

Gold Sector Opportunities

November 2006 – Ted Leschke

Investment Thesis: *A weakening US dollar and the stabilisation of falling oil prices have set an improved platform for gold's role as a currency and inflation hedge. In addition, the colossal performance of many other metals will see investment demand shift to the laggards, especially gold. All this bodes well for the price of gold and gold equities.*

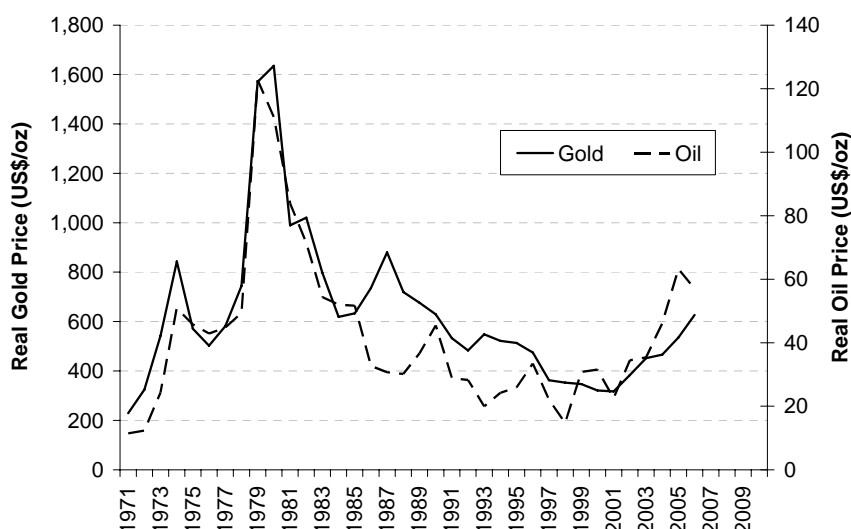
ASX Listed Gold Opportunities:

- The demise of the Australian gold industry through takeover and acquisitions over the last several years had left a gaping hole in the ASX gold company spectrum.
- After the stalwarts NCM and LHG, the mid-tier sector is being slowly and progressively filled with companies which have developing projects. BSG and SGX, which we have recommended in the past, both have developing quality gold/silver projects and now rank 3rd and 4th in the ASX gold index. We now see a second generation of gold producers progressing through the ranks where a stronger gold price will help expedite project development and/or significantly improve project economics.
- Below we outline our top four picks from our current stable of gold/silver companies. Our selection is based on a balance of factors such as quality, price/value, exploration prospectivity and management.

Top Four Companies

Bolnisi Gold (BSG) @ \$2.72	ST: Buy LT: Outperform
Perseverance Corporation (PSV) @ \$0.35	ST: Buy LT: Outperform
Intrepid Mines (IAU) @ \$0.91	ST: Buy LT: Outperform
Wedgetail Mining (WTE) @ \$0.26	ST: Buy LT: Outperform

Real Gold & Oil Prices over the last 35 years (current base)



BOLNISI GOLD (BSG)

A LARGE & GROWING SILVER/GOLD PLAY

Recommendation

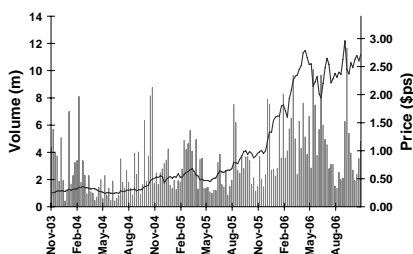
Short Term: Buy

Long Term: Outperform

Price: A\$2.72

Capital Profile

ASX Code:	BSG
Sector:	Gold
Issued Capital:	285.5m
Market Cap:	\$777m
Cash*	\$66m
Debt:	\$0m
Net Debt	-\$66m
Major Shareholders	Board 30%
	Dundee 5%



- BSG has been our most successful recent gold pick since recommending it 18 months ago. Despite this, the 75% owned Palmarejo silver-gold project in Mexico has the qualities to see a much higher share price.
- BSG has recently reported a new resource of 3.6moz gold equivalent, a 500koz upgrade from the previous resource.
- We believe Palmarejo has the potential for a resource of 4 to 5moz as indicated by all the drilling to date and only more drilling will make that official.
- An inaugural resource for La Patria is expected in 4 weeks. Further resource upgrades are expected periodically with Palmarejo deeps and Guadalupe expected to add considerable ounces.
- We value BSG at \$2.94ps, however, the quality element and limited mid-tier gold/silver plays affords us reason to set a price target at \$3.50ps.

BSG(\$2.72) Yr to 30 June	2005A	2006F	2007F	2008F	2009F
Gold Eq Production (Koz)	26	13	0	153	306
Revenue (A\$m)	14	9	0	123	239
Profit adj*	2.5	2.9	0.7	65.0	125.4
-EPS (cents)	0.9	1.0	0.2	20.9	40.4
-P/E ratio	67	270.9	1282.1	13.0	6.7
Cashflow post SIB Capex (\$m)	3.7	3.5	0.9	93.9	141.2
-CFPS (cents)	1.3	1.2	0.3	30.2	45.4
-P/CF ratio	46	223.7	896.7	9.0	6.0
Dividend (cps)	0	0.75	0	0	0

PERSEVERANCE CORP (PSV)

UNDERVALUED GOLD PRODUCER

Recommendation

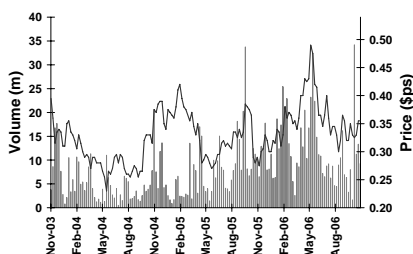
Short Term: Buy

Long Term: Outperform

Price: A\$0.35

Capital Profile*

ASX Code:	PSV
Sector:	Gold
Issued Capital:	731m
Market Cap:	\$256m
Net Debt:	\$26.6m
Major Shareholders:	AMP 7.0%
	ML 8.2%



- Gold mineralisation at PSV's Fosterville gold project is broad and disseminated which means it can be measured and mined with a higher degree of confidence.
- Gold recoveries should improve with a higher proportion of fresh high grade underground ore at Fosterville.
- There is considerable potential to considerably grow the current 1moz reserve and 3moz resource base at Fosterville.
- Numerous historical oxide pits represent legitimate targets for underlying sulphide style mineralisation.
- Pending merger with LVR essentially doubles production with similar costs per ounce for only 24% additional equity. Stawell's mine life is just 2 years but has been since 1993.
- We value PSV at 56cps.

PSV(\$0.35) Yr to 31 Jun	2005A	2006A	2007F*	2008F*	2009F*
Gold Production (Koz)	4	111	155	234	247
Cash Costs (A\$/oz)	415	378	401	381	343
Profit (A\$m)	-11.6	-9.0	14.1	21.6	26.1
-EPS (cents)	-7.9	-1.5	2.1	3.0	3.6
-P/E ratio	-3.2	-19.9	16.3	11.8	9.8
Cashflow (A\$m)	-10.8	17.4	34.1	56.2	52.1
-CFPS (cents)	-7.4	3.0	5.2	7.7	7.1
-P/CF ratio	-3.4	10.3	6.8	4.6	4.9
Dividend (cps)	0.0	0.0	0.0	0.0	0.0

*Assumes merger with LVR completed by Dec 2006

Recommendation

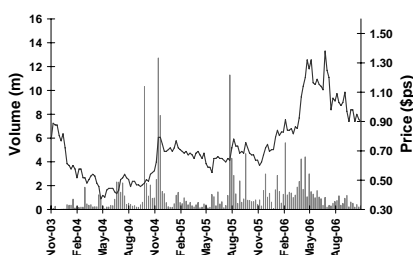
Short Term: Buy

Long Term: Outperform

Price: A\$0.91

Capital Profile

ASX Code: IAU
Sector: Gold
Issued Capital (diluted): 163.2m
Market Cap: \$170m
Cash: \$9.2m
Debt: \$26.1m
Net Debt: \$16.8m
Major Shareholders: AuSelect 10%
Mathews Cap 7.8%



- IAU has transformed itself from a single asset company to one that now has a multiple project pipeline providing an identifiable growth path as well as exploration upside.
- The 80kozpa Paulsens gold mine has now reached steady state capacity. The 80kozpa Casposo gold project should get the go-ahead by the end of this year.
- Exploration drilling is producing results on three fronts: potential extending mine life at Paulsens, demonstrating significant resource growth potential at Casposo and preliminary discoveries in El Salvador with first mover advantage. Current resource base is 1moz.
- Latin American experience should see the incorporation of attractive new projects, adding to growth options.
- Arbitrage selling on the TSX has been completed. We value IAU at \$1.41ps.

IAU(A\$0.91) Yr to 31 Jun	2005A*	2006A*	2007F	2008F	2009F
Total gold production (Koz)	7.4	78.8	85.7	121.8	170.4
Profit adj (A\$m)	-2.7	1.3	9.7	20.6	35.4
-EPS (cents)	-3.3	1.0	5.9	12.6	21.7
-P/E ratio	-19.5	135.1	15.3	7.2	4.2
Cashflow post SIB Capex (A\$m)	-5.9	9.8	20.6	39.7	50.5
-CFPS (cents)	-7.1	7.9	12.6	24.3	30.9
-P/CF ratio	-9	17	7	4	3
Dividend (cps)	0	0	0	0	0

* Figures are for Nustar Mining pre-merger

WEDGETAIL MINING (WTE)

THE NULLAGINE GOLD PROJECT

Recommendation

Short Term: Buy

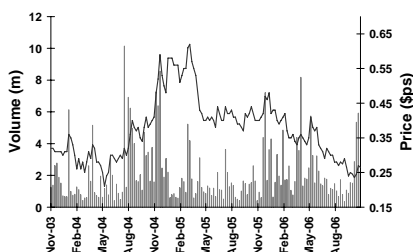
Long Term: Outperform

Price: A\$0.26

Capital Profile

ASX Code: WTE
Sector: Gold
Issued Capital: 238m
Market Cap: \$62m
Cash*: \$14m
Debt*: \$45m
Net Debt*: \$31m
Major Shareholders: Linq 29%

*at plant commissioning



- WTE is developing a standard 1mtpa open cut mining operation and CIL treatment plant.
- The Nullagine gold project is fully funded post a recent placement raising \$17.5m and \$40m debt being secured.
- Gold output should exceed that outlined in the completed Feasibility Study due to conservative parameters used and recent high grade discoveries.
- WTE controls one of the few undeveloped goldfields in WA and has a substantial and growing gold resource/reserve base – currently 343koz in reserves and 716koz in resource ounces.
- A significant number of discoveries made recently are yet to be included in reserves and resources. Continued exploration during the mine construction period means no quite period.
- We value WTE at 39cps.

WTE(\$0.26) Yr to 31 Dec	2007	2008	2009	2010
Gold Production (Koz)	25.2	78.7	80.3	85.0
Revenue (A\$m)	20.6	62.8	64.2	68.7
Profit (A\$m)	2.9	10.9	12.8	13.7
-EPS (cents)	1.2	4.6	5.4	5.7
-P/E ratio	21.0	5.7	4.8	4.5
Cashflow (A\$m)	7.0	20.3	22.6	28.8
-CFPS (cents)	2.9	8.5	9.5	12.1
-P/CF ratio	8.9	3.1	2.7	2.1
Dividend (cps)	0.0	0.0	0.0	0.0

FORECASTS AND RECOMMENDATIONS FOR SELECTED COMPANIES WITH GOLD EXPOSURE

COMPANY	ASX Code	Price (\$ps) 3/Nov	Recommendation		Mkt Cap (\$M)	Year End	Gold Production (koz equivalent)			NPAT adjusted (A\$m)			PE Ratio (weighted)			Valua. \$ps	Price Prem. (%)	Price Target \$ps	Price Prem. (%)
			Short Term	Long Term			2005	2006	2007	2005	2006	2007	2005	2006	2007				
Intrepid Mining	IAU	0.900	Buy	Outperform	147	June	7	79	80	-3	1	7	50	50	21	1.41	-36%	1.40	-36%
Perserverance Corp	PSV	0.36	Buy	Outperform	259	Dec	111	155	234	-9	14	22	50	17	12	0.56	-37%	0.55	-35%
Wedgetail Mining	WTE	0.27	Buy	Outperform	64	June	0	0	25	0	0	3	50	50	22	0.39	-30%	0.40	-33%
Kingsgate Cons	KCN	4.05	Neutral	Sctperform	347	June	124	150	157	9	20	26	40	18	14	5.22	-22%	5.50	-26%
Bolnisi Gold	BSG	2.71	Buy	Outperform	774	June	26	13	0	3	3	1	50	50	50	2.94	-8%	3.50	-23%
Bendigo Mining**	BDG	0.96	Neutral	Sctperform	406	June	0	0	51	-8	-3	5	50	50	50	2.30	-59%	1.20	-20%
Pan Aust. Resources*	PNA	0.32	Accum.	Outperform	447	Dec	0	30	50	-3	4	11	50	50	43	0.43	-25%	0.40	-20%
Sino Gold	SGX	5.03	Accum.	Outperform	803	Dec	8	148	222	-16	67	74	50	12	11	4.70	7%	5.50	-9%
Newcrest	NCM	24.35	Accum.	Sctperform	8,213	June	1,118	1,504	1,499	130	131	261	50	50	31	22.13	10%	26.00	-6%
Straits Resouces*	SRL	3.92	Hold	Sectperform	737	Dec	12	53	52	47	87	114	14	8	6	4.23	-7%	4.00	-2%
Oxiana Resources*	OXR	3.25	Hold	Outperform	4,460	Dec	195	195	189	76	448	267	50	10	17	2.47	31%	3.00	8%
Sum/Wtd Average					16,947		1,601	2,327	2,627	209	767	826	47	34	26		9%		-5%

*diversified metals producer

** valued on inferred/potential resources

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