

AUSTRALIA



Rocks & Stocks

Wolves of West Perth

Apologies for another Rocks and Stocks with an M&A focus, but there's just too much action in the sector not to make a comment. Another week is upon us and another resources deal has surfaced with Zijin Mining's predatory \$47m takeover play for Phoenix Gold (ASX: PXG). It's hard to ignore the feverish pace of M&A in the sector with around \$3.7bn in resources related deal flow in the last 3 months. With the mature assets now largely snapped up, we turn our attention to the next tier of M&A targets in the resources sector that are worthy targets.

Notes from the Field

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SAVE THE DATE:

Noosa Mining & Exploration Conference
16-17 July 2015

Outrigger Resort, Little Hastings Street
Queensland.

Figure 1: M&A Activity from April-June 2015

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|--------------------|---|
| Independence Group | \$1.8bn scheme of arrangement with Sirius Resources |
| Independence Group | Acquisition of 5% stake in Gold Road |
| Evolution Mining | Acquisition of Cowall assets from Barrick for US\$550m |
| Evolution Mining | Acquisition of La Mancha assets for A\$290m |
| Anglogold Ashanti | Sale of Cripple Creek Gold assets to Newmont for \$820m |
| Oceana Gold | Purchase of Waihi Mine from Newmont for \$101m |

Source: Morgans

Doray Minerals (DRM) – An attractive bolt on ▶ DRM has been on our M&A radar for a while now. DRM's Andy Well mine is forecast to produce 85-90koz in FY15 at a cash cost of around ~\$1000/oz. Adding to the upside is the recently acquired Deflector project (also in Western Australia) which is forecast to produce ~60kozpa at an all-in sustaining cash cost of ~A\$790/oz. Combining the two assets turns DRM into a mid-tier play with 160kozpa production at <A\$1000/oz transforming it into a very attractive bolt on asset for the likes of other similarly sized producers such as SAR, TRY or RSG.

Dacian Gold (DCN) – Westralia will get a lot bigger ▶ DCN's Westralia resource has grown in size from around 364koz in 2012 to around 850koz in 2015. Drill results released this week returned 5.3m @ 12.2g/t Au and 4.1m @ 9.9g/t Au, located up to 1100m from the existing Westralia resource in an untested BIF horizon. Additional infill holes are planned, and a successful outcome could result in a significant resource upgrade for Westralia which the company has earmarked could be as soon as late July or early August (around the time of the Diggers & Dealers conference in Kalgoorlie).

Regis Resources (RRL) - Turning a corner ▶ After the flooding events and grade issues at Garden Well in 2014 and early 2015, we think the stock has been oversold. It's also one of the only larger (+300kozpa) producers which has yet to transact on an M&A deal of any kind. RRL's June quarter production is likely to bounce off a low base given the issues experienced in early 2015. That being said we think the stock has substantial upside from current levels.

What to look for ▶ We expect that M&A deals will focus on two things 1) cheap bolt on cash-flow generating assets with minimal debt and brownfields expansion upside such as DRM, 2) existing miners will look to supplement declining mill feed from their operations by locking down cheap in-situ resources which have significant exploration potential such as DCN (a good example is the current PXG takeover). We also look for oversold stocks such as RRL which could surprise on the upside on stronger than expected quarterly performance or M&A activity either as the predator or prey.

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