

GSA-ProTM

The version of *Gold Stock Analyst* newsletter for Professional Investors
Reports on 60+ Gold miners plus the GSA-Top10 newsletter in mid-month

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Next Issue
Web Posted: 12/1/12

Where Are We Now?

Based on 10/31's close for Gold at \$1,720/oz, and GSA's proprietary Market Cap/oz database compiled since 1994, Gold Stocks trade as if Gold was at \$1,416/oz. On average, Gold Stocks are:

Undervalued -18%

"True" Total Cost per Ounce of Gold

A point made in our Page 1 article in Oct 15's issue of *GSA-Top10*, "Gold a Bubble?" prompted some subscriber questions. The queries came from our assertion that Gold's current price is supported by a total cost of production of approximately \$1,300/oz. "Where is that number from?", subscribers asked.

Gold analysts focus most often on the direct cost of mining and processing ore into Gold, whether by Heap Leach or a Mill. Called cash costs, they are unavoidable and necessary for production. These include labor (direct workers and mine management), energy for mining equipment and processing, and other consumables (cyanide, steel, explosives, etc). Also included are royalties and production taxes.

Costs beyond these maybe avoidable in the short run, but have to be paid if the mine or company is to operate long term. Probably least recognized is Sustaining capex, the ongoing investment to reach and prepare new ore to be mined from Underground or stripping waste from an Open Pit mine to allow future production.

The other costs in the table below are self-explanatory and we have detailed them for two big miners, Barrick and Gold Fields. The point is that to stay in production over the long term, many other costs must be paid beyond the cash costs.

There is no source for all the data, and there's no uniformity of how the costs are reported, but the table to the right makes it clear the average total cost/oz for a Gold miner is in the range of the \$1,300/oz we used in the article.

True Cost/oz Gold	Barrick	Gold Fields
Quarter Ended	9/30/12	6/30/12
Gold oz prod in the quarter	1,792K	862K
Cash cost/oz Au	\$592	\$851
Royalties/oz	In cash/oz	\$62
Sustaining capex/oz	\$177	\$457
Non-Cash (Deprec&Amort/oz)	\$230	\$227
Exploration/oz	\$60	\$44
Management/oz (G&A)	\$25	In cash/oz
Corporate Taxes/oz	\$244	\$138
Interest/oz	\$18	\$9
By-product credits	(\$220)	None reprtd
Net "True" Total Cost/oz	\$1,126/oz	\$1,788/oz
Reported Net Cash/oz	\$537/oz	\$862/oz

Survey Coming: We want to know more about our subscribers in order to better serve your interests. Watch for our request that you complete a short confidential survey in the next few days. You can do so anonymously, or tell us who you are and we will add an extra month to your subscription as a "Thanks".

Key survey question: Would you like to attend a day of presentations by management from our Top 10 Gold and Fave Five Silver stocks in Ft Lauderdale, tentatively set for Sunday, Feb 24, 2013? Anticipated cost is \$495/person, with breakfast, lunch, and end-of-day cocktails provided.