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Gold, going cheap?

The recent rally in the gold price through US\$800 was anticipated by many who predicted a continued fall in the value of US currency. With investors in the sector having enjoyed healthy gains over the last few months we consider it worth taking a look at some of the Australian junior gold hopefuls. The speculative end of the market should again attract attention if the recent rally proves to be more than a temporary spike.

The major gold stocks (NCM, LHL) have increased by up to 50% over the last few months as investors flock to the sector, in the hope of sustained strength in the price of gold, or at least a continuation of the recent rally. The price increase has been driven by a combination of a falling US dollar against the Euro (and other major currencies) and strong demand, including the Indian wedding season.

Many junior gold stocks have risen strongly in recent months, with the average price per resource ounce available on the market by our calculations increasing by up to 50% to A\$60/oz. Quite a number of stocks have fallen under the radar however, and are available at a price closer to A\$20/oz, therefore as the resource base grows, or they get closer to production, they have a good chance of being re-rated in our view, particularly if gold's recent rally proves more than a spike.

Based on our analysis & recent discussions with management, we have come up with five stocks which are worthy of keeping an eye on: A1 Minerals (AAM); Alkane Exploration (ALK); Wedgetail Mining (WTE); Monarch Gold (MON) and Heritage Gold (HTM).



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Methodology

There are up to 100 ASX listed companies with JORC compliant gold resources, and we have not look at every single company. We have however, examined around 50, and selected a few worthy of mention at this stage based on fundamentals, discussions with management and value relativity.

We have assessed the market capitalisation per resource ounce based on implied market cap, less cash, divided by JORC resources. In the case of companies where they have substantial other projects, we have subtracted a subjective value (refer to pg4) based on what the project may fetch in the market, or money spent on the project to date.

We have screened out companies for comparison where we believe the chance of establishing a profitable operation at forecast gold prices (ie US\$600/oz) is remote. These include low grade refractory ores, underground deposits of low tonnage and grade (<2g/t) or other problematic deposits. In general, deposits of <1g/t grade are excluded.

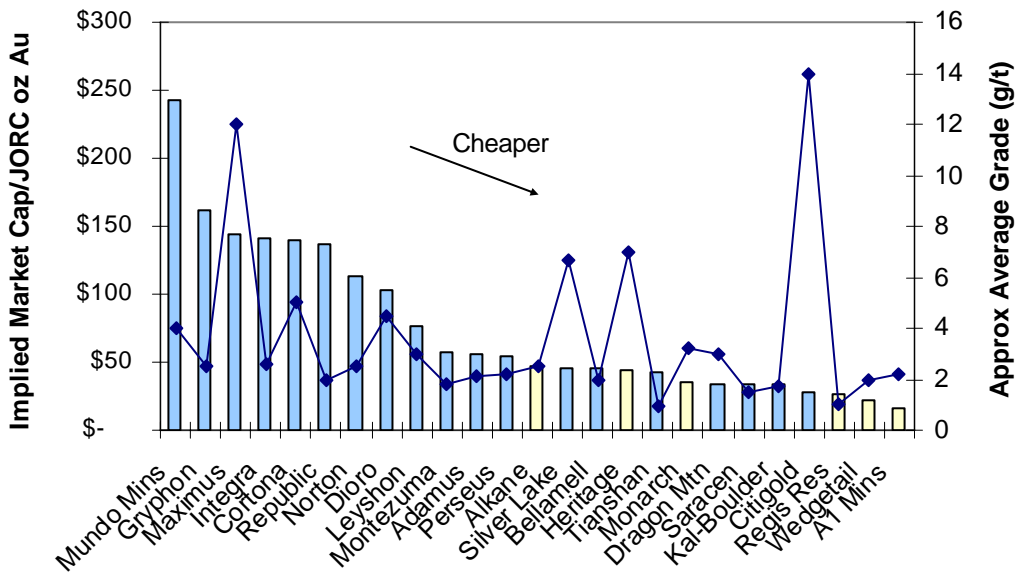
We acknowledge the methodology is simplistic, however consider it a good first-pass assessment. When examining the potential of a gold stock, it is also worth considering the metallurgy of the deposit, proximity to infrastructure, potential time to production and potential cash cost/oz produced.

In summary we have come up with five companies which we consider to be highly leveraged to the metal and should be in a good position to benefit from both short term and sustained gold price strength.



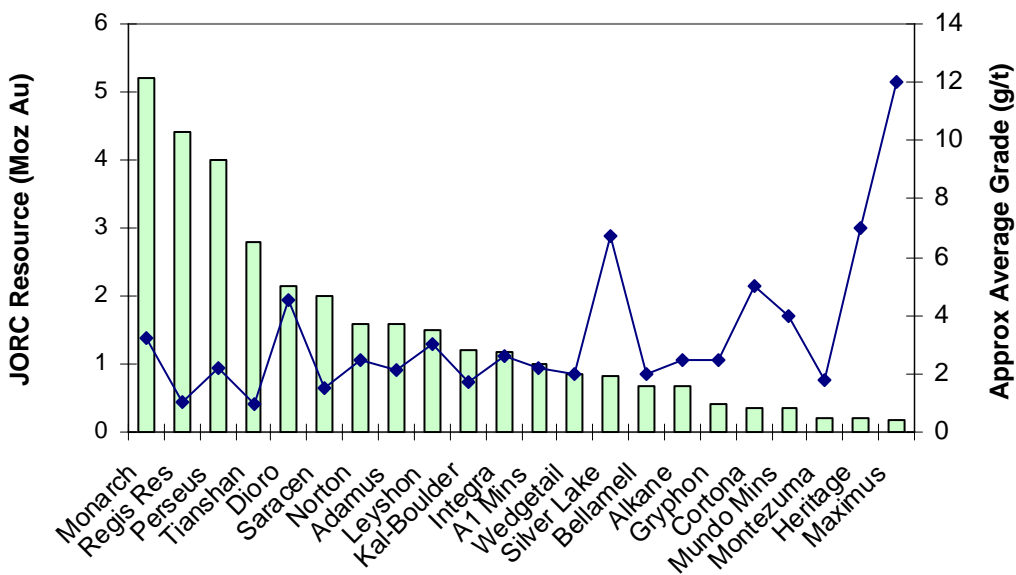
\$US Gold vs EURO/USD

Junior Gold: Comparison



Note: The above table is based on equity prices as at 16/11/2007. Approximate figures only based on interpretation of published company reports. Accuracy of figures not guaranteed.

Junior Gold: Comparison



Note: Excludes Citigold (CTO) with 10moz resource.

Summary

In our view a few companies stand out, purely on the basis of cheap ounces in the ground, with a good chance of project development and healthy cash flow in a robust gold price environment. In summary, we like the following companies: A1 Minerals (AAM), Alkane Exploration (ALK), Wedgetail (WTE) and Monarch Gold (MON).

These companies in our view have good management, potential for mine development over the next few years and exploration ground which should see resources continue to grow.

Whilst at this stage we are only presenting a first pass assessment, many companies are worthy of further attention and we will continue to investigate their potential. Our summary of companies mentioned is presented on the following page.

Worth Mentioning

A1 Minerals (AAM) MC \$30m

We met with MD John Williams last week, and were impressed with his commitment to realising shareholder value through development of the 1moz gold resource, along with progressing JV's including the Narnoo nickel sulphide project.

A1 has 1moz over 6 deposits, and is presently trading at an implied market capitalisation per ounce of around A\$18, compared to our market average of ~A\$60. The company is presently investigating options for early cashflow, including construction of a small treatment facility to process 4.5g/t head grade material, or toll treatment at nearby mines. Cash in the bank is around A\$6m, enough to fund continued exploration and mining feasibility work well into 2008.

Alkane Exploration (ALK) MC \$65m

Recently we sat down with Ian Chalmers of Alkane and reviewed the company's progress on both the Tomingley gold project, and the Dubbo Zirconia project. Removing the A\$17m in the form of 17% of BCI, and around A\$10m for Dubbo (estimated spending) we arrive at an implied market price of around A\$50/oz per JORC resource for the company. Whilst close to the average, we consider there is significant potential for the resource base at Tomingley to grow (presently 670koz) into a 1-1.5moz deposit in time. We envisage a 10year mine life at 80kozpa may be possible, depending on results of planned deep drilling into the Caloma ore body. The feasibility study is due for completion later in 2008. A 10,000m RC program is underway. In addition, the company has a JV with Newmont at McPhillamy's where there is considerable potential for a significant orebody to be delineated. Work is ongoing, with the company recently announcing a 1 for 5 rights underwritten rights issue to raise ~A\$12m. Refer to research report dated 10 October 2007. Speculative Buy.

Wedgetail Mining (WTE) MC \$30m

Since deciding to formally put the development of the Nullagine gold project on hold for now, whilst they review the economics and overall gold strategy, the company's attention has been grabbed by what is beginning to emerge as an encouraging molybdenum target, analogous to Moly Mines' Spinifex Ridge project under development 115km to the north. In our recent meeting MD Andrew Law revealed high expectations for further exploration given their view the anomaly is stronger and larger than what existed over MOL's Spinifex Ridge project prior to a resource of 469mt grading 0.06% being outlined. MOL has a market cap of \$290m. Early results include 8m@520ppm and 28m@150ppm in scout RAB drilling. Geophysical surveys are presently being arranged, in order to gain a better understanding of the prospect. In our view, it is still early days for the moly project, however with an implied market cap of A\$23/oz we believe you are essentially gaining exposure to the prospect for free. We presently maintain a Speculative Buy recommendation on the Company.

Monarch Gold (MON) MC \$110m

Monarch Gold recently announced the planned acquisition of the Hill 50 gold mine from Sth Africa's Harmony gold for A\$65m, including A\$20m worth of shares, a A\$15m convertible note and A\$30m in cash. The asset consists of 2.7moz grading >3g/tAu, a 2.7mtpa treatment plant, and four mines including the historic Hill 50 mine. The company plans to fund the acquisition partly through a TSX listing early in 2008, and then put the plant on care and maintenance as a major exploration program is undertaken in the tenements. The acquisition price of around A\$24/oz does not appear expensive, and brings total resource up to 5.0moz for the company, at an implied value of A\$33/oz (fully diluted for acquisition). There are some near-term headwinds for the group, including a planned 3:1 capital consolidation ahead of TSX listing, and associated fundraising for the recent acquisition. Once this is bedded down, and production at Davyhurst increases towards the targeted 150kozpa (overcoming early issues which have disappointed investors) the company should be in a good position for further developments, now owning 3 treatment plants with stated potential for production of 500koz pa within three years. We met with new MD Matthew Gill (ex-Beaconsfield) and Chairman Michael Kiernan in Sydney this week, where they are presently conducting a roadshow, and believe the Monarch story is one well worth watching into 2008. Shareholders in CSM and TTY will no doubt be well aware of what Mr Kiernan can do to share prices, and would hope he can repeat the success with Monarch.

Heritage Gold (HTM) MC \$10m

New Zealand based Heritage Gold (HTM) recently announced a co-incident placement and 1:7 rights issue to fund exploration at their Waihi property in New Zealand, near Newmont's Martha Mine. To the south, at the old Talisman mine (Cyprus Gold, 1980's), current JORC resources stand at around 210koz@7g/tAu, and the anticipated A\$4.5m in funding will go towards proving up a 500koz resource grading between 10-12g/t, according to the company, as they believe previous drilling under-reported the grade. Market cap per ounce as it stands is A\$45/oz, or around half that enjoyed by ASX peers with higher grade UG resources (MXR, CRC etc).

New MD, mining engineer Trent Lash, impressed us within his enthusiasm in a recent visit, and has wasted no time in mobilising crews to get underground at Talisman. Surface drilling is due to commence shortly, with underground access 1Q08. The MD considers adjacent Taukani Hill a priority target, as it remains essentially undrilled.

HTM also have a stake in proposed IPO Broken Hill Cobalt, which is planning to develop the Thackaringa cobalt project (10.6mt@0.1%) west of Broken Hill in joint venture with the Chinese. Listing is planned for 1Q08.

Others

There are quite a number of other companies out there which may be worthy of further follow up, including Citigold (CTO) with it's 10moz resource (obvious grade spike in our graph too), Saracen (SAR) with 2moz and other companies which appear relatively cheap. We will endeavour to get in touch with management of some of these companies soon with a view to establishing whether they are also worth adding to our list, and potentially recommending down the track.

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