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The Blenheim Report
CONFIDENTIAL INTELLIGENCE REPORT
GOLD

June 2014



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INTRODUCTION

Gold Sector Overview

The precious metals industry is very capital intensive. Constructing mines and building production facilities requires huge sums of capital. Long-term survival requires heavy expenditures to finance production and exploration. Technology has played a large role in the computer and internet industry, but it has also greatly changed the mining industry. Gold is the most popular precious metal for investors.

Gold Prices are heavily dictated by numerous variables that include fabricator demand, expected inflation, return and central bank demand. Gold is strongly pegged to supply-and-demand patterns. In general, low prices result in low production, and high prices result in high production. Market forces determine price. A company's attempt to control costs is critical to maintaining financial health and production levels in the face of declining gold prices.

The metals industry is not vertically integrated like other industries such as oil and energy. In the metals industry, the companies that mine the gold typically do not refine it, and refiners rarely sell it directly to the public. The industry encompasses three types of firms:

1. **Exploration.** These companies have very little in the way of assets. They explore and prove that gold exists in a particular area. The only major assets owned by exploration firms are the rights to drill and a small amount of capital, which is needed to conduct drilling and trenching operations.
2. **Development.** Once a gold deposit is discovered by exploration companies, they either try to become development firms, or they sell their gold find to development firms. Development firms are those operating on explored areas that have prove to be mines. The only real difference between development and exploration is that, for development firms, their area has proved to be a gold deposit.
3. **Production.** Producer firms are full-fledged mining companies that extract and produce gold from existing mines; this production can range from a hundred thousand ounces to several million ounces of gold production per year.

The cost of production is probably the most widely followed measure for analysing a gold producer. The lower the costs, the greater the operating Leverage which means that earnings are more stable and less volatile to changes in the price of gold.

Most gold that is mined today is used for jewellery, perhaps because of its beauty, or perhaps because it doesn't rust or corrode. Other uses for gold include tooth filings, electronics manufacturing and collectibles, but these make up a very small portion of overall demand.

Unlike other industries, companies in the mining industry come in all shapes and sizes. Much of the production is done by large blue chip companies, but the exploration side of the industry is full of junior companies looking to hit a home run with a large gold find.

ALACER GOLD CORPORATION

Market cap: \$673.59M (TSE) | **Employees:** 650 | **Operations:** Turkey, Australia | **Head office:** Colorado, USA

Alacer Gold Corp. is a leading intermediate gold mining company and its world-class operation is the 80%-owned Çöpler Gold Mine in Turkey.

During 2014, Çöpler is forecast to produce 160,000 to 180,000 attributable ounces at All-in Cash Cost of \$730-\$780 per ounce. Çöpler is an epithermal gold deposit with oxide ore currently being processed in a conventional crush, agglomeration, heap-leach and gold recovery circuit. Alacer has numerous exploration projects in Turkey that are joint ventures with our Turkish partner Lidya Madencilik San. Ve Tic, A.Ş. ("Lidya Mining"). Alacer's primary focus is to maximize portfolio value, maximize free cash flow, minimize project risk, and create value for shareholders.

Çöpler's record gold production was a 44% increase over 2012, primarily driven by a 16% increase in the oxide ore grade and improved operating practices lifting gold recovery rates over the course of the year.

The Company operates in two geographic operating segments consisting of mining activities, which also includes development of and exploration for mineral deposits in Turkey and Australia. Gold prospects are the principal interests of the Company. The Company controls approximately 2,835 km² in Turkey and 4,580 km² in Australia. The Company is working towards maximizing shareholder value by focusing on:

- Maximizing its free cash flow
- Maximizing its portfolio value
- Minimizing its project risk
- Returning value to its shareholders, all in an environmentally and socially responsible manner.
- Exploration for and subsequent conversion of additional Mineral Resources and Reserves is ongoing both in Turkey and Australia.

In September 2013, Alacer announced that it entered into a binding agreement to sell the Australian Business Unit (ABU) to a subsidiary of Metals X Limited. The comprised of 100% interest in the South Kalgoorlie Gold Operations and 100% interest in the Higginsville Gold Operations. In October 2013, the sale of the ABU was completed and Alacer was paid A\$40 million in cash (subject to working capital adjustments) for all of the shares of Alacer Gold Pty Ltd, a wholly-owned subsidiary. The sale of these high-cost, low margin Australian assets demonstrates Alacer Gold's commitment to focusing on maximising free cash flow by concentrating on its low-cost operations in Turkey.

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First Quarter 2014 Results:

- Total gold production was 52,919 ounces with an attributable net profit from operations of \$9.7 million.
- Net profit from continuing operations down from \$44.5M Q1 2013 to \$14.8M Q1 2014

2013 Financial results:

- Gold ounces produced from Cöpler Gold mine increased from 188,756 in 2012 to 271,063 in 2013
- Gold sales from continuing operations of \$377.1 million were 12% higher than 2012, reflecting a 35% increase in sales volume driven by an increase in gold production
- Net profit from continuing operations decreased from \$166M in 2012 to \$68M in 2013, due to higher production costs (476M in 2012, 117M in 2013)

Source: <http://www.asx.com.au/asxpdf/20140526/pdf/42ptvmk31dsk0w.pdf>
<http://www.alacergold.com/>
<http://www.asx.com.au/asx/research/companyInfo.do?by=asxCode&asxCode=agg>

MINING OPERATIONS

Project	Owner	Resource	Type(OC/UG)	Production	Location	State/ Ctry
Çöpler	Alacer (80%), Lidya Mining (20%)	Gold	OC	271,063 ounces (2013)	Eastern Turkey	Turkey

EXECUTIVE LEADERSHIP TEAM

Name	Title	Background	Location	Comments
		Profiles available upon request		

BOARD MEMBERS

Name	Title	Background	Location	Comments
		Profiles available upon request		

5 June 2014

The Australian Financial Review

Miners may need to 'turn off dividend tap'

The world's top 40 mining companies – including Australian giants BHP Billiton, Fortescue Metals, Newcrest Mining and Rio Tinto – have seen profits by plunge by a staggering 72 per cent in the last 12 months to \$20 billion, the lowest level in a decade.

PwC's latest annual report on the global mining sector underlines how tumultuous the past year has been for miners, who have seen their combined market value drop 23 per cent to \$958 billion as gold, diversified miners and coal companies were hit hardest.

However, the bleak figures haven't stopped the world's big miners from rewarding shareholders, and dividends almost tripled from \$15 billion to \$42 billion over the last five years. But this rise in payouts was accompanied by a 42 per cent increase in net debt.

Article: http://www.afr.com/p/business/companies/miners_may_need_to_turn_off_dividend_7UZRqcU67rPSJINtxD7P7M

3 June 2014

The Australian Financial Review

Time to consider investing in gold

Gold shares little in common with most -popular investments: it performs no useful function, nor does it generate future earnings or produce a yield. And yet the precious metal holds a special place in the psyche of investors, even as much of its lustre has worn off in the past two years.

“Sentiment is bad – it's a tough place and very hard to get people interested,” says Baker Steel Capital Managers managing director David Baker, who manages a gold fund. “But this is where you make the money – by buying now and putting it in the bottom drawer . . . I think if you've made some money elsewhere in the market, now is a good time to diversify.”

The price of gold peaked at almost \$US1900 an ounce in 2011 but has since fallen to around \$US1200 to \$US1300 as the global economy and the performance of sharemarkets has returned, luring investors back to more growth-oriented areas of the market.

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As the US economy continues to recover and lead the way out of the global financial crisis, gold has lost much of its appeal. However, the recovery remains tenuous and a number of investors continue to turn to gold for protection.

It may be obvious to suggest that a rise in demand for gold will spur an increase in its price, but it remains a key driver for a precious metal whose primary use is ornamental. Enter emerging markets.

Since 2000, China, Russia, and Saudi Arabia have been enthusiastic purchasers of gold, while the Netherlands, France and Switzerland reduced their holdings of gold, according to the World Gold Council.

Source: http://www.afr.com/p/personal_finance/portfolio/time_to_consider_investing_in_gold_x9ZOpHlywYvUbe8dfA0seO

30 May 2014

The Australian Financial Review

Does Newcrest mining have the golden touch?

It's been heavy going for the Aussie gold miners in recent years. While the stock market has moved straight up without reprieve, other macro forces haven't been so kind to this sector. In a perfect world, the gold miners would like higher gold prices (the price paid for their product), and a weaker dollar (the currency that effects the competitiveness of their product), but the market has dealt them neither.

The weaker gold price has been especially tough, a serious headwind for companies such as Newcrest Mining (NCM), which is by far and away our biggest gold miner – producing 1.63 million ounces of gold a year. Newcrest Mining carved out a major top in March 2011, and has been in an eye-watering downtrend since then, wiping out some 85 per cent of its market capitalisation in that time. The downtrend has been persistent, and Newcrest obviously wants to see gold get a wriggle on here, or at the very least stabilise - which is kind of what we've seen in recent months, as a trading range has developed between \$US1200 and \$US1400 an ounce.

Article: http://www.afr.com/p/markets/does_newcrest_mining_have_the_golden_HtQz7SrzBdiC4EdCrYK06O

28 May 2014

The Australian Financial Review

Gold tumbles 2pc as optimism triggers technical hit

Gold fell 2 per cent on Tuesday, the most in one day since December, as an intraday record high of the S&P 500 equities index and economic optimism triggered a heavy bout of technical selling.

The S&P reached a record 1,911.61, boosted by merger activity and expectations of rate cuts by the European Central Bank that stoked investor appetite for equities. Also, orders for US-made durable goods unexpectedly rose in April and consumer confidence perked up in May, supporting views of a rebound in economic growth.

Technical analysts also cited gold's recent pennant chart formation, also known as a flag because of its triangular shape, which represents a brief consolidation with narrowing price ranges before the previous market move is resumed.

Article: http://www.afr.com/p/markets/gold_tumbles_pc_as_optimism_triggers_AHx9iR3HAbT2jDsPzTzmIP

28 May 2014

The Australian Financial Review

Barrick Gold sale of Aussie assets on cards

North American gold major Barrick has fewer reasons to visit down under since it started a fire sale of its local assets to the likes of Northern Star. But clearly, there is still enough going on in Australia to warrant another visit, with Barrick's private jet spotted at several Australian airports in multiple states last week.

Not surprising Perth and Kalgoorlie were on the tour itinerary, and even Sydney town got some attention from the miner, which is in a serious deal-making mood at the moment.

Barrick recently failed to seal merger talks with fellow North American gold major Newmont, and one of the major sticking points was how to dispose of several Australasian assets, including the famous Superpit in Kalgoorlie. Last week's visit was believed to involve talks around the future of those assets, which could yet be spun-out just as Barrick did years ago in Africa.

Article: http://www.afr.com/p/opinion/barrick_gold_sale_of_aussie_assets_NIoNTP5vMqedUxfSkGuWUJ

21 May 2014

The Australian Financial Review

Newcrest's Greg Robinson sees steady Indian gold demand

Newcrest Mining chief Greg Robinson says the crucial Indian market for gold will not be dampened despite efforts by the Indian government to slow gold imports.

India and China are the two of the strongest demand centres for gold in the modern market, but the Indian government has sought through new taxes to have less of the nation's money spent on gold.

Amid conjecture over the future of those taxes, Mr Robinson said he did not believe demand would dim in India.

"India has had certain restrictions and tax, but in time we expect the cultural significance of gold in India to ensure that they will continue to be the primary demand for physical gold," he said on Wednesday.

Article: http://www.afr.com/p/business/companies/newcrest_greg_robinson_sees_steady_tvkbJ2UsUcNhiEGU0GsPJM

21 May 2014

The Australian Financial Review

Analysts 'buy' into MACA support

At a time when it is difficult to find good news stories in the mining services sector, analysts at Argonaut have increased MACA's recommendation from hold to buy, noting the stock was trading at a discount of about 25 per cent to its 12-month target price of \$2.80.

The broker had recently visited MACA's new premises in Western Australia, which have enabled the company to combine its operations in one building, a move the broker expects will provide improved efficiencies and productivity gains.

From an operational perspective, the company's activities at Regis Resources' Moolart Well, Garden Well and Rosemont projects were interrupted by extreme weather, which caused flooding at two of the three projects. Despite lost revenues during this period, management reaffirmed revenue guidance of at least - \$550 million in 2013-14, representing an increase of 15 per cent compared with the previous period.

Article: http://www.afr.com/p/personal_finance/portfolio/analysts_buy_into_maca_support_zui8wnd6OTpnl7vssKKzRO

29 April 2014

The Australian Financial Review

BROKER WATCH: Newcrest Mining (NCM)

Deutsche Bank is maintaining a “sell” recommendation on Newcrest Mining after “a reasonable quarter” was clouded by a weak outlook for the 2015-16 financial year. Its 12-month price target sits at \$7.50 a share.

As guided, March quarter gold output of 552koz was lower quarter on quarter (QoQ) and 2 per cent below our estimate. While increasing 7 per cent QoQ, all-in sustaining costs (AISC) continue to be lower than expected, beating our forecast by 10 per cent,” Deutsche said.

“FY14 production and cost guidance is unchanged (2.3Moz, \$2.45 billion or \$A1065/oz) with little to do in fourth quarter. More importantly, the near-term production outlook for both Cadia and Lihir has been provided for the first time, with lower-than-expected gold production in FY15-16.

“Consequently, group gold output is now flat into FY15 and, failing the recognition of further cost savings, next year is shaping up to be very similar to FY14 with positive free cash flow (FCF) highly dependent on the gold price.”

Article: http://www.afr.com/p/markets/market_wrap/newcrest_mining_ncm_JBlqytuxgrvxOkkMPQGFrK

23 April 2014

The Australian Financial Review

Fund managers must dig for gold stocks offshore

Consolidation in the Australian resources sector is creating a -serious shortage of investment opportunities, and some fund managers say it leaves them with no choice but to build portfolios dominated by offshore companies to gain exposure to commodities such as gold.

NEWCREST ON TARGET

Newcrest released quarterly production data on Wednesday and looks set to finish the fiscal year cash flow positive, despite a slight rise in costs for the March quarter on the back of weaker than expected production. Newcrest said it expected gold production for the full year to come in at the top end of guidance of 2.3 million ounces. “In the small- to mid-cap Australian gold companies, performance has been mixed. St Barbara has done particularly poorly with a questionable acquisition strategy but Northern Star has done particularly well with its business model of buying cast-offs from the majors,” Mr Baker said.

Article: http://www.afr.com/p/markets/fund_managers_must_dig_for_gold_C9z8cX7jE7DUt3YN6ulAGM

23 April 2014

The Australian Financial Review

Newcrest's Biswas is paid to perform

Newcrest Mining's new chief executive, Sandeep Biswas, has a big job ahead but he is being paid well for it with a more generous remuneration package than his predecessor, Greg Robinson, who steps down in July.

Newcrest on Wednesday confirmed that Biswas, who was named as Robinson's successor last year, would step into the role in July. His \$2.3 million fixed salary is higher than the \$2 million Robinson was paid last year and his short- and long-term incentives are also more generous.

Newcrest's board benchmarked Biswas's salary against the company's international peers and the reasoning behind the decision is that the gold sector is a highly competitive market for chief executives.

Certainly, investors will be hoping for better results under Biswas than Robinson, who presided over a horror year for the miner although the company's latest production figures show things have turned a corner despite lower-than-expected gold production in the March quarter.

Article: http://www.afr.com/p/markets/market_wrap/newcrest_biswas_is_paid_to_perform_w6KisqYidyNW5sZOVaq4aM

23 April 2014

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Article: http://www.afr.com/p/markets/market_wrap/newcrest_biswas_is_paid_to_perform_w6KisqYidyNW5sZOVaq4aM

23 April 2014

The Australian Financial Review

Traders look to gold as US data causes nervousness

With key factors such as how the West might respond to geopolitical tensions in Ukraine and continued emphasis on the Chinese economy, derivative traders are likely to focus this week on gold on the upside and selling pressure on equity market, according to derivative market watchers.

With gold one of the best performing asset classes so far in 2014, trading advisers like Rivkin Global investment manager Timothy Radford have increasingly been adopting a long bias in their trading portfolios. They will be looking to developments in the Ukraine as well as euro zone and American inflation data to further fuel any upward trend in gold.

Article: http://www.afr.com/p/business/companies/traders_look_to_gold_as_us_data_kuWJKdB2P1q2EE5viCejsN

9 April 2014

The Australian Financial Review

Broker Watch: Macmahon Holdings (MAH)

Morningstar raised Macmahon Holdings to "hold" from "reduce" noting that while the mining services company has benefited from robust domestic investment growth, particularly in the mining and energy sector, the mining services industry is highly cyclical, volatile and competitive.

Morningstar noted that such an environment can "adversely impact earnings".

It said Macmahon was strongly leveraged to the resources boom with high exposure to gold, iron ore, coal, limestone, diamonds and copper.

Article: http://www.afr.com/p/markets/market_wrap/macmahon_holdings_mah_G9wIMLM0SF6B1wwpztCUhK

7 March 2014

The Australian Financial Review

AngloGold opens Australia's fourth biggest mine

The world's third-largest gold producer, AngloGold Ashanti, is aiming to further drive down costs across its operations as it formally opened the nation's fourth largest goldmine in Western Australia on Thursday.

In his first public statement since becoming chairman last month, Siphon Pityana said the company could not bank on the recent rally in the gold price being sustained.

The price jump has come as a relief to the broader sector, which was weighed down last year as the gold price sank 28 per cent, its biggest drop since 1981.

"Let's hope the current uptick is sustained," he said at the opening of the company's 70 per cent-owned Tropicana goldmine 330 kilometres east of Kalgoorlie.

"We cannot bank on this happening. We need to do more."

The company was continuing to look at maximising efficiencies, as mining operations were often "not very good in maintaining their costs".

Mr Pityana said he was pleased with productivity from AngloGold Ashanti's Australian mines.

"We are quite happy. This is one of the mines where we are producing at comparatively lower costs.

The company claims its mine operating cost of \$569 an ounce made it the lowest-cost gold producer in WA.

Article: http://www.afr.com/p/business/companies/anglogold_opens_australia_fourth_tn8XjYWRpvhcNUg6SdQOoK

MOVEMENTS

There have been a number of movements in the Gold sector this year, some include:

- Mr Edward C. Dowling, Jr - Appointed Chairman of Alacer Gold Corp, April 2014
- Mr Thomas R. Bates, Jr - Appointed Director of Alacer Gold Corp, April 2014
- Mr Richard P Graff - Appointed Independent Lead Director of Alacer Gold Corp (previously Chairman), April 2014
- Mr Howard H.J. Stevenson - Resigned as President & Chief Operating Officer of Alacer Gold Corp
- Mr Geoffery T. Williams Jr - Resigned as Chief Legal Officer & Secretary of Alacer Gold Corp, Feb 2014
- Mr. Marthinus (Martin) - Appointed as a Non-Executive Director of Resolute Mining Ltd Feb 21, 2014
- Mr. Ford - Resigned as a Non-Executive Director of Resolute Mining Limited, Feb 21, 2014
- Mr Sybrandt Van Dyk - Appointed Chief Financial Officer of Macmahon Holdings Ltd, Feb 18 2014
- Mr Ken Scott-Mackenzie - Resigned from the Board of Directors of Macmahon Holdings Ltd, Feb 14 2014
- Mr Jim Walker - Appointed as a Non-Executive Director of Macmahon Holdings Ltd, Oct 2013
- Ms Theresa Mikota - Resigned from Macmahon Holdings Ltd as Chief Financial Officer, Nov 29 2013
- Mr Barry Ford and Dr David Smith - Resigned from the Macmahon Holdings Ltd board as Non-Executive Directors, Nov 14 2013
- Mr Pityana - Appointed Chairman and Non-Executive Director of AngloGold Ashanti, Feb 2014
- Mr David Hodgson - Appointed Non-Executive Director of AngloGold Ashanti, March 2014
- Mr Sandeep Biswas - Appointed Executive Director and Chief Operating Officer of Newcrest Mining Ltd, Jan 2014
- Mr David Woodall - Appointed Executive General Manager International Operations of Newcrest Mining Ltd, Feb 2014
- Ms Francesca Lee - Appointed Secretary and General Counsel of Newcrest Mining Ltd, March 2014
- Mr Peter Hay - Appointed Independent Non-Executive Chairman of Newcrest Mining Ltd, Jan 2014
- Mr Rowan Cole - Appointed Company Secretary of St Barbara Mining Ltd, March 2014
- Mr Tim Netscher - Appointed Non- Executive Director of St Barbara Mining Ltd, Feb 2014
- Mr Doug Grewar - Resigned as Managing Director of Maca Ltd, May 2014
- Mr Peter Gilford - Appointed Financial Controller of Maca Ltd, Aug 2013

CONCLUSION: THEMES

“Like many other parts of the total mining industry we have to examine our processes, our productivity and be able to compete on the world stage.”

Project Director, Gold Mining Company

“Probably like a broken record, but at the end of the day we have to focus on better managing our costs. The sector as a whole I suspect in agreement.”

Operations Director, Gold Mining Company

“I read your report about the coal sector and the quote about being fat, dumb and lazy. There is some truth in it.”

Chief Financial Officer, Gold Mining Company



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