



Gold

Gold asset transactions:

How much value is attributable to negotiation?

RFC has examined 14 recent gold transactions involving assets in or near-production, and believes the following relationship accounts for 95% of variation in value between the transactions analysed:

$$\text{Transaction Value} = A \times (\text{Resource ounces})^B \times e^{(C \times (\text{Gold spot price}) - D \times (\text{Cash costs}))}$$

Where:

e = the base of the natural logarithm;

A = 61.35;

B = 0.8329;

C = 0.0028; and

D = 0.0029, as derived from a regression analysis.

Such a strong relationship between transaction values and defined, measurable variables suggests that valuations for assets in or near-production are largely fixed, and negotiations are essentially an exercise in fine-tuning.



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

What are the implications?

The major finding of this analysis is that, on an absolute basis, 95% of the variation between the values ascribed to gold assets under transaction conditions is due to a combination of the Mineral Resource, the cash costs of production and the current gold price.

This finding implies that all other factors, whilst possibly playing a significant role on a case-by-case basis, are secondary to these three variables in gold asset valuations.

These secondary factors are likely to be subjective in nature, and related to strategic objectives or measures of various types of risk which are difficult to quantify, and were not tested for statistical significance in the backward regression. Examples of such factors may include premiums paid for control, political and sovereign risk, technical and mining risk, the quality, of the Mineral Resource estimates and/or an assessment or judgement of the regional resource endowment.

The model also indicates that certain variables do not play a role across-the-board in gold asset valuations – these are the variables that were rejected by the backwards regression model as having low (or no) statistical significance. These include the forecast annual production and the transaction consideration structure.

How well do model values compare to actuals?

Figure 1 (below) shows how well the transaction values correlate to the model on a relative basis, with the majority of the modelled values falling within 15% of the actual transaction values.

L14, 19-31 Pitt Street Sydney NSW 2000

T. +61 2 9250 0000 F. +61 2 9250 0001

L15, QV1 Building, 250 St Georges Terrace, Perth WA 6000

T. +61 8 9480 2500 F. +61 8 9480 2511

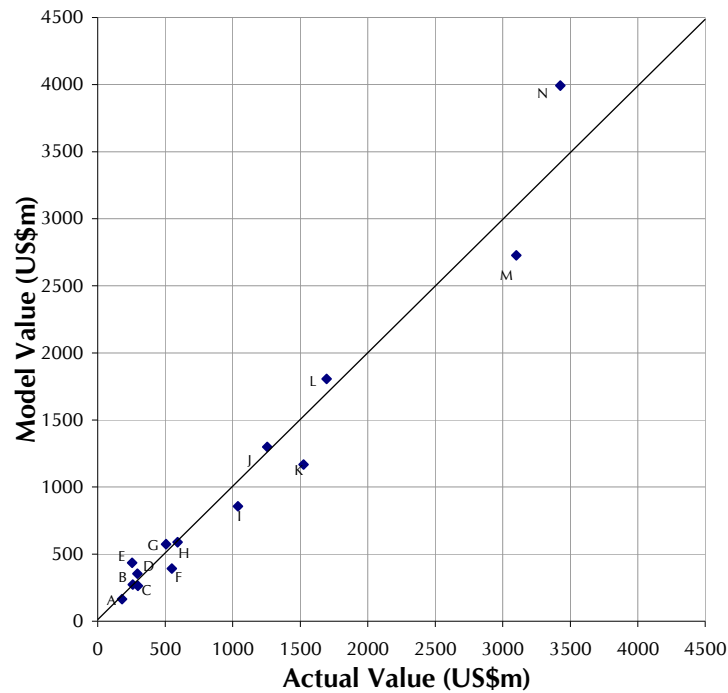


Figure 1: Gold asset transaction values vs modelled values (lettering refers to Table 1)

Table 1 (below) summarises the transactions analysed in deriving the model. These transactions were selected based on the following criteria:

1. Transaction size – greater than US\$100m;
2. Commodity –gold;
3. Time – announced within the past two years; and
4. Development stage – very late stage development or producing.

Legend Key	Acquirer	Target Name	Resources (Moz)	Cash Costs (US\$/oz)	Transaction Date	30 Day Mov Ave gold price (US\$/oz)	Transaction Value (US\$m)	Modelled Value (US\$m)	Model Variance to Actual
A	Beadell Resources Limited	Cracow (Newcrest)	0.6	444	Apr-08	958	180	164	-9%
B	Northgate	Perseverance Corporation Ltd	3.8	595	Oct-07	751	260	272	5%
C	Gammon Lake Resources	Mexgold Resources Inc	1.2	200	May-06	663	298	263	-12%
D	Peak Gold Ltd	Ampari And Peak Mines (Goldcorp)	2.6	320	Apr-07	675	294	355	21%
E	Barrick Gold Corp	Porgera Gold Mine (Emperor Mines)	4.6	410	Apr-07	675	255	436	71%
F	Yamana Gold Inc	Viceroy Exploration Ltd	3.0	280	Aug-06	630	549	392	-29%
G	Rusoro Mining Ltd	Venezuelan Assets (Goldfields)	7.3	523	Oct-07	751	507	575	13%
H	Agnico-Eagle Mines	Cumberland Resources Ltd	4.0	250	Feb-07	658	592	589	0%
I	Lihir Gold	Equigold	3.0	330	Mar-08	958	1039	857	-18%
J	Iamgold Corp	Cambior Inc	14.5	294	Sep-06	606	1256	1298	3%
K	Gold Fields Ltd	South Deep Gold Mine (Barrick)	33.5	570	Sep-06	606	1525	1169	-23%
L	Barrick Gold Corp	Cortez Gold Mine	7.2	285	Feb-08	921	1695	1806	7%
M	Kinross Gold Corp	Bema Gold Corp	19.2	130	Nov-06	619	3100	2728	-12%
N	Yamana Gold Inc	Meridian Gold Inc	10.2	-50	Jun-07	756	3427	3992	16%

Table 1: Summary of the transactions analysed

Based on the selection criteria listed above, it was necessary to exclude any transactions where the primary asset was too early-stage in development (i.e. assets that did not already have a large proportion of the pre-production capital captured in their value). The transaction values listed above are net of any disclosed mark-to-market value of associated hedge books at the time of the announcement.

Additionally, all of the transactions analysed took place against the backdrop of a commodities bull market. The model may or may not hold up in against a backdrop of falling commodities prices and asset values.

How do the statistics stack-up?

The variables included for analysis needed to be easily obtainable and on public record. The following variables met these criteria and were included in the initial analysis:

- The transaction consideration structure (% cash);
- Total resource ounces;
- Reserve ounces;
- Cash costs;
- 30 day moving average gold spot price (at the time the transaction was announced); and
- Forecast production (following year).

Initially, a table of correlations was calculated to determine if any of the variables were dependent on each other. Reserve and Resource ounces were found to have a very high correlation of 0.9. Reserve ounces were therefore excluded from the model on the basis that Reserve ounces was a less complete dataset than Resource ounces.

A backwards regression was run on the remaining dataset to determine which variables had a statistically significant relationship with transaction value. The backwards regression found extremely strong support for the inclusion of Resource ounces, the gold price and cash costs into the gold asset valuation model, and weak or no support for the inclusion of the other variables.

An analysis of the regression revealed that the model could be improved by taking \log_e transforms of the transaction values and the Resource ounces. A second regression was run based on the transformed data. This regression model was tested for its validity and found to be statistically sound. Key summary statistics of this regression are shown in Table 2 (below). These summary statistics illustrate that the model is very robust as supported by the following:

- The model exhibits an overall R^2 value of 95%, signifying that 95% of the variation between gold asset transaction values is explained by the model; and
- Each of the independent variables (Resource ounces, cash costs and gold price) exhibits an extremely high statistical significance. This is indicated by p-values well below the 0.05 threshold, below which statistical confidence in the variable as a driver of transaction value is signified.

Summary	Multiple R	R-Square	Adjusted R-Square	StErr of Estimate		
	0.97	0.95	0.93	0.25		
ANOVA Table	Degrees of Freedom	Sum of Squares	Mean of Squares	F-Ratio	p-Value	
Explained	3	11.51	3.84	60.80	< 0.0001	
Unexplained	10	0.63	0.06			
Regression Table	Coefficient	Standard Error	t-Value	p-Value	Confidence Interval 90%	
Constant	4.12	0.53	7.76	< 0.0001	3.16	5.08
Cash Costs (US\$/oz)	-0.0029	0.0004	-7.20	< 0.0001	-0.0036	-0.0022
30 Day Mov Ave gold price	0.0028	0.0006	4.51	0.0011	0.0017	0.0039
Log(Resources (Moz))	0.82	0.074	11.20	< 0.0001	0.69	0.96

Table 2: Regression summary

In conclusion...

RFC believes that gold asset values can largely be explained by a relationship between Resource ounces, the gold price and cash costs. Variations in valuations from the model can be explained by various other transaction-specific factors such as political risk, stage of development, technical risk or potential endowment.

Part of the value-add in negotiating transactions is the art of adjusting value for such factors.

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