Verdmont Capital

Metals and Mining
Research

Gold Outlook and Top Picks

February 6, 2013

Highlights:

- The secular gold bull market remains intact
- Optimism surrounding the global recovery is working against the gold price
- Gold should end the year modestly higher
- Gold stocks are oversold and cheap
- Top equity picks: BTO.T, BRD.T, GUY.T, BSX.T, LYD.T

Scott Gardner, CFA
Chief Investment Officer

Taylor Housser
Sales Trader
Taylor.Housser@verdmont.com.pa
+507 301 9010

Glynn Fisher
Sales Trader
Glynn.Fisher@verdmont.com.pa
+507 301 9020

Court Filipenko
Sales Trader
Court.Filipenko@verdmont.com.pa
+507 301 9050

Switchboard
info@verdmont.com.pa
+507 301 9000

www.verdmont.com.pa

GOLD OUTLOOK

The long term gold bull market remains firmly intact, driven by an investment landscape defined by negative real interest rates, fiscal profligacy, generous liquidity conditions, global currency debasement and mounting inflationary pressures.

Although the long term dynamics underpinning the gold market are as relevant as ever, gold price action has been relatively soft as of late.

Source: Bloomberg, Verdmont Capital, S.A.

Given the tremendous run that gold has had, even moderate pullbacks are typically met with a heightened degree of trepidation, as investors fear that the gold bull market has run its course.

In light of recent gold price weakness, we are cautioning our clients against become overly pessimistic towards the gold space. Intermittent pauses within a long term uptrend should be expected and we believe that recent gold price action makes intuitive sense in the context of the broad market.

Risk is back in vogue as global policy makers have earned the confidence of the market that they will do whatever it takes to stave off a sizeable contraction in global asset prices. Furthermore, global economic data has been relatively strong, as the US economy has been showing signs of life, European sovereign spreads have come in from crisis levels and the Chinese economy appears to be on a cyclical upswing.

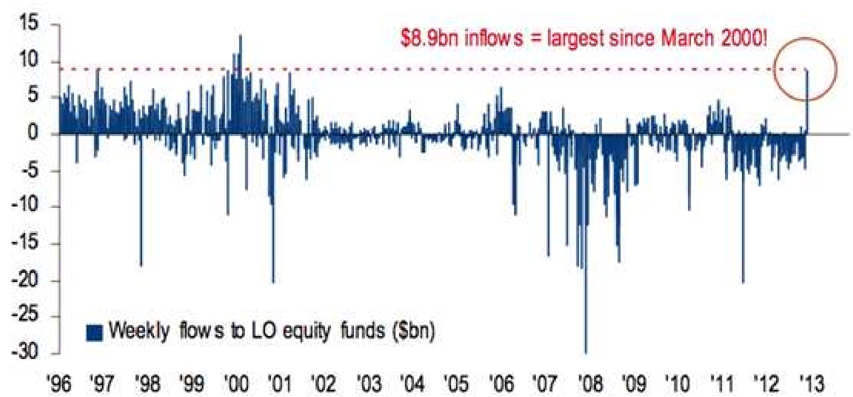
These developments have resulted in renewed optimism in the market, driving equity prices significantly higher, as underinvested investment managers chase the market higher after years of poor performance.

Wall Street investment strategists have been recommending equity allocations below 50% in investment portfolios, while equities have been ripping higher. Even if their call does make fundamental sense from a long term standpoint, retail investors will only stick around for so long before being pouched by more optimistic competitors. At one point, strategists will need to capitulate and chase stocks higher. This year is a great example of this, as you have seen record inflows into equity mutual funds, which has coincided with a strategists boosting recommended equity allocations.

Investment strategists have been caught on their heels

Source: Bloomberg, Verdmont Capital, S.A.

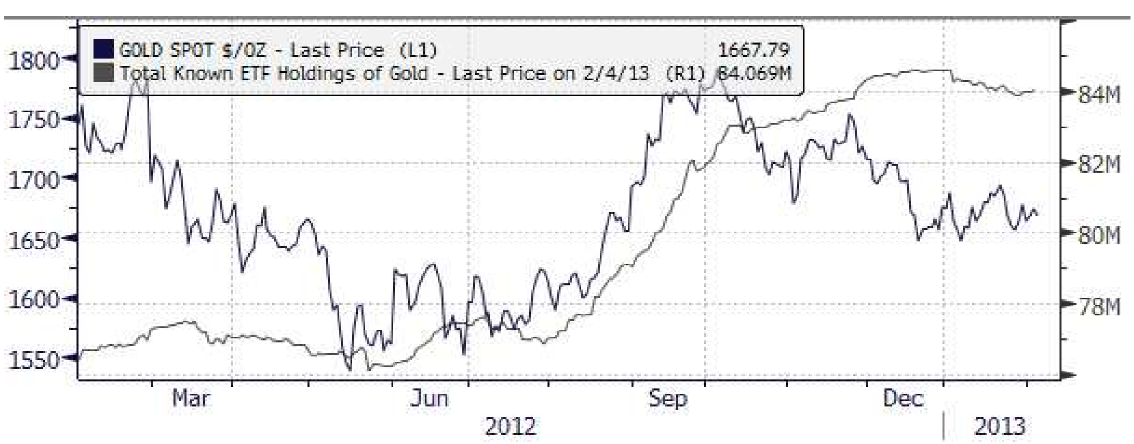
Equity funds have seen strong inflows



Source: BofA Merrill Lynch Global Investment Strategy, EPFR Global, Lipper FMI

Gold ETF inflows have stalled

Against this backdrop, it makes sense for some relative softness in the gold price. After all, if one is using gold as a cash alternative in investment portfolios, as has been prescribed by gold proponents, some weakness is inevitable as investors shift their allocation from cash to stocks. You have seen this play out in aggregate bullion ETF holdings, which have moderated alongside gold price weakness.



Source: Bloomberg, Verdmont Capital, S.A.

There has been a rotation into cyclically exposed commodities

Furthermore, renewed faith in the prospects for the global economy, specifically optimism surrounding a tentative bottoming in Chinese growth, has led to a rotation out of liquidity based commodity plays like gold, into more cyclically exposed commodities like copper and oil. Gold has outperformed these commodities by a wide margin, creating a relative value component in the commodity complex that traders are hoping to exploit.

Source: Bloomberg, Verdmont Capital, S.A.

Broad market strength may cap gold price strength this year

A strong case can be made that the renewed optimism for global growth will prove misplaced, given that the global economy is still grappling with the ill effects of a global debt super cycle that remains in full swing. That said, we recognize that there will be pockets of strength within a market that faces surmountable pressures, especially given the commitment of policy makers to buoy up asset prices. We believe we may be in one of those periods and expect the broad equity market to end the year higher.

So where does that leave us with our gold call over the short term? We believe that gold should hold its value and trend slightly higher through to the end of the year, and in environment that remains marred with so much uncertainty, an allocation to gold continues to makes sense.

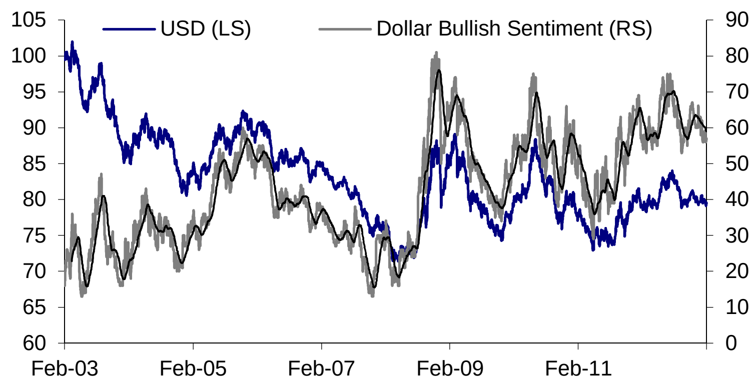
Although gold price strength is well supported by short term drivers

It should be noted that the risk to our moderate call for the price of gold remains to the upside, as there are some short term factors that could drive the metal higher than anticipated, even in an environment that is shaping up to be dominated by broad market optimism.

The risk on trade should propel the US dollar lower over the short term. The dollar has just broken long term support at the upper end of its trading range, and given lofty sentiment, there is plenty of room for it to continue to correct. A US dollar breakdown over the short term is bullish for gold.

US dollar should weaken over the short term

Source: Bloomberg, Verdmont Capital, S.A.



Source: www.marketvane.net, Verdmont Capital, S.A.

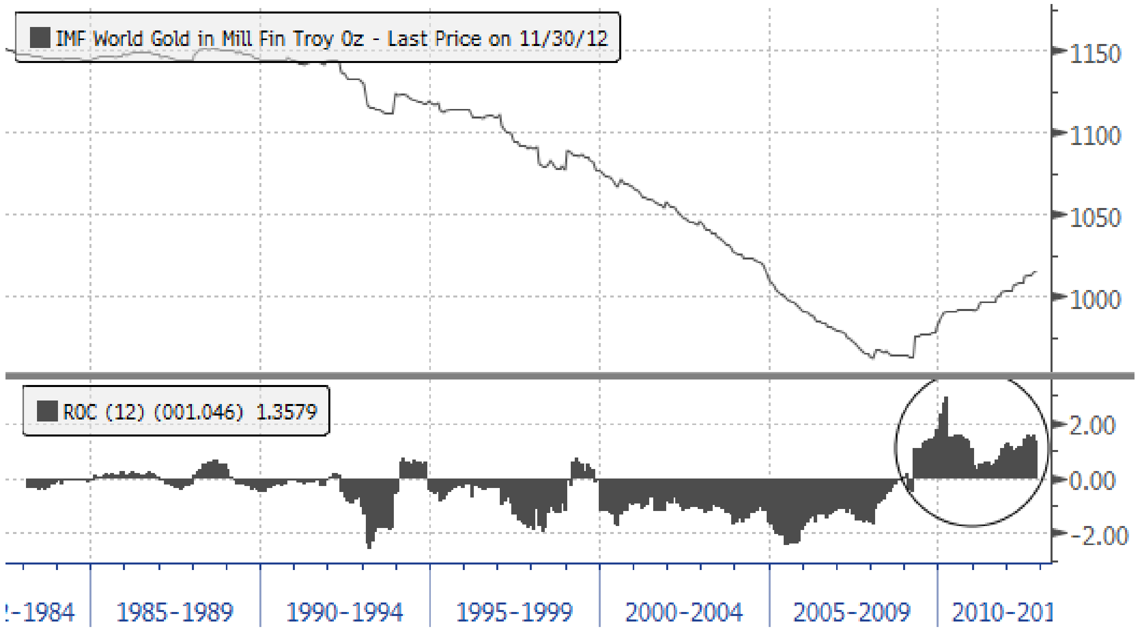
Global currency debasement is in full swing this year

We have also seen a renewed vigor in global currency debasement as of late, which a strong tailwind for gold prices. With Japan announcing a full-on commitment to push the Yen lower, the US, Europe and now Japan, are aggressively deflating their currencies to remain competitive in the global export market. When the world's major fiat currencies are in a race to the bottom, gold has a natural affinity to do well.

Source: Bloomberg, Verdmont Capital, S.A.

Central banks have recently become net buyers of gold

Global central bank activity is also positive for gold over the short term, given that central banks have become net buyers of gold as of late, reversing what has been a +30 year trend.



Source: Bloomberg, Verdmont Capital, S.A.

Top 20 FX holders

	Forex $m	Gold, $m	% gold	Gold, end-08, t	Gold, Nov-12, t	Change
China	3,305,310	58,461	1.7%	600	1,054	454
Japan	1,231,830	42,439	3.3%	765	765	-
Saudi Arabia	650,387	17,909	2.7%	323	323	-
Russia	476,240	52,011	9.8%	520	938	418
Switzerland	466,665	57,685	11.0%	1,040	1,040	-
Brazil	374,830	3,727	1.0%	34	67	34
Eurozone	334,173	598,052	64.2%	10,862	10,783	-78
South Korea	320,491	4,714	1.4%	14	85	71
Hong Kong	301,618	116	0.0%	2	2	-
India	268,829	30,933	10.3%	358	558	200
Algeria	189,252	9,630	4.8%	174	174	-
Thailand	173,150	8,453	4.7%	84	152	68
Mexico	161,367	6,915	4.1%	6	125	118
USA	140,234	451,089	76.3%	8,134	8,134	-
Malaysia	136,970	2,018	1.5%	36	36	-

Source: IMF, Macquarie Research, January 2013

The raw demand associated with these purchases should push gold higher, or at the very minimum, place a floor under prices, as central bank programs are typically long tailed in nature.

Furthermore, we would argue that the signaling effect associated with a shift in central bank attitudes towards gold, is equally important to that of the demand impact. Central banks have begun to appreciate the magnitude of global fiat currency debasement and taken actions to protect themselves from it. In tune with this, recent gold purchases are probably a recognition that razor thin sovereign yields are not ample compensation for the credit and duration risk taken on in holding them. When the value of government debt is viewed with increased skepticism, it is bullish for gold prices.

Inflation expectations have been sticky to the upside

Gold prices may also get a boost from a breakout in inflation expectations over the short term. If the current cyclical upswing in the global economy has legs, look for inflation expectations to increase accordingly. Commodity prices have been rising alongside optimism about the outlook for the global economy and they typically lead inflation expectations. Against a backdrop of extremely accommodative monetary policy and generous global liquidity conditions, a breakout in inflation expectations would in all likelihood be accompanied by renewed concern about inflation risk in the system. Gold would do well in such an environment due to its status as an inflation hedge.

Source: Bloomberg, Verdmont Capital, S.A.

GOLD EQUITIES

In terms of gold stocks, we believe they represent a tremendous opportunity for investors at the present time. Valuations remain at historically low levels and sentiment towards the sector is very depressed, which is inconsistent against our view that we remain in a long term gold bull market.

Gold equities have been serial disappointers, given a slew of operating issues, dominated by escalating costs, negative production surprises, limited reserve growth and resource nationalization issues.

Gold stocks have underperformed bullion by a wide margin

This has caused gold stocks to underperform gold bullion by a wide margin, a condition we expect to reverse as an elevated gold price should translate into superior gold stock profitability over the long run. If profitability does not improve, the supply response will remain muted, which is ultimately bullish for the price of gold, and by extension, quality gold stocks.

Source: Bloomberg, Verdmont Capital, S.A.

Gold stock valuations are through 2008 crisis levels

Gold stock valuations are completely washed out and are at levels that have typically preceded a period of outperformance. Note how valuations are below the levels incurred during the height of the credit crisis in 2008, despite the current environment hosting a much higher gold price and drastically reduced volatility in the financial markets.

Source: Bloomberg, Verdmont Capital, S.A.

Large cap stocks are trading close to liquidation value

We have found that the Price-to-Book ratio for the large cap gold names has been a pretty good indicator for finding interim bottoms in gold stocks. A P/B ratio close to 1 arguably signifies the point of maximum despair in the gold sector as companies are trading close to their liquidation value. Typically, companies should trade at a decent premium to their book value given the future earnings power of their assets.

Source: Bloomberg, Verdmont Capital, S.A.

In addition to historically low valuations, gold stocks are currently attractive from a technical standpoint.

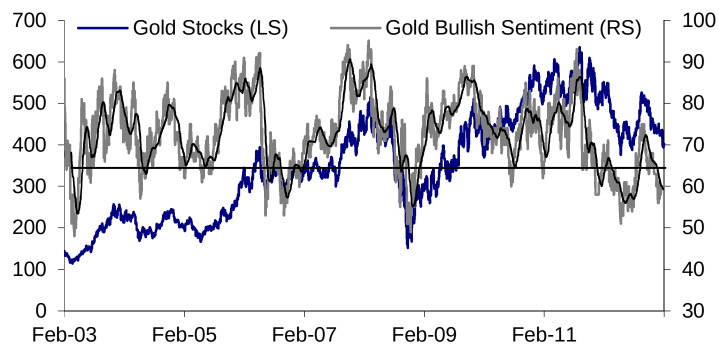
Various trend and momentum indicators we monitor are washed out.

Gold stocks are technically oversold

Source: Bloomberg, Verdmont Capital, S.A.

Gold sentiment is indicating gold stocks are a buy

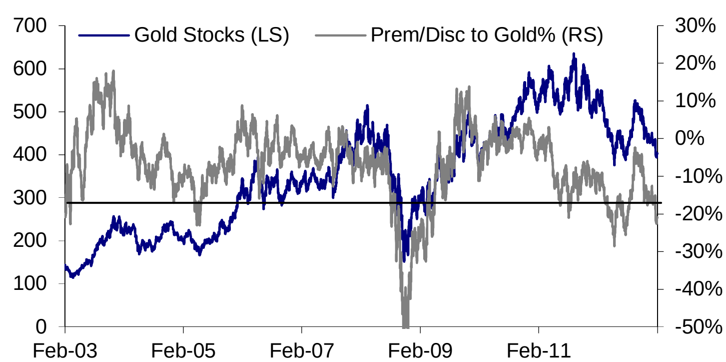
Trader sentiment towards gold bullion is at 10 year lows and at levels that have typically lead to a rally in gold shares.



Source: www.marketvane.net, Verdmont Capital, S.A.

Gold stocks are trading at a steep discount to gold

Finally, gold stock relative underperformance vs. gold, based on a rolling 3 year regression, is at extremes and pointing to strength in gold stocks.



Source: Bloomberg, Verdmont Capital, S.A.

GOLD STOCKS - TOP PICKS

B2Gold Corporation

BTO.T : C$3.76

Stock Data

52 Week High	4.55
52 Week Low	2.63
Market Cap (MM)	2407.28
Enterprise Val (MM)	2348.79
Avg Daily Vol (MM)	4.55
Shares O/S (M)	645.38
Cash & Equiv (MM)	102.29
Working Cap (MM)	119.19
Total Debt (MM)	1.457
Net Debt	-100.84

Key Executives

Clive Johnson, Pres & CEO
Roger Richer, Exec VP
Mark Corra, CFO
Tom Garagan, SVP Expl
Dennis Stansbury, VP Dev

Top Shareholders

Fidelity	11.8%
Van Eck	11.5%
Blackrock	10.1%
Resolute Funds	8.6%
RBC	5.2%

About B2Gold

B2Gold is a gold producer with two mines in Nicaragua and a portfolio of development and exploration projects in Nicaragua, Colombia, Costa Rica and Uruguay. The company currently has 13.8 MMoz in total resources and achieved gold production of 158,000 oz in 2012 at a cash cost of $651 oz. Gold production is forecasted to grow to 540,000 oz in 2015.

Price Performance - 3 years

Source: Bloomberg, Verdmont Capital, S.A.

Investment Highlights

- BTO.T's management and technical team have an excellent track record of exploration, mine development and disciplined operating capabilities.
- BTO's production growth profile is amongst the best in the industry, with gold production forecast to grow from 385,000 oz in 2013, to potential producing 700,000 oz by 2017. This represents production growth of 82% during a three year period.
- The company is evolving into a diversified global gold producer as it is forecasting production from 5 mines in 4 different countries by 2017, as opposed to 2 mines currently producing in Nicaragua.
- The company is expected to produce north of 500,000 ounces by 2015, making the company a mid-tier gold producer. As a result, BTO.T should enjoy multiple expansion, given that mid-tier gold companies typically enjoy higher trading multiples than their smaller competitors.
- BTO.T offers excellent exploration upside given the company's aggressive exploration plans. The company is currently executing a $36 million exploration program that involves 70,000 meters of drilling.
- Strong operating cash flow, a solid balance sheet and a recently established $150 MM credit facility indicates that the company has the ability to fund all capital and exploration projects in 2013.
- Aggregate analyst price estimates for BTO.T are $6.00/sh, representing a potential return of 89% based on the current share price.
- Catalysts: continued news flow from exploration activities, conversion of additional resources into reserves at Jabali, Gramalote pre-feasibility study Q1/13, Masbate expansion study and the potential monetization of Gramalote.

Brigus Gold Corp

BRD.T : C$0.90

Stock Data

52 Week High	1.14
52 Week Low	0.69
Market Cap (MM)	208.22
Enterprise Val (MM)	261.28
Avg Daily Vol (MM)	0.72
Shares O/S (M)	231.36
Cash & Equiv (MM)	18.82
Working Cap (MM)	-3.69
Total Debt (MM)	55.452
Net Debt	36.63

Key Executives

Wade Dawe, Chm & CEO
Daniel Racine, Pres & CEO
Jon Legatto, CFO
Howard Bird, SVP Expl
Marc Bilodeau, VP Oper

Top Shareholders

Sprott Asset Mgmt	7.6%
Van Eck	6.7%
Ruffer Investments	3.1%
Wade Dawe	1.1%
Connor Clark & Lunn	0.8%

About Brigus Gold

Brigus is a junior gold producer and its cornerstone asset is the Black Fox property in the Timmons Gold District of Ontario. The Black Fox property is comprised of the Black Fox mine, which produced 77,000 oz of gold in 2012, and the Grey Fox advanced stage exploration project. In addition to the Black Fox property, BRD.T owns the Goldfields project in Saskatchewan, which is currently being evaluated for development. These assets currently host a total estimated gold resource of 1.9 MMoz.

Price Performance - 3 years

Source: Bloomberg, Verdmont Capital, S.A.

Investment Highlights

- BRD.T continues to make great strides at Black Fox with gold production increasing by 21,000 oz in 2012 and cash costs improving from $940 oz to 763 oz over the course of the year.
- The company expects to produce upwards of 100,000 ounces in 2013, making the company attractive given a dearth of junior producers in jurisdictions as politically safe as Timmons, Ontario.
- The company has excellent potential to add additional ounces through ongoing exploration. The Black Fox underground deposit is open for expansion at depth and initial results show excellent grades over significant widths. Furthermore, exploration success at Grey Fox continues, underscored by recent drill results, which included an intercept of 35 meters grading 14 g/t gold.
- The company is well capitalized and free cash flow in 2013 should cover the company's exploration activities and the capital costs associated with the development of Grey Fox.
- BRD.T is significantly undervalued relative to the global junior producer peer group. The stock trades at 3.3X 2013 cash flow estimates, as opposed to the peer group, which trades at 6.9X.
- By all indications, it appears as if BRD.T is entering a steady state production, which should allow for lower cash costs, increased profitability and higher free cash flow - all of which should contribute to multiple expansion more inline with its global peers.
- Catalysts: ongoing production growth at Black Fox, continued exploration results from drilling at both Black Fox and Grey Fox, release of an updated resource at Grey Fox in Q2/13 and a feasibility study Q3/13.

Guyana Goldfields Inc.

GUY.T : C$3.35

Stock Data

52 Week High	8.63
52 Week Low	1.67
Market Cap (MM)	320.39
Enterprise Val (MM)	282.77
Avg Daily Vol (MM)	0.42
Shares O/S (M)	95.07
Cash & Equiv (MM)	37.62
Working Cap (MM)	35.94
Total Debt (MM)	0
Net Debt	-37.62

Key Executives

Patrick Sheridan, CEO
Marcel DeGuire, President
Paul Murphy, CFO
Dan Noone, VP Exploration
St. John Lees, VP Projects

Top Shareholders

The Baupost Group	19.8%
Franklin Resources	11.2%
Van Eck	9.0%
Patrick Sheridan	6.5%
IFC (World Bank)	5.4%

About Guyana Goldfields

Guyana Goldfields is an exploration and development company focused on its 100% owned Aurora gold project in Guyana. Aurora currently hosts a 3.48 MMoz reserve and has the potential to produce an average off 231,000 oz/yr by 2015.

Price Performance - 3 years

Source: Bloomberg, Verdmont Capital, S.A.

Investment Highlights

- The company has a strong institutional shareholder base, with top holders comprised of the Baupost Group, Franklin Templeton, Van Eck, IFC (World Bank Group) and Sprott Asset Management, among others.
- GUY.T recently released a revised feasibility study on Aurora that greatly improved the potential economics of the project. The revised study had significantly lower front end capex and operating costs, which greatly enhanced the projects economics. The forecasted IRR was upgraded to 38%, as opposed the February 2012 estimate of 13%, based on $1,300 oz gold.
- We believe that the upgraded feasibility marks a turning point for the company as the rescoping of the project meaningful enhances returns, paybacks and net present value, all making Aurora far more financeable in todays selective junior market.
- The current mine plan excluded additional measured and indicated resources of 3.26 MMoz at depth. These ounces represent further upside to the project given that there should be excess mill and equipment capacity later in the mine life to accommodate these ounces.
- The recent bought deal financing of $100 MM affords the company lots of flexibility as it looks to advance the Aurora project.
- The company continues exploration work on the Aurora and Aranka properties, with an initial $3 MM budget planned for 2013, to be increased upon success.
- GUY.T is an attractive takeout candidate given the size and grade of the existing resource, permitting is in place, the project is shovel ready and there remains exploration and resource upside not reflected in the revised feasibility study.
- GUY.T has extensive analyst coverage and aggregate analyst prices estimates for the stock are $7.84/sh one year out, representing a potential return of 114%.
- Catalysts: Project financing decision Q1/Q2, continued exploration work, early construction & engineering work, final design and construction Q2 onwards.

Belo Sun Mining Corp

BSX.T : C$1.52

Stock Data

52 Week High	1.83
52 Week Low	0.76
Market Cap (MM)	393.55
Enterprise Val (MM)	385.05
Avg Daily Vol (MM)	1.24
Shares O/S (M)	265.91
Cash & Equiv (MM)	32.42
Working Cap (MM)	30.58
Total Debt (MM)	0.067
Net Debt	-32.35

Key Executives

Peter Tagliamonte, Chm
Mark Eaton, Pres & CEO
Ryan Ptolemy, CFO
Ian Pritchard, COO
Helio Diniz, VP Exploration

Top Shareholders

GCIC Ltd.	7.3%
Blackrock	6.2%
Sprott Asset Mgmt	4.8%
Franklin Resources	3.8%
Vanguard	3.7%

About Belo Sun

Belo Sun is an exploration and development company focused on its Volta Grande project in Para State of Brazil. The project currently hosts total resource of 6.9 MMoz of gold and the company is currently working towards completing both a prefeasibility study and a bankable feasibility study with releases anticipated in Q1/13 and H2/13 respectively.

Price Performance - 3 years

Source: Bloomberg, Verdmont Capital, S.A.

Investment Highlights

- With a total resource of 6.9 MMoz, Belo Sun's Volta Grande project is one of the largest, undeveloped, open-pitable gold deposits in mining friendly Brazil.
- The open pit resource represents 6.6 MMoz grading 1.79 g/t, making Volta Grande one the highest grade +5 MMoz undeveloped open-pit projects not owned by a major.
- Exploration drilling is ongoing in 2013 and the focus will be adjacent to the north and sound blocks, as well as along the Tres Palmeiras Greenstone belt to the southeast. There is a good probability that resources will continue to expand in 2013.
- The company has a strong balance sheet with minimal debt and roughly $56 million in cash.
- BSX.T has strong institutional shareholder base with top shareholders consisting of GCIC Ltd., Blackrock, Sprott Asset Management, Vanguard, RBC and Franklin Resources, among others.
- Belo Sun trades cheap on a P/NAV basis, with a P/NAV at $1,500 oz gold of 0.27, versus the peer group average of 0.58.
- The rapid resource growth at Volta Grande, high grades, exploration upside, potentially robust economics, location in a politically stable jurisdiction and scarcity of large high-grade open-pitable deposits make Belo Sun an attractive takeout candidate.
- Catalysts: continued news flow from drilling, a prefeasibility study in Q1/13, a bankable feasibility study in H2/13 and permitting advances for mine development.

Lydian International

LYD.T : C$2.00

Stock Data

52 Week High	2.85
52 Week Low	1.78
Market Cap (MM)	253.72
Enterprise Val (MM)	139.16
Avg Daily Vol (MM)	0.24
Shares O/S (M)	126.86
Cash & Equiv (MM)	8.30
Working Cap (MM)	1.71
Total Debt (MM)	0
Net Debt	-8.30

Key Executives

Godron Wylie, Chairman
Tim Goughlin, Pres & CEO
Roderick Corrie, CFO
Didier Fohlen, SVP
Hayk Aloyan, MD Armenia

Top Shareholders

Van Eck	10.4%
Amber Capital	9.0%
IFC (World Bank)	8.1%
EBRD	7.1%
Franklin Resources	3.9%

About Lydian International

Lydian International is a junior gold exploration and development company headquartered in Europe. The company's flagship asset is the Amulsar gold project in Armenia, which currently hosts a total estimated gold resource of 3.2 MMoz. Lydian released a feasibility study in Q3/12, outlining an open-pit heap leach operation, with initial production potentially achievable in H1/15.

Price Performance - 3 years

Source: Bloomberg, Verdmont Capital, S.A.

Investment Highlights

- Lydian's management team and board of directors have extensive experience in mine development and operations.
- Although off the beaten path relative to other traditional mining jurisdictions, Armenia has a western-styled political system and modern mining concession laws. Dundee Precious Metals currently has an operating mine in Armenia and there is a history of European and Russian mining companies operating there.
- The 3.2 MMoz Amulsar project is an at-surface and technically low-risk project with all the characteristics of an economically robust open-pit heap leach operation.
- The Q3/2012 feasibility study outlined a heap leach operation averaging 170,000 oz/yr of production, cash costs of $468/oz, upfront capex of $270 MM and a LOM strip ratio of 2.23:1. These feasibility results are very robust, contributing to a forecasted payback period of 3.1 years and an IRR of 39% at $1,500 gold.
- The size of the resource at Amulsar has the potential to increase significantly as the company continues to return strong infill and step out drill results. A resource update is expected at the end of Q2/13 and drilling is expected to resume in the spring with a 40,000 meter program currently planned.
- LYD.T currently has an enterprise value of $240MM, whereas the Amulsar project has a net present value north of $1B at $1,500 gold. As Amulsar de-risks, and LYD.T moves closer to production, look for this valuation gap to close.
- Catalysts: ongoing drill results from the company's aggressive exploration campaign, an updated resource estimate in Q2/13, further clarity on construction funding, additional permitting progress and engineering studies to optimize the current mine plan.

About Verdmont Capital

Verdmont Capital is a full service securities and investment management firm based in Panama offering global execution through our trade desk, online trading, wealth management, mutual funds, research and corporate finance solutions.

Verdmont deals in the world's largest and fastest growing markets through relationships with top tier counterparties. Verdmont provides direct market access through it's trading desk or through it's sophisticated online trading platform.

Verdmont offers idea driven research in stocks and commodity related investments. Our team is comprised of former investment managers and experienced traders that have established track records of adding value. We are completely independent, which enables us to source ideas from the best analysts, industry professionals and third party research providers.

Verdmont provides discretionary investment management for high net worth individuals, trusts, foundations and corporations. Our managed accounts are multi-asset portfolios offering global exposure to equities, fixed income, alternative investments and commodities.

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Contact Information

Scott Gardner, CFA	Taylor Housser	Glynn Fisher	Court Filipenko	Switchboard
Chief Investment Officer	Sales Trader	Sales Trader	Sales Trader	
Scott.Gardner@verdmont.com.pa	Taylor.Housser@verdmont.com.pa	Glynn.Fisher@verdmont.com.pa	Court.Filipenko@verdmont.com.pa	info@verdmont.com.pa
+507 301 9072	+507 301 9010	+507 301 9020	+507 301 9050	+507 301 9000

This report was prepared by Verdmont Capital

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Head Office

Edificio Verdmont, Ave. Aquilino De La Guardia No.18, Panama City, Panama 0823-03017

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