



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

An Analysis of Recent Takeover Activity in the Global Gold Sector

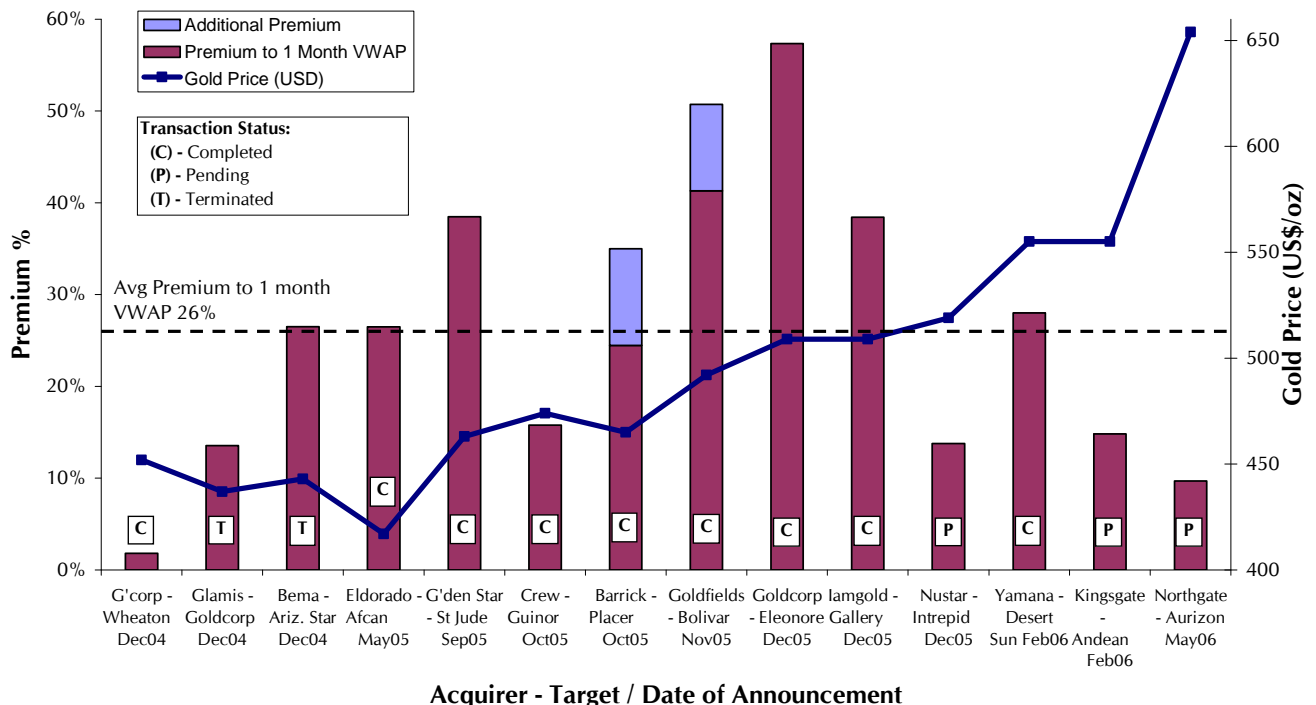
In this edition of the Alchemist we examine the terms of a range of recently announced gold takeover bids so as to assess the typical premiums being offered and valuations being assigned by acquiring parties in the midst of an extremely buoyant gold price environment.

RFC has examined 14 major gold sector takeover offers announced in the past 18 months and calculated the premiums being offered by the acquirer and the enterprise value (EV) of the targets (as implied by the respective offer prices) expressed as a multiple of forecast target production and reserve ounces.

The average premium to 1 month volume weighted average price (VWAP) in deals announced (but not necessarily completed) is around 26%. Despite the asset price inflation that has occurred in recent years on the back of a strengthening gold price, acquirers are still willing to pay a premium for control of assets. Not surprisingly, of the 14 bids that comprise the data set, the majority (11) were fully scrip based. Only 2 of the 9 completed deals required an increase in terms to achieve completion.

The chart below presents the premium to 1 month VWAP and the corresponding US\$ gold price on the announcement date, arranged in chronological order from left to right. The upward trend in the US\$ gold price has not been reflected in a corresponding trend in premiums paid.

Premium to 1 Month VWAP and US\$ Gold Price



Note: For scrip bids the premiums (and additional premiums if applicable) have been calculated using the acquirers closing share price on the trading day prior to initial announcement. 1 month VWAP is the volume weighted average price in the month prior to initial announcement.

The average EV to forecast production ounces multiple implied in announced deals was US\$3,062/oz. Excluding Yamana's acquisition of Desert Sun (whose large multiple may be partially explained in terms of production expansion at Jacobina) the average multiple falls to US\$2,692/oz. The average EV to reserves and EV to resources multiples were US\$245/oz and US\$106/oz respectively.

We note that whilst a multiples based approach may provide a useful starting point in the analysis of gold mining companies and transactions, valuation requires an assessment of a range of additional factors that contribute to underlying value. Such factors include the quality of the resource, experience of the management team, degree of leverage to the gold price, and, importantly, the option value attributable to exploration upside.

The process of assigning a value to these factors is a challenging task however it is one which RFC believe is fundamental in determining the success or failure of a mining investment or acquisition.

Acquirer / Target	Date Announced	Type	Status	Target Implied EV / Reserves	Target Implied EV / Resources	Target Implied EV / Forecast Production
Northgate / Aurizon	23-May-06	Unfriendly, Scrip	In Progress	314	134	2,176
Kingsgate / Andean	22-Feb-06	Unfriendly, Scrip	In Progress	N/A	128	N/A
Yamana / Desert Sun	22-Feb-06	Friendly, Scrip	Completed	255	75	6,023
NuStar / Intrepid	13-Dec-05	Friendly, Scrip	In Progress	N/A	54	N/A
Iamgold / Gallery	05-Dec-05	Friendly, Scrip	Completed	353	58	2,161
Goldcorp / Virginia	05-Dec-05	Friendly, Scrip	Completed	N/A	N/A	N/A
Goldfields / Bolivar	21-Nov-05	Friendly, Cash	Completed	300	111	2,784
Barrick / Placer	31-Oct-05	Unfriendly, Cash & Scrip	Completed	201	113	2,770
Goldcorp / Placer Assets	31-Oct-05	Friendly, Cash	Completed	83	52	2,603
Crew Gold / Guinor	17-Oct-05	Friendly, Cash	Completed	127	67	2,895
Golden Star / St Jude	27-Sep-05	Friendly, Scrip	Completed	N/A	52	N/A
Eldorado / Afcan	31-May-05	Friendly, Scrip	Completed	47	34	N/A
Bema / Arizona Star	20-Dec-04	Unfriendly, Scrip	Terminated	45	32	N/A
Glamis / Goldcorp	16-Dec-04	Unfriendly, Scrip	Terminated	532	354	2,765
Goldcorp / Wheaton	06-Dec-04	Friendly, Scrip	Completed	444	224	3,385
AVERAGES				US\$245 / oz	US\$106 / oz	US\$3,062 / oz

Note: EV is calculated on a fully diluted basis based on the final offer price. Forecast production represents 1 year estimated target production as of date of announcement. Target reserves and resources are based on data available at or around the time of announcement. Goldcorp / Placer Assets constitute an asset sale therefore this transaction is not represented on the chart on page 1.

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