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The real cost of producing GOLD

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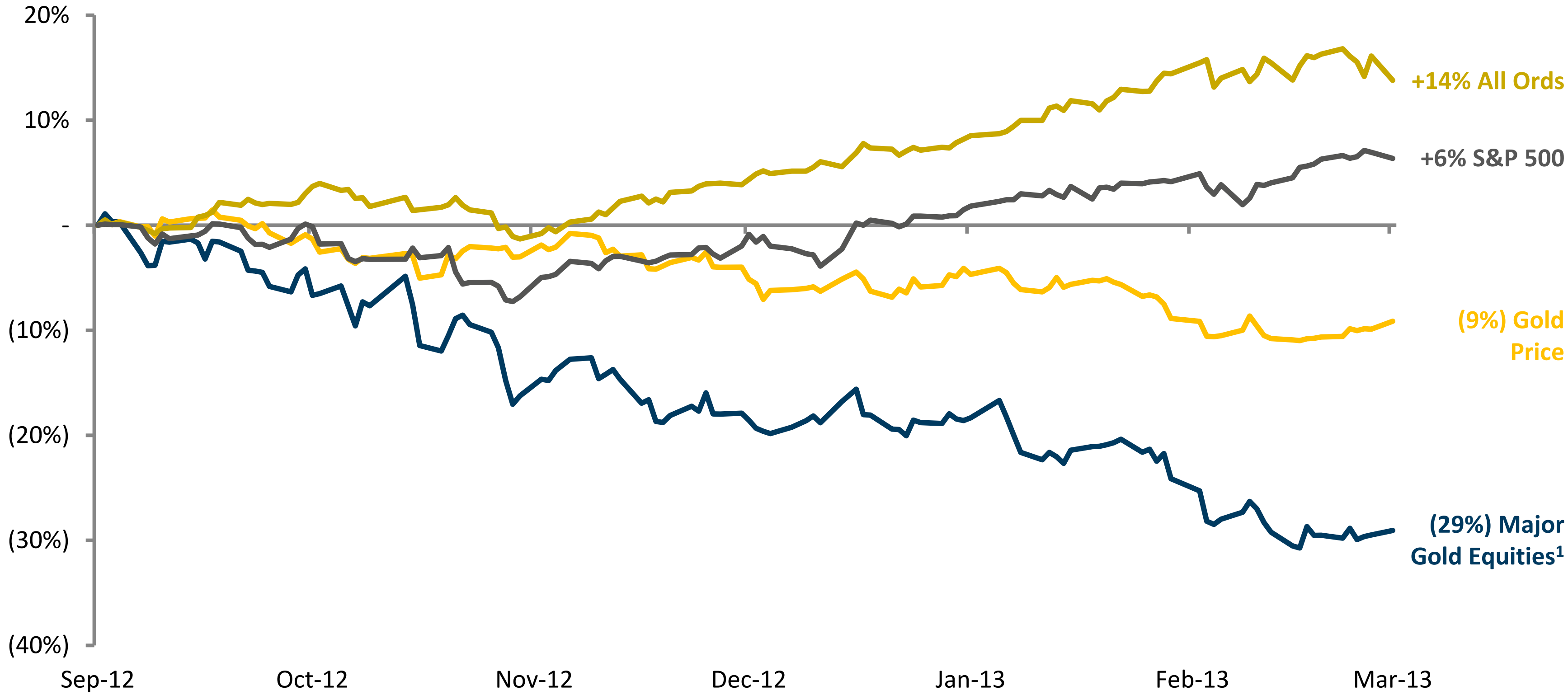
Is gold on the nose?

In the past six months, gold equities have fallen significantly out of favour despite only a modest decline in gold prices

Gold, S&P 500, All Ords and major gold equities % return (past six months)

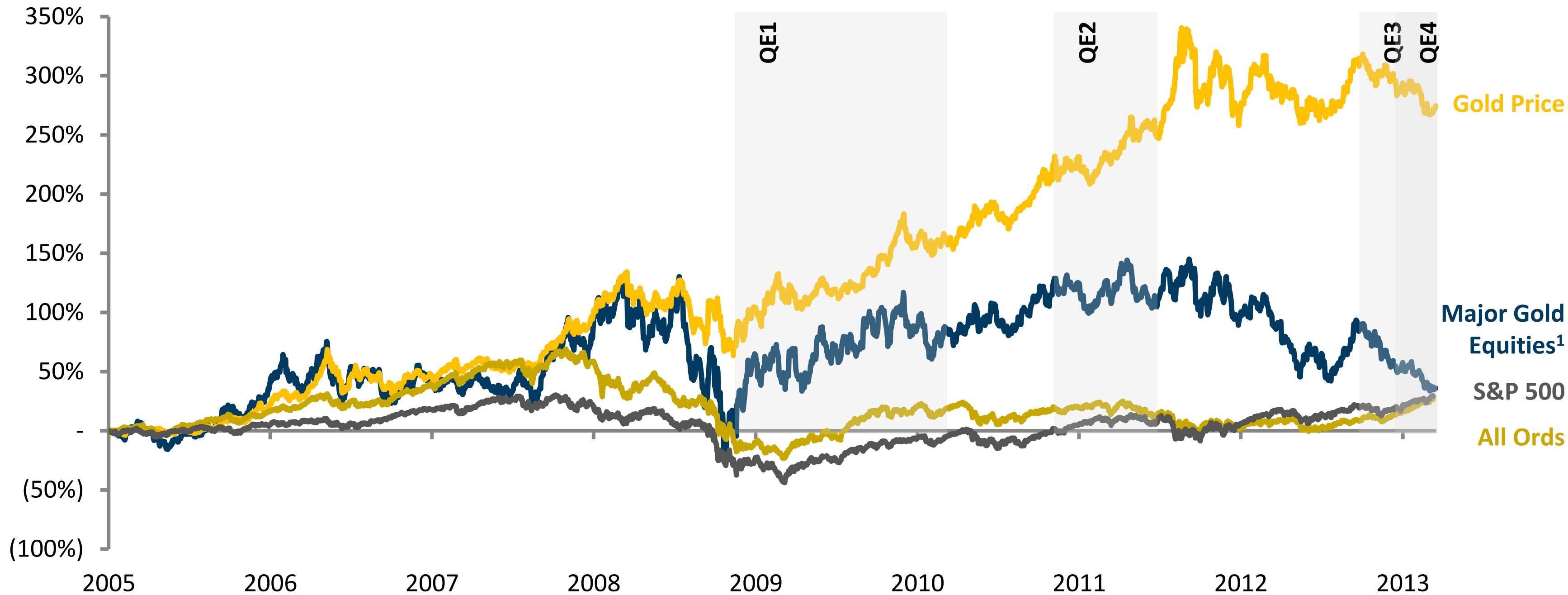


1. Major Gold Equities Index weighted by market capitalisation and includes AngloGold Ashanti, Barrick, Harmony, Kinross, Goldcorp, Gold Fields, Newmont and Newcrest
Source: Bloomberg

Is the party over for gold equities?

Since 2005, gold equities have failed to match the performance of the physical

Gold, S&P 500, All Ords and major gold equities % return (2005-2013)



The reason is costs of production have increased, grade decreasing and investors wanting to get exposure to the physical could also buy listed gold funds/ETFs

1. Major Gold Equities Index weighted by market capitalisation and includes AngloGold Ashanti, Barrick, Harmony, Kinross, Goldcorp, Gold Fields, Newmont and Newcrest
Source: Bloomberg

There is still value out there…

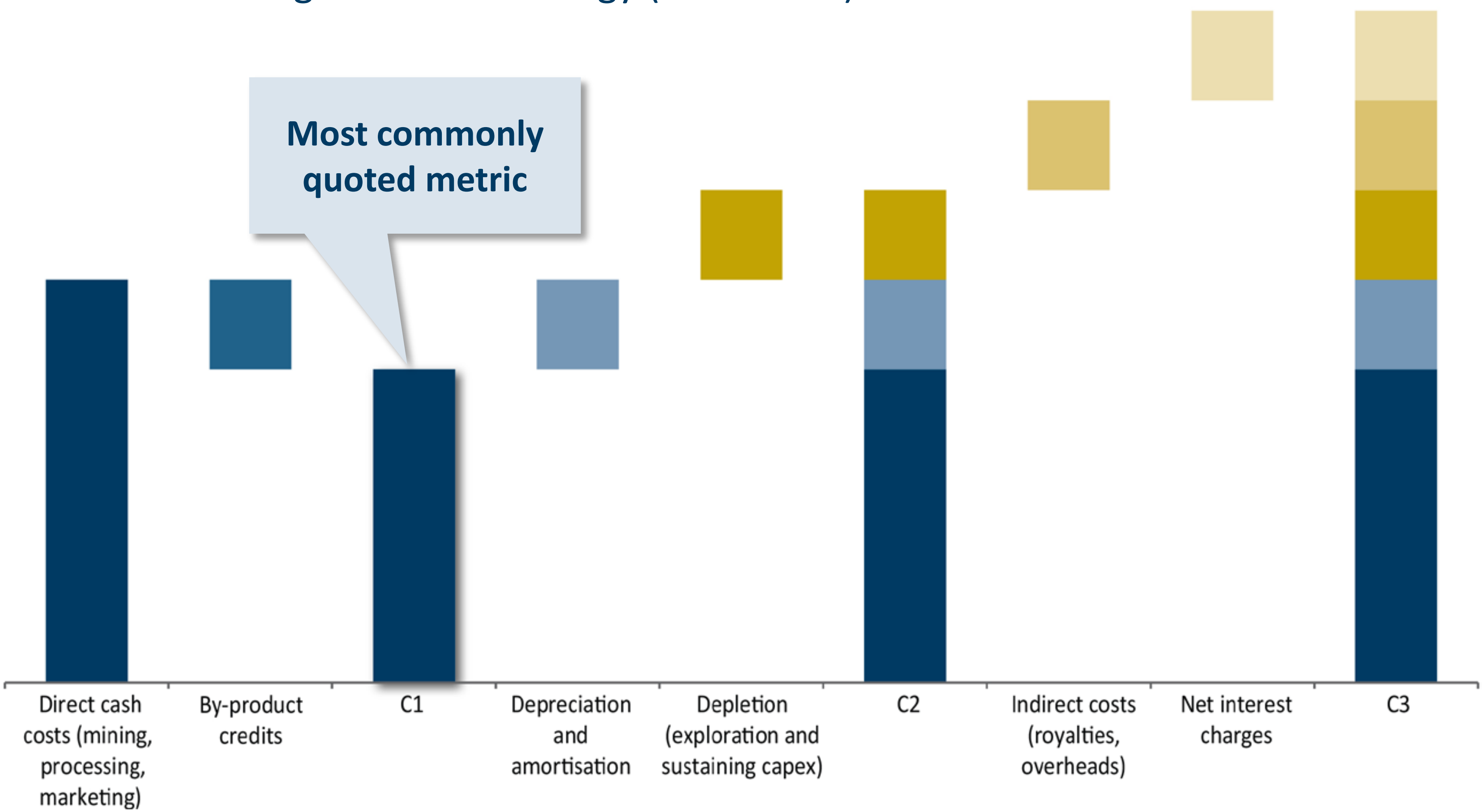
However they are more difficult to find

- Investors now focused on:
  - Cash generation, specifically free cash flow
  - Return on investment
  - Dividends
- A major issue facing investors is the lack of transparency and uniformity in disclosure of real costs
- Most companies disclose C1 “cash” costs only
- A consequence of the disclosure of C1 costs only rather than the total cost of production, has governments believing that gold producers are making significant windfall profits resulting in increasing royalties and taxes
- Some companies are now disclosing their real cost of production

Comparing apples with oranges?

Lack of uniform cash cost reporting has made analysis difficult

Traditional mining cost methodology (Illustrative)

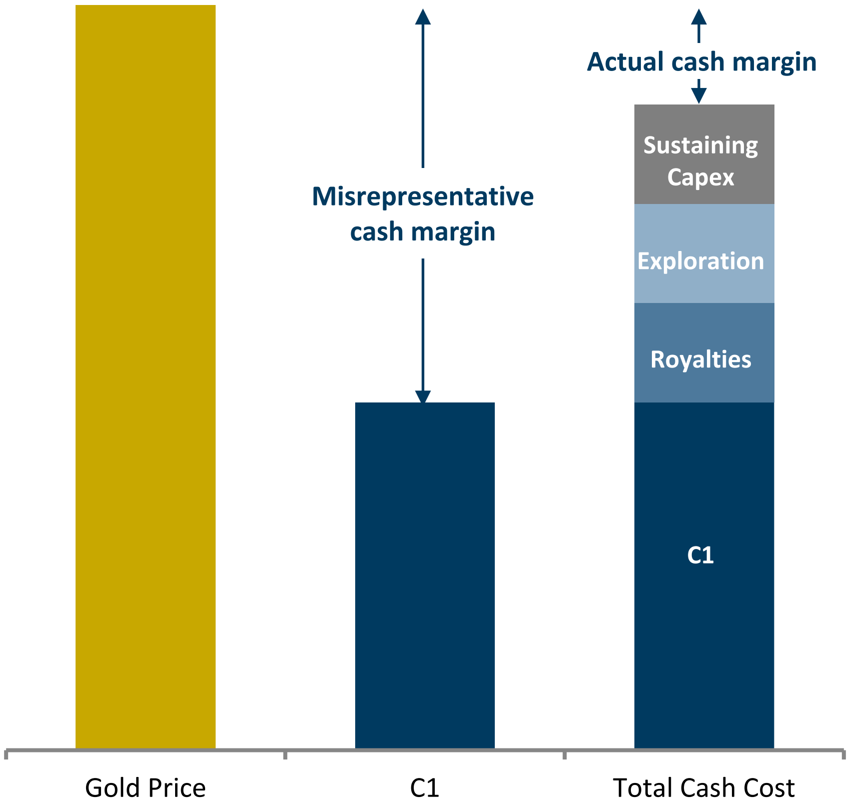


How much money are gold companies really making?

To analyse the true profitability of a gold producer, a total cash cost approach should be used

- When looking at solely C1 cash costs, cash margins appear to have increased significantly in a rising gold price environment, however…
- …the real cost of producing gold also includes other components
- Total cash cost should incorporate direct cash costs, royalties, exploration and sustaining capex

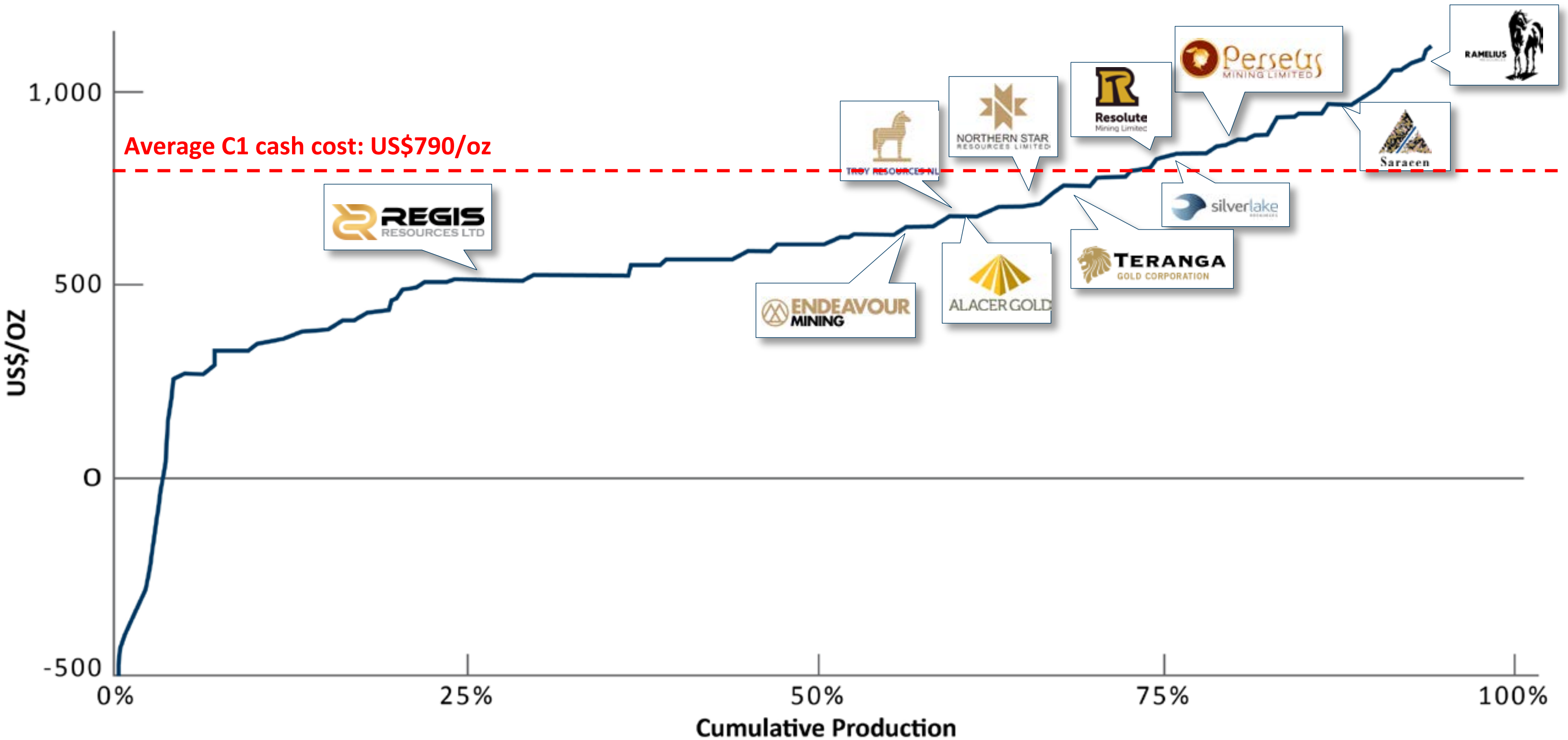
Cash margins (Illustrative)



Peer average C1 cash costs of US$790/oz[1]…

Low end of cash cost curve dominated by producers with grade and scale while the high end largely comprises miners with mature assets

Global industry cash cost curve and Argonauts' producer peer group position on the curve

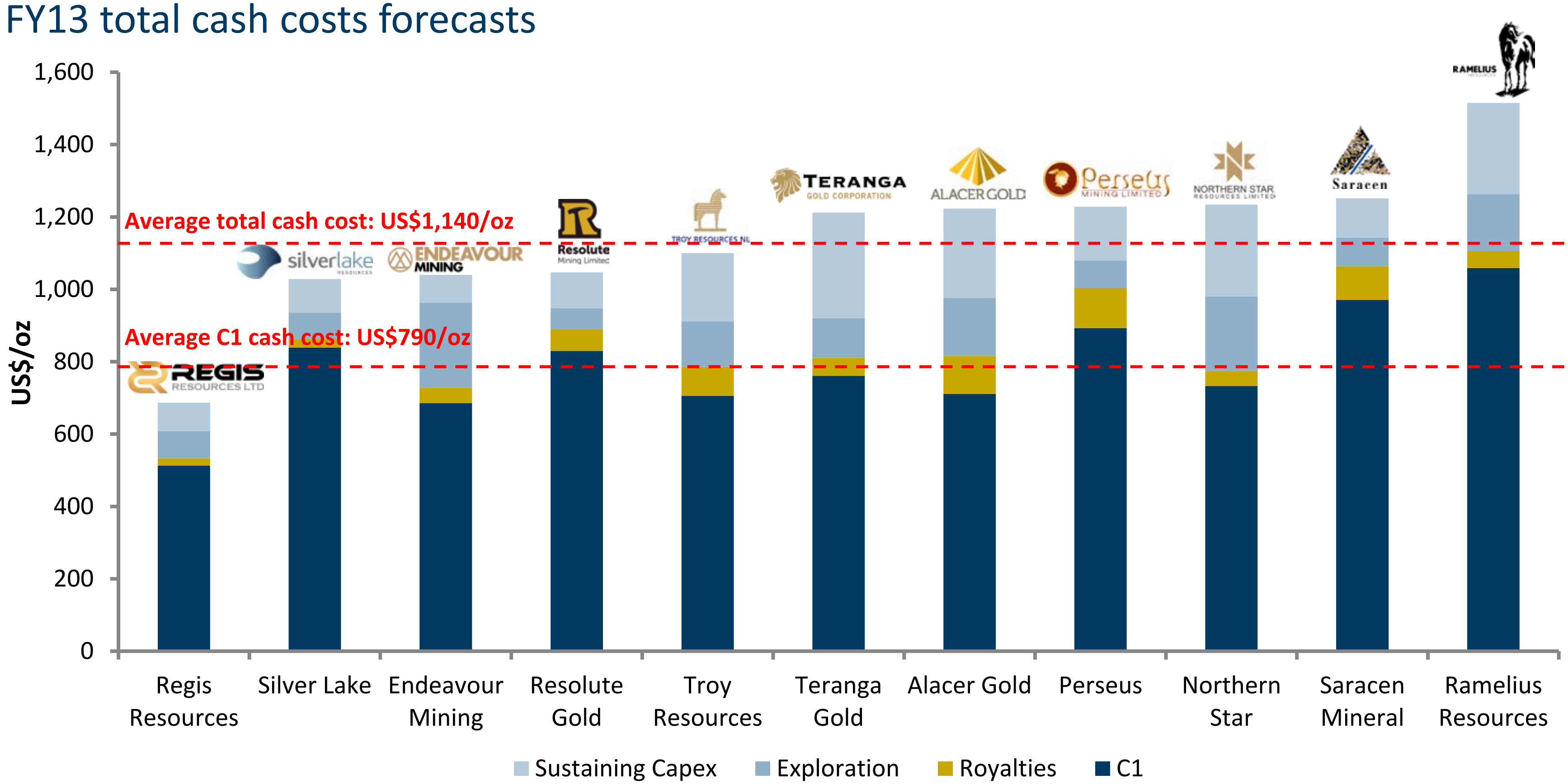


1. Based on FY13 C1 cash cost for the peer group of gold producers covered by Argonaut Research: Regis Resources, Endeavour Mining, Troy Resources, Alacer Gold, Northern Star, Teranga, Resolute, Silver Lake, Perseus, Saracen Mineral and Ramelius Resources
Source: Argonaut Research

However the average total cash cost is 40% higher

Gold producers peer group total cash cost is US$1,140/oz once other key cash cost factors are included

FY13 total cash costs forecasts

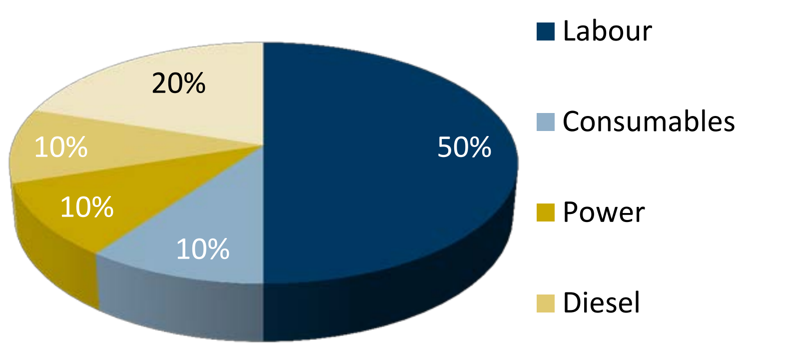


Increasing costs – more structural than cyclical

The resources boom, competition for labour and the shortage of energy has posed threats to cash margins

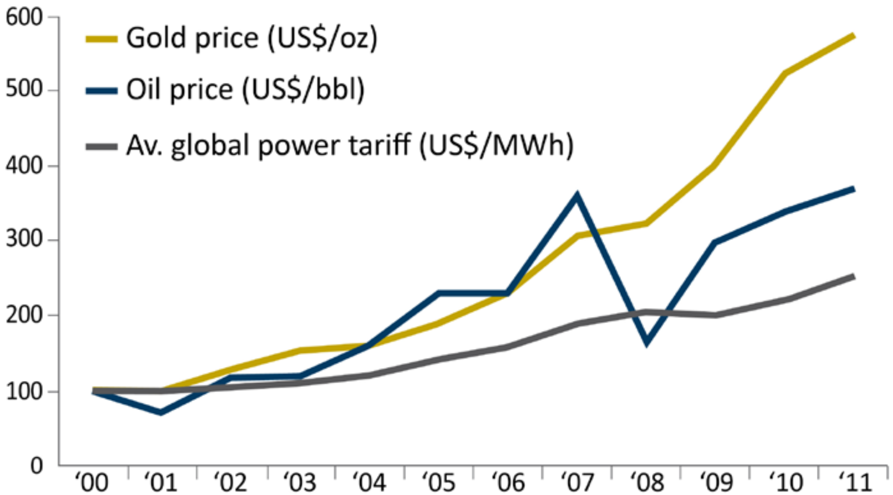
- Global economy remains short of energy
- Labour shortages and lack of workforce quality
- Different sovereign jurisdictions have difference cost structures
- In Australia, labour and energy cost increases are exacerbated by remote project locations

Global gold industry cost breakdown



Source: Argonaut Research

Global power tariffs vs. gold price vs. oil price (Rebased)

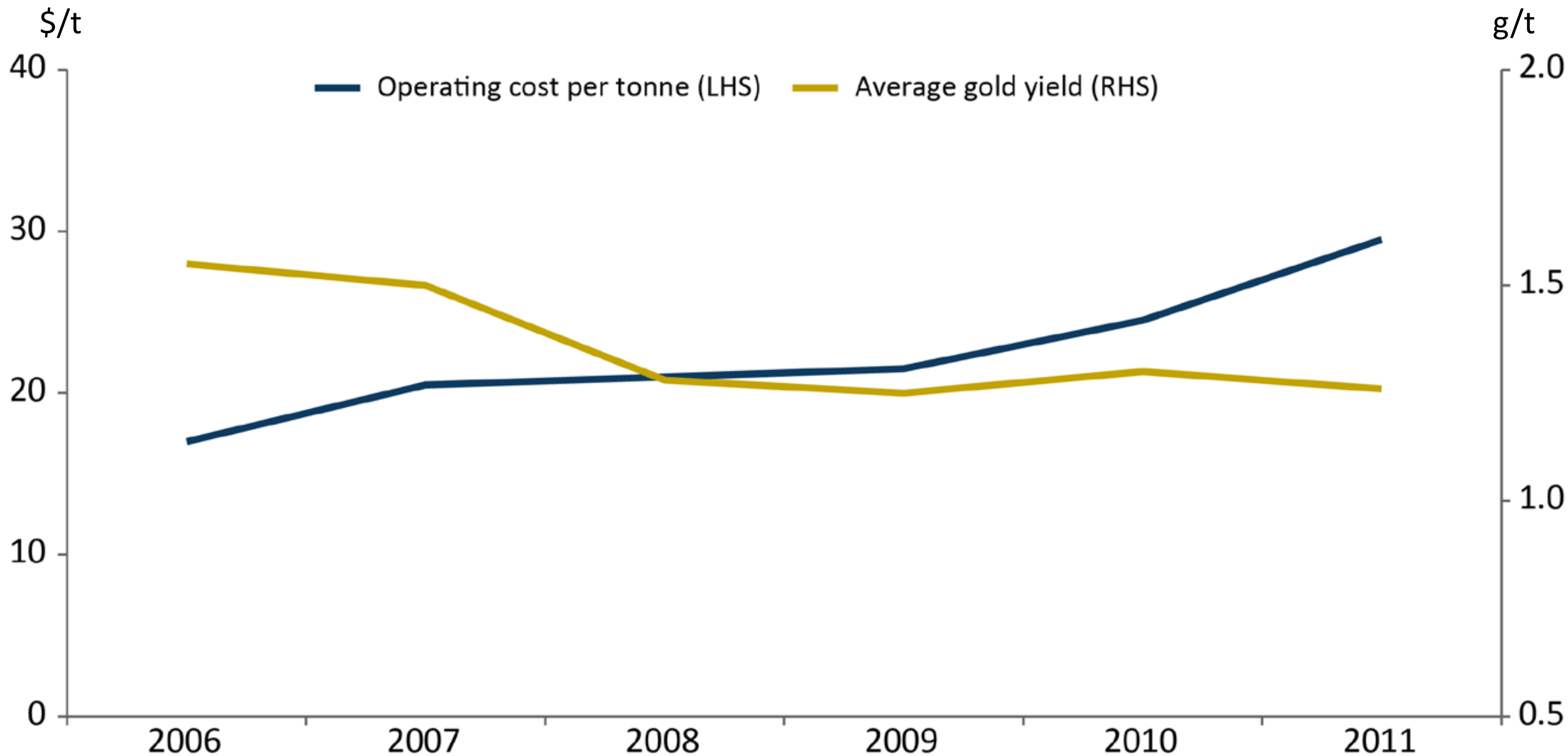


Source: Argonaut Research, Bloomberg

Structural change has impacted financial performance

'Margin Squeeze' has been exhibited in producers' recent financial results: Flat gold price & increasing cost = lower margins

Operating cost vs gold yield[1]



Source: Gold Fields Limited

1. Based on AngloGold Ashanti, Barrick, Harmony, Kinross, Goldcorp, Gold Fields, Newmont and Newcrest

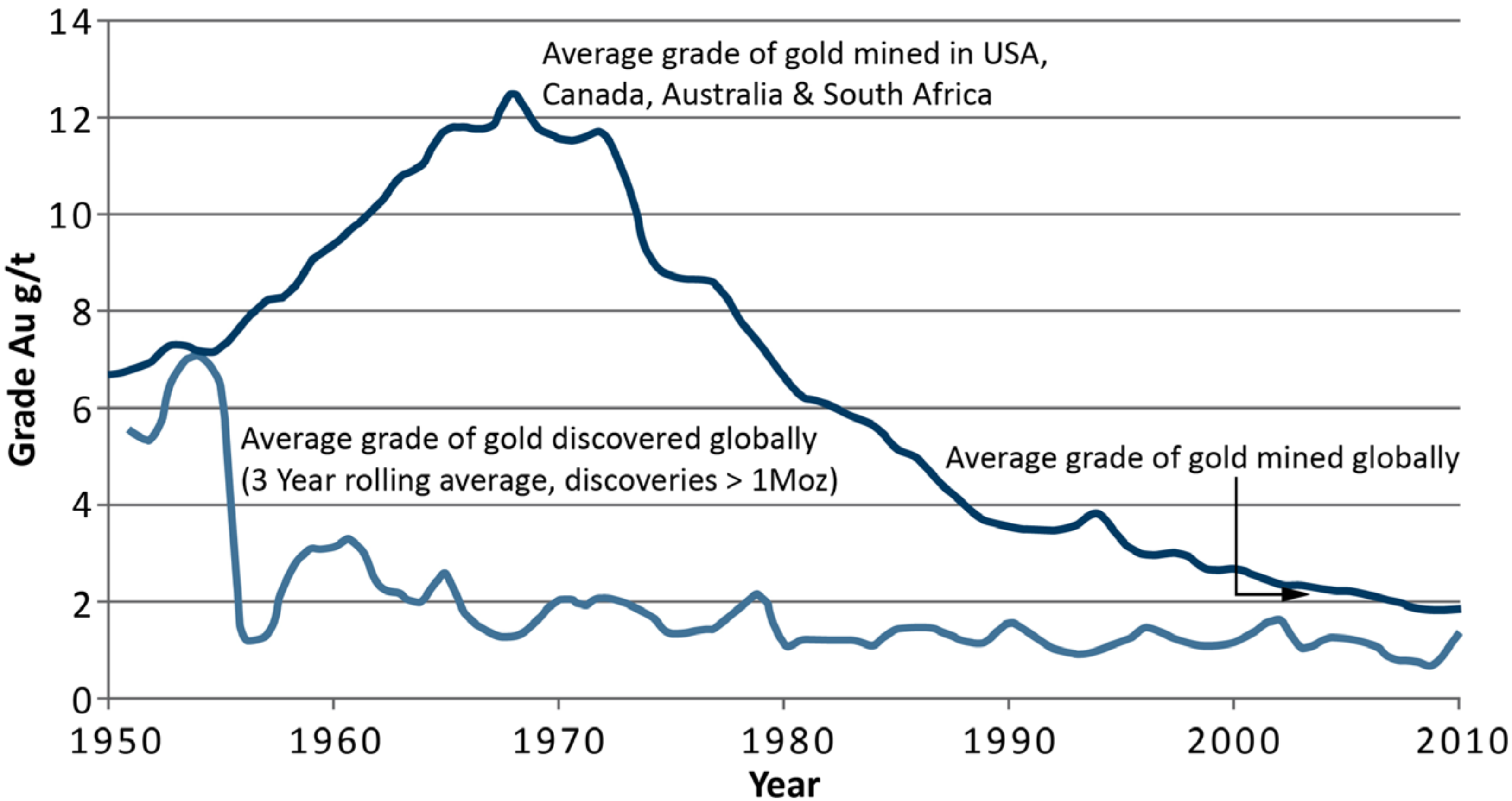
Declining grades causing cost increases

Decline in grade and mining costly lower grade deposits causing structural cost shift

- Grade is the biggest driver of a gold deposit's economic performance
- Lower grades => less gold output for a given amount of capital, labour, energy, consumables & services => high US$/oz costs
- "Investment quality" grades have shifted downwards
  - From high 5's g/t to low 4's g/t for underground
  - From low 3's g/t to mid 1's g/t for open pit

Quality new discoveries are few & far between...

Despite high expenditure on exploration as the gold price boomed, less high grade world-class discoveries have been made



Source: MinEx Consulting, Newcrest

Global gold production remains static despite rising gold prices

Converting exploration into mineable reserves is becoming more difficult

- Global mine production has remained constant at ~80-85Mozpa
- Key challenge for producers is adding low cost ounces to replenish reserves
- Discovery cost increasing as unexploited targets become deeper and more challenging
- Marginal projects to come under greater strain as focus turns to cash generation and return on investment
- New gold production developments are less attractive as governments look to increase royalties and taxes
- The current pricing of gold equities, particularly companies needing to fund development, means that M&A is a real option to acquire cheap reserves
- Recycled assets may be an attractive option but carry significant risks

Key takeaways

- Gold industry going through difficult times notwithstanding the high gold price
- A range of different approaches are applied to report production costs typically to "pump up" the share price
- An industry standard approach is required to calculate total "all in" costs so that investors can make informed investment decisions
- Higher costs are likely to remain a "structural cost change" has occurred
- Large economic gold discoveries are becoming rare
- The quest for production at any cost is likely to change as investors focus on project economics delivering consistent free cash flow, return on investment and dividends

What now?

The market is demanding an international JORC-type cost disclosure standard

- Investors in gold equities want to know what the “real” cost of production is
- Standard reporting will mean that management will come under increased scrutiny
- Investors will become “stock pickers” not commodity investors

While central banks continue to print money and Europe continues to experience “crises” the gold price will remain strong

Well managed, low cost and cash generating gold equities will be attractive

Gold is good – Grade is King

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