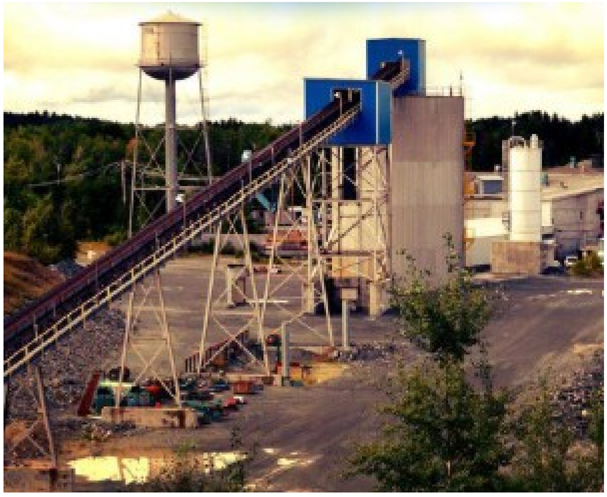
Clausi Takeover Targets (Part 1): Integra Gold Corp.



M&A activity can signal the bottom of a market, a place that the miners have been in for far too long. Goldcorp Inc.’s recently announced acquisition of Probe Mines Limited for $526M is the latest example of a powerful balance sheet absorbing a weaker junior with a great asset. It’s time to look at three other resource issuers that could be in play. We’ll look at an preproduction company, a producer and an explorer.

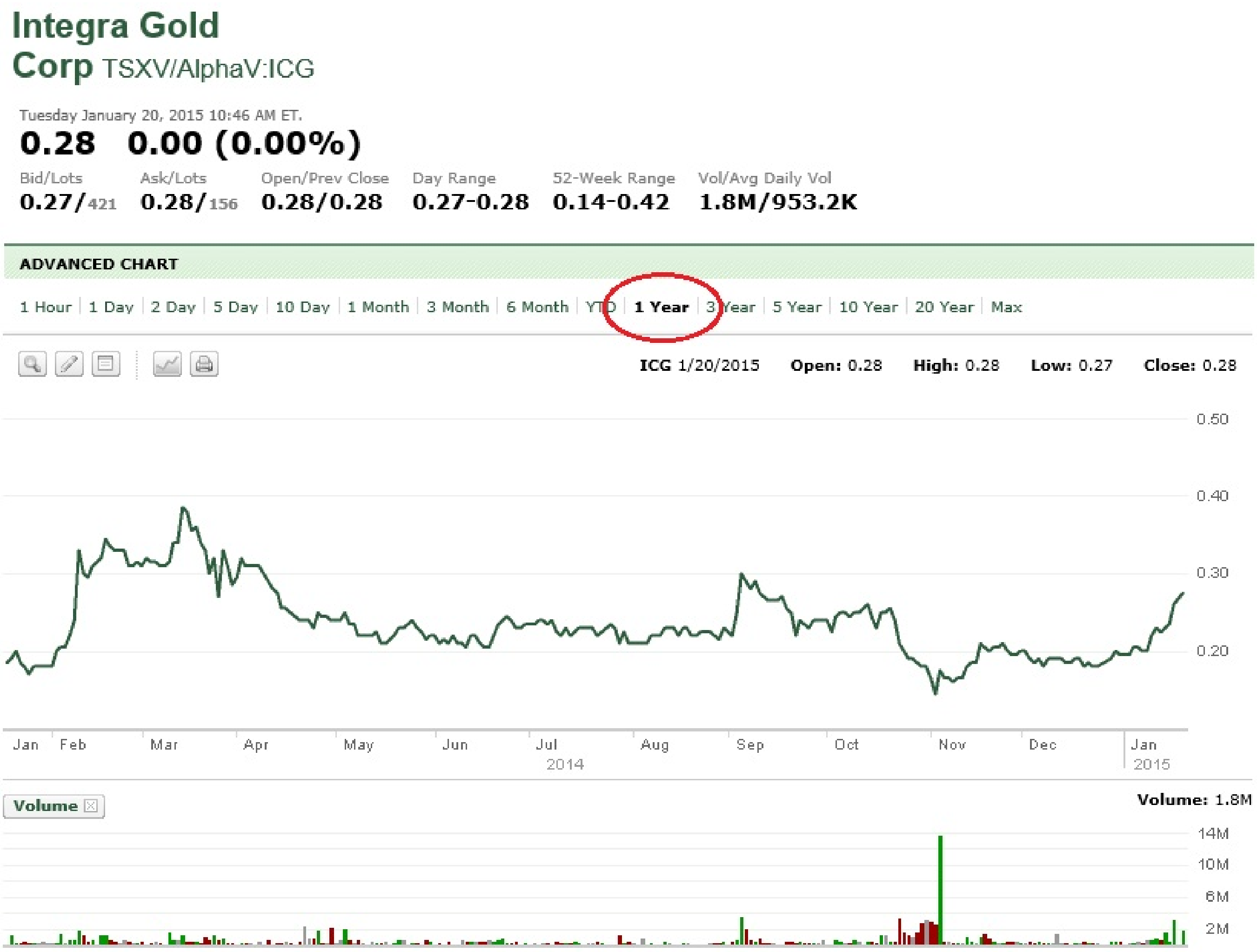
First up is the preproduction company. It’s on path to become a gold producer in the near term. Integra Gold Corp.’s (TSXV: ICG | OTCQX: ICGQF) main asset is the 100% owned Lamaque Property in Val-d’Or, Quebec. Val-d’Or translates to “Valley of Gold”, appropriate for such a prolific mining region in a mining friendly jurisdiction. Labour, infrastructure and mining wisdom are readily available.

On January 13, 2015 Integra released the results from its updated Preliminary Economic Analysis. By any standard this was a tremendous document. Highlights included:

- Base case pretax internal rate of return of 77 per cent and net present value (5-per-cent discount rate) of $184.3-million. Read that again because it’s going to be important later down this article;
- Preproduction capital requirements down from $69.2-million to $61.9-million;
- Preproduction period down from 24 months to 18 months;
- Life-of-mine cash cost of $551 per ounce and all-in

sustaining costs of $731 per ounce (at $1,175 per ounce);
- total pre-tax cash flow of $238M over a 4.5 year mine life; and
- increased gold recoveries across all zones by roughly 1%.

In English, this means Integra cut its cash needs, reduced the lead time to production by 25%, crammed down its all-in sustaining costs and provided visibility on the key metrics for success. They significantly de-risked the company and as a result made it very attractive to larger companies with stronger balance sheets.



Lower capital needs. Reduced cash cost. Increased recoveries. Reduced time to production. Any one of these would have been a strong achievement. The appropriate market response to having all of these in Integra’s updated PEA should have been OMG! Instead, we got another yawn from an inattentive market.

In addition to what is described in the PEA, Integra has two future drivers of value. The first is the drill bit. Integra has drilled over seventy thousand metres (43 miles!) since April 2013 at Lamaque on various zones. Results confirmed the continuity of mineralization in each of the Fortune, Parallel and Triangle Zones.

While these drill results were disclosed, their economics were not included in the latest PEA because they came after the cut-off date.

The other key area driver of value is big picture thinking in the board room. The leadership team pulled off a major coup in October, 2014 when it acquired the assets of Century Mining Corp. from a receiver. This acquisition included a mill and mine complex at Lamaque. This means the company no longer needs toll or custom milling at third party facilities, so Integra can reduce its operating costs (from $665 cash cost per ounce to $551). This acquisition also is a factor in the increased gold recoveries and a streamlined permitting process.

There’s still another tasty tidbit for a suitor. The Sigma/Lamaque acquisition also included all of the mineral resources contained within the property, none of which were included in Integra’s PEA. Those resources are just hanging there in limbo, waiting for the next PEA to pick them up.

This quarter, we should see the next PEA incorporate the historic resource estimate from Sigma-Lamaque, and build in the gold values from the 70,000 metres of completed drilling. Those two drivers of value should:

- expand the volume of mineralization;
- drive the all-in cash cost down even further;
- convert resources to reserves;

- extend the mine life;
- increase the after-tax cash flow; and
- ultimately, at a lower risk, increase the overall value of the project.

It is possible that the grade may slip as the additional assays are incorporated, but with a projected diluted head grade of 8.4 g/ t gold, the grade can slip a fair bit and still be an economically viable project.

This information is in the public domain. Anyone with a spreadsheet and some resource knowledge (specific gravity of 2.7ish?) can calculate roughly how much value those two items will provide, and that includes the M&A teams working for the majors and producers. A project like Lamaque has to be on their radar screens.

Integra has 244M shares outstanding. The year hi-low is $0.42 – $0.15, now bouncing around between $0.20 and $0.27 a share, which means the market values this company's equity at roughly $50 – $65M. Remember from above that the PEA sets the NPV of Lamaque at $184.3-million, not including the 70,000 metres of drilling or the historic resources.

That's a huge gap for a would-be suitor. Probe shareholders are getting roughly a 50% premium over the market price from Goldcorp. The same premium applied to Integra would see shareholders receiving roughly 50 cents per share, and even that would not take the company's value up to where the PEA set it.

There are of course risks. Between now and the announcement of any potential takeover, the biggest risk to Integra is management's execution on construction and cost containment. We all have horror stories about other projects where preproduction costs rocketed out of control and destroyed shareholder value. A larger producer with experience in bringing a mine into production would have the ability to manage this risk better than could Integra.

It wouldn’t be a surprise to see an announcement of someone taking a friendly or hostile run at Integra. The not-so-hidden value has not yet been recognized by the broader market, thereby creating an opportunity for a larger producer to buy a significantly undervalued asset in a prime mining jurisdiction. Even if no takeover happens, Integra’s management has significantly de-risked the company and created opportunities for value creation.

Next: A junior trading only at cash value despite having a million ounce NI 43-101 resource estimate.