



SPEC BUY

Current Price \$0.04
Valuation \$0.09

Code: **AUC**
Sector: **Metals and Mining**

* All figures in AUD unless stated otherwise

Shares on Issue (M): **1,614**
Market Cap (\$M): **71**
cash **4**
debt **0**
Net cash (\$M Dec 2021) **4**
Enterprise value (\$M): **67**

52 wk High/Low (ps): **\$0.06** **\$0.03**
12m av. daily vol. (Mshs): **2.88**

Key Metrics

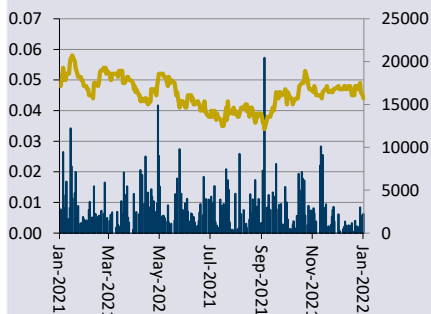
	FY23e	FY24e	FY25e
P/E (x)	1,462.6	3.6	3.0
EV/EBITDA (x)	-22.2	3.4	0.7

Financials:

	FY23e	FY24e	FY25e
Revenue (\$M)	0	52	178
EBIT (\$M)	-3	13	70
NPAT (A\$M)	-5	0	45
Net assets (\$M)	77	66	114
Op CF (\$M)	-5	10	81

Per share data:

	FY23e	FY24e	FY25e
EPS (c)	0.0	1.2	1.5
Dividend (cps)	-	-	-
Yield (%)	-	-	-
CF/Share (cps)	0.3	2.2	2.4
Prod (koz Au)	21.7	73.8	86.8



Please refer to important disclosures at the end of the report (from page 13)

Monday, 31 January 2022

Ausgold Limited (AUC)

Mid-Tier Potential

Analyst | Royce Haese

Quick Read

Through exploration success we think that Ausgold's Katanning Gold Project has the potential to be a mid-tier gold producer in the medium term. Even without this exploration success we think that the project as it stands represents a profitable development proposition. We have developed a mining scenario as a basis for valuation using boilerplate assumptions pending more robust numbers. We initiate coverage with a Speculative Buy recommendation and a valuation of \$0.09 per share.

Mid-Tier Potential

Project Background: Since acquiring the Katanning Gold Project, Ausgold has grown the project to 1.8Mozs Au. With a better understanding on mineralisation controls in more recent years we think this project is now approaching the critical mass warranting development. A pre-feasibility study is expected by mid-year.

A Depleted Field: Commentary from mid-cap gold producers over the past year tends to define a nominal ten-year production life of ~100kozpa as the desired 'mid-tier' production profile for a standalone gold operation. We're not sure that the Katanning Gold Project is quite at this scale yet, but we think it is close. It is one of only a handful of gold projects in WA that we think this is the case for.

Argonaut's Mining Scenario and Valuation: Argonaut has developed a mining scenario as a basis for valuation. Ausgold's 2019 scoping study was used as a starting point for our assumptions. The growth of the project and increase in industry costs since 2019 has meant that many of the assumptions used in 2019 are no longer appropriate, we therefore consider the assumptions used in our mining scenario "best-guesses" which we will refine as the project matures.

We assume the construction of a standalone 2.0Mtpa processing facility and eight years of operation for 87kozpa Au production. On our modelled assumptions, using a 7% real after-tax discount rate, we value the Katanning Gold Project at \$255M.

The key risk to our valuation remains the industry-wide cost pressures and the impact this may have on future development, we have attempted to factor this in by using conservative estimates.

Recommendation

We see a disconnect between the inherent value of the Katanning Gold Project and the current market capitalisation of Ausgold. We initiate with a Speculative Buy recommendation and a valuation of 9cps.

Ausgold Limited

Equities Research

Analyst: Royce Haese

Recommendation	Speculative Buy
Current Price	\$0.04
Valuation	\$0.09

Sector	Metals & Mining
Issued Capital (Mshs)	1,614
Market Cap (M)	\$71

Monday, 31 January 2022

Profit & loss (\$M) 30 June	2022E	2023E	2024E	2025E
Sales Revenue	0	0	52	178
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	-26	-75
- Royalties	0	0	-1	-4
- Corporate & administration	0	-3	-6	-6
Total Costs	0	-3	-33	-85
EBITDA	0	-3	19	93
margin	0%	0%	43%	52%
- D&A	0	0	-6	-23
EBIT	0	-3	13	70
+ Finance Income/Expense	0	-2	-10	-9
PBT	0	-5	3	61
- Tax expense	0	0	-3	-16
- Impairments and other	0	0	0	0
NPAT	0	-5	0	45

Cash flow (\$M)	2022E	2023E	2024E	2025E
+ Revenue	0	0	52	178
- Cash costs	0	-3	-33	-85
- Forwards	0	0	0	0
- Tax payments	0	0	0	-3
+ Interest & other	0	-2	-10	-9
Operating activities	0	-5	10	81
- Property, plant, mine devel.	0	0	-176	-2
- Exploration	-5	-6	-6	-6
- Deferred Consideration	0	0	0	0
Investment activities	-5	-6	-182	-8
+ Borrowings	0	140	0	-20
- Dividends	0	0	0	0
+ Equity	20	60	0	0
Financing activities	20	200	0	-20
Cash change	15	188	-173	53

Balance sheet	2022E	2023E	2024E	2025E
Cash & bullion	21	210	37	90
Other Current Assets	0	0	0	0
Total current assets	21	210	37	90
Property, plant & equip.	5	11	186	171
Investments/other	0	0	0	0
Total non-curr. assets	5	11	186	171
Total assets	26	220	223	261
Trade payables	1	2	9	13
Short term borrowings	0	0	20	20
Other	1	2	9	13
Total curr. liabilities	2	3	38	47
Long term borrowings	0	140	120	100
Other	0	0	0	0
Total non-curr. liabil.	0	140	120	100
Total liabilities	2	143	158	147
Net assets	24	77	66	114

*See Argonaut Mining Scenario and Valuation section for Equity assumptions

Shares	2022E	2023E	2024E	2025E
New shs issued/exercisable	529	1500	0	0
Average issue price	0.04	0.04	0.00	0.00
Ordinary shares - end	2144	3644	3644	3644
Diluted shares - end	2144	3644	3644	3644

Financial ratios		2024E	2025E	2026E	2027E
GCFPS	AC	0.3	2.2	2.4	2.3
CFR	X	0.0	0.0	0.0	0.0
EPS	AC	0.0	1.2	1.5	1.4
PER	X	1462.6	3.6	3.0	3.1
DPS	AC	-	-	-	-
Yield	%	-	-	-	-
Interest cover	x	1.3	7.5	10.3	12.1
ROCE	%	7%	41%	54%	61%
ROE	%	5%	53%	43%	32%
Gearing	%	182%	87%	47%	27%

Operations summary	2024E	2025E	2026E	2027E
Katanning Gold Project				
Ore processed (Mt)	0.5	1.7	2.0	2.0
Head grade (g/t)	1.50	1.50	1.50	1.50
Met. recovery	90%	90%	90%	90%
Gold prodn (koz)	22	74	87	87
Cost per milled tonne (A\$/t)	51	44	44	45
Cash costs pre royalty (A\$/oz)	1184	1010	1020	1032
Sustaining capital (\$M)	1	2	2	2
All in sustaining costs (A\$/oz)	1293	1100	1104	1112
Growth capital (\$M)	181	6	6	6
CAIC (A\$/oz)	1569	1303	1428	1477

Price assumptions		2024E	2025E	2026E	2027E
AUDUSD		0.725	0.725	0.725	0.725
Gold	USD	1750	1750	1750	1750

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	255	0.16
Exploration	51	0.03
Corporate Overheads	-36	-0.02
Cash and bullion	4	0.00
Debt	0	0.00
Tax benefit	25	0.02
Hedging	0	0.00
Option/equity dilution	-153	-0.09
NAV	147	0.09

Directors, management	
Richard Lockwood	Non-Executive Chairman
Matthew Greentree	Managing Director
Denis Rakich	Executive Director
Geoff Jones	Non-Executive Director
Neal Fearis	Non-Executive Director
Tim Kestrell	Non-Executive Director

Top shareholders	M shs	%
Dundee Corp.	153.8	9.5
Old Blood and Guts Pty Ltd.	90.0	5.6

Resources Dec '21	Mt	g/t Au	Kozs	Mkt cap/oz
Katanning Gold Project	46.1	1.24	1,837	39
Measured	6.6	1.65	349	
Indicated	22.0	1.19	841	
Inferred	17.6	1.14	647	

Argonaut model Jan '22	Mt	g/t Au	Kozs	
TOTAL INVENTORY	15.0	1.50	723	98.2
Katanning	15.0	1.50	723	

Mid-Tier Potential

Background

When Ausgold acquired the Katanning Gold Project in 2010, it hosted a pre-JORC Resource estimate of 240koz Au

Ausgold acquired its centrepiece Katanning Gold Project via a farm-in with Great Southern Resources in 2010 to earn up to 80% of the project. The “Boddington South Project” as it was known at the time, hosted a 240koz (pre-JORC) Resource estimate. Ausgold acquired the remaining 20% in June 2011.

The Katanning Gold Project is now estimated to contain 1.8Mozs @ 1.2 g/t Au

The project had previously been mined from 1995 to 1997 and ore processed at an on-site facility. 20koz of production at an average 2.4 g/t Au head grade was recorded from two pits, Jinkas and Dingo Hill. A sub US\$400/oz gold price, and poor milling performance as ore transitioned to fresh rock are considered the main contributors to the 1997 closure.

Ausgold completed its maiden JORC compliant Resource estimate in late 2012. Using a cut-off grade of 0.7 g/t Au, 400koz @ 1.2 g/t Au was estimated across the Jinkas and Dingo Hill deposit. Drilling, discovery and geological model refinement over the intervening decade has added satellite deposits and expanded the known to the current 1.8Mozs @ 1.2 g/t reported above a 0.6 g/t Au cut-off grade across five deposits.

Ausgold has considered mining of Katanning to a Scoping Study level on two occasions

Throughout Ausgold’s ownership, mining of the project has been considered to scoping study level twice. Ausgold’s first scoping study for the Katanning Gold Project was completed in 2015. This study envisaged 190koz Au produced over four years via processing at a standalone 0.9Mtpa facility from the 420koz Resource base. In 2019, the study was recut utilising a larger 1.2Moz Au resource base. The 2019 study factored in a slightly larger 1.2Mtpa processing facility operating over 7.2 years for approximately 360 koz Au produced.

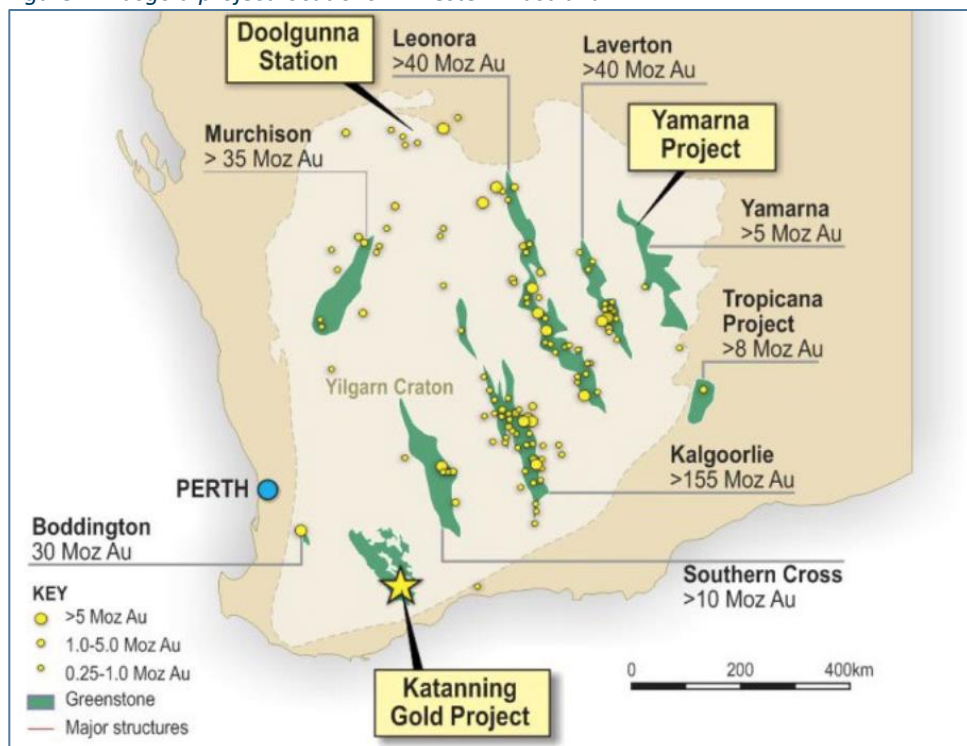
Due to the geographic location of the project a standalone mining and processing operation is the only viable option for Katanning. We think the project is fast approaching the requisite scale to justify development

Due to the geographic location of the project a standalone mining and processing operation is the only viable option for Katanning. We do not think that the scale of project considered in prior studies justified the construction of a standalone project. An interim Resource estimation was completed late 2021, the project is now estimated to contain 1.8Moz @ 1.2 g/t Au. A further Resource update is planned for the current quarter. PFS level study work is also due to commence in the current quarter.

Aside from the Katanning Gold Project, Ausgold holds five other gold and base metal projects, with some managed under joint venture:

- Woodanilling Au-PGE project: AUC 100%, Mafic intrusive complex 20 km NW of Katanning with anomalous PGE + Au + Cu reported.
- Lake Magenta Au project: AUC 100%, 165km² of exploration licences 450 km SE of Perth. Historical gold-in-soil anomaly over 17 km of strike.
- Yamarna Cu + Ni + Co project: 25% interest free carry to decision to mine with Cosmo Metals (ASX:CMO). Contains numerous low-moderate grade base metal drill results, limited exploration over past few years.
- Doolgunna Cu + Au project: 30% contributing interest with AIC Mines (ASX:A1M), 150 km NE of Meekatharra, early stage exploration project. Drilling completed late last year intersected prospective host rocks, assays pending.
- Cracow Au + Cu project: AUC 100%, early stage project north of Aeris’ (ASX:AIS) Cracow mine, prospective geology and mineralised surface samples identified.

Figure 1. Ausgold project locations in Western Australia



Source: Ausgold

At Katanning, mineralisation is hosted along a ~17km thrust fault in granulite facies host rocks. Unusual for WA Archean gold deposits

Ausgold's understanding of controls on mineralisation has advanced over the past few years

Exploration potential remains at the project on a number of fronts

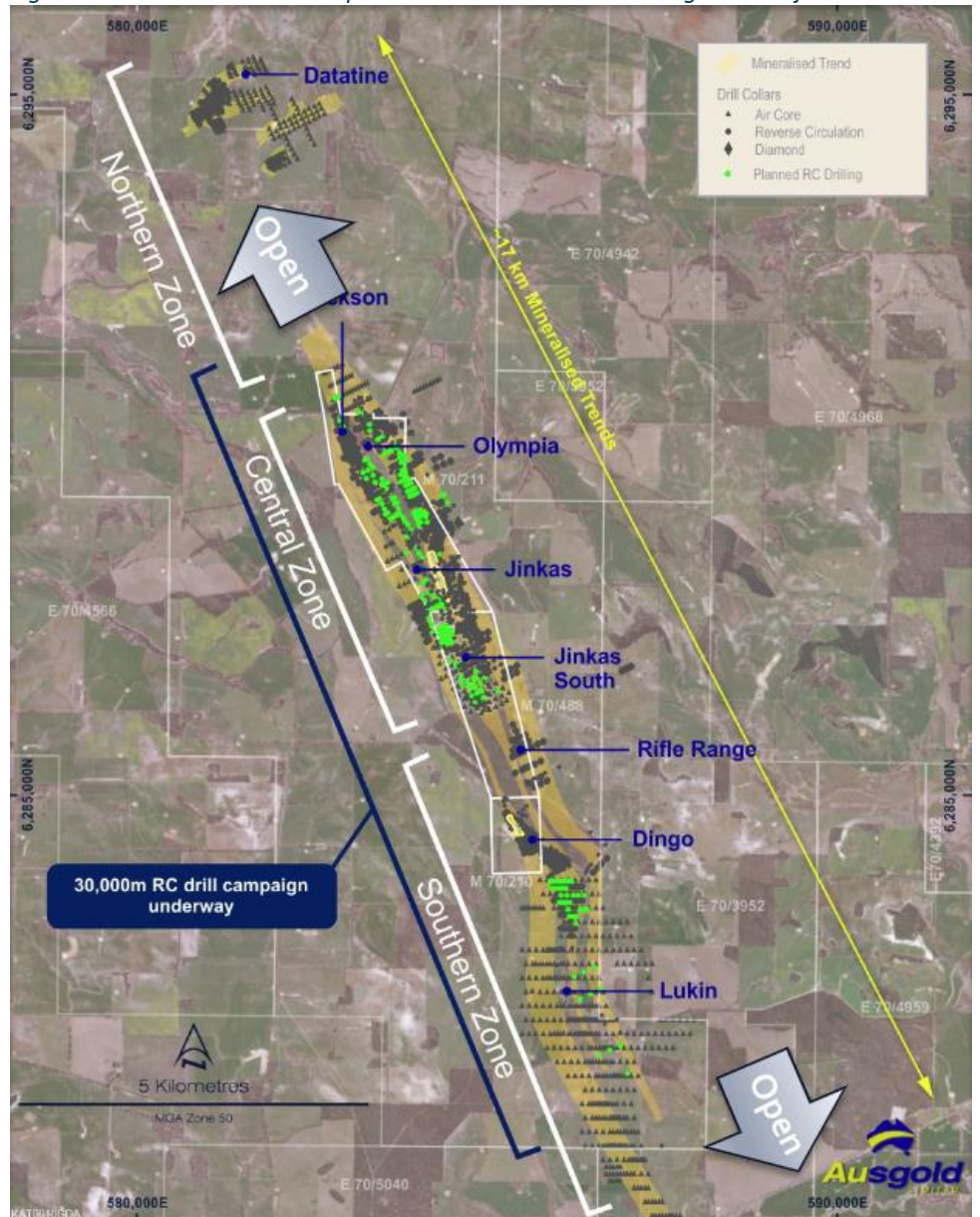
Geology, Mineralisation and Exploration Potential

The Katanning Gold Project is located in the Katanning Greenstone Belt in the south-west Yilgarn Craton, Western Australia. The bulk of identified mineralisation to date is hosted along ~17 km of strike of a large-scale thrust fault. The metamorphic grade of the host rocks is granulite facies, which is a high metamorphic grade compared to traditional West Australian Archean gold deposits. This high metamorphic grade and unusual nature of the orebody likely influenced the early "Boddington South" analogue. Ausgold now understands that the mineralisation style at Katanning is entirely different to that at Boddington.

Ausgold's focus over the last few years has been on understanding controls and geometry of mineralisation, more recent exploration success leads us to understand that at least through Central Zone, the geology is well understood. Where Jinkas and White Dam were previously thought to be parallel lodes, drilling down plunge has identified that mineralisation wraps around the quartz monzonite that was previously thought to separate the orebodies. This has opened up exploration search space where prior drilling did not penetrate the monzonite unit.

In our view, the project has room to grow in a number of areas; Expanding the known Resource areas, through new discoveries, and extension to high-grade but deeper parts of the system.

Figure 2. Main Resource and exploration areas at the Katanning Gold Project



Source: Ausgold

The Katanning Gold Project is estimated to contain 1.8Mozs @ 1.2 g/t Au

Table 1. Katanning Gold Project Resource estimate as at December 2021

Resources	Measured + Indicated			Inferred			Total		
	kt	g/t	kozs	kt	g/t	kozs	kt	g/t	kozs
Jinkas - White Dam	16,799	1.3	720	11,011	1.2	419	27,810	1.3	1,139
Jinkas Underground				433	3.3	46	433	3.3	46
Jackson	6,391	1.3	267	2,579	0.9	78	8,970	1.2	345
Olympia	1,127	1.2	45	3,009	0.9	88	4,136	1.0	133
Dingo	3,792	1.2	140	327	0.8	8	4,119	1.1	148
Datatine	448	1.2	18	224	1.1	8	672	1.2	26
Total Resources	28,558	1.3	1,190	17,583	1.1	647	46,140	1.2	1,837

Source: Ausgold

The main Resource areas at Katanning are unconstrained by drilling

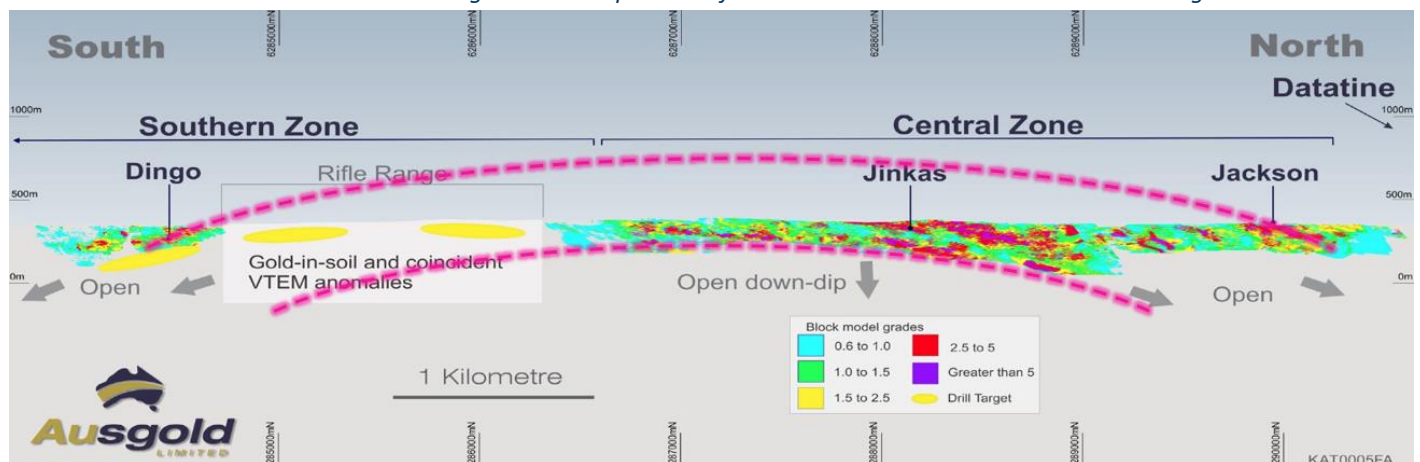
The main Resource areas at Katanning are all unconstrained by drilling. At Jinkas/White Dam the small ‘underground’ Resource is currently open at depth, and there is potential for further high-grade shoots. Other Resource areas remain open laterally.



The Rifle Range target is a conceptual southern extension to Jinkas

The Rifle Range target is a conceptual strike extension of the Jinkas Central orebody. Ausgold interprets a broad antiform structure controlling mineralisation, with Dingo a potential extension of Jackson. If this theory holds then the southern projection of Jinkas should plunge into Rifle Range. The Rifle Range target sits within a remnant forest reserve, due to access difficulties it has not been drilled historically. Ausgold completed the first drill programme within Rifle Range last year. No substantial gold results were reported but broad zones of alteration and expected lithologies were observed. Follow up drilling is planned to test this area further.

Figure 3. Conceptual antiform structure over current block model longitudinal section.

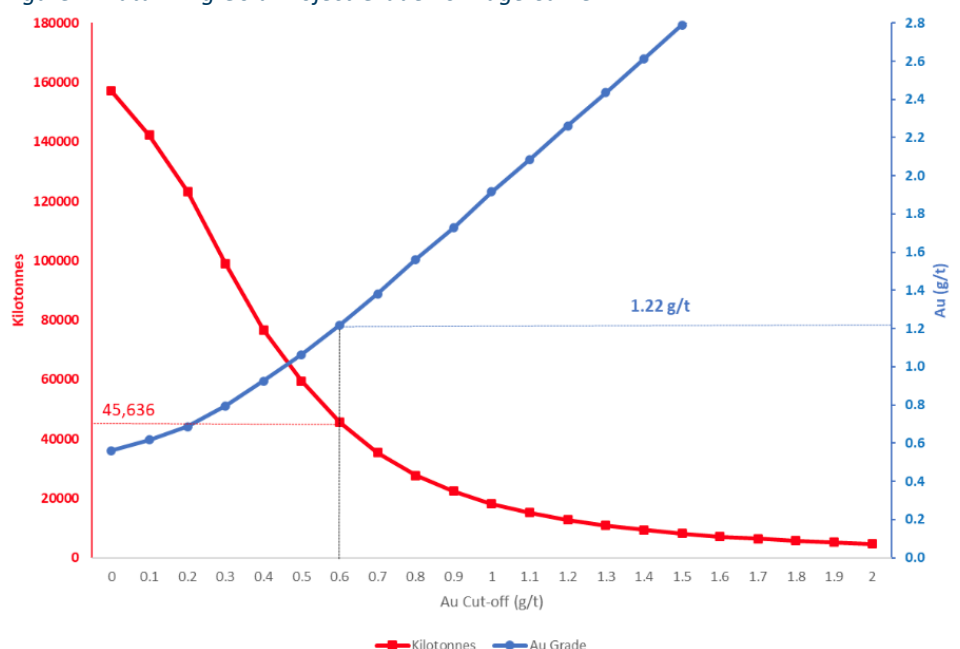


Source: Ausgold, Pink annotation Argonaut

If reported at an 1.0 g/t Au cut-off grade, the Katanning Gold Project is estimated to contain 1.1Moz @ 1.9 g/t Au

The current 1.8Moz Resource estimate is reported at a 0.6 g/t cut-off grade, if a 1.0 g/t Au cut-off grade is utilised, the project is estimated to contain 1.1Moz @ 1.9 g/t Au. When referenced back to the long section shown in Figure 3, the high-grade zones are fairly discrete, this shows that Ausgold will have optionality in deciding the eventual mining parameters and should be able to optimise to maximise ROI at various gold prices.

Figure 4. Katanning Gold Project Grade Tonnage Curve



Source: Ausgold

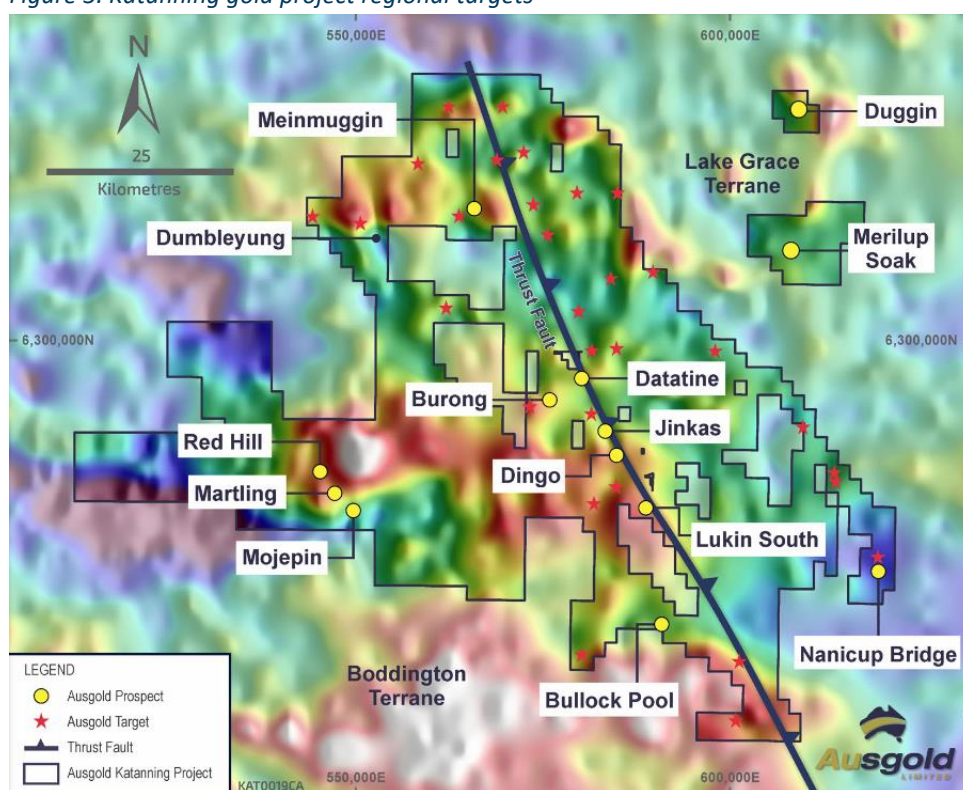
If a lower cut-off grade were used for reporting and mining, the project may be capable of achieving ‘mid-tier’ level gold production

Conversely, the 0.6 g/t Au cut-off grade was selected for reporting around the time of the 2019 scoping study and has been retained for consistency of reporting. The study was completed using a gold price of A\$2000/oz. It follows that the higher current gold price could support a lower cut-off grade. The ultimate decision by Ausgold will be dependent on cost estimations for capital items and mining/processing and the margins they elect to preserve. A small drop in cut-off grade to 0.5 g/t Au would result in a Resource estimate for the Katanning Gold Project of 2Moz @ 1.1 g/t Au, which may be capable of achieving ‘mid-tier’ level gold production.

The main Resource areas at Katanning are unconstrained by drilling

Regionally, Ausgold has numerous targets at various exploration stages. A 30km aircore programme and 2.5km auger programme are planned to test these targets this year.

Figure 5. Katanning gold project regional targets



Source: Ausgold

We think that the Katanning Gold Project has the potential to achieve ‘mid-tier’ project status in the medium term

A Depleted Field

Commentary from mid-cap gold producers over the past year tends to define a nominal ten-year production life of ~100kozpa as the desired ‘mid-tier’ production profile for a standalone gold operation. As outlined in our Mining Scenario and Valuation section below, when factoring in potential medium term-cost pressures, we don’t quite justify a project of this scale yet, but with further exploration success or with more accurate understanding on potential costs, we think that it has the potential to get there.

The \$188M acquisition of Apollo and its Lake Rebecca Project by Ramelius Resources (ASX:RMS) late last year shows that producers are willing to buy on potential, rather than immediate development opportunity. After factoring in cash held by Apollo, Ramelius paid ~\$150M in cash and scrip for Apollo’s 1.1Mozs @ 1.2 g/t Au at Lake Rebecca. Ramelius says Lake Rebecca has the potential to achieve a run rate of 100kozpa over a ten year

There are a limited number of projects in Western Australia that have the potential to produce >100kozpa over 10+ years in their current state

If Ausgold can demonstrate potential for a 'mid-tier' production profile, we think it will re-rate

Argonaut has developed a mining scenario as a basis for valuation, we have used boiler plate assumptions pending more insight into industry related cost-pressures

We have assumed single pit development of 0.7Moz over eight years

The Katanning Gold Project also hosts some higher grade, but deeper mineralisation, and regional deposits, we have not factored mining of these deposits into our assumptions at this stage

We assume the construction of a new, 2.0Mtpa processing facility. Our assumed pre-production capex is \$175M plus \$50M over LOM

period, but accepts the exploration commitment and success of that exploration required to achieve a project of that scale.

Earlier this year we published [a map of Western Australian gold projects](#) in ASX listed companies with Resource estimates >1Moz or near term potential to grow to that size. The list of projects that fit this criteria is not very long, and there are a select few within this group that we think have potential to achieve 'mid-tier' status, most that do, demand a lofty price premium. We think that Ausgold stands out with its large Resource base with room to grow (and a track record of growth) and with its low price at present. E.g. it is currently capped at less than half what Ramelius paid for Apollo.

Ausgold plans to commence pre-feasibility study work this quarter, and a Resource estimate update is also planned for this quarter. If Ausgold is able to demonstrate critical mass required to support a standalone operation of 'mid-tier' status, then we think it will re-rate.

Argonaut's Mining Scenario and Valuation

Argonaut has developed a mining scenario as a basis for valuation. Ausgold's 2019 scoping study was used as a starting point for our assumptions. We also used Argonaut's understanding of changes to industry standard capital and operational costs since this time, and factored in the substantial Resource estimate growth and improved understanding of mineralisation post 2019. The growth of the project and increase in industry costs since 2019 has meant that many of the assumptions used in 2019 are no longer appropriate, we therefore consider the assumptions used in our mining scenario "best-guesses" which will likely change as the project matures.

For our mining scenario we assume a single pit development enveloping Jinkas, Jackson and Olympia at this stage. From Ausgold's MRE for these areas of 1.6Moz Au, we assume 15Mt @ 1.5 g/t Au for 0.7 Moz mined over an eight-year period. Our estimated strip ratio is 6:1 waste to ore after pre-strip. Ausgold's scoping study estimated a strip ratio of 6.2:1 waste to ore for Central Jinkas, inclusive of a 7Mt pre-strip. We factor in a larger pre-strip for our assumed development, and a higher strip ratio to account for the deeper development.

Ausgold included an estimate for some deeper, higher-grade ore at Jinkas in its most recent resource update. In our view, this is too small to warrant mining consideration at this stage but may grow to critical mass over time. We have not included mining at other satellite deposits such as Dingo in our model at this stage, we expect Ausgold to include these in its mine plan and it is possible that due to low strip-ratios and predominantly oxide feed these deposits will be able to be mined and processed without displacing fresh-rock feed from Jinkas. We will revisit as more information becomes available. Further exploration success at satellite deposits would increase potential contribution to a mine plan.

We assume the construction of a new, 2.0Mtpa processing facility at the Katanning Gold Project. We estimate this facility plus associated infrastructure to cost \$150M, we have also assumed a further nominal \$25M in pre-production capital expenditure for the pre-

strip, possible land acquisitions, and sundry earthworks. We assume a further \$50M in capex across LOM for Reserve drilling, plant improvements, and equipment replacement.

We assume a treatment cost of \$20 per tonne of ore, we consider this to be conservative for a new processing facility of this scale

For processing, we assume a treatment cost of \$20 per tonne of ore, we consider this a conservative estimate for a new processing facility of this scale. We assume the same 90% recovery rate Ausgold used in its 2019 scoping study but note Ausgold is completing metallurgical studies hoping to demonstrate improved recovery.

We assume full flight gold production of 87kozpa

After a one-year ramp-up commencing in the March quarter of 2024, we assume steady state processing of 2Mtpa over seven years, for a preliminary eight-year mine life. Our assumed 90% recovery rate and head grade of 1.5 g/t Au equates to an estimated gold production of 87kozpa at full flight.

Our estimated LOM AISC is \$1130/oz.

Table 2: Argonaut derived assumptions used in AUC mining scenario

Input	Unit	Value
Total Ore Mined	Mt/grade(g/t)/kOz	15.0/1.5/720
Mining Duration	Years	8.0
Annual Throughput	Mtpa	2.0
Pre-Production Capex	A\$M	175
Metallurgical Recovery	%	90
Processing Cost	\$/t	20
Average Strip Ratio	waste:ore	6.0
Mining Cost	\$/t ore mined	26
Gold Price	US\$/oz (LOM av)	1,750
AUD:USD	LOM av	0.725

Source: Argonaut

We assume a 70:30 debt to equity split to fund pre-production capital, plus a \$20M equity raise this year to fund ongoing development studies and exploration

A \$140M debt facility and \$60M equity raise at \$0.04 subscription price have been used to fund pre-production capital in our model. We also assume a \$20M equity raise at \$0.04 subscription price this year to fund ongoing development studies and exploration. This results in equity dilution in present value terms of \$153M (inclusive of dilution from performance rights).

Argonaut has used internal gold price estimates which average to US\$1750 across the life of the project, and an AUD to USD currency conversion rate of \$0.725.

Using a 7% real after-tax discount rate we value the Katanning Gold Project at \$255M, or \$0.16 per share

Using a 7% real after-tax discount rate we value the Katanning Gold Project at \$255M, or \$0.16 per share.

We have also assigned a nominal exploration valuation equal to 20% of the Katanning Gold Project's current valuation, or \$51M. As discussed in the geology section of this report, there remains potential to improve upon existing Resources through exploration, both through new discoveries and expansions to the known.

We do not assign any value to Ausgold's secondary projects at this time. We will continue to review this as work progresses at each.

As a sum of parts Argonaut values Ausgold at \$147M, or \$0.09 per share

As a sum of parts Argonaut values Ausgold at \$147M, or \$0.09 per share. This valuation includes Argonaut's mining scenario for the Katanning Gold Project, plus a nominal exploration valuation, current cash and equivalents, and future tax benefit. Corporate overheads and equity dilution are also included.

Table 3: Argonaut's Ausgold Valuation Summary

Valuation summary	A\$M	A\$/sh
Katanning Gold Project 7% real after tax	255	0.16
Exploration	51	0.03
Corporate Overheads	-36	-0.02
Cash and bullion	4	0.00
Debt	0	0.00
Tax benefit	25	0.02
Hedging	0	0.00
Option/equity dilution	-153	-0.09
NAV	147	0.09

Source: Argonaut

We think the industry wide cost escalations is the key risk to the Katanning Gold Project, we have used conservative assumptions to offset this risk

Key Risks to Valuation

As outlined above, we consider the bulk of assumptions used in our mining scenario "best-guesses" which will likely change as the project matures. Both physical and cost assumptions are subject to change. We have seen rising costs across the Western Australian mining industry over the last 12 months, if costs continue to escalate it will have a material impact on the viability of new projects. This is the key risk to the project in our view. To factor in the medium-term uncertainties around costs, we have been conservative in our Resource to Reserve conversion assumption and subsequent mining/processing rates, as part of Ausgold's PFS the company will gather more accurate insight into potential costs. It is possible that at current prices the project is able to support a >1Moz Reserve.

Development in WA's southern wheatbelt region may also be considered a key risk, we think that the mining history of the area reduces this risk

The other key risk is the potential to develop within West Australia's Great Southern wheatbelt region. The project is located on arable farmland ~40 km northwest of the town of Katanning and as such there is potential for increase environmental scrutiny on project development. The project is located on granted mining leases, and has been mined historically. These factors reduce this risk in our view. We have attempted to factor this risk into our model through the nominal pre-production capital expenditure of \$25M for possible land acquisitions plus pre-strip, and sundry earthworks.

Figure 6: View from Jinkas waste dump – facing south



Source: Argonaut Site Visit – June 2021

Ausgold may be able to achieve higher recoveries than 90%, and our \$20/t processing cost is conservative

We have assumed processing recoveries in line with Ausgold’s previous scoping study estimate of 90%. As mentioned, Ausgold is currently investigating whether this can be improved. If recovery of 93% were able to be achieved then our project level NPV would improve from \$255M to \$278M. If the processing facility underperforms at 87% then our project level NPV reduces to \$232M. Our assumed processing cost of \$20/t is conservative. As an example, Gascoyne’s Dalgarna is achieving \$14/t. If Ausgold were able to achieve a processing cost of \$14/t our project level valuation would improve to \$296M.

At spot gold price and exchange rate our project level NPV improves to \$295M, from \$255M

Our valuation is highly sensitive to both gold price and exchange rate. We have used our long term exchange rate assumption of AUD:USD, 0.725:1.0 and gold price assumption of US\$1750/oz. If spot values (AUD:USD, 0.7:1.0, US\$1788/oz) are used our Katanning Gold Project NPV improves to \$295M.

Table 4: Argonaut’s Katanning Gold Project NPV₇ under various gold price and AUD:USD assumptions

		Gold Price (US\$)					
		-10%	-5%	Base	+5%	+10%	+15%
		1575	1662.5	1750	1837.5	1925	2012.5
AUD:USD	0.80	127	159	190	222	253	284
	0.75	165	199	232	266	299	332
	0.725	186	221	255	290	324	359
	0.70	208	244	280	316	352	387
	0.65	258	296	335	373	412	450

Source: Argonaut

We have assumed a 70:30 debt to equity split to fund construction in our model. There is no guarantee that either method of funding would be available to Ausgold to build the Katanning Gold Project, as the project advances and we are able to refine our cost assumptions we will review our financing assumptions.

We think that Ausgold's Katanning Gold Project has the potential to be a 'mid-tier' gold producer in the medium term

Summary

Through exploration success we think that Ausgold's Katanning Gold Project has the potential to be a 'mid-tier' gold producer in the medium term. Even without this exploration success we think that the project as it stands represents a profitable development proposition as outlined in our mining scenario.

Directors and Management

Richard Lockwood - Non-Executive Chairman

Fund Manager and mining investment executive. Founder of UK based New City Investment Fund which was subsequently acquired by CQS Asset Management Limited. Prior director of AIM listed Kalahari Minerals.

Matthew Greentree – Managing Director

Geologist. Structural geology background. +20 years' experience in exploration and mining across Australia and Africa.

Denis Rakich – Executive Director and Company Secretary

CPA. Prior director of numerous ASX listed resources companies.

Neil Fearis – Non-Executive Director

Lawyer. Specialises in M&As, Capital raisings, Corporate Restructures in mining and resources. Experienced in mineral exploration before law studies. Prior Director of ASX and TSX listed companies.

Geoffrey Jones – Non-Executive Director

Civil Engineer. Current MD of GR Engineering Services (ASX:GNG). Experience in construction, minerals processing and project development.

Timothy Kestell – Non-Executive Director

Broker. Prior roles at HSBC, Paterson Securities and Euroz. Previously director of Capricorn Metals (ASX:CMM) and Emerald Resources (ASX-EMR).

Table 5: Ausgold's board and management holdings

	Position	Opts M	Perf. rights M	Shares M	Exposure M	%
Richard Lockwood	Non Exec Chair		4.0	60.0	64.0	3.9
Matthew Greentree	MD		10.0	25.5	35.5	2.2
Denis Rakich	ED/Cosec		6.0	35.0	41.0	2.5
Timothy Kestell	NED			98.5	98.5	6
Geoffrey Jones	NED		3.0	12.0	15.0	0.9
Neil Fearis	NED		3.0	13.0	16.0	1
Total			26.0	244.0	270.0	16.5

Source: Ausgold

We think the Ausgold board and management has the requisite skills to advance the Katanning Gold Project at the present time. We also note that Ausgold employs a team of geologists who are responsible for planning and execution of the company's exploration programmes.

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