

## Cash is King, Cash Flow is Queen

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If cash is king, cash flow is queen. As the debt crisis eases management teams in the mining industry can again re-focus on their #1 job – growing the business and creating shareholder value. Since September 2008, companies have been telling their shareholders how much cash they have, and what their spending commitments are, while keeping an eye to preserving working capital. Now they can go back to talking about cash flow growth, just like every other business!

While there will still be ups and downs, investors are no longer concerned with systemic financial collapse.

Growth growth growth – whose got it? Growth is surprisingly hard to find in the gold sector (and that's a good reason why the price of gold should remain buoyant for some time to come). My first article in this series on “growth companies” highlighted two intermediates that are well on their way down the path to major status, Red Back and New Gold (see archives at bottom of article). Both Eldorado (ELD-TSX; EGO-TSX) and Agnico-Eagle (AEM-TSX) will see production increases of more than 50% over the next 3 years. And Goldcorp is scheduled to increase production 50% over the next 5 years. No surprise here, all of the above companies are good solid growth stories and deserve investors attention.

But I found a growth story that just might surprise.

In my constant ongoing search for growth stories among juniors and intermediates one company came up as a complete surprise – Rusoro Mining (RML.tsx-v: \$0.455).

Now I'll be the first to admit that very few companies have had more bad press than Rusoro recently has in their failed take-over attempt of Gold Reserve (GRZ-TSX) for their 9 million ounce Brisas deposit in Venezuela.

But what makes Rusoro interesting isn't all this soap opera negative publicity, but their real progress on the ground which until today has been hidden from potential investors. Rusoro, since purchasing their first production assets in Venezuela in 2008, have consistently increased production and lowered operating costs per ounce.

One of the reasons being is that they have had no problems getting permits and advancing their projects, which has been a huge source of frustration for both Gold Reserve and Crystallex (KRY-TSX), the two most notable other foreign mining companies working in Venezuela. Much of this can be attributed to the fact that the principals of Rusoro (the Agapov family) are Russian and that they have been able to develop a very strong relationship with the Venezuelan Government. This relationship has been further enhanced by the fact that Venezuela and Russia in general are forging a

very strong business relationship through greatly increased trade as well as through a number of business initiatives in the region.

Since taking over the Choco 10 mine in December 2008, Rusoro has increased production from 4,000 ounces a month to over 10,000 ounces a month.

Cash costs per ounce have dropped in half, from \$800/oz to under \$400. So at the same time their gross production is increasing, so is their profit margin per ounce.

The company's guidance for 2009 is an average of over 14,000 ounces a month production, or 170,000 ounces for the year. The Company has 7.1 million ounces in the M & I category (including 2.2 M oz P&P), and 7.0 million ounces in the inferred category with two new mines coming into the production profile in the near term.

Rusoro also just released the results of a scoping study, outlining the preliminary assessment of a major expansion at the Choco 10 mill. The study outlined a production scenario of 3 times the current guidance for the operations at 540,000 oz Au/yr at a very reasonable capex of just over US\$200 million.

Free cash flow at Rusoro is showing sustained quarter over quarter improvements, and should continue to do so through this year and next. The Company should be able to fund the initial incremental increases in capacity at Choco 10 internally as well as the costs associated to advance their new projects. The Company completed an equity raise of US\$ 60 million in March 2009.

Rusoro has shown they are good operators; probably much better than what the market believes. Investors just can't hear the good news because of the noise surrounding Venezuelan politics and the failed Gold Reserve bid. So far, Rusoro's Russian connections have helped the company operate in Venezuela, but the low share price says investors remain unconvinced that this means much.

I think it means a lot, I also think Rusoro's shares are extremely undervalued, but won't stay that way for long after investors manage to unwrap the wet news blanket covering this exciting growth story. Rusoro warrants further due diligence by anyone wanting to add an exciting growth story to their portfolio.

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Bio - Richard is host of [www.aheadoftheherd.com](http://www.aheadoftheherd.com) and invests in the junior resource sector. His articles have been published on over 30 websites including - Wall Street Journal, Kitco, USAToday, Safehaven, SeekingAlpha, The Gold/Energy Reports, Gold-Eagle and Financial Sense.

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