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SPEC BUY

Current Price \$0.03
Valuation \$0.13

Friday, 15 September 2023

Ausgold Limited (AUC)

3Moz Milestone

Analyst | Patrick Streater

Quick Read

Ausgold's recent Katanning (KGP) MRE update saw the project reach the +3Moz mark with a total MRE of 89Mt at 1.06g/t Au for 3.04Moz. The updated KGP MRE delivered a +400Koz increase in contained ounces and an overall 13% increase in grade. In this note, we discuss recent MRE changes and progress at the Katanning Gold Project. Our valuation is increased from \$0.12 to \$0.13 with a Speculative Buy recommendation. We note that the recent strong performance in the \$A gold price provides an \$0.16 valuation for AUC using current spot gold prices.

Key points

More ounces & higher grade: The September KGP MRE update incorporated over 17km of additional RC and diamond drilling since the last April 2022 MRE update. The highlight of the MRE update is the grade increase from 0.94g/t to 1.06g/t, whilst keeping cut-off grades consistent at 0.45g/t. Katanning is a large-scale low-grade project with project valuations highly sensitive to grade variability. We would anticipate the importance of this higher grade to be reflected in an increased operating margin delivered in AUC's DFS due Q4 CY23.

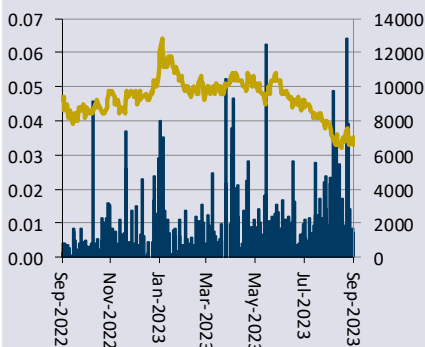
DFS On Track for Q4CY23: DFS studies continue in the background with GR Engineering engaged to lead the study. Seasonal flora and fauna studies are underway along with hydrogeology drilling. Initial work completed by AUC suggests water supply drawn from bores has a higher salinity content which is unsuitable for cropping but at an ideal concentration for use in the proposed 5Mtpa plant. Metallurgical test work is ongoing to optimise the comminution flowsheet along with further leach test work on sulphide composites. AUC states an update will be provided in H2 this year on further acquisitions of landholdings within the Katanning development footprint.

Resource Model Stress Tested by Snowden Optiro: Ausgold engaged Snowden Optiro to complete an independent third-party review of the September 2023 KGP MRE Update. Input from this review saw a revised interpretation of mineralisation zones and estimation methods which have led to a more representative interpretation of structural controls on mineralisation, particularly in the Central Zone which hosts the majority of contained ounces.

Valuation & recommendation

Argonaut maintains a Speculative Buy recommendation with a valuation increase from \$0.12 to \$0.13. Our valuation increase is driven by increased gold price assumptions to A\$2714/oz along with an increase in metallurgical recovery from 90% to 91%. At current Spot Gold prices (A\$2985) Argonaut's valuation increases to \$0.16. We anticipate a further upgrade to our valuation following the DFS release that will likely benefit from the grade increase in the September MRE update.

Code:	AUC		
Sector:	Metals and Mining		
* All figures in AUD unless stated otherwise			
Shares on Issue (M):	2,296		
Market Cap (\$M):	76		
cash	9.5		
debt	0		
Net cash (\$M Jun 2023)	9.5		
Enterprise value (\$M):	66		
52 wk High/Low (ps):	\$0.06	\$0.03	
12m av. daily vol. (Mshs):	2.02		
Key Metrics			
	FY24e	FY25e	FY26e
P/E (x)	0.0	0.0	2.3
EV/EBITDA (x)	-10.4	-10.4	0.6
Financials:			
	FY24e	FY25e	FY26e
Revenue (\$M)	0	0	251
EBIT (\$M)	-6	-6	103
NPAT (A\$M)	-6	-12	83
Net assets (\$M)	33	86	205
Op CF (\$M)	-6	-12	107
Per share data:			
EPS (c)	-0.2	-0.2	1.4
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	-0.2	-0.2	1.8
Prod (koz Au)	0.0	0.0	92.4





Ausgold Limited

Equities Research

Analyst: Patrick Streater

Recommendation	Speculative Buy
Current Price	\$0.03
Valuation	\$0.16

Sector	Metals & Mining
Issued Capital (Mshs)	2,296
Market Cap (M)	\$76
Friday, 15 September 2023	

Profit & loss (\$M) 30 June	2024E	2025E	2026E	2027E
Sales Revenue	0	0	276	545
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	-121	-224
- Royalties	0	0	-7	-14
- Corporate & administration	-6	-6	-6	-6
Total Costs	-6	-6	-134	-244
EBITDA	-6	-6	142	301
margin	0%	0%	53%	55%
- D&A	0	0	-14	-38
EBIT	-6	-6	127	263
+ Finance Income/Expense	0	-5	-11	-9
PBT	-6	-12	117	254
- Tax expense	0	0	-13	-81
- Impairments and other	0	0	0	0
NPAT	-6	-12	104	173

Cash flow (\$M)	2024E	2025E	2026E	2027E
+ Revenue	0	0	276	545
- Cash costs	-6	-6	-134	-244
- Forwards	0	0	0	0
-Tax payments	0	0	0	-13
+ Interest & other	0	-5	-11	-9
Operating activities	-6	-12	131	279
- Property, plant, mine devel.	0	-214	-91	-6
- Exploration	-4	-4	-4	-4
- Deferred Consideration	0	0	0	0
Investment activities	-4	-218	-95	-10
+ Borrowings	0	150	-10	-40
- Dividends	0	0	0	0
+ Equity	25	150	0	0
Financing activities	25	300	-10	-40
Cash change	14	70	27	229

Balance sheet	2024E	2025E	2026E	2027E
Cash & bullion	24	94	121	350
Other Current Assets	0	0	0	0
Total current assets	24	94	121	350
Property, plant & equip.	11	230	310	282
Investments/other	0	0	0	0
Total non-curr. assets	11	230	310	282
Total assets	35	324	430	631
Trade payables	1	44	31	32
Short term borrowings	0	10	40	40
Other	1	44	31	32
Total curr. liabilities	3	98	101	103
Long term borrowings	0	140	100	60
Other	0	0	0	0
Total non-curr. liabil.	0	140	100	60
Total liabilities	3	238	201	163
Net assets	33	86	229	468

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Shares	2024E	2025E	2026E	2027E
New shs issued/exerciseable	500	3000	0	0
Average issue price	0.050	0.050	0.000	0.000
Ordinary shares - end	2796	5796	5796	5796
Diluted shares - end	2796	5796	5796	5796

Financial ratios		2024E	2025E	2026E	2027E
GCFPS	AC	-0.2	-0.2	2.3	4.8
CFR	X	0.0	0.0	0.0	0.0
EPS	AC	-0.2	-0.2	1.8	3.0
PER	X	0.0	0.0	1.8	1.1
DPS	AC	-	-	-	-
Yield	%	-	-	-	-
Interest cover	x	0.0	-1.2	12.1	30.0
ROCE	%	-57%	-3%	41%	93%
ROE	%	-20%	-14%	51%	54%
Gearing	%	0%	163%	44%	13%

Operations summary	2024E	2025E	2026E	2027E
Katanning Gold Project				
Ore processed (Mt)	0.0	0.0	1.9	5.0
Head grade (g/t)	0.00	0.00	1.64	1.25
Met. recovery	0%	0%	91%	91%
Gold prodn (kcozs)	0	0	92	183
Cost per milled tonne (A\$/t)	0	0	63	45
Cash costs pre royalty (A\$/oz)	0	0	1309	1261
Sustaining capital (\$M)	0	2	6	6
All in sustaining costs (A\$/oz)	0	0	1420	1371
Growth capital (\$M)	4	217	88	4
CAIC (A\$/oz)	0	0	1476	1484

Price assumptions	2024E	2025E	2026E	2027E
AUDUSD	0.640	0.640	0.640	0.640
Gold	USD 1911	1911	1911	1911

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	693	0.30
Exploration	139	0.06
Corporate Overheads	-51	-0.02
Cash and bullion	10	0.00
Debt	0	0.00
Tax benefit	25	0.01
Hedging	0	0.00
Option/equity dilution	-450	-0.20
NAV	365	0.16

Directors, management	
Geoff Jones	Non-Executive Chair
Matthew Greentree	Managing Director
Denis Rakich	Executive Director
Richard Lockwood	Non-Executive Director

Top shareholders	M shs	%
Dundee Corp.	287.1	12.5
Jupiter Precious Metals Fund	219.0	9.54
Directors	141.8	6.2

Resources Sep '23	Mt	g/t Au	Kozs	Mkt cap/oz
Katanning Gold Project	88.9	1.06	3,040	25
Measured	38.1	1.10	1,352	
Indicated	31.8	1.04	1,067	
Inferred	18.9	1.02	620	

AUC Scoping Study Inventory May '23	Mt	g/t Au	Kozs	Mkt cap/oz
KGP (5 Mtpa Option Study)	44.0	1.05	1,480	51

Argonaut Inventory Model Sep '23	Mt	g/t Au	Kozs	Mkt cap/oz
KGP (5 Mtpa Scenario)	45.0	1.04	1,505	50



Figure 1 – AUC September 2023 KGP (Katanning Gold Project) Mineral Resource Estimate. Resource reported at a 0.45g/t Au lower cut-off grade and above 150m RL (220m depth). Underground resource reported below 150m RL with a 1.8g/t Au cut-off.

Material	Cut-off grade	Measured			Indicated			Inferred			Total		
		Tonnes	Au g/t	Ounces	Tonnes	Au g/t	Ounces	Tonnes	Au g/t	Ounces	Tonnes	Au g/t	Ounces
Oxide	0.45 g/t Au	2,674,000	1.00	86,000	2,303,000	1.00	74,000	299,000	0.96	9,000	5,276,000	1.00	170,000
Transition		4,313,000	1.12	155,000	3,617,000	0.97	113,000	376,000	0.91	11,000	8,305,000	1.05	279,000
Fresh		31,163,000	1.11	1,110,000	25,928,000	1.06	879,000	16,634,000	0.97	519,000	73,724,000	1.06	2,507,000
	Sub total	38,150,000	1.10	1,351,000	31,848,000	1.05	1,066,000	17,309,000	0.97	539,000	87,305,000	1.06	2,956,000
	Underground 1.8 g/t Au							729,000	3.03	71,000	729,000	3.03	71,000
	Tailings 0 g/t Au							870,000	0.35	10,000	870,000	0.35	10,000
	Total	38,149,000	1.10	1,352,000	31,849,000	1.04	1,067,000	18,908,000	1.02	620,000	88,906,000	1.06	3,040,000

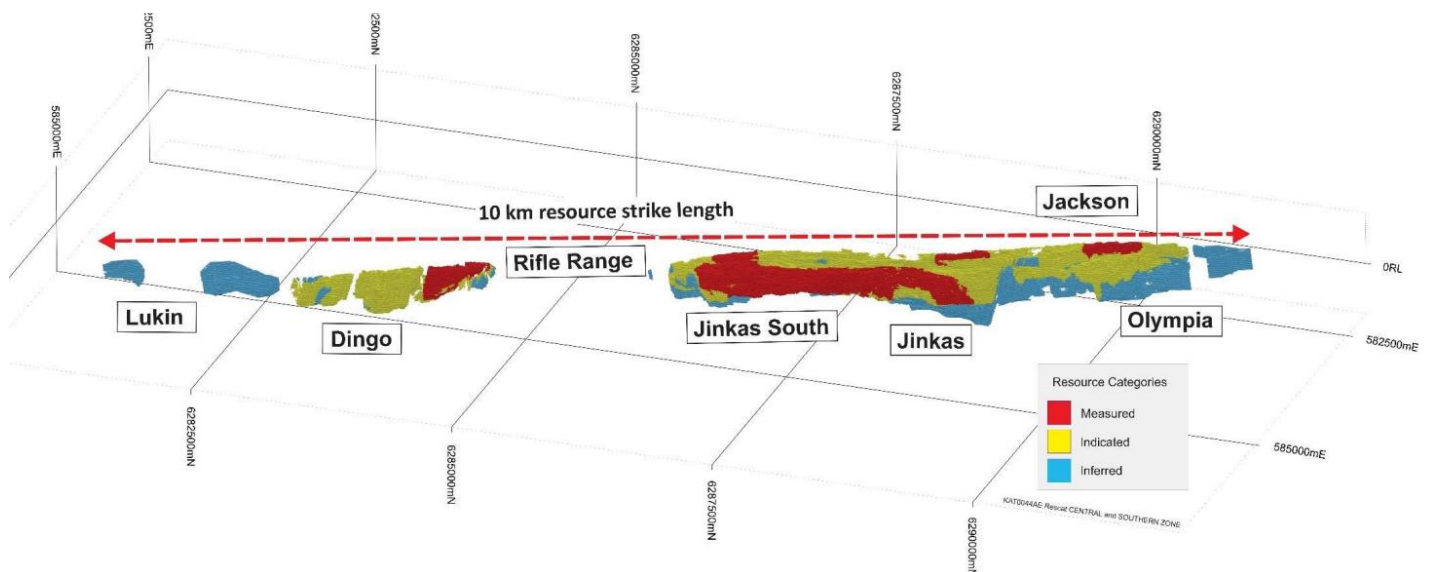
Source: AUC

Figure 2 - KGP Mineral Resource growth since 2012.



Source: AUC

Figure 3 – Isometric view looking WNW of the KGP resource block model with current Resource classifications.



Source: AUC

Argonaut's Mining Scenario and Valuation

Argonaut's valuation model maintains the same mining physicals from our June 2023 Update ("[Super Size](#)") which assumed a 5Mtpa processing scenario over a 10-year mine life producing ~135Koz/pa. Key input changes to Argonaut's model are gold price assumptions (increased to A\$2714/oz) and an improved recovery rate from 90% to 91% as AUC indicates the DFS will move towards a 53-micron grind size in its processing flowsheet. Argonaut anticipates the September KGP MRE grade increase will lead to a higher overall reserve grade for the DFS due in Q4. Given the KGP valuation is highly sensitive to grade we take a conservative approach for now and will maintain a mined head grade of 1.05g/t Au and will update our model accordingly when AUC releases its DFS and an updated reserve grade.

Argonauts Katanning Gold Project models a A\$518m NPV7 valuation using a A\$2714 gold price (US\$1,900/Oz & 0.70 AUD/US exchange rate)

Using current spot gold prices our price target for AUC increases from \$0.13 to \$0.16 per share

Figure 4 - Argonaut's Ausgold valuation summary

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	518	0.23
Exploration	104	0.05
Corporate Overheads	-51	-0.02
Cash and bullion	10	0.00
Debt	0	0.00
Tax benefit	25	0.01
Hedging	0	0.00
Option/equity dilution	-309	-0.13
NAV	296	0.13

Source: Argonaut

Key Risks to Valuation

Resource Estimation (grade and tonnes) – Argonaut's valuation of the Katanning Gold Project is highly sensitive to head grade variations. Third-party independent reviews of the Resource Model completed by Snowden-Optiro will help to address uncertainties in the model however this risk can never be fully negated. In our bearish case scenario where the actual mined grade is only 80% of the initial estimated grade, the NPV7 valuation drops to A\$248m.

Figure 5 – Katanning Gold Project valuation sensitivity to head grade variation.

Head Grade Variation	Head Grade Sensitivity						
	80%	85%	90%	95%	100%	105%	110%
Project Valuation	248	317	384	451	518	585	652

Source: Argonaut

Permitting and Funding Delays – Delays in Ausgold receiving environmental permitting or project funding would drag out the timeline to production and have a negative impact on our valuation.

Equity Dilution – Argonaut's model assumes equity raised for development will occur at a price of \$0.05 per share which is higher than the current share price of \$0.03. A lower raise price than \$0.05 would increase the equity dilution in our model.



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Argonaut acted as Lead Manager to the Placement to raise \$12M in April 2023 and received fees commensurate with this service. Argonaut holds or controls 30M options exercisable at \$0.06 expiring 31 March 2025.

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