

GOLDNERDS TOP RESEARCH STOCKS AUSTRALIA

Today I would like to take this opportunity to review the search parameters we at the Global Speculator use to shortlist prospective gold investments using GoldNerds Pro. Following on from this, I will reveal the recent research lists we have generated employing these detailed parameters. These lists are exclusive to GoldNerds Pro subscribers only.

Important Measurable Parameters

Quantitative parameters we deem important when looking for solid gold companies to invest in, in no specific order of importance, include:

- Evidence of responsible capital management demonstrated by a relatively small number of outstanding shares.
- A Market Capitalization of less than A\$500m as junior companies generally have a better propensity to grow. We also run searches for producers with market capitalizations over A\$500m.
- A solid balance sheet with manageable levels of debt and a healthy cash balance.
- Reasonably priced reserves with a resource base capable of adding to these reserves measured by mineable ounces (we will flesh this out in more detail later).
- Limited hedging. We are bullish on the gold price and want to invest predominantly in companies which will be able to capitalize on higher gold prices going forward.
- A relatively low Total Cost per oz (see details below). This implies value for money (all else being equal).
- Modest levels of political risk. We are not completely averse to political risk provided the quality of the deposit more than compensates for this risk.

Step 1: Set the Scoring System

The Scoring system we employ to reflect some of these characteristics resembles the following:

<i>Weight</i>	<i>Factor</i>
0	Large company
0	Small company
100	Cash, investments, etc
100	Liabilities
0	Percentage in gold
50	Less hedging
0	More hedging
0	JORC reserve
0	JORC resource
100	Mineable gold
0	Market cap per resource ounce
0	Market cap per mineable ounce
0	EV per resource ounce
0	EV per mineable ounce
50	Production
0	Cash cost
150	TCO
0	Market cap per production oz
50	Country risk
600	<i>Total (= Maximum possible score)</i>

What does this scoring system mean?

In a nutshell, we are rewarding companies with:

1. **Larger cash balances** (less chance of dilution via near term capital raisings)
2. **Lower liabilities** where the big ticket item is usually interest bearing debt. Excessive debt increases risk.
3. **Less hedging** given we are bullish on the gold price looking forward.
4. **More Mineable Gold.** Mineable Gold by definition in the **Customization** section of the spreadsheet counts 100% of the reserves, and 20% of the resource over and above the reserves. We like to be conservative and work with predominantly reserves which have demonstrated theoretical economic viability at the very least (We have made one exception here, justified on the basis of an impressive track record to date).
5. **Larger production** prospects (not essential however).
6. **Lower TCO.** TCO takes the Enterprise value per mineable oz of gold and adds remaining development costs associated with undeveloped projects, the average overall cash cost (producing and development projects) and the ongoing capital costs associated with these projects. The result is a crude but indicative guide as to what you are paying per mineable oz of gold as an investor. In practice, we are seeking undervalued companies with lower TCOs within a comparison group containing candidates of a similar classification or development stage (Production, Development or Exploration).
7. Projects in **more desirable political locations** (also not essential).

Step 2: We Apply Filters (Search 1 Example)

In the main **Gold Stocks** section of the spreadsheet we have all our data in columns with the companies listed down the left hand side. The following diagram only contains the pertinent information we are using with many columns not displayed. It has also been condensed to fit on the page.

Rank	Of Interest	Update Share Prices	Control Panel... (Ctrl+U)	Share Price	# Shares	Cash	Investments	Hedge-book	Liabil-ities	Other Finan-cial Assets	Market Cap	EV	Status	Res-erve	Res-ource	Mine-able Gold Oz	EV/ Res-erve Oz	EV/ Res-ource Oz	EV/ Mine-able Oz	Devel-op-ment Costs	Current Prod-uction	Plan-ned Prod-uction	Cash Cost	TCO	Cou-ntry Risk	Score	
		Select Columns To View...																									
		Sort																									
		Filters On/Off																									

The top left section of the sheet contains the following menu box:



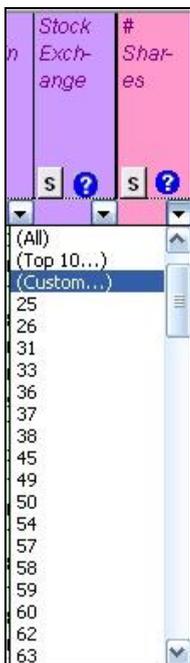
Note the **Filters On/Off** button. When you click on this button, little drop down arrows appear under each column of information as you can see in the previous diagram.

The columns we will be filtering include:

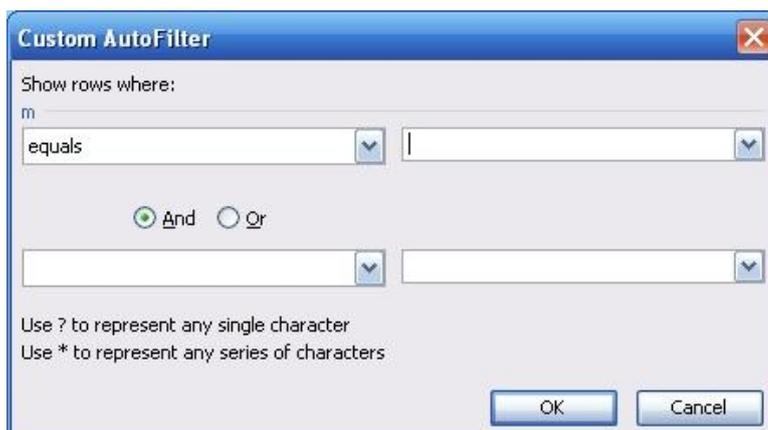
1. # Shares
2. Market Capitalization
3. Status
4. Reserves
5. Current Production

Filter 1: # Shares

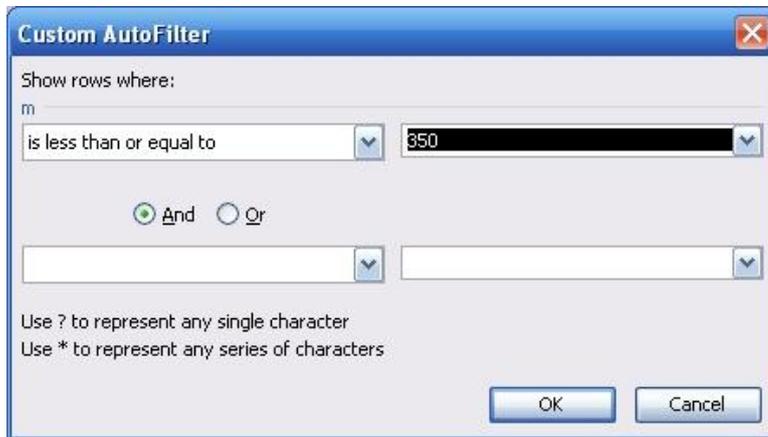
As mentioned previously, we like to see companies do more with less and issue shares sparingly. We therefore run a filter to look at companies with less than 350m shares (higher number than US/Canada searches due to different listing requirements on their major exchanges), being mindful of companies which have consolidated their share capital (examples of this later). Clicking the down arrow in the **Share column** will display the following menu items.



Select the Custom option in order to further define the filtering criteria in the window below.



We choose the following parameters:



Custom AutoFilter

Show rows where:
m

is less than or equal to 350

And Or

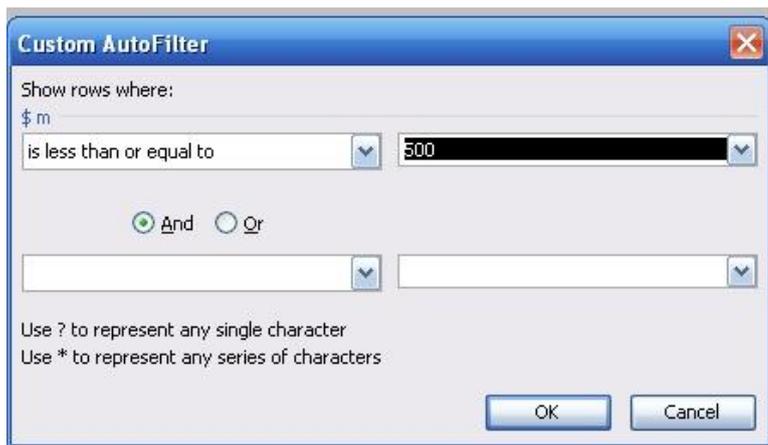
Use ? to represent any single character
Use * to represent any series of characters

OK Cancel

By applying this filter, we get all the companies with less than 350m shares.

Filter 2: Market Capitalization

As we are generally interested in the smaller juniors, we run a filter for companies less than A\$500m. Again, we click on the down arrow in that column and select Custom. We enter the following parameters:



Custom AutoFilter

Show rows where:
\$ m

is less than or equal to 500

And Or

Use ? to represent any single character
Use * to represent any series of characters

OK Cancel

By applying this filter we get all the companies with a market capitalization of less than A\$500m.

Filter 3: Status

This filter enables us to choose the classification of company we want to search for. We get a choice of:

- P:** Producers: Have at least one project which is in production.
- D:** Development: Scoping study at least.
- E:** Exploration: No study work done on projects.

For this search we are interested in **Producing** companies and set the parameters as follows:

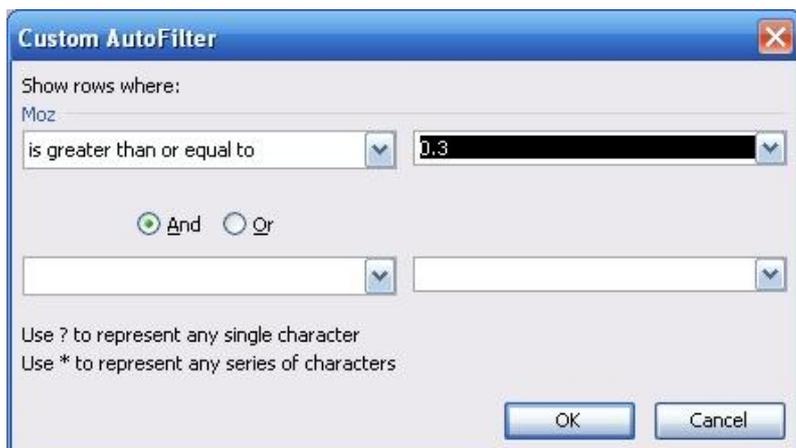


This limits our list to companies with at least one production stage project.

Filter 4: Reserves

We are only interested in companies with a minimum reserve or mine plan of 300,000 oz and hence a sufficient mine life to fund the companies' growth strategies and allow for succession planning. The last thing you want is a company exhausting their production capabilities and not having another project to replace it. Ideally, you want companies to more than replace depleted ounces with exploration success and new projects. Companies which can grow profitable production year in year out generally experience stronger share price appreciation.

We set the parameters as follows:

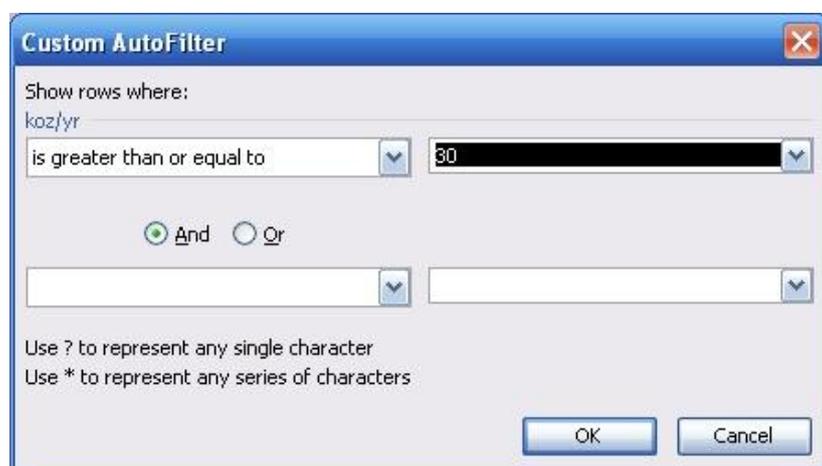


Filter 5: Current Production

This next filter narrows our search to producers with a minimum of 30,000 oz of production per annum. Our experience indicates this to be the minimum threshold from which reliable cash flow can be generated to fund future production growth. Some investors will apply a more conservative minimum of between 100,000 and 200,000 oz per annum, considering this to be the critical mass necessary to achieve economies of scale and consistent profits with less risk. Whilst we accept this premise, micro producers can provide substantially more leverage. Their processing plants often contain excess capacity which can be readily activated at relatively low cost, once further exploration secures additional mill feed. Confronted with this scenario, a micro producer is better positioned to more than double its production from 30,000 oz per annum, upwards to between 60,000 and 100,000 oz per annum than a mid-cap to double its production profile from 100,000 to 200,000 oz per annum. We have witnessed a number of companies

achieve this feat with share price appreciation of anywhere from 500% up to 1,000%! Once you weigh up many of the other important factors we are considering, it is possible to mitigate some of the risks involved.

We set the parameters for this filter as follows:



This limits our search to companies which produce at least 30,000 oz per annum.

Step 3: Sort Remaining Companies by Score

Last but not least, we sort the **Scoring** column by highest to lowest by hitting the **S** button in that particular column.



This will then apply the scoring parameters we stipulated in Step 1 to the filtered companies we have shortlisted in Step 2. We then use this list to conduct further research working our way down the list from the highest to the lowest scoring companies. Typically, the top 5 companies are of most interest.

The Research Results

Below are the results for three different searches we undertook on our database of close to 320 Australian listed companies (Source: GoldNerds Pro 2010_0802). We firstly looked at the micro producers and then broadened our search to the larger producers. The final search is a look at some of the development stage gold companies. Note the filter parameters below each data set. The scoring system remains the same for all the searches. Our stocks of interest are highlighted in green. To make it easier to read, you may want to adjust the size of the text within Acrobat Reader (150+ should be ideal).

Search 1: Gold Producer Stage (Market Capitalization less than A\$500m)

Rank	Of Interest	Update Share Prices	Control Panel (Ctrl+U)	Share Price	# Shares	Cash	Investments	Hedge-book	Liabilities	Other Financial Assets	Market Cap	EV	Status	Reserve	Resource	Mineable Gold	EV/Reserve Oz	EV/Resource Oz	EV/Mineable Oz	Development Costs	Current Production	Planned Production	Cash Cost	TCO	Country Risk	Score
1	y	TBR	Tribune Resources	1.000	50	9.4	13.4	0.0	9.4	20.4	50	17	P	0.3	0.5	0.4	49	30	43	0	52	50	462	525	8	319
2	y	SLR	Silver Lake Resources	1.940	179	36.1	0.0	0.0	17.1	3.2	387	365	DP	0.5	2.5	0.9	677	144	389	16	65	70	882	1,288	8	259
3	y	NGX	Norseman Gold	0.760	173	16.9	0.0	0.0	39.5	15.8	131	138	P	0.4	3.7	1.1	345	37	130	24	60	108	943	1,096	8	247
4	y	DOM	Dominion Mining	2.170	103	15.9	0.0	(3.2)	16.2	9.8	224	218	P	0.7	1.5	0.8	315	149	258	29	89	120	794	1,086	8	247
5	y	TRY	Troy Resources	2.580	87	13.5	3.7	0.0	20.1	22.0	226	207	P	0.6	1.6	0.8	351	132	264	63	51	134	926	1,270	14	242

* The following adjustment was made to the GoldNerds published file which has influenced these results. Silver Lake mining has no reserves but a profitable track record of mining Daisy Milano and Christmas flats. For the purpose of this report, the Measured and Indicated resource base for these deposits, which form part of the mine plan, were included as reserves to provide more indicative comparisons. Also, a decision was made not to include Norseman gold in our interest group due to a 1 for 5 consolidation they undertook in January 2008 (5 x 173 = 865).

Filter Summary

1. **# Shares:** less than 350 (less than 350 million shares)
2. **Market Capitalization:** less than 500 (less than A\$500 million)
3. **Status:** Contains P (contains a production project)
4. **Reserves:** Greater than 0.3 (greater than 300,000 oz)
5. **Current Production:** Greater than 30 (greater than 30,000 oz a year)

Search 2: Gold Producer Stage (Market Capitalization Greater than A\$500m)

Rank	Of Interest	Update Share Prices	Control Panel (Ctrl+U)	Share Price	# Shares	Cash	Investments	Hedge-book	Liabilities	Other Financial Assets	Market Cap	EV	Status	Reserve	Resource	Mineable Gold	EV/Reserve Oz	EV/Resource Oz	EV/Mineable Oz	Development Costs	Current Production	Planned Production	Cash Cost	TCO	Country Risk	Score
1	y	CXC	Coeur D'Alene Mines	17.140	89	61.4	0.0	0.0	610.2	222.6	1,562	1,888	P	5.6	10.1	6.5	339	187	291	69	209	467	565	867	12	287
2	y	KCN	Kingsgate	9.840	101	49.7	0.0	0.0	23.5	49.7	997	921	P	1.9	3.8	2.3	480	242	401	110	122	200	378	828	10	285
3	y	CGX	CGA Mining	2.180	331	96.7	0.0	(60.3)	94.5	14.9	735	778	P	3.0	8.4	4.1	257	92	189	0	174	206	654	843	32	283
4	y	OCC	OceanaGold	2.920	228	40.4	0.0	0.0	222.6	70.8	674	785	P	3.4	9.0	4.5	228	87	173	533	270	410	619	909	16	282
5	y	MML	Medusa Mining	3.360	188	68.0	0.0	0.0	6.1	11.8	746	672	P	0.5	2.2	0.6	1,345	313	610	22	100	100	200	1,036	25	258
6	y	AVO	Avoca Resources	2.710	291	19.1	6.5	0.4	128.5	22.0	798	879	P	1.3	6.7	2.4	672	132	370	42	236	324	650	1,037	8	258

* A decision was made not to include Coeur D'Alene and OceanaGold in our interest groups due to a 1 for 10 consolidation back in May 2009 for Coeur (10 x 89 = 890m) and a 1 for 5 consolidation back in June 2007 for OceanGold (5 x 228 = 1,140m).

Filter Summary

1. **# Shares:** less than 350 (less than 350 million shares)
2. **Market Capitalization:** Greater than 500 (greater than A\$500 million)
3. **Status:** Contains P (contains a production project)
4. **Reserves:** Greater than 0.5 (greater than 500,000 oz)
5. **Current Production:** Greater than 100 (greater than 100,000 oz a year)

Search 3: Gold Development Stage (Market Capitalization: All)

Rank	Of Interest	Update Share Prices	Control Panel (Ctrl+U)	Share Price	# Shares	Cash	Investments	Hedge-book	Liabilities	Other Financial Assets	Market Cap	EV	Status	Reserve	Resource	Mineable Gold	EV/Reserve Oz	EV/Resource Oz	EV/Mineable Oz	Development Costs	Current Production	Planned Production	Cash Cost	TCO	Country Risk	Score
1	y	RMS	Ramelius Resources	0.440	291	40.2	0.0	0.0	5.6	19.4	126	74	DP	0.5	3.4	1.1	159	22	70	0	107	70	464	534	8	389
2	y	CAH	Catalpa Resources	1.545	163	41.0	0.0	0.0	51.0	65.0	259	231	EDP	1.0	1.9	1.2	231	121	196	92	25	115	650	924	8	266
3	y	SLR	Silver Lake Resources	1.940	179	36.1	0.0	0.0	17.1	3.2	387	365	DP	0.5	2.5	0.9	677	144	389	16	65	70	882	1,288	8	259

* The following adjustments were made to the published version of GoldNerds prior to generating this list. The 474,000 oz reserve announced by Ramelius as part of their recent Mt Magnet acquisition has been included (despite the company not providing any of the economics for the project). Silver Lake adjustment as per Search 1. A decision was also made to include Catalpa Resources despite the 1 for 11 share consolidation that took place last year. Catalpa has new management and has made the transition from explorer to producer. The existing capital structure was partially a legacy of the former exploration company (Westonia). Disappointingly, this search was not able to uncover any pure development stage companies. We have had to settle for smaller producers with larger development prospects. Ramelius with Mt Magnet, Catalpa with Edna May and Silver Lake with their Murchison assets.

Filter Summary

1. **# Shares:** less than 350 (less than 350 million shares)
2. **Market Capitalization:** No Limit
3. **Status:** Contains D (has development stage projects)
4. **Reserves:** Greater than 0.3 (greater than 300,000 oz)
5. **Future Production:** Greater than 30 (greater than 30,000 oz a year)

Conclusion

Today we have given you a run down on the way we use the GoldNerds Professional product to conduct our preliminary research. The results we have generated are by no means recommendations. I would consider them, however, to be solid leads using quantitative analysis on publically available information. Additional research and due diligence you can and should do include:

1. Finding out about the **management** of these companies and see what record they have of successfully developing projects.
2. Looking at the **share price** chart over a 10 year period and see if the company has grown shareholder wealth. We have been in a precious metals bull market now for 10 years. If the share price has not grown significantly in that time, the company has been doing something wrong.
3. Looking out for **share consolidations**. Look at earlier annual reports to see if the number of shares outstanding has dropped significantly. A more acceptable share consolidation may take place when a company is making the progression from explorer to producer. Some of these companies may have been in the wilderness for many years surviving on capital raisings prior to making a discovery and then progressing to a self sustaining producer. There may also be a change in management, ushering in a new era for the company. Consolidation, in these cases, is almost like hitting the reset button on the share count (example above: Catalpa). When it involves companies that have been producers for a number of preceding years, however, this should ring some alarm bells (Examples above: Coeur D'Alene and OceanaGold).
4. Considering the **political and environmental risk** associated with the companies' projects. Some companies rank highly in our searches because they are discounted heavily for these factors. Ask these questions: What countries are the key projects located in? Is there local support or opposition to the projects? Are there environmental concerns hanging over the projects? Does the country/province in which the projects reside have a stable government? Is the government mining company friendly?
5. Looking at **Insider ownership** to determine whether the key executives running the company have a vested interest in growing the business. By this, I don't mean options but fully paid shares. A minimum 5-10% interest is what we generally like to see. The annual report is as good a place as any to find out these numbers.

The GoldNerds Professional product serves two primary functions:

1. It allows us to conduct **regular up to date research** such as what we have demonstrated to you today. The information contained in the spreadsheet is forever changing. This is why a new spreadsheet is issued nearly every 2 weeks for subscribers. New feasibility studies come out, a new resource statement gets released,

quarterly production results are announced and the list goes on. Being a researcher for GoldNerds, I can tell you this is none stop!

2. It gives us a **portfolio management tool** which enables us to **monitor the progress** of our existing investments relative to the alternatives available in the market place. What appears in a search one month may exit the next as developments occur. I am sure I don't need to tell many of you that for the most part, these are **not** "**buy and forget about**" investments. They need to be monitored and constantly assessed against their peers. If for whatever reason they start to slip, you need to ask yourself whether they are worth holding. This is the single biggest mistake I see investors in this sector make (buy and hope).

I trust you have found this report useful. The best part about GoldNerds is that if you disagree with any of the parameters we have outlined, you can tailor the settings to your own preferences. We strongly encourage you to do so. We look forward to monitoring the progress and performance of these interest group lists over the coming months. Stay tuned for updates.

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