Mining

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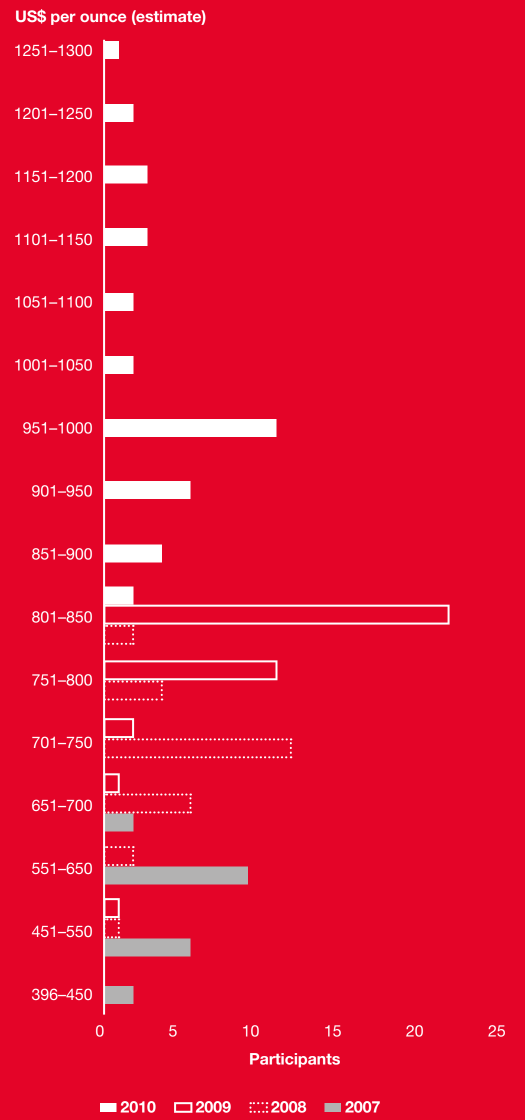
As good as gold? Global perspectives on the rising price of gold

2010 Global Gold Price Report

pwc

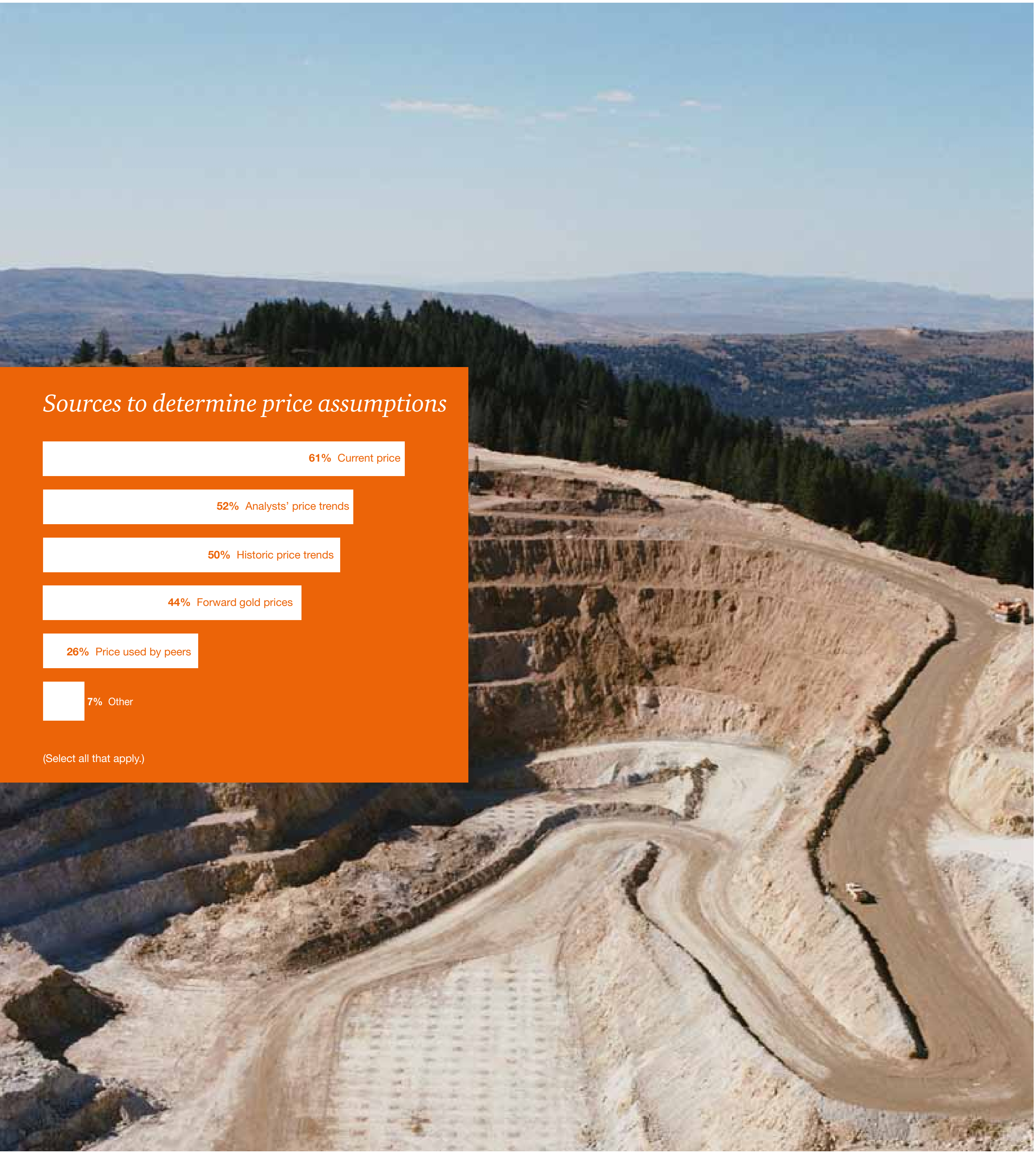
Gold price assumptions – Reserves



Introduction

Annually, PwC surveys gold mining companies from around the world. We spoke with executives at 44 companies, asking them questions varying from when do you think the price of gold will peak, to, what gold price are you applying to your reserves in 2010?

This year we took an even deeper look into the gold sector, noting trends around the relationship between the price of gold and M&A activity, hedging strategies, the investment market's increased attractiveness toward junior mines involved in gold, struggling global currencies and countries' increased interest in gold. As the price of gold seeks to challenge its high in 1980, the gold sector is in the midst of an exciting period of time. What will your company do to capitalize on the price of gold?



Sources to determine price assumptions

(Select all that apply.)

When the world says jump, gold asks how high?

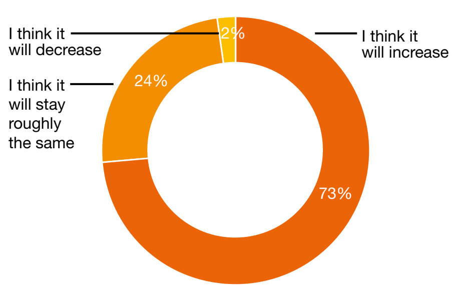
Yes, gold prices are on the rise. But just how high will they go? In our survey, respondents were asked to identify when gold would peak and at what price. The majority of respondents predicted that gold prices will continue to increase until Q4 2011. In terms of price, responses ranged from $1,400 to $3,000, but 40% of respondents believe the price of gold will peak around $1,500. Needless to say, 73% of respondents expect the price of gold to continue to increase in the next 12 months.

While we get excited at the prospect of increasing gold prices, they are still far below the inflation adjusted high in 1980. Bloomberg published in September 2010, that gold would have to reach $2,435/oz to surpass the inflation adjusted peak price in 1980.

What did your company or other companies do right in 1980 to capitalize on the peak price of gold? In what areas did they fail to optimize potential? How can you take these lessons learned and create value for your company now, as gold inches closer to its peak price in 1980?

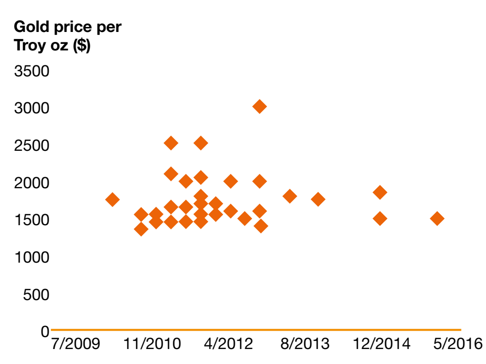
One area of similarity to note between now and the 1980s is the correlation between the rising price of gold and the increase in M&A activity in the mining sector. Currently, our Deals team is seeing a surge in M&A activity in the mining sector, and the 1980s were no different. The deals market was not as developed in the 1980s as it is today, but relatively speaking, the 80s were good years for deals in the mining sector. If you haven't already, you may want to look into what benefits would exist if your company were to engage in M&A activity while the price of gold continues to surge.

Price of gold



Question: The price of gold is at an all time high. How do you expect this to change within the next 12 months?

Gold price prediction



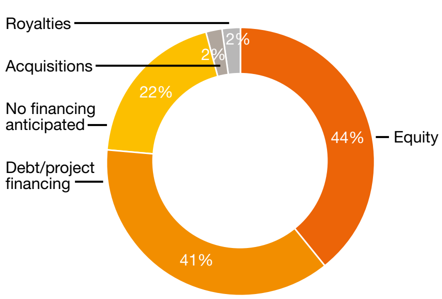
Questions: How high do you expect gold to go and when do you think gold will peak?

Note – Some of the responses were too broad and therefore were not included in the graph.

Will hedging remain unpopular?

44% of the companies that anticipate needing financing indicated that they will use equity sources and 41% indicated debt/project financing. Only 22% of the surveyed companies indicated that they do not anticipate the need for financing.

Sources of funding



Question: If you anticipate receiving financing, what sources of funding are you considering?

(Select all that apply.)

How are companies addressing the change in gold price? Does hedging play a strategic role in the current gold market?

Our survey shows a slight increase in the number of companies that hold derivative or forward sales contracts to lock in the price of gold. In 2010, 26% of our respondents engaged in these activities compared to only 22% in 2009. However, 64% of companies that indicated they do use derivatives or forward sales contracts, are required to do so as an explicit condition of financing.

There does not appear to be a desire in the market to undertake hedging activity. Following in Barrick's footsteps, Anglogold Ashanti announced in early October 2010 that they too had fully eliminated their hedge book. Their hedge book stood at approximately 95.0 tonnes at the end of the second quarter 2010. Resolute Mining is an Australian company that also closed out its hedge book in 2010.

One of the only companies bucking the trend is Sumitomo Mining, which extended the options hedging they took out in September 2009. This transaction limits the company's exposure to varying gold prices between July 2012 and June 2013.

While we can never know for sure exactly what the market will do – there seems to be a resounding belief from not only our respondents, but also industry analysts that gold is still on the rise and shows no sign of declining any time soon. Since investors want their shares in mining companies to benefit from gold price increases, and since there are no clear signs of adverse price movements, why lock your company into such a contract?

Golden parachute?

The percentage of companies that indicated they would disclose exchange rates (for reserves and carrying values) fell from 44% in 2009 to 38% in 2010.

Nevertheless, survey respondents reported using the following average foreign exchange rates in 2010:

	Average
US$: Canadian	1.01
US$: Australian	1.04
US$: South African Rand	7.18

As global currencies continue to weaken, are countries treating gold as their fall-back plan, banking on receiving large benefits from the rising price of gold and the declining value of currencies? This idea floated by the World Gold Council, stated investment in gold will be sustained as countries compete to maintain their competitive advantage by suppressing the value of their currencies.

While the US's decision to implement a $600 billion quantitative easing program has received a great amount of media attention, the US is not the only country attempting to jump-start its economy through similar programs – Japan, United Kingdom and even the European Central Bank have been printing money or buying bonds from Ireland and Greece. Canada has not engaged in quantitative easing, although there is some political pressure to take measures to limit any further strengthening.

Higher inflation, large trading deficits and record levels of debt outstanding place pressure on many currencies around the world. It will be interesting to see how many more countries looking to expand their money supply will do so by buying gold rather than US dollar or other paper currencies as these global currencies continue to struggle.

Reserve sensitivity:

Over two-thirds (69%: 2010; 67%: 2009) of respondents indicated that they would not be disclosing this information in 2010.

69%
2010

67%
2009

Will there be a gold rush?

It will be interesting to see in the coming months if companies that have located marginal deposits of gold will kick-start their production – moving forward faster with a project then they would under "normal" circumstances. Out of our respondents, 82% expect their forecasted production levels will increase given the market and commodity price in the past year.

How can your company best optimize its production levels to capitalize on the strong price of gold? Increasing operational output and reducing maintenance costs, while having a strong risk management program, requires skill, planning and precision. A proper asset management plan will help you accomplish these goals by working to decrease equipment failures, extend the working life of your equipment and reduce maintenance costs.

Who has their wallets open to gold?

A trend to note is the decision by central banks to increase their gold holdings in order to diversify away from foreign exchange reserves. In Q3 2010, the Russian Central Bank increased its gold holdings by 71% adding 46.2 tonnes, Thailand increased its holdings by 19% adding 15.6 tonnes, and Philippines added 4.2 tonnes which accounts for 2% of their holdings. But who are the top gold holders?

Top 10 official gold holdings as of September 2010

Country	Tonnes	% of reserves*
United States	8,134	72.1
Germany	3,403	67.4
IMF	2,907	1)
Italy	2,452	66.2
France	2,435	65.7
China	1,054	1.5
Switzerland	1,040	15.1
Japan	765	2.7
Russia	726	5.7
Netherlands	613	55.8

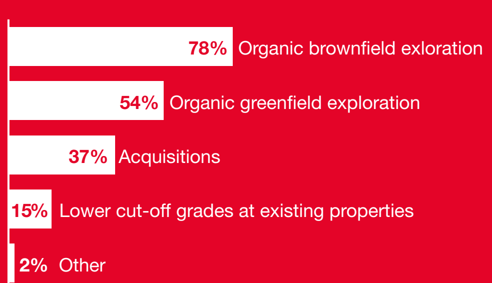
*Percentage share held in gold of total foreign reserves, as calculated by the World Gold Council. The value of gold holdings is calculated using the end-July gold price of $1169.00 per troy ounce.

1) International Money Fund balance sheets do not allow this percentage to be calculated.

Reserves replenishment:

When asked to identify their plans for replacing or replenishing reserves, respondents reported organic brownfield exploration (78%), organic greenfield exploration (54%) and acquisitions (37%) as their top three means of replacing reserves.

Plans for reserve replenishment



Question: How do you plan to replace reserves?

(Select all that apply.)

What does red, white and blue have to do with gold?

What gold price are respondents applying to their 2010 reserves?

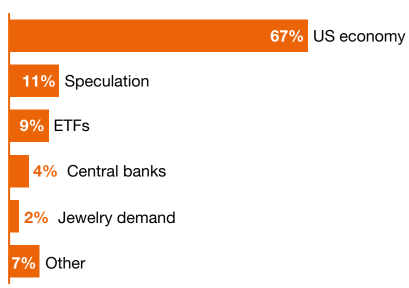
The responses varied from $850 to $1,300; however, the majority (32%) of companies are applying a price of $1,000.

Apparently, a lot – over half of our respondents attributed the rising gold price to the US economy.

Recently, the US has implemented a $600 billion quantitative easing initiative. In the past, when the US implemented such programs, including after the Second World War and Vietnam War, the price of gold began to soar.

Does history repeat itself?

Cause of rising gold price



Question: What is the root cause of the rising gold price?

A gold mine for juniors?

According to our Junior Mine publication released in October 2010, the top five juniors by market capitalization listed on the TSX-V are gold companies. Over the past year, each of these companies managed to at least double its market capitalization.

Many more of the juniors listed on the TSX-V are also showing the affects of a booming gold trend. 56% of mining companies listed are exploring for, developing, or mining the precious metal. This is up from 50% in 2009 and 42% in 2008.

Can we agree that the investment market is particularly favorable for companies that demonstrate they are best positioned to capitalize on the rising commodity price?

To demonstrate to the market that your company is in a strong position to capitalize on the rising gold price, the company needs to show a strong cash balance and direct access to financing if the need arises.

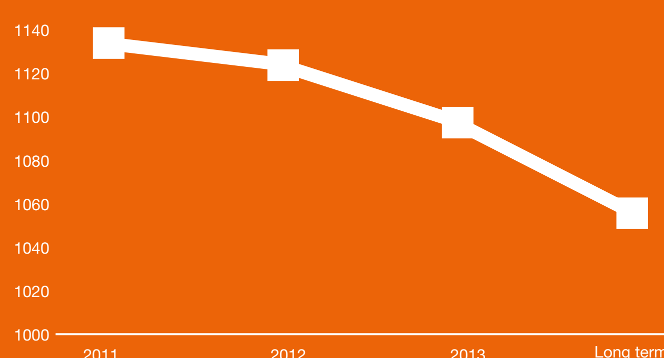
Disclosure

Fewer companies plan on disclosing their gold price assumptions for determining reserves in 2010 (76%) compared to 2009 (84%).

The percentage of companies that plan to disclose their carrying values in 2010 has remained relatively consistent with 2009 (2010: 42% vs. 2009: 39%).

Gold price used for mine planning

Long term price estimate trend



Question: What gold price are you using in your mine planning in 2011, 2012, 2013 and long term?

Is your company becoming a magpie?

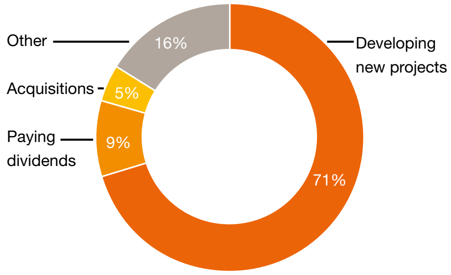
Make sure your company has an effective cost reduction plan in place. This will be key to ensuring you are receiving the most value for your efforts. In Junior Mine, we note that production costs continued to rise for a fifth straight year for the top 100 mining companies listed on the TSX-V, cutting into revenue gains. As your company strives to meet production demand, be sure to consider that one of the largest opportunities for shareholder value creation is through operating and capital cost reduction.

Carrying values

45% of respondents reported that they will use proven and probable as their base to support asset carrying values, while 52% stated that they will use proven and probable, plus resources likely to be moved into this category based upon the company's track record (i.e. "value beyond proven and probable").

Are you distracted by all the glittering gold? This year one of the questions we asked our survey participants was how they plan to use their increased cash. A resounding 70% of respondents said they planned to use their cash influx to develop new projects. Companies must also focus on additional areas that can drive down costs and increase revenue.

Plans for reserve replenishment



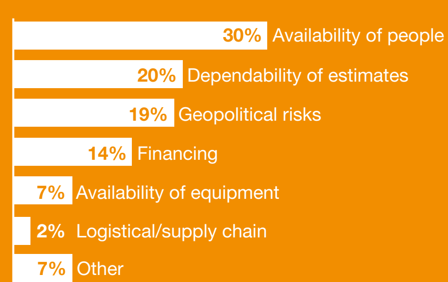
Question: How are you using your increase in cash?

What's weighing you down?

Companies were asked to identify their top two challenges. Respondents reported availability of people and dependability of estimates as their top two challenges.

Mining companies need to become more creative with the ways in which they recruit employees. Some companies are going directly to the source of new hires, universities and colleges, and making strong connections with the career directors and guidance councilors. Other companies are focusing on building strong relationships with the residents in the communities near their mine site. Either way, companies need to work together as a collective industry to promote mining as a solid, promising career path.

Major challenges



Question: What are your top two challenges?

Dependability of resource estimates is crucial – you want to dig where there is gold. While this still remains a key challenge for mining companies there have been recent geological breakthroughs that are leading to more accurate estimates in some cases. For example, the mining industry is once again buzzing about the Yukon.

In the past geologists did not understand what was producing the placer gold in the Yukon or where it was coming from. However, a new geologic setting and model is being used by geologists to help them understand more clearly what exactly to look for.

Being able to determine the style of mineralization will hopefully lead to new discoveries in this part of the world. Now that geologists have a more intimate understanding of geology, they are able to interpret the rocks and make more accurate projections as to where the gold deposits are located. While there is still much room for error, geologists are getting closer.

So, there is hope – as more breakthroughs arise in the world of geology your company will be able to have an increased confidence in the resource estimates you receive.

What will your company do to capitalize on the price of gold?

Canadian Mining Group

John Gravelle, Toronto
+1 416 869 8727
john.p.gravelle@ca.pwc.com

Michael Cinnamond
+1 604 806 7029
michael.cinnamond@ca.pwc.com

Nochane Rousseau
+1 514 514 005 5199
nochane.rousseau@ca.pwc.com

Global Mining Group Leadership Team

Global Mining Leader & Australia

Tim Goldsmith, Melbourne, Australia
+61 3 8603 2016
tim.goldsmith@au.pwc.com

Canada

John Gravelle, Toronto
+1 416 869 8727
john.p.gravelle@ca.pwc.com

China

Ken Su, Beijing
+86 (10) 6533 7290
ken.x.su@cn.pwc.com

India

Kameswara Rao, Hyderabad
+91 40 2330 0750
kameswara.rao@in.pwc.com

Latin America

Ronaldo Valino, Rio de Janeiro
+55 (21) 3232-6139
ronaldo.valino@br.pwc.com

Russia and Central & Eastern Europe

John C. Campbell, Moscow
+7 495 967 6279
john.c.campbell@ru.pwc.com

South Africa

Hein Boegman
+27 11 797 4335
hein.boegman@za.pwc.com

United Kingdom

Jason Burkitt, London
+44 (20) 7213 2515
jason.e.burkitt@uk.pwc.com

United States

Steve Ralbovsky, Phoenix
+1 602 364 8193
steve.ralbovsky@us.pwc.com

Global Mining Executive

Ben Gargett
+61 3 8603 2539
benjamin.gargett@au.pwc.com

Key contributors to this report:

Amy Hogan
James Lusby
Christine Marino
Stephanie Roberts

For copies of the report, please contact:

Amy Hogan
+1 (416) 941 8221
amy.hogan@ca.pwc.com

Sources:

Bloomberg
World Gold Council

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