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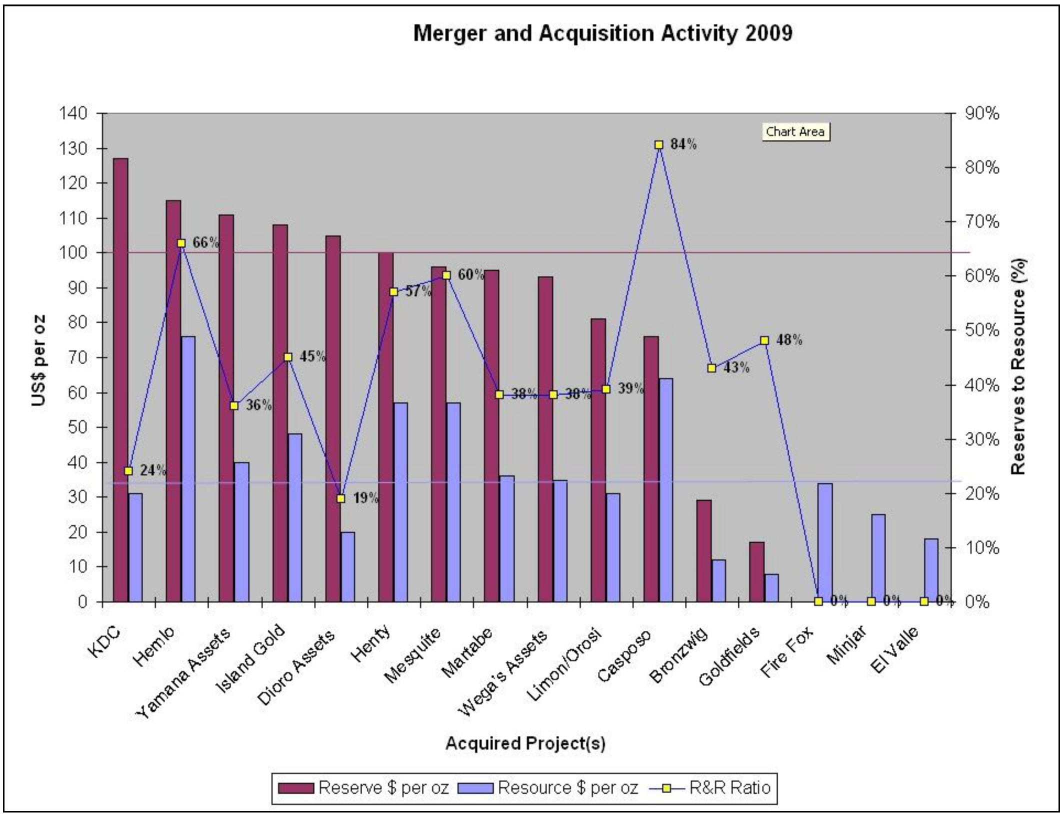
GOLD SECTOR MERGER AND ACQUISITION ACTIVITY PROVIDES WONDERFUL INSIGHT

Over the last 7 months, we have seen a number of merger and acquisition deals surface internationally on the gold scene. To get a feel for what acquiring companies have been looking for, it pays to take a closer look at the deals undertaken. What price is being paid or offered for gold reserves and resources? What characteristics do the target projects share? Where are they located? What is the production capability and operating costs? Once you have established a feel for what is being purchased and at what price, you have a great reference point from which to compare other seemingly undervalued companies. Which gold stocks are the next potential takeover targets? Chances are they will share similar characteristics and valuations.

The following chart gives a graphical overview of the transactions thus far. Please note that not all the deals have been completed. A table detailing each deal can be found further below. The red bars indicate the cost per reserve ounce and the blue bars the cost per resource ounce (inclusive of reserves). The blue line with percentage values indicates the proportion of Reserves to Resource for each deal. As a general rule, the higher this percentage the higher the price paid per resource ounce. This makes sense given a higher proportion of the overall resource base has demonstrable economic viability (an associated feasibility study). The red and blue horizontal lines highlight the respective averages paid, which are US$101/oz for reserves and US$34/oz for the global resource (inclusive of reserves).



These averages provide a useful benchmark and starting point when looking for other companies that are undervalued and potentially takeover targets.

Gold Merger and Acquisition Deals 2009

Target/Seller	Acquirer	Project Name	Stage	Location	Offer (US$m)	Reserve (Moz)	US$ per oz	Resource (Moz)	US$ per oz	Production (000' oz)	Cash Cost (US$)	R&R Ratio
Moto Gold	**Randgold**	KDC (70%)	Feasibility	DRC	**488**	**3.85**	**127**	**15.76**	**31**	**300**	**318**	**24%**
Teck Cominco	**Barrick Gold**	Hemlo (50%)	Production	Canada	**65**	**0.56**	**115**	**0.86**	**76**	**130**	**630**	**66%**
Yamana Gold	**Aura Minerals**	San Andres	Production	Honduras		0.73		2.45		70	520	30%
		Sao Francisco	Production	Brazil		0.73		1.86		75	570	39%
		Sao Vicente	Construction	Brazil		0.34		0.74		55	435	46%
Sub Total					**200**	**1.80**	**111**	**5.05**	**40**	**200**	**515**	**36%**
Patrica Mining	**Richmont Mines**	Island Gold (50%)	Production	Canada	**14**	**0.13**	**108**	**0.29**	**48**	**19**	**660**	**45%**
Dioro	**Avoca Resources**	Frogs Legs (49%)	Production	Australia		0.30		0.56		40	500	53%
		South Kalgoorlie	Production	Australia		0.18		1.89		50	835	9%
Sub Total					**50**	**0.48**	**105**	**2.45**	**20**	**90**	**686**	**19%**
Bendigo Mining	**Barrick Gold**	Henty	Production	Australia	**7**	**0.07**	**100**	**0.12**	**57**	**50**	**660**	**57%**
Western GF	**New Gold**	Mesquite	Production	Mexico	**244**	**2.55**	**96**	**4.28**	**57**	**150**	**540**	**60%**
Oz Minerals	**China Sci-Tech**	Martabe	Feasibility	Indonesia	**211**	**2.22**	**95**	**5.90**	**36**	**200**	**270**	**38%**
Wega Mining	**Avocet Mining**	Inata (90%)	Production	Burkino Faso		0.85		1.60		120	525	
		Koulekoun	Exploration	Guinea				0.67				
Sub Total					**79**	**0.85**	**93**	**2.27**	**35**	**120**	**525**	**38%**
Central Sun	**B2Gold**	Limon (95%)	Production	Nicaragua		0.17		0.81		45	560	20%
		Orosi	Construction	Nicaragua		0.51		0.93		55	495	55%
Sub Total					**55**	**0.67**	**81**	**1.75**	**31**	**100**	**524**	**39%**
Intrepid Mines	**Troy Resources**	Casposo	Feasibility	Argentina	**22**	**0.29**	**76**	**0.34**	**64**	**45**	**240**	**84%**
View Resources	**Navigator**	Bronzwing	Construction	Australia	**11**	**0.39**	**29**	**0.90**	**12**	**100**	**620**	**43%**
GLR Resources	**Linear Gold**	Goldfields Project	Feasibility	Canada	**10**	**0.60**	**17**	**1.25**	**8**	**90**	**300**	**48%**
Klondex Mines	**Paramount Gold**	Fire Fox	Exploration	USA	**72**			**2.15**	**34**			**0%**
Monarch Gold	**Golden Stallion**	Minjar	Exploration	Australia	**10**			**0.40**	**25**			**0%**
Kinbauri	**ATW Gold**	El Valle	Scoping	Spain				2.24		100	215	
		Corcoesto	Exploration	Spain				0.49				
Sub Total					**48**			**2.72**	**18**	**100**	**215**	
Average						**1.11**	**101**	**2.90**	**34**	**121**	**448**	**46%**

If we take a closer look at these deals, not all of the projects are at the same development stage. Most however, are at an advanced stage with many of the exploration projects coming with existing infrastructure (previous mines). Examples of this include Kinbauri's El Valle asset in Spain and Golden Stallion's Minjar asset in Australia. Interestingly enough, some of the feasibility study projects such as Martabe (US$95/oz) and Motto's KDC project (US$127/oz) are valued similarly to some of the more established producing assets. Three examples include Yamana's much publicized asset sale to Aura Minerals (US$111/oz), New Gold's takeover of Western Goldfields and the Mesquite project (US$96/oz) and Barrick's purchase of the 50% stake in Hemlo (US$115/oz). It is important to note that some of these deals are script offers and some are cash or a combination of both, which has some bearing on the price paid.

In summary, the average cost per reserve ounce paid is US$101/oz and US$34/oz on a resource basis. The average reserve and resource sizes are 1.1 and 2.9 million ounces respectively. The average annual production of all these deals is 121,000 ounces per annum at cash costs generally under US$650/oz (average: US$448/oz). The average proportion of reserves to resource for the assets acquired is 46%.

These statistics, whilst a little on the crude side, still provide an excellent starting point when looking for future takeover targets. Most established producers have assets that trade at a considerable premium to these numbers. This highlights the fact that the acquiring companies are generally adding significant value. For example, Barrick Gold has reserves at an enterprise value per oz of close to US$280/oz. They acquired the 50% stake of Hemlo for just US$115/oz. Given the significant discounts we are seeing, there are generally few companies which specifically meet the above averages. Of those companies, it is important to ensure there aren't legitimate reasons for the substantial discount. For example, production problems coupled with a stretched balance sheet of debt, hedging liabilities and low cash levels. Are there permitting issues which cast serious doubt over the future of the projects in question? In the event you discover a company that is problem free and more or less satisfies the above criteria, you may just have found yourself a future takeover candidate. At the very least, you have probably found an undervalued company with excellent potential for growth in the future.

For anyone interested, we have just launched the North American Version of GoldNerds with all the information and tools you need to assess those merger and acquisition candidates. Alternatively I write a free monthly newsletter on the precious metals markets. This includes technical analysis as well as company updates on many of the prominent precious metals companies from around the world. Past articles and newsletters can be accessed in the archive section. Pay us a visit at the websites below.

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