On ASX Gold Investments
...The Nerds have the numbers

ESSAY 2: USING M&A DATA AND GOLDNERDS TO SCOUT FOR POTENTIAL TAKEOVER TARGETS

I recently wrote an article updating subscribers on the merger and acquisition activity that has taken place in the gold sector over the past 6-7 months. From that data we were able to derive some useful key averages for the target assets. The results were as follows:

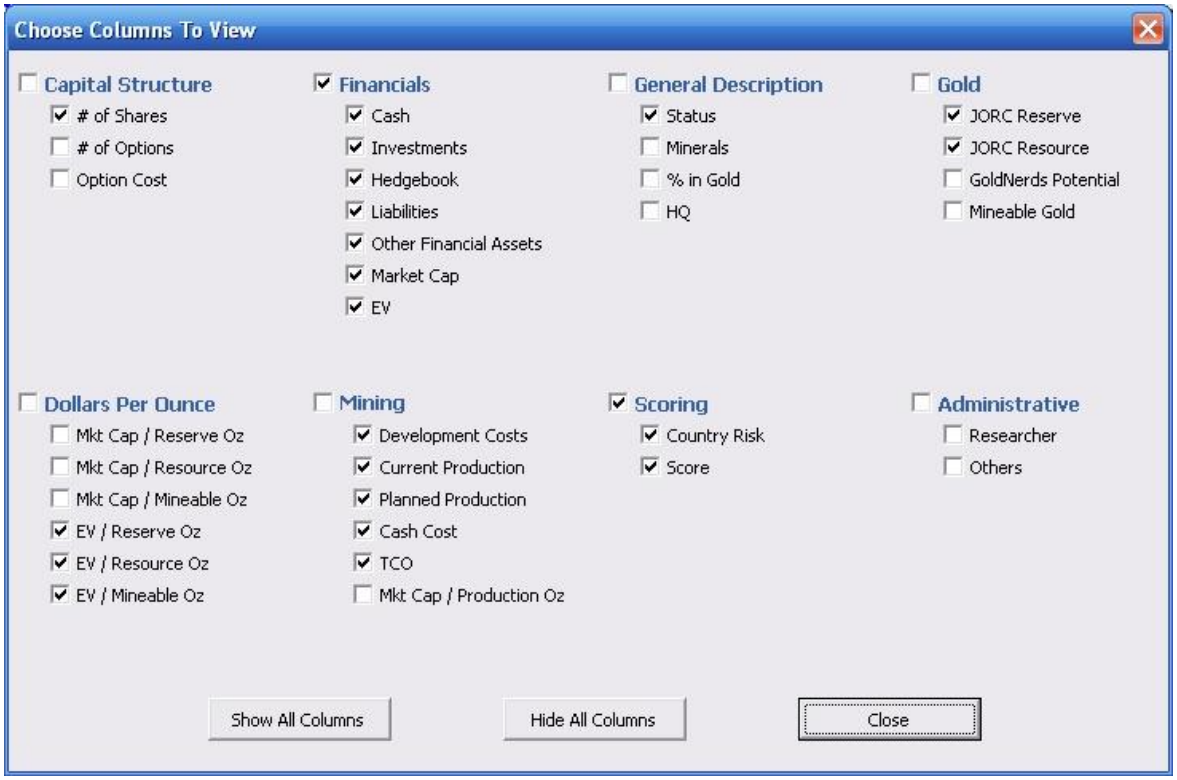
Target/Seller	Acquirer	Project Name	Stage	Location	Offer (US$m)	Reserve (Moz)	US$ per oz	Resource (Moz)	US$ per oz	Production (000' oz)	Cash Cost (US$)	R&R Ratio
Moto Gold	**Randgold**	KDC (70%)	Feasibility	DRC	**488**	**3.85**	**127**	**15.76**	**31**	**300**	**318**	**24%**
Teck Cominco	**Barrick Gold**	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%**

The average price paid/offered for reserves and resources was **US$101/oz (A$120/oz)** and **US$34/oz (A$40/oz)** respectively. The average production rate was **121,000 oz per annum** at an average cash cost of **US$448/oz (A$540/oz)**. The average reserve and resource sizes were **1.1 Million oz** and **2.9 Million oz** respectively. The average sum of the cost per reserve oz and the cash cost was close to **US$550/oz (A$660/oz)**. Ok, what can we derive from

all of this? Generally speaking these assets have been acquired, or are in the process of being acquired, because they represent excellent value for money. This is important. If we as investors are looking for undervalued gold stocks to invest in, these averages present us with a reasonable yard stick for comparison purposes. The best part is, you are not going to find too many companies that meet the criteria, thus significantly narrowing the field. I'll now step you though the process of using **GoldNerds Pro** to arrive at a meaningful short list of candidates.

Step 1: Select Columns to View (Optional)

The first step is to go into the main **Gold Stocks** sheet in the spreadsheet and narrow down the information you are looking at. Choose the **Select Columns to View** button in the top left section of the sheet. You just want to look at the relevant columns to assist your analysis.

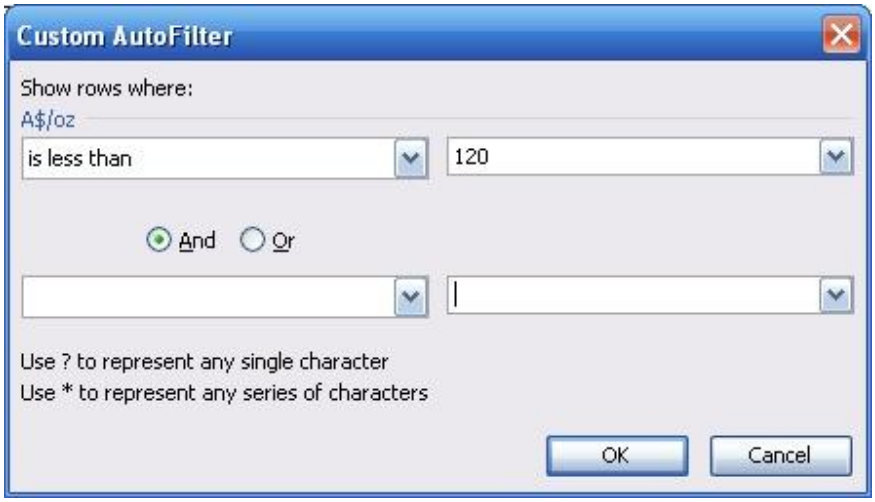


Step 2: Filtering the Gold Stocks Sheet

Within the main **Gold Stocks** sheet, you next want to filter the information so as to narrow your search to the relevant companies. In the top left blue section you will see the option, **Filters On/Off**. Click this button. Little drop down arrows should now appear in each column as displayed below. In the diagram below, also note the blue section in the top left area with the **Select Columns to View** and **Filters On/Off** buttons.

Go to the **Status** column (middle of the sheet) and click on the drop down arrow. Choose the **Custom** option. You will see a Custom AutoFilter box (as displayed below). Choose **contains** on the left side and then type in a **P (Producers)** on the right**.** Next click the **Or** option directly below and choose contains again this time typing **D (Development)** on the right side. Click **Ok** to apply the filter. This will limit our search to producing and development companies which have the more advanced projects we are targeting.

Next, go to the **EV/Reserve Oz** column and click on the drop down arrow. Choose the **Custom** option. You will see a Custom AutoFilter box (as displayed below). Select **is less than** and type in **A$120 (US version US$101)** on the right side. Click **Ok** to apply the filter. This will limit the search to companies with an **EV/Reserve Oz** of A$120 (US$101/oz) or less. Feel free to be more flexible and increase this number to perhaps the top of the range of our Merger and Acquisition data which was US$127/oz (A$153/oz).



In addition to our two filters, you could go and apply filters for the remainder of the parameters we listed above such as reserve size, annual production rate etc. What you are likely to find is that the search results will be close to zero companies. You will note that in our table, there were many deals that did not specifically satisfy all the above averages. The search results should be small enough to provide you with a meaningful shortlist to undertake further research, but not so small that it leaves out some worthwhile stocks that marginally fail in one of the categories.

Step 3: Apply a Scoring Criteria (Optional)

As an optional step, you may want to apply customized scoring to your search results. This can assess your candidates for balance sheet strength, hedging commitments, political risk etc. In our first essay, **How to Scan for Quality Gold Producers using GoldNerds Pro,** I introduced you to the criteria I personally use (parameters are below). I encourage you to experiment with some of the weightings to arrive at your own scoring system.

Scoring

Weights

Weight	*Factor*
0	Large company
0	Small company
100	Cash, investments, etc
100	Liabilities
0	Percentage in gold
100	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
100	EV per mineable ounce
100	Production
0	Cash cost
100	TCO
0	Market cap per production ounce
50	Country risk
750	*Total (= Maximum possible score)*

Weight the factors by how important they are to you. (Enter a number of 0 or more in each white cell above; bigger number = more important. For each company, each factor is a number from 0 to 1. Company score = sum of each product of a factor and its weight.)

Step 4: Sort the results by the Scoring Column (Only if you applied Step 3)

Last but not least, sort the **Scoring** column from highest to lowest by hitting the **S** button in that particular column (far right see the step 2 diagram). This will then apply the scoring parameters we stipulated in Step 3 to the filtered companies. Use this list to then conduct your own research, perhaps working your way down the list from the highest to the lowest scoring companies.

I want to quickly reiterate that none of these steps are set in stone. By all means, change the scoring and/or filtering to better reflect your own needs and preferences as you feel more comfortable and familiar with the spreadsheet.

Some Important Things to Consider

When using this technique to search for undervalued companies (takeover candidates), some things you may need to consider include:

1. The balance sheet strength of the company. If you are using EV per oz in your analysis, it is true that the state of the balance sheet will be incorporated into your valuations. What isn't perhaps as clear is the risk of the company in question defaulting on debt and forward selling obligations prior to achieving commercial production rates (if the company is having trouble achieving targets).

2. If the project in question is at the feasibility study stage, you many need to consider issues such as permitting and indigenous agreements. The environmental laws in developed countries, such as Canada and the United States, are strict. If a company is having trouble attaining the necessary permits, the assets in question will be discounted and thus attractive from a valuation perspective.

3. The accuracy of the feasibility study numbers. Feasibility studies often paint projects in the best possible light which assists the company in attaining necessary finance. It must also be said that forecasting financial results for projects is a very difficult task. There is execution risk involved concerning the respective management teams. This will be the subject of a future article I am going to write, looking at what companies actually achieve versus what they forecast to achieve. From this data, we may be able to come up with a useful margin for error to apply when using feasibility study numbers.

In summary, this is just one of many techniques you may want to utilize in looking for undervalued gold stocks to invest in. The above averages are certainly not the only way of finding quality undervalued companies. They do however, provide a useful starting point in my opinion. If you are interested in becoming more proactive and hands on in your researching of gold stocks and do not already own a copy, I highly recommend the GoldNerds products. The 2 essays I have written thus far demonstrating the functionality of GoldNerds Pro is just a drop in the ocean of what this product can do. Until next time, good luck in your quest to discover potential takeover targets in the gold sector and keep learning as much as you can. The most successful investors I know are the ones who are the most proactive and hands on in their approach.

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DISCLAIMER

The search results which are generated from following the above steps should not be misconstrued as a recommendation to buy or sell the resulting securities. It should be considered a useful short list of companies from which to undertake further research and due diligence prior to making any investment decisions.