



Institutional Equity Research Earnings Update

August 13, 2013

Stock Rating:
Sector Underperformer

Sector Weighting:
Market Weight

12-18 mo. Price Target None
SGR-TSX (8/13/13) \$0.13

Key Indices: None

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range \$0.09-\$1.11
Shares Outstanding 337.6M
Float 325.0M Shrs
Avg. Daily Trading Vol. 2,628,000
Market Capitalization \$43.9M
Dividend/Div Yield Nil / Nil
Fiscal Year Ends December
Book Value NM
2013 ROE (E) NM
LT Debt \$53.3M
Preferred Nil
Common Equity \$231.3M
Convertible Available Yes

Earnings Per Share	Prev	Current
2012		(\$0.03A)
2013	(\$0.11E)	(\$0.09E)
2014		(\$0.10E)

P/E		
2012		NM
2013	NM	NM
2014		NM

Cash Flow Per Share		
2012		\$0.13A
2013	\$0.06E	\$0.07E
2014		\$0.13E

P/CF		
2012		1.0x
2013	2.2x	1.9x
2014		1.0x

Company Description

San Gold Corporation is a mining company located in Canada and focused on exploration and mining in the Rice Lake Greenstone Belt in Manitoba.

sangoldcorp.com

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Precious Metals

San Gold Corporation

Q2/13 Results; Good Operating Quarter, But To What Effect?

- SGR delivered a solid operating quarter with mill throughput of 1,784 tons per day (up 3% Q/Q) and head grade of 5.05 g/t (up 22% Q/Q), for gold production of 22,526 oz. at cash costs of \$783/oz. Production guidance for 2013 of 75,000-90,000 oz. at cash costs of \$800-\$900/oz. was maintained.
- Despite the solid operating results, upon examining the company's cash flow statement, we calculate SGR still had negative free cash flow of \$11.9 million. While further operational improvements are possible, benefits of these improvements could be offset by a weaker gold price.
- As of June 30, SGR had cash and short-term investments of \$21.3 million, down from \$33.7 million at the end of Q1. Management is conducting a comprehensive review, including of its capital budget, but the company's current financial position does not provide much room for error.
- In this note, we perform an analysis on cash costs based on the cash flow statement, which we believe provides a better reflection of the underlying economics of the Rice Lake operation. Based on this methodology, we calculate a cost of ~\$1,163/oz.

Stock Price Performance



Source: Reuters

All figures in Canadian dollars, unless otherwise stated.


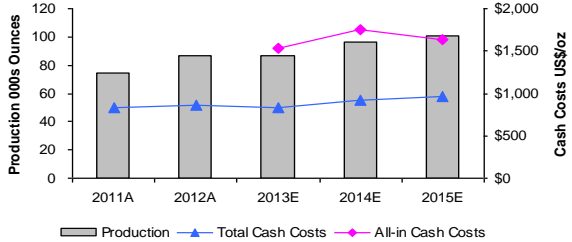
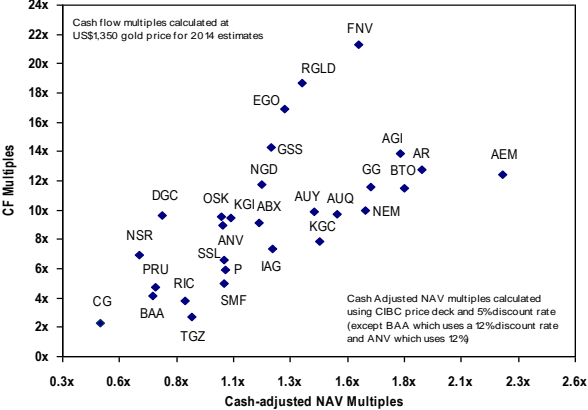
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See "Important Disclosures" section at the end of this report for important required disclosures, including potential conflicts of interest.

See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

	SAN GOLD CORPORATION SGR-TSX 8/13/13 \$0.13 12- To 18- Month Price Target: -- Precious Metals Sector Weighting: Market Weight			Sector Underperformer Cosmos Chiu, CFA (416-594-7106) Cosmos.Chiu@cibc.ca Kevin Chiew, (416-594-7457) Kevin.Chiew@cibc.ca Jeff Jackson, (416-594-7297) Jeff.Jackson@cibc.ca			
	<i>All figures in C\$ millions, unless otherwise stated.</i>						
Multiples (USD) Using US\$1,300/oz Gold Price			2013E PCF	2014E PCF	Company Profile		
San Gold			2.8x	1.8x	San Gold Corporation is a mining company located in Canada and focused on exploration and mining in the Rice Lake Greenstone Belt in Manitoba.		
Large Cap Average (>\$10B)			11.2x	10.2x			
Mid Cap Average (\$2B-\$10B)			13.1x	12.8x			
Small Cap Average (<\$2B)			6.8x	5.7x			
P/NAV @ Gold Price US\$/oz			\$1,000	\$1,200	\$1,400	\$1,600	
San Gold			N/M	N/M	N/M	0.4x	
Large Cap Average (>\$10B)			2.5x	1.7x	1.2x	0.9x	
Mid Cap Average (\$2B-\$10B)			4.7x	1.7x	1.1x	0.8x	
Small Cap Average (<\$2B)			2.4x	3.0x	1.5x	0.4x	
Key Financial Metrics			EV (\$mln)	EV/Prod	EV/2P	EV/R&R	
San Gold			\$76	\$879	\$301	\$116	
Large Cap Average (>\$10B)				\$5,869	\$264	\$191	
Mid Cap Average (\$2B-\$10B)				\$6,848	\$288	\$171	
Small Cap Average (<\$2B)				\$6,827	\$155	\$63	
Income Statement			2011A	2012A	2013E	2014E	
Gold Price Assumptions US\$/oz			\$1,575	\$1,669	\$1,360	\$1,350	
Production (000s ounces)			74	87	87	96	
Total Cash Costs US\$/oz			\$864	\$855	\$828	\$920	
All-in Cash Cost (US\$/oz)					\$1,757	\$1,633	
Revenues			\$114	\$142	\$111	\$130	
Expenses							
Operating Expenses			\$61	\$73	\$69	\$89	
D,D&A, Reclamation			\$23	\$48	\$43	\$54	
S,G&A			\$16	\$16	\$17	\$22	
Exploration			\$24	\$17	\$15	\$10	
Other			\$0	\$0	\$5	\$4	
Total Expenses			\$125	\$155	\$150	\$179	
Income Before Tax			-\$10	-\$12	-\$39	-\$48	
Income Taxes			-\$6	-\$4	-\$10	-\$15	
Net Income			-\$5	-\$8	-\$29	-\$34	
EPS			-\$0.02	-\$0.03	-\$0.09	-\$0.10	
CFPS			\$0.06	\$0.13	\$0.07	\$0.13	
FCP per share					\$0.00	\$0.00	
Sustaining Capex					\$34	\$56	
Discretionary Capex					\$24	\$11	
Shares Outstanding			309	321	335	335	
Production Profile							
Reserves/Resources			Category	Tons*	(oz/ton)	(g/tonne)	Ounces*
Rice Lake			2P	375	0.18	6.3	69
M&I				997	0.24	8.1	235
Inferred				1,710	0.29	9.8	489
Hinge			2P	383	0.11	3.9	43
M&I				577	0.14	4.7	79
Inferred				1,564	0.13	4.5	205
007 Zone			2P	733	0.15	5.2	110
M&I				1,094	0.17	5.8	183
Inferred				8,513	0.14	4.9	1,215
Hanging Wall Deposits (Cohiba, Cartwright L13)			2P	209	0.14	4.9	30
M&I				375	0.19	6.5	71
Inferred				3,509	0.19	6.6	680
Normandy Shear (SG-1, SG-2, SG-3)			2P	--	--	--	--
M&I				387	0.22	7.7	87
Inferred				1,221	0.22	7.4	265
			<i>* in thousands, M&I inclusive of 2P</i>				
Scattergram: 2014E Cash Flow Multiples And Cash-adj. NAV Multiples			Production And Costs				
			2011A	2012A	2013E	2014E	
Production ('000 oz)			74	87	87	96	
Total Cash Costs US\$/oz			\$864	\$855	\$828	\$920	
NAV Breakdown			Ownership	Discount Rate	\$ Millions	Per Share	
Mining Assets			100%	5%	\$0	\$0.00	
Rice Lake							
Subtotal					\$0	\$0.00	
Balance Sheet							
Cash + ST Investments					\$21	\$0.06	
LT Debt					-\$53	-\$0.16	
Reclamation					-\$3	-\$0.01	
Subtotal					-\$35	-\$0.11	
Net Asset Value					-\$35	-\$0.11	

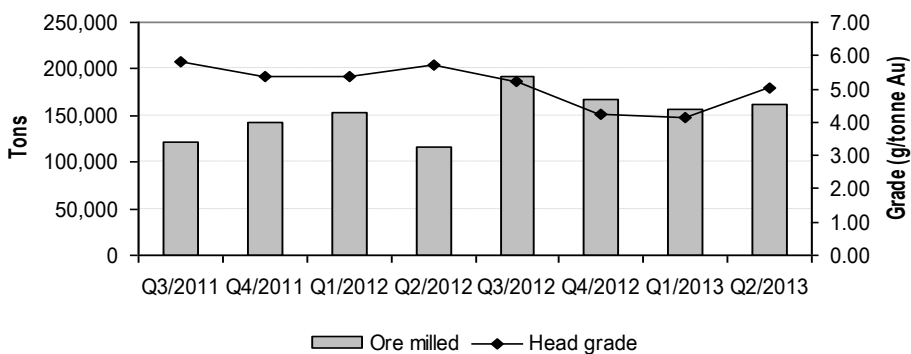
Source: Thomson One, company reports and CIBC World Markets Inc.

Good Operating Quarter, But To What Effect?

In Q2/13, San Gold (SGR-SU) produced 22,526 ounces of gold, and by most measures delivered a good operating quarter. As shown in Exhibit 1, the second quarter benefited from an average mill throughput of 1,784 tons per day (or total ore milled of 162,344 tons) at an average head grade of 5.05 g/t (an increase of 22% increase over Q1). Operating costs, on a “per ton of ore” basis, decreased to \$105/ton (down 5% from Q1). Despite the solid operating results, the company was still net free cash flow negative (defined as cash flow from operations – capital expenditures). Examining the company’s cash flow statement, San Gold generated cash flow from operations of \$5.1 million and spent \$17.0 million on capital expenditures, for net free cash flow of -\$11.9 million.

The argument can be made for further operational improvements in future quarters, and we believe improvements can and will be made. That said, the volatility in gold price certainly presents a risk. Considering San Gold’s Q2 results reflect a realized gold price of \$1,394/oz., and the Q3 quarter-to-date average gold price is closer to \$1,300/oz., we are concerned that any positive operational improvement achieved stands to be offset by potential weakness in the gold price. Looking to the company’s balance sheet, at the end of Q2, San Gold had cash and short-term investments of \$21.3 million, which does not provide much in the way of financial flexibility.

Exhibit 1. Quarterly Ore Milled And Head Grade Profile



Source: Company reports.

Taking A Deeper Look At Cash Costs

One way to look at cash cost is through the cash flow statement. From that perspective, we would first start with operating cash flow, before working capital changes, of \$5.044 million. The company has also disclosed that the average realized gold price during the quarter was \$1,394/oz. and gold sales were 21,796 ounces. Hence solving for **X** in the following formula should yield an estimate for operating cash cost per ounce for the quarter:

$(\$1,394 \text{ less } X) \text{ multiplied by } 21,796 \text{ ounces} = \5.044 million.

$X = \$1,163/\text{oz.}$

The Quarter In Review

San Gold reported a Q2/13 net loss of \$0.01/share, compared with our estimate of a loss of \$0.02/share and consensus loss of \$0.01/share. Other highlights from the quarter included:

- Gold production of 22,526 oz.
- Average mill throughput of 1,784 tons per day.
- Averaged mined ore of 1,905 tons per day.
- Total cash cost of \$783/oz.
- Total cost per ton of \$105/t.
- 2013 production guidance of 75,000 oz.–90,000 oz. at a cash cost of between \$800/oz.–\$900/oz was maintained.
- The company has completed \$10.4 million of flow-through eligible exploration in H1/13 and plans to spend the remaining \$6 million in H2/13.

Price Target Calculation - Suspended

With the weaker gold price environment, investors would be prudent to pay attention to two key attributes of a mining company: operating costs and balance sheet strength. Those companies operating with a cost basis higher than the spot price of gold will be hard-pressed to generate profits from their operations. While there could be opportunities to lower costs to accommodate the prevailing gold price, these changes will likely require time to implement; and, these operations still need to be supported with maintenance capex. The second part of this equation requires balance sheet strength. Companies with a weaker balance sheet carry higher financial risk, especially given investors' and lenders' reluctance to provide capital through equity and debt markets.

We have identified San Gold (SGR-SU) as having both high operating costs and a balance sheet that is either already strained or could quickly come under pressure. Consequently, we have decided to suspend our price target for San Gold.

Key Risks To Price Target

We have suspended our price target on the basis of the company's current operations and capital position. Upside risk to our suspended price target include: 1) a sustained strengthening of the gold price, 2) a significant improvement to the company's cost structure and/or capital position, and; 3) if the company were to become an acquisition target.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.00A	(\$0.01A)	\$0.00A	(\$0.01A)	(\$0.03A)
2013 Prior	(\$0.03A)	(\$0.02E)	(\$0.03E)	(\$0.03E)	(\$0.11E)
2013 Current	(\$0.03A)	(\$0.01A)	(\$0.02E)	(\$0.02E)	(\$0.09E)
2014 Current	--	--	--	--	(\$0.10E)

Our CFPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	\$0.03A	\$0.02A	\$0.05A	\$0.03A	\$0.13A
2013 Prior	(\$0.01A)	\$0.03E	\$0.02E	\$0.02E	\$0.06E
2013 Current	(\$0.01A)	\$0.02A	\$0.03E	\$0.03E	\$0.07E
2014 Current	--	--	--	--	\$0.13E

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- 2a San Gold Corporation is a client for which a CIBC World Markets company has performed investment banking services in the past 12 months.
- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for San Gold Corporation in the past 12 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from San Gold Corporation in the next 3 months.

Important Disclosure Footnotes for Companies Mentioned in this Report that Are Covered by CIBC World Markets Inc.:

Stock Prices as of 08/13/2013:

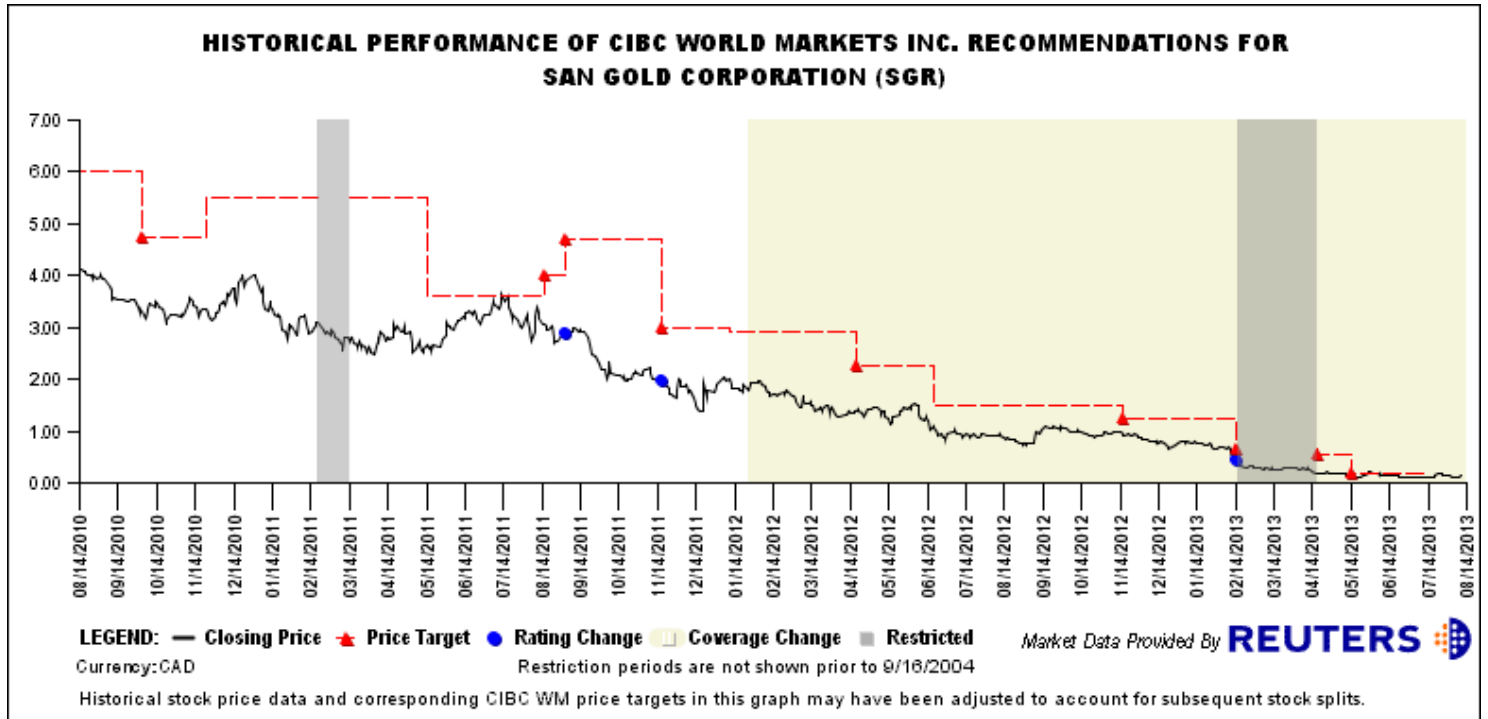
Agnico-Eagle Mines Limited (2g, 7) (AEM-NYSE, US\$28.63, Sector Performer)
Alamos Gold Inc. (2g) (AGI-TSX, \$15.79, Sector Performer)
Allied Nevada Gold Corp. (2g) (ANV-AMEX, US\$3.94, Sector Underperformer)
Argonaut Gold Incorporated (2g) (AR-TSX, \$8.13, Sector Underperformer)
AuRico Gold Inc. (2a, 2e, 2g) (AUQ-TSX, \$4.71, Sector Performer)
B2Gold Corporation (2g) (BTO-TSX, \$3.12, Sector Outperformer)
Banro Corporation (2a, 2c, 2e, 2g) (BAA-TSX, \$0.93, Sector Performer)
Barrick Gold Corporation (2a, 2b, 2e, 2g, 7) (ABX-NYSE, US\$17.80, Sector Performer)
Centerra Gold Inc. (2g) (CG-TSX, \$5.49, Sector Outperformer - Speculative)
Detour Gold Corporation (2a, 2c, 2e, 2g) (DGC-TSX, \$9.98, Sector Outperformer)
Eldorado Gold Corporation (2g, 7) (EGO-NYSE, US\$8.21, Sector Outperformer)
Franco-Nevada Corporation (2g) (FNV-TSX, \$44.09, Sector Outperformer)
Goldcorp Inc. (2a, 2b, 2c, 2d, 2e, 2g, 7) (GG-NYSE, US\$28.35, Sector Outperformer)
Golden Star Resources Ltd. (2g) (GSS-AMEX, US\$0.55, Sector Underperformer)
IAMGOLD Corporation (2a, 2e, 2g, 7) (IAG-NYSE, US\$5.44, Sector Performer)
Kinross Gold Corporation (2g, 7) (KGC-NYSE, US\$5.39, Sector Performer)
Kirkland Lake Gold Inc. (2a, 2e, 2g) (KGI-TSX, \$3.58, Sector Performer)
New Gold Inc. (2a, 2e, 2g) (NGD-TSX, \$7.13, Sector Performer)
Newmont Mining Corporation (2g) (NEM-NYSE, US\$30.08, Sector Underperformer)
Osisko Mining Corporation (2g) (OSK-TSX, \$4.76, Sector Outperformer)
Perseus Mining Limited (2g) (PRU-TSX, \$0.56, Sector Performer)
Premier Royalty Inc. (2a, 2c, 2e, 2g) (NSR-TSX, \$0.88, Sector Performer)
Primero Mining Corp. (2g) (P-TSX, \$5.42, Sector Outperformer)
Richmont Mines Inc. (2g) (RIC-TSX, \$1.67, Sector Performer)
Royal Gold, Inc. (2g) (RGLD-NASDAQ, US\$56.74, Sector Performer)
Sandstorm Gold Ltd. (2g) (SSL-TSX, \$6.15, Sector Performer)
Semafo Inc. (2g) (SMF-TSX, \$2.00, Sector Outperformer)
Teranga Gold Corp. (2g) (TGZ-TSX, \$0.53, Sector Performer)
Yamana Gold Inc. (2a, 2e, 2g, 7) (AUY-NYSE, US\$10.35, Sector Outperformer)

Important disclosure footnotes that correspond to the footnotes in this table may be found in the "Key to Important Disclosure Footnotes" section of this report.

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- 2c CIBC World Markets Inc. has managed or co-managed a public offering of securities for this company in the past 12 months.
- 2d CIBC World Markets Corp. has received compensation for investment banking services from this company in the past 12 months.
- 2e CIBC World Markets Inc. has received compensation for investment banking services from this company in the past 12 months.
- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
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- 3c CIBC World Markets Inc. has received compensation for non-investment banking, securities-related services from this company in the past 12 months.
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- 4b CIBC World Markets Corp. has received compensation for non-investment banking, non-securities-related services from this company in the past 12 months.
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- 5b A member of the household of a CIBC World Markets Corp. research analyst who covers this company has a long position in the common equity securities of this company.
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- 10 Canadian Imperial Bank of Commerce ("CIBC"), the parent company to CIBC World Markets Inc. and CIBC World Markets Corp., has a significant credit relationship with this company.
- 11 The equity securities of this company are restricted voting shares.
- 12 The equity securities of this company are subordinate voting shares.
- 13 The equity securities of this company are non-voting shares.
- 14 The equity securities of this company are limited voting shares.

CIBC World Markets Inc. Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS INC. RECOMMENDATIONS FOR SAN GOLD CORPORATION (SGR)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
10/01/2010	▲	3.35	SP	4.75	Barry Cooper
11/21/2010	▲	3.34	SP	5.50	Barry Cooper
02/18/2011	■	3.09	R	-	Barry Cooper
03/15/2011	■	2.75	SP	5.50	Barry Cooper
05/15/2011	▲	2.58	SP	3.60	Barry Cooper
08/16/2011	▲	3.06	SP	4.00	Barry Cooper
09/01/2011	▲●	2.87	SO	4.70	Barry Cooper
11/17/2011	▲●	1.96	SP	3.00	Barry Cooper
01/08/2012	▲	1.96	SP	2.90	Barry Cooper
01/24/2012	◻	1.77	SP	2.90	Cosmos Chiu, CFA
04/17/2012	▲	1.38	SP	2.25	Cosmos Chiu, CFA
06/17/2012	▲	1.03	SP	1.50	Cosmos Chiu, CFA
11/15/2012	▲	0.92	SP	1.25	Cosmos Chiu, CFA
02/11/2013	▲●	0.45	SU	0.65	Cosmos Chiu, CFA
02/13/2013	■	0.37	R	-	Cosmos Chiu, CFA
04/16/2013	■	0.20	SU	0.65	Cosmos Chiu, CFA
04/17/2013	▲	0.19	SU	0.55	Cosmos Chiu, CFA
05/13/2013	▲	0.16	SU	0.20	Cosmos Chiu, CFA
07/09/2013	▲	0.10	SU	None	Cosmos Chiu, CFA

CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

***Restricted due to a potential conflict of interest.

Ratings Distribution*: CIBC World Markets Inc. Coverage Universe

(as of 13 Aug 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	128	37.8%	Sector Outperformer (Buy)	125	97.7%
Sector Performer (Hold/Neutral)	177	52.2%	Sector Performer (Hold/Neutral)	169	95.5%
Sector Underperformer (Sell)	28	8.3%	Sector Underperformer (Sell)	25	89.3%
Restricted	5	1.5%	Restricted	5	100.0%

Ratings Distribution: Precious Metals Coverage Universe

(as of 13 Aug 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	17	28.3%	Sector Outperformer (Buy)	17	100.0%
Sector Performer (Hold/Neutral)	34	56.7%	Sector Performer (Hold/Neutral)	33	97.1%
Sector Underperformer (Sell)	9	15.0%	Sector Underperformer (Sell)	9	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Precious Metals Sector includes the following tickers: ABG, ABX, AEM, AGI, AKG, ANG, ANV, AR, AUQ, AUY, BAA, BSX, BTO, CEY, CG, CNL, CRJ, DGC, DPM, DRD, EDR, EDV, EGO, FNV, FRES, FVI, GBU, GCU, GFI, GG, GSS, HAR, IAG, KGC, KGI, LSG, NEM, NGD, NSR, ORE, OSK, P, PAAS, PAF, PG, PLG, PRU, PVG, RGLD, RIC, RR, RRS, SGL, SGR, SLW, SMF, SSL, SSRI, TGZ, THO.

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