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◆ Red Back Mining

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## RBI Red Back Mining

Red Back Mining is a growing mid-tier gold producer that is greatly capitalizing on the West African gold rush. In many of the countries on the northwestern knob of Africa there is a massive gold boom underway. Gold companies of all sizes are flocking to Ghana, Burkina Faso, Mali, Senegal, Guinea, and Mauritania to tap these countries' rich resources. And the local economies hail with open arms.

Red Back currently operates two low-cost and long-life gold mining operations in Ghana and Mauritania. With the development of Chirano and Tasiast RBI has quickly moved from a junior explorer to an unhedged and debt-free gold producer that should exceed 500k ozs per annum by 2010.

Red Back made its rise to prominence as a result of an early-2004 reverse takeover of Champion Resources by Australian gold explorer Red Back Mining. This transaction was orchestrated by the Lundin Group of Companies. And falling under the umbrella of the Lundin Group is an excellent place for a resource-based company to reside.

Anybody attuned to the mining and oil industries over the last several decades is likely familiar with the influence and success of the Lundin family. Founder Adolf Lundin and his management team operate like a well-oiled machine when it comes to identifying opportunities and successfully growing and operating resource companies. LGC currently manages over a dozen publicly-traded mining and oil companies and it has a rich history of rewarding its shareholders.

The Chairman of RBI is Lukas Lundin, Adolf's son, and the CEO is long-time LGC executive Richard Clark. Lundin and Clark have surrounded themselves with an excellent management team with extensive experience in African gold discovery and mining. And as a member of LGC, RBI is privileged to have sound financial and personnel backing.

### Mining Operations

#### Tasiast

Location: Mauritania

2008 Production	135k oz	Average Gold Grade	2.0 g/t
Gold Reserves	1.6m oz	Mine Life Remaining	8+ yrs

The region in which Tasiast resides had undergone extensive exploration programs for the greater part of 40 years before gold mineralization was deemed to be the most accessible. Beryllium, lithium, nickel, and iron ore were all sought after in this resource-rich area. Ownership interest in Tasiast had swapped companies several times before it finally landed in Red Back's hands in 2007. And RBI procured this impressive project thanks to its LGC connection.

As an LGC member company Red Back was a natural third-party player in Lundin Mining's 2007 acquisition of Rio Narcea Gold Mines. Since Lundin Mining is a base metals

company, it was only interested in RN's robust copper/nickel mine. So it sold Tasiast to RBI for \$225m in cash and the transfer of the project debt. At the time of the acquisition the Tasiast processing plant was being commissioned and by Q1 2008 the mine achieved commercial production.

The original Tasiast mining plan outlined a 10-year mining life with annual gold production of about 110k ozs. But ongoing exploration has exposed much more potential than originally thought. Since this mine went live reserves have grown by 60%. And ongoing exploration is continuing to reveal amazing potential within the Tasiast land holdings.

In order to accommodate this growing resource base Red Back is expanding the processing plant, which will increase capacity by 150%. It is also implementing a dump-leach operation that was recently deemed commercially viable. This increased capacity is expected to grow annual gold production to 240k ozs by 2010 and the dump-leach project could add another 50k+ ozs to Tasiast's total output.

As for Mauritania, it is prudent to consider the geopolitical risks that come with operating inside its borders. Now mining is a huge part of this country's economy and I doubt the Mauritians would allow any disruption to this industry. But there has long been instability at the federal level and it is wise for investors to monitor the latest developments.

Interestingly a peaceful military coup in 2005 led to the first fully democratic presidential election in nearly 50 years. But the stability from this move was short lived due to yet another coup d'état in August 2008. Unfortunately these shenanigans are modus operandi for many African countries. Thankfully this latest coup has assured business as usual along with another democratic presidential election to replace the recently ousted commander and chief.

#### Chirano

Location: Bibiani, Ghana

2008 Production	120k oz	Average Gold Grade	2.4 g/t
Gold Reserves	2.4m oz	Mine Life Remaining	10+ yrs

Chirano resides in a region that has had formal mineral concessions since the 1930s. But extensive exploration activity didn't occur until about 60 years later. In the 1990s Chirano's ownership changed hands several times until Red Back Mining landed it in 1998. And over the subsequent six years Red Back performed extensive soil geochemistry, mapping, trenching, ground geophysics, and drilling that discovered 14 gold deposits along a strike length of 9km.

In 2000 a prefeasibility study (PFS) was completed followed by a bankable feasibility study in 2003 and a formal resource estimate in 2004. During this time Red Back approved the construction of the Chirano gold mine and once it receive the Environmental Impact Statement in 2004 it fast-tracked to commercial production by late 2005. RBI has a 90% interest in Chirano with the Ghanaian government claiming the balance. Ghana also has a small gross revenue royalty stream that scales higher with profitability.

Chirano's original mining plan, which required a capex of only \$73m to implement, called for annual gold production of 123k ozs over a mining life 8.5 years. But through ongoing exploration Red Back quickly discovered that Chirano was more robust than originally thought. Once considered solely an open-pit operation, Chirano now has an underground element. Aggressive exploration below the existing open-pit resources revealed significantly higher-grade gold.

The Akwaaba deposit is one of the 11 deposits in the mining plan, and the formal Akwaaba Deeps project is garnering a lot of attention. Aggressive drilling mixed with a series of 2008 resource studies has recently revealed this deposit to contain 1m ozs of gold reserves grading 3.7 g/t. With these outstanding results Red Back proceeded to initiate a \$67m development project to mine these reserves.

Via a sub-level caving mining method Akwaaba Deep is expected to begin to deliver ore to the mill by the end of 2008. And full commercial production at this deposit is expected to ramp up Chirano's annual output to 240k ozs by 2010. In order to accommodate the increasing amount of ore sent through the processing plant Red Back is undergoing an expansion to its mill to increase capacity by 67%.

On the cost side the original mining plan called for cash costs to be well less than \$400/oz. But energy inflation and some anomalous production issues have really bitten Chirano. These production issues will be resolved with the addition of a new crushing circuit in Q4 2008. But the energy costs are hard-hitting. In July 2008 the Ghanaian government blindsided the mining industry with a 100% increase in electricity costs. And considering Ghana's robust mining industry, now the second largest gold-producing country in Africa, this has caused wailing and gnashing of teeth.

Newmont Mining and AngloGold Ashanti are currently leading negotiations to reduce this power rate increase, but we have to assume it is here to stay. As far as Red Back is concerned this increase in energy costs translates to an increase in cash costs of between \$40/oz to \$50/oz. But even with Chirano's cash costs above \$400/oz, this operation will be wildly profitable with gold where it is today.

### Financials

Red Back has very strong financials. But considering the lofty price tag on its Tasiast acquisition, the capex that went into the completion of the Tasiast mine and going into the plant expansions at both mines, and the fact that RBI is long-term debt free, today's strong financials have of course come at a price. And the shareholders have absorbed the brunt of this price via three large equity financings.

The first two occurred in 2007 and were massive in size. In May RBI closed a private placement that raised C\$375m and in October it closed a public offering, via a bought-deal financing, that raised C\$110m. While dilutive, these financ-

ings were deemed necessary to fund the Tasiast cash payment, pay off its debt facility, and to close the hedgebooks.

The latest financing was also of the bought-deal sort, with proceeds of C\$60m. Interestingly this financing actually showcased Red Back's strength. Announced in November of 2008 and closed in December, it was actually oversubscribed. In the midst of an unprecedented stock-market panic that has flowed into gold stocks, RBI shares exhibited unprecedented investor demand. Now this is strength!

This latest financing pushes Red Back's cash balance over \$60m. Combined with strong cash flows this cash cushion should be more than sufficient to fund the remaining capex for the expansion projects and to pay down a \$28m six-month bridge loan procured to fund RBI's recent investment in MDL. And this MDL investment should more than pay off. In effect RBI now owns a nice chunk of an impressive Senegalese gold mine that is nearing production.



### Summary

Market Cap	C\$1,585m	P/E Ratio	NA
52-week Low	C\$3.28	52-week High	C\$9.25
US Exch-Symb	PNK-RBIFF	CAN Exch-Symb	TSX-RBI
Working Capital	\$99m	Operating Mines	2
Devel. Projects	NA	Explor. Projects	NA
Gold Reserves	4.1m oz	Gold Resources	6.2m oz
2008 Production	255k oz	2009 Est. Prod.	~385k oz
Mkt. Cap./rez-oz	C\$387	2008 Cash Costs	~\$450/oz

The bottom line is in the last couple years Red Back Mining has transformed itself into an elite mid-tier gold producer. Its excellent West African mines will be producing hedge-free gold for many years to come. And I suspect these mines will greatly outlive their original mining-life projections. Ongoing exploration at the extensive and under-explored land holdings that house Chirano and Tasiast continue to reveal the potential for vastly more resources.

Chirano's multi-pit operation has huge upside potential over what RBI believes is greater than 30km of contiguous strike. Not only are there likely to be further surface deposits to be found, but the underground potential is immense.

**Warning!** Investment and speculation are inherently risky endeavors that are not suitable for everyone. Investors and speculators must willingly assume significant risks in proportion to the returns they hope to reap. All stocks discussed in this report are risky ventures that will rise or fall depending on a broad array of fundamental and technical factors that affect them. Thus it is important that only risk capital that you can afford to lose is deployed in any of these stocks. As we cannot see the future, we try to only cover stocks that have a good probability of thriving but not all these stocks will win all the time. No analysts consistently win all the time, and neither will we. By your act of purchasing and reading this report, you fully and explicitly agree to accept full and complete responsibility for all of your own personal investment and speculation decisions, win or lose. By your act of purchasing and reading this report you also fully and explicitly agree that you will not hold Zeal LLC liable or responsible for any losses that you may suffer. We are not certified investment advisors and we suggest you consult your own. And we may actively trade any of these stocks ourselves as well as in our subscription newsletters.



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The developing subterranean operation at Akwaaba could be just the beginning of high-grade deep gold found here.

At Tasiast Red Back believes there is a lot of potential spanning the newly discovered 60km greenstone belt where this mine resides. Only about 20% of this extensive gold system has been explored to date and Red Back is spinning the drills to find more of the yellow metal. Overall with the strong cash flows from Chirano and Tasiast Red Back is well positioned to not only continue its organic growth but perhaps make further acquisitions to bolster its portfolio.

\*Financial info is from the latest available financial statements or presentation.  
\*All data and information presented in this report should be verified for accuracy directly with the company before making a trading decision.