

## **New Gold & Red Back – Successfully Building a Major League Profile**

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**As a general rule, the most successful man in life  
is the man who has the best information**

Two fast growing intermediate gold producers I profiled for my readers in April 2009 are up smartly as they have both met or beat analyst expectations for production and cash flow in their latest quarter.

Shares in Red Back Mining Inc (RBI-TSX) are up over 20% to \$10.15 and New Gold Inc. (NGD-TSX) is up 75% to \$3.50.

I profiled them because both are increasing production and decreasing costs and that means cash flow growth. Red Back expects to produce 360,000 ounces of gold in 2009 from their Chirano Gold Mine in Ghana and the Tasiast Gold Mine in Mauritania (both in Africa). But production should move up to over 500,000 ounces in two years.

New Gold's cash flow in their recent Q2 report was 4 cents a share - the street was expecting 1 cent/share. New Gold's production comes from 3 mines and will only increase 90,000 ounces over the next several years to 438,000 oz. They'll accomplish the increase in production by bringing their New Afton mine in Canada into production, but that mine has such low costs that it will drop overall cash costs from \$500 - \$309.

After reading the research reports following their quarterly news releases I see that the analyst community is starting to give these companies higher multiples.

For example, prior to the three way merger that formed New Gold, each of the predecessor companies was trading 0.4 – 0.7 NAV (Net Asset Value). Now New Gold is trading at 1 to 1.1:1 NAV. After their latest good quarter several analysts are saying they have proven themselves operationally so that they deserve a 1.4x NAV multiple – which would translate into a 30-40% bump in share price from here.

Red Back is now garnering calls for a 2x NAV multiple, which only a very few juniors and intermediates attain. Right now only Eldorado Gold gets a 2x NAV among the junior producers on the TSX.

Technically, New Gold has the slightly better stock chart right now. It looks to be breaking out to the upside after a long ascending triangle.





Operationally, Red Back reported Q2 2009 net earnings of US\$24.7 million, or US\$0.11 per share, slightly ahead of the analysts' consensus estimate EPS of US\$0.10. The company reported production of 80,237 ounces of gold at a cash cost of US\$378 per ounce, slightly lower than expected.

Their gift to the market in Q2 was their Chirano mine where cash costs were US\$420 per ounce, that was quite a bit below expectations.

For New Gold their Cerro San Pedro mine in Mexico was the star, with higher than planned silver production and better silver prices allowing them to say that costs will be lower than expected there. That was offset by slightly higher costs at their Mesquite Gold Mine in California. Higher copper prices are definitely helping their Peak Mine in Australia.

I believe that one of the safest places for investors to put their money in this turbulent market is profitable junior and intermediate gold producers. Red Back and New Gold

have shown they can find and build mines **and** cash flow for investors. Their success is giving them higher valuations at the same time their companies are growing. Hopefully that creates a slingshot effect for our readers.

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