



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

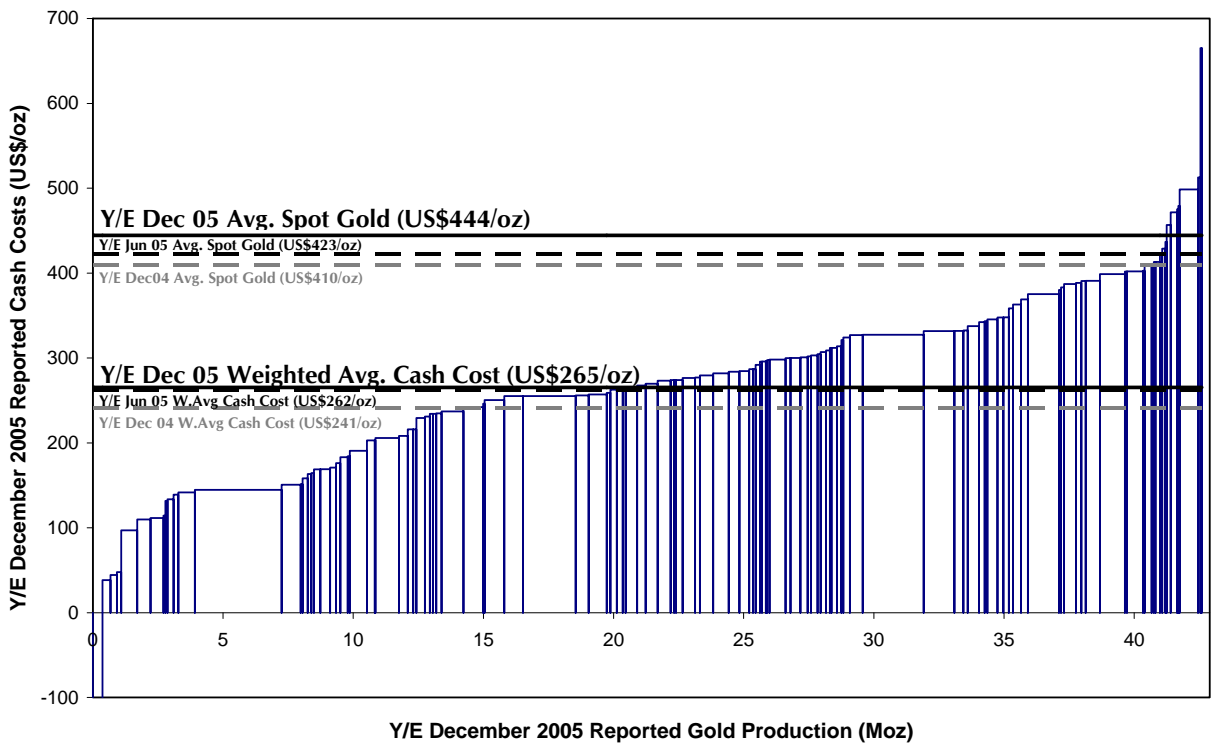
## Global Gold Production – Price vs Cost

In this edition of the Alchemist we provide a brief update on the cash costs reported by global gold producers for the year ended 31<sup>st</sup> December 2005. We assess the impact on producer margins given the corresponding appreciation of the US\$ gold price.

## US\$ Cash Costs

In order to create the cash cost curve for gold producers, RFC has compiled cost & production data from 121 gold mining operations, representing more than 42Moz of 2005 gold production (approximately 53% of global production). The figure below presents the \$US/oz cash costs reported from these operations.

**Y/E December 2005 Reported Cash Costs & Gold Production**



Note: Data has been sourced from publicly reported information released by producers listed on developed stock exchanges and plots the performance of mining operations rather than individual mines. For simplicity we have assumed consistency of reporting amongst producers and have not adjusted the reported cash costs to reflect the inclusion or exclusion of by product credits, royalties or other expense items.

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The weighted average cash cost for the Y/E December 2005 of US\$265/oz represents only a minor increase of US\$3/oz (1%) over the figure reported for the Y/E June 2005 and an increase of US\$24/oz (10%) over the figure reported for the Y/E December 2004. During the same periods the average US\$ gold price increased by US\$21/oz (5%) and US\$34/oz (8%) respectively, leading to higher average cash margins (in absolute US\$ terms).

Given the further rises in gold, silver and copper prices during 2006, we expect that average margins over the June 2006 year to date would have further increased. The higher prices and healthy margins are improving the economics of higher cost undeveloped projects and it will be interesting to see the longer term average cash costs as some of these projects are brought into production.

Although the average cash cost increase was quite modest given the global cost rises for many key mining inputs (fuel, consumables and in many regions, labour), it is worth noting that producers who report their cash costs net of by product credits have benefited from increasing prices for by-products (such as silver and copper) over the Y/E December 2005. The strength of silver and copper prices since December 2005 would only add to such benefits.

## Results by Continent

Broken down by continent, the data can be summarised as follows:<sup>1</sup>

	South America	North America	Asia	Australasia	Africa
Weighted Ave Cash Cost (Y/E Dec 05)	\$155	\$259	\$236	\$268	\$333
Change Absolute (from Y/E Jun 05)	\$9	\$15	\$13	-\$1	-\$2
Change % (from Y/E Jun 05)	6.4%	6.0%	5.9%	-0.3%	-0.6%

It is interesting to note that the continent with the lowest average cost operations (South America) had the largest average cash cost increases in percentage terms (vice versa for Africa). Currency fluctuations go some way to account for the North American increase and African decrease in US\$ cash costs, with the Canadian Dollar and South African Rand averages (in US\$ terms) for the Y/E December 2005 being 3.0% stronger and 2.4% weaker (respectively) than the Y/E June 2005 average. However, the Australian dollar was on average 1.0% stronger and the Peruvian Nuevo Sol average was relatively unchanged.

The recent strength of the Canadian Dollar and, second half of May excluded, the South African Rand is expected to add to US\$ cost pressures of operations in those countries, partly reducing the net benefits of the recent strength in the gold price.

## Effect on Market Performance

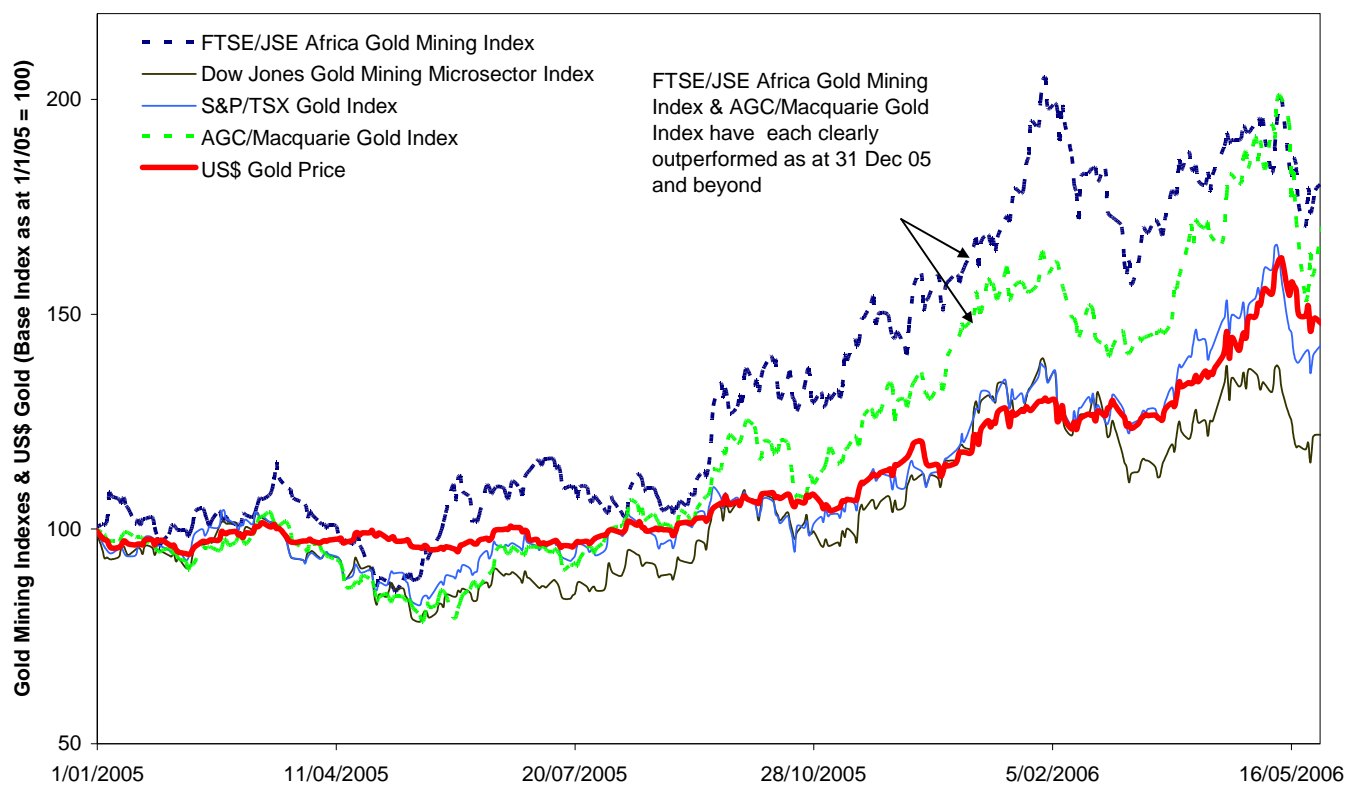
The higher cash margins have clearly been a key contributor to the strong performance of gold stocks over the Y/E December 2005 (especially since June 2005). This contrasts with the relatively lacklustre performance of gold stocks over the year ended June 2005, when (as noted in the The Alchemist's September 2005 issue) average profit margins were falling despite a rising gold price.

However, as always, seeking exposure to an appreciating gold price via equity in gold producers needs to be carefully considered in view of the cost structure faced by the chosen producer(s). Given the above data broken down by continent, it is not surprising to see that the African and Australian gold indexes fared significantly better than North American gold indexes over the Y/E December 2005 (especially since June 2005) and beyond.<sup>2</sup>

<sup>1</sup> Note this table excludes European production for which there was insufficient data to be representative. Asian data is not commented on in the following text because there is no single currency which is representative of a significant portion of reported production (and there is limited public data available on much of the Chinese and Russian production).

<sup>2</sup> Although the equity indices over the page are representative of the performance of producers by exchange listing rather than location of operations, there is obviously a tendency for the ASX listed gold miners to have operations in Australasia (and Africa to a lesser extent), JSE listed entities to have operations in Africa, and North American listed entities to have operations in North and/or South America.

**Gold Mining Indexes & US\$ Gold**



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