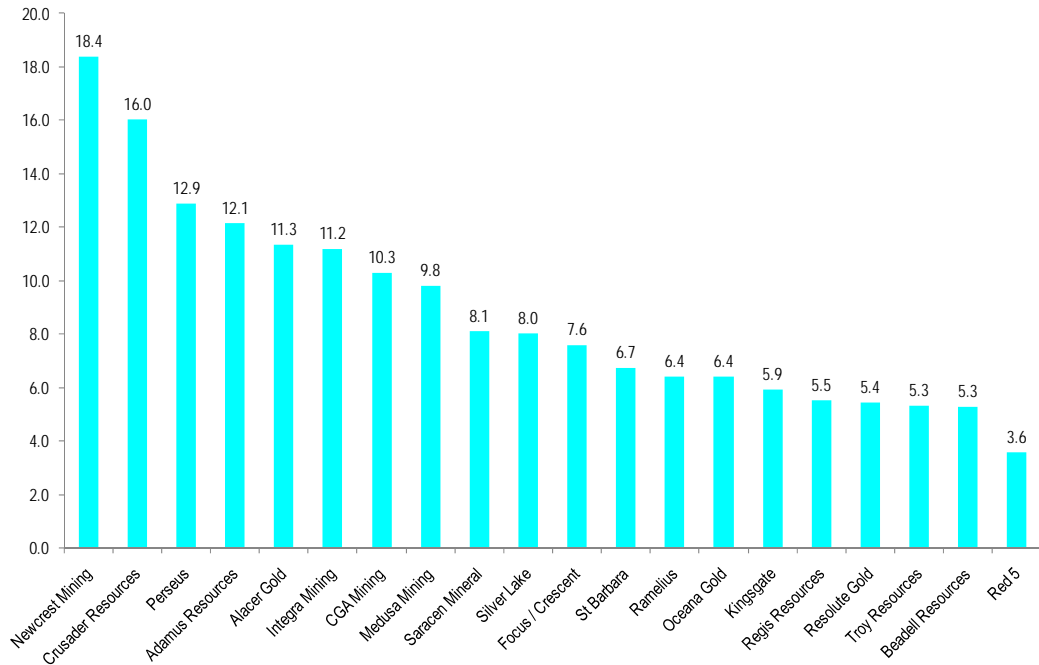
Source: Petra Capital

PEs and PCF (2013)

For 2013, Newcrest and Crusader appear most expensive on PEs (Figure 18) whilst Red 5 and Beadell Resources are cheapest.

Figure 18: PE (X) 2013

For 2013, the median PE is 7.8x.

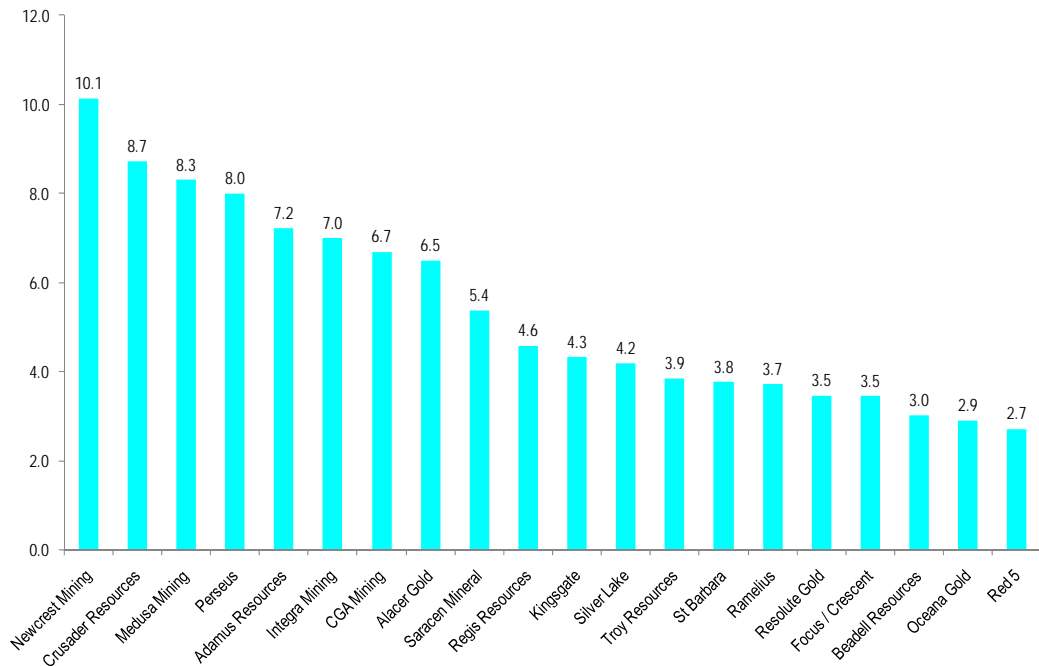


Source: Petra Capital

Newcrest and Crusader appear most expensive on PCF (Figure 19) while Oceana Gold and Red 5 appear cheapest.

Figure 19: PCF (X) 2013

The median PCF is 4.5x.



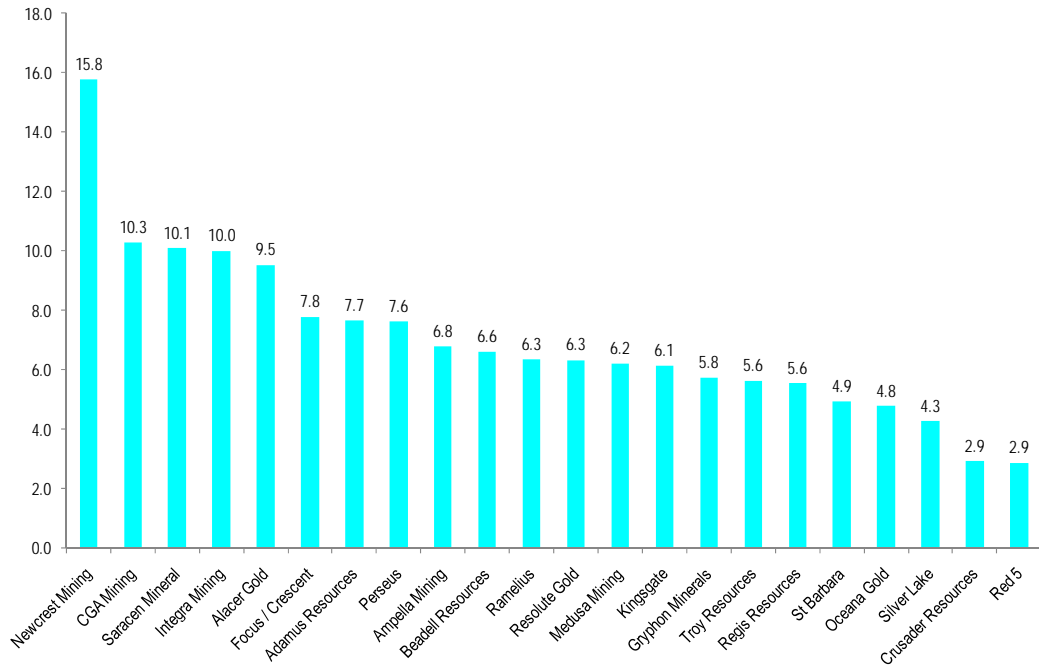
Source: Petra Capital

PEs and PCF (2014)

For 2014, Newcrest and CGA appear most expensive on PEs (Figure 20) whilst Crusader and Red 5 are cheapest.

Figure 20: PE (X) 2014

For 2014, the median PE is 6.3x.

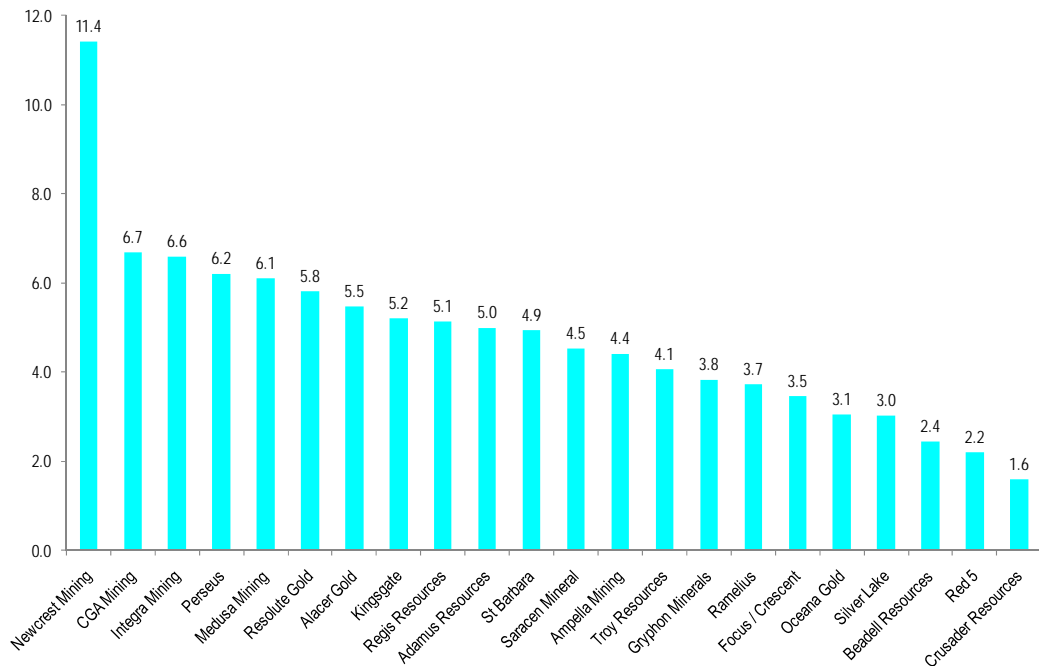


Source: Petra Capital

Newcrest and CGA Mining appear most expensive on PCF (Figure 21) whilst Crusader and Red 5 are cheapest.

Figure 21: PCF (X) 2014

The median PCF is 4.4x.



Source: Petra Capital

Company Data (September 2011)

Figure 22: Company Data

	Price AS	Shares M	Mkt ASM	Cash ASM	Debt ASM	EV ASM	P/E (x) 2011	P/E (x) 2012	P/E (x) 2013	P/E (x) 2014	P/CF (x) 2011	P/CF (x) 2012	P/CF (x) 2013	P/CF (x) 2014	Div %
Newcrest Mining	40.25	764	30771	185	800	31386	29.2	21.4	18.4	15.8	13.5	11.7	10.1	11.4	1.0
Alacer Gold	10.36	277	2870	134	199	2935	18.4	11.1	11.3	9.5	10.9	6.4	6.5	5.5	0.0
Perseus	3.60	426	1534	100	85	1519	na	18.5	12.9	7.6	na	10.0	8.0	6.2	0.0
Medusa Mining	8.05	188	1513	101	0	1412	13.8	11.4	9.8	6.2	15.7	10.3	8.3	6.1	1.4
Regis Resources	2.93	432	1266	34	30	1262	38.4	26.4	5.5	5.6	26.9	17.2	4.6	5.1	0.0
Kingsgate	9.12	135	1233	36	108	1305	35.2	8.6	5.9	6.1	36.5	6.0	4.3	5.2	3.3
Catalpa / Conquest	1.55	588	911	73	61	899									
CGA Mining	2.61	331	864	124	44	784	11.8	12.5	10.3	10.3	9.7	8.4	6.7	6.7	1.9
Resolute Gold	1.63	468	760	11	102	851	26.5	6.6	5.4	6.3	13.0	4.0	3.5	5.8	0.0
St Barbara	2.07	326	674	80	12	606	9.8	6.5	6.7	4.9	5.8	3.2	3.8	4.9	0.0
Oceana Gold	2.29	263	601	193	217	625	13.1	10.2	6.4	4.8	4.1	3.4	2.9	3.1	0.0
Beadell Resources	0.86	657	562	49	0	513	na	10.0	5.3	6.6	na	5.4	3.0	2.4	0.0
Gryphon Minerals	1.73	300	518	50	0	468	na	na	na	5.8	na	na	na	3.8	0.0
Integra Mining	0.56	840	470	38	26	458	38.6	13.6	11.2	10.0	na	7.0	7.0	6.6	0.0
Silver Lake	2.60	179	465	23	0	442	29.4	13.5	8.0	4.3	14.1	7.6	4.2	3.0	0.0
Ramellius	1.53	291	444	100	0	344	7.1	8.5	6.4	6.3	4.5	4.8	3.7	3.7	3.3
Ampella Mining	1.99	205	407	35	0	372	na	na	na	6.8	na	na	na	4.4	0.0
Troy Resources	4.47	88	393	28	29	394	26.9	9.1	5.3	5.6	12.7	4.6	3.9	4.1	2.2
Saracen Mineral	0.73	493	357	19	0	338	9.3	8.2	8.1	10.1	5.3	4.3	5.4	4.5	0.0
Focus / Crescent	0.07	4515	312	38	0	274	19.2	9.7	7.6	7.8	5.3	3.6	3.5	3.5	0.0
Adamus Resources	0.65	448	291	21	60	330	na	6.9	12.1	7.7	na	5.0	7.2	5.0	0.0
Red 5	0.20	1284	257	20	0	237	na	5.7	3.6	2.9	na	4.7	2.7	2.2	0.0
Gold Road	0.60	317	190	9	0	181									
Azumah Resources	0.51	275	139	32	0	107									
Crusader Resources	1.26	110	139	20	0	119	na	189	16.0	2.9	na	80	8.7	1.6	0.0
Papillon Resources	0.49	207	101	15	0	87									
Indochine	0.17	485	83	20	0	63									
Unity Mining	0.16	510	82	42	0	40									
Castle Minerals	0.35	113	40	5	0	35									

Source: Petra Capital, Bloomberg

Figure 23: Company Data

	Reserves	Resources	EV /	EV /	Production (koz)				Cash Cost (US\$/oz)			
	(Moz)	(Moz)	Reserve	Resource	2011	2012	2013	2014	2011	2012	2013	2014
Newcrest Mining	80.0	147.5	392	213	2,702	2,903	3,200	3,365	705	703	570	500
Alacer Gold Corp.	5.7	12.3	515	239	400	535	600	620	590	600	610	620
Perseus Mining	3.9	7.9	386	192	0	190	420	460	585	550	575	575
Medusa Mining	0.5	2.2	2797	657	100	120	160	200	189	200	210	220
Regis Resources	2.4	5.8	529	218	81	100	330	290	525	590	460	475
Kingsgate	2.4	6.3	555	208	113	250	306	294	639	544	550	575
Catalpa/Conquest	3.6	7.1	250	127	295	325	425	450	800	825	850	850
CGA Mining	3.0	7.7	259	102	190	250	300	300	638	650	675	675
Resolute Gold	5.2	10.2	162	84	331	410	410	410	908	750	760	770
St Barbara Mines	2.8	7.6	217	80	258	320	330	250	820	825	840	875
Oceana Gold	3.6	8.7	176	72	260	260	310	330	875	875	650	660
Beadell Resources	1.2	4.6	420	111	125	180	165	165	560	540	575	600
Gryphon Minerals	0.0	2.0	na	234				150				450
Integra Mining	0.5	2.5	955	183	54	100	110	110	550	550	575	600
Silver Lake	0.0	3.3	na	134	70	130	205	305	650	600	610	625
Ramellius	0.5	3.5	725	99	100	120	165	165	320	400	600	650
Ampella Mining	0.0	2.2	na	169				175				600
Troy Resources	0.5	0.8	730	493	77	130	150	110	554	300	280	410
Saracen Mineral	0.9	3.3	382	103	111	125	125	125	738	750	750	750
Focus / Crescent	0.7	4.3	396	63	73	180	230	230	911	950	975	995
Adamus Resources	1.0	1.9	330	174	88	90	90	100	600	610	620	630
Red 5	0.7	1.1	333	212	0	48	91	128		278	350	354
Gold Road	0.0	1.1	na	170								
Azumah Resources	0.0	1.2	na	89								
Crusader Resources	0.0	1.9	na	64		0	13	113		0	450	475
Papillon Resources	0.0	0.7	na	131								
Indochine	0.0	1.9	na	33								
Unity Mining	0.1	0.2	435	195	56	45	50	50	1,047	835	850	850
Castle Minerals	0.0	0.2	na	219								

Source: Petra Capital

Commodity and Exchange Rate Forecasts (Consensus as at Sept 2011)

Figure 24: Commodity and Exchange Rate Forecasts – June Year End

		June year end data					REAL 2010	NOMINAL 2016
		FY11	FY12	FY13	FY14	FY15	long term	long term
EXCHANGE RATES								
AUD/USD		0.99	1.03	0.97	0.91	0.85	0.82	0.81
USD/ZAR		7.01	7.25	7.72	8.11	8.40	9.12	8.99
EUR/USD		1.35	1.40	1.37	1.33	1.32	1.29	1.30
OIL & GAS								
Oil (WTI)	US\$/bbl	90.7	102.7	104.1	100.4	95.4	85.9	97.3
Henry Hub Natural Gas	US\$/mmBtu	4.5	5.1	5.6	5.9	6.1	5.7	6.6
PRECIOUS METALS								
Gold	US\$/oz	1365.4	1459.9	1398.0	1326.8	1230.6	1005.1	1080.9
Silver	US\$/oz	28.5	31.0	28.5	25.7	21.9	15.6	16.8
BASE METALS								
Alumina	US\$/t	355.1	393.4	399.2	408.6	395.9	346.7	398.6
Aluminium	US\$/lb	108.5	117.4	120.1	123.7	120.4	106.3	119.3
Copper	US\$/lb	396.0	467.1	429.9	377.2	332.7	237.7	270.2
Lead	US\$/lb	103.2	115.7	122.0	122.3	116.2	82.5	98.9
Molybdenum	US\$/lb	16.4	18.3	17.9	16.4	15.0	11.2	13.3
Nickel	US\$/lb	10.9	10.7	10.2	10.0	9.2	8.1	8.5
Uranium	US\$/lb	58.5	60.0	61.8	65.4	67.6	58.1	65.3
Zinc	US\$/lb	102.1	107.6	118.9	120.8	116.5	88.9	104.8

Source: UBS

Figure 25: Commodity and Exchange Rate Forecasts – December Year End

		December year end data					REAL 2010	NOMINAL 2016	
		CY10	CY11	CY12	CY13	CY14	CY15	long term	long term
EXCHANGE RATES									
AUD/USD		0.92	1.03	1.01	0.93	0.88	0.83	0.82	0.81
USD/ZAR		7.31	7.03	7.47	7.93	8.26	8.55	9.12	8.99
EUR/USD		1.33	1.38	1.40	1.34	1.33	1.31	1.29	1.30
OIL & GAS									
Oil (WTI)	US\$/bbl	80.1	101.9	103.2	104.5	96.1	94.5	85.9	97.3
Henry Hub Natural Gas	US\$/mmBtu	4.7	4.7	5.4	5.8	6.0	6.1	5.7	6.6
PRECIOUS METALS									
Gold	US\$/oz	1223.6	1456.6	1438.1	1358.1	1290.1	1177.1	1005.1	1080.9
Silver	US\$/oz	20.1	33.3	29.8	27.3	23.8	20.2	15.6	16.8
BASE METALS									
Alumina	US\$/t	321.8	388.5	392.8	407.1	404.9	391.0	346.7	398.6
Aluminium	US\$/lb	98.8	116.9	117.4	123.4	122.2	119.3	106.3	119.3
Copper	US\$/lb	342.4	445.2	462.2	403.2	354.1	311.2	237.7	270.2
Lead	US\$/lb	87.9	115.2	119.1	123.1	120.3	111.1	82.5	98.9
Molybdenum	US\$/lb	15.7	17.8	18.5	17.2	15.7	14.3	11.2	13.3
Nickel	US\$/lb	9.9	11.1	10.5	10.3	9.6	8.8	8.1	8.5
Uranium	US\$/lb	50.7	61.3	60.8	63.2	67.9	66.6	58.1	65.3
Zinc	US\$/lb	98.1	104.6	114.4	121.0	120.0	112.1	88.9	104.8

Source: UBS

Red 5 – Siana Gold Project

Figure 26: Siana Open Pit

Dewatering and cutback of the Siana pit is well advanced.



Figure 27: CIL tanks, detox tanks, and elution column

Plant installation is nearing completion with first gold pour targeted early November.



Figure 28: SAG mill installation

The SAG mill has now been installed.



Source: Red 5 Limited

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