

AUSGOLD LIMITED (AUC)

Katanning now 1.5moz, could it grow to 2-3moz+?

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We say

Price

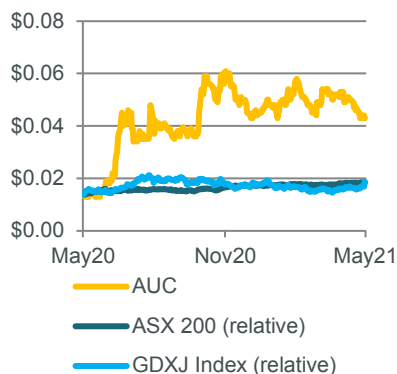
Target

Strategic Target

SPEC BUY **0.044** **0.12** **0.18**

Ausgold recently released a transformation resource upgrade at Katanning, increasing the resource to 1.54moz at 1.25g/t, including a 73% increase in M+I to over 1moz. In our view, this provides the company with clear critical mass for a stand-alone 100kozpa gold mine for ~8-10 years, which on estimates could have an NPV of over A\$300m at spot prices, compared to an EV of only ~\$60m. However, we also see potential for further resource growth to 2-3moz+. Maintain Spec Buy.

SHARE PRICE CHART



Source: IRESS, Blue Ocean Equities

HIGH-GRADE HITS AT KATANNING

- 28m @ 11.3 g/t from 90m
- 20m @ 10.5 g/t from 10m
- 26m @ 6.6 g/t from 117m
- 20m @ 7.6 g/t from 96m
- 13m @ 11.3 g/t from 7m
- 28m @ 4.8 g/t from 49m
- 20m @ 6.5 g/t from 93m
- 20m @ 15.6 g/t from 97m

Source: Company

COMPANY DATA & RATIOS

Enterprise value	\$61m
Diluted market cap*	\$72m
Diluted shares*	1,643m
Free float	100%
12-month price range	\$0.012-0.063
GICS sector	Gold
Board/Management holds ~10% FD. *Diluted for 58m perf rights	

IMPLIED RETURN

Implied potential return	173%
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TRANSFORMATIONAL RESOURCE UPGRADE

On 15 April 2021, Ausgold released a resource upgrade for its 100%-owned Katanning Gold Project (KGP) in WA increasing the resource to 1.54moz @ 1.25g/t, representing a 28% increase in ounces and a 14% increase in grade. **More importantly, the higher confidence M+I resource grew by 73% to over 1moz @ 1.26g/t.** In our view, Katanning now has clear critical mass for a stand-alone 100kozpa gold project.

COULD KATANNING GROW TO 2-3MOZ?

In parallel, the company has now been granted access to drill test Rifle Range, opening up 2.5km of untested ground, immediately along strike to the south which has a number of encouraging gold-in-soils and VTEM anomalies (see p4). The company sees **"potential to materially change the scale of the KGP Resource"**. Drilling at Rifle Range began yesterday (12 May 2021).

MAINTAIN SPEC BUY, LIFT TARGET 20% TO 12C

We maintain our Spec Buy rating on Ausgold and increase our Price Target 20% to 12c (from 10c), representing an implied potential return of 173%. We have made a number of changes to our valuation of Ausgold (see p6) including diluting for the recent A\$11.25m equity raising at 4.5c. We have also increased our Strategic Target by 20% to 18c (from 15c), representing a potential return of >300%.

M+I RESOURCE GROWS TO OVER 1MOZ

On 15 April 2021, Ausgold released a resource upgrade for Katanning, which in our view was transformational for the company as it confirms Katanning now has sufficient critical mass for a stand-alone gold operation of at least 100kozpa. As outlined in the table below:

- Gold ounces increased 28% to 1.54moz (from 1.20moz)
- Gold grade increased 14% to 1.25g/t (from 1.1g/t)

But perhaps more importantly, gold in the M+I categories increased by 73% to over 1moz. As the M+I categories form the basis of the reserves once studies can be completed, we believe AUC's release this morning bodes extremely well for a 100kozpa gold operation with an initial mine life of ~8-10 years.

New Katanning Resource

April 2021		Measured	Indicated	M+I	Inferred	Total
Tonnes	Mt	6.4	18.7	25.1	13.0	38.2
Grade	g/t	1.48	1.19	1.26	1.24	1.25
Contained Gold	koz	303	718	1,021	518	1,540

Previous Katanning Resource

November 2019		Measured	Indicated	M+I	Inferred	Total
Tonnes	Mt	2.3	12.0	14.3	19.7	33.9
Grade	g/t	2.05	1.14	1.29	0.97	1.10
Contained Gold	koz	149	441	590	611	1,201

Change		Measured	Indicated	M+I	Inferred	Total
Tonnes	Mt	183%	56%	76%	-34%	13%
Grade	g/t	-28%	4%	-2%	28%	14%
Contained Gold	koz	104%	63%	73%	-15%	28%

Source: Company, Blue Ocean Equities

The Katanning Gold Project is also blessed with a number of important advantages:

- **Excellent infrastructure:** Access to grid power (with power costs potentially as low as A8-9c/kwh), sealed roads, nearby towns
- **Resource on granted Mining Licences**
- **Tenements on freehold land** which means it is **not subject to Native Title**

SUCCESSFUL \$11.25M RAISING AT 4.5C

On 26 April 2021, Ausgold successfully raised A\$11.25m at 4.5c and is well capitalised for the next drilling campaign.

WE SEE POTENTIAL FOR A 100KOZPA PROJECT

The table below provides our view on a potential development scenario for Katanning based on the Measured and Indicated portion of the new resource only.

It is important to note that if Katanning continues to grow towards 2-3moz then the scale of the project and its potential NPV is likely to increase.

Potential 100kozpa project at Katanning

		Potential Project	Our View
Resource	moz	1.5	We see potential for growth to 2-3moz+
M+I Resource only	moz	1.0	A sound basis for a 100kozpa project
Max open pit depth	m	~220m	But potential for deeper pits with more drilling
Likely strip ratio	X:1	6.5:1	Blue Ocean estimate
<u>Production & AISC</u>			
Plant scale	mtpa	3.0	Blue Ocean estimate
Initial capex	A\$m	150	Blue Ocean estimate
Head grade	g/t	1.15	Based on 10% dilution on M+I grade of 1.26g/t
Recovery	%	93%	Met testwork indicates recoveries of 93-95%
Gold Production	kozpa	~100kozpa	
AISC	A\$/oz	~A\$1,400/oz	ASX producer avg in 2021 is ~A\$1,450/oz
Initial mine life	years	~8-10	Based on M+I resources only
<u>Financial Metrics</u>			
		Spot gold	Blue Ocean
		~A\$2,350/oz	~A\$2,465/oz
NPV post-tax*	A\$m	A\$329m	A\$381m vs. AUC's EV of only ~A\$60m
IRR post-tax	%	47%	53% A very robust project

Source: Company, Blue Ocean estimates. *We use a 5% real discount rate or 7% nominal for gold projects in WA.

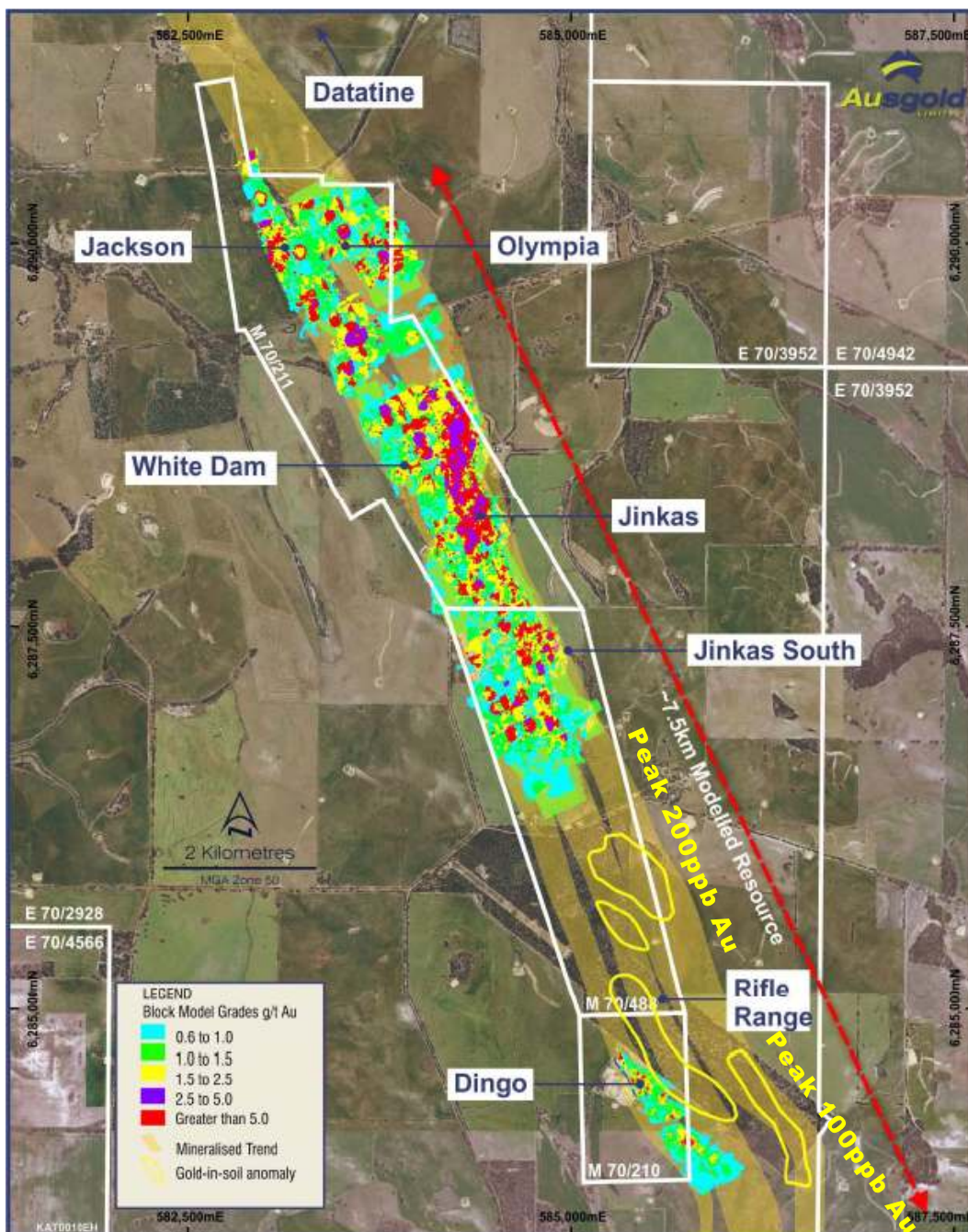
COULD KATANNING GROW TO 2-3MOZ+?

On 17 March 2021, Ausgold received approval to undertake a 35-hole 5,250m RC drill programme within Rifle Range. **Rifle Range contains over 2.5km of untested strike, with new targets supported by coincident EM anomalies and gold-in soil anomalies.**

Interestingly, some of the peak gold-in-soil anomalies at Rifle Range have higher gold values than the gold-in-soils at Jinkas – **we believe this bodes well for Rifle Range exploration programme.**

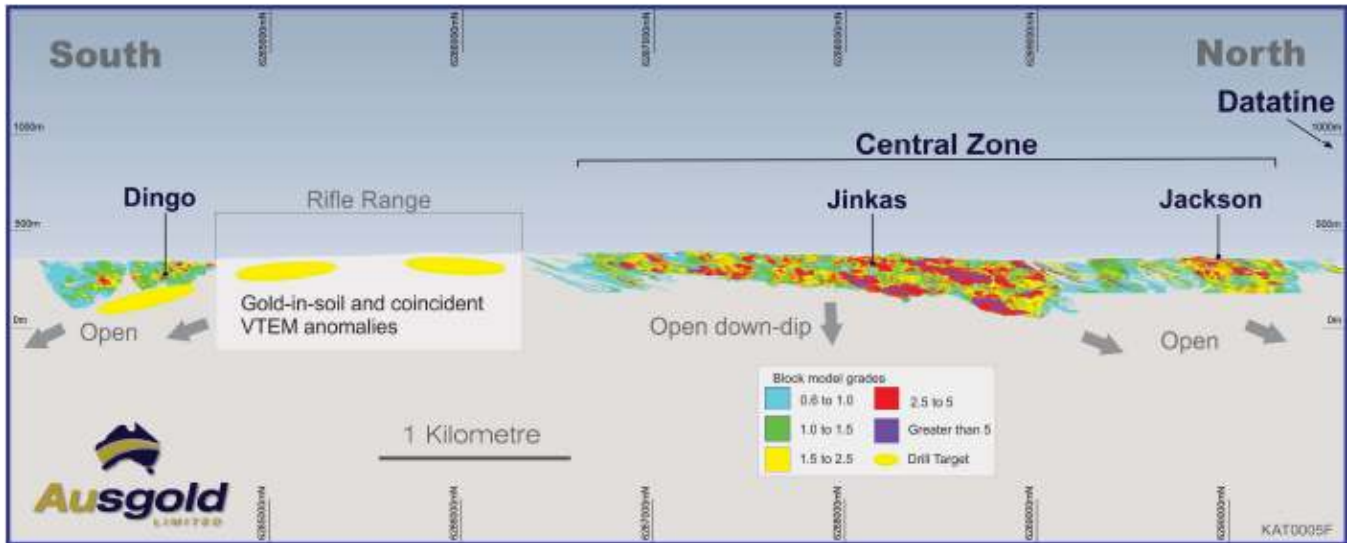
The company believes Rifle Range has **“potential to materially change the scale of the KGP Resource”**. The Rifle Range exploration programme began yesterday (12 May).

Katanning gold project showing gold in soil and VTEM anomalies



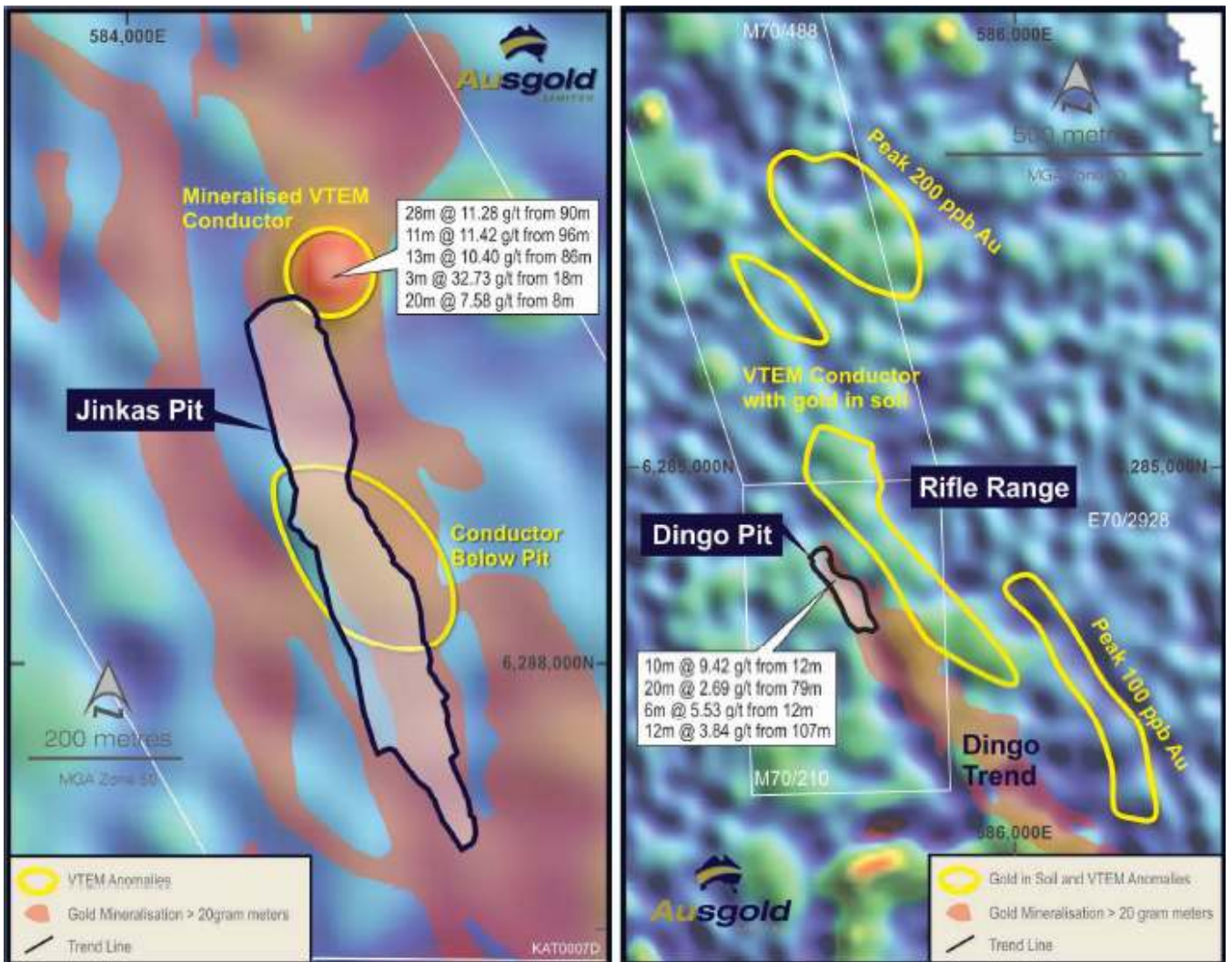
Source: Company

Katanning Long section highlighting the likely extensions



Source: Company

VTEM and coincident gold-in-soil anomalies identified with the Rifle Range area



Source: Company

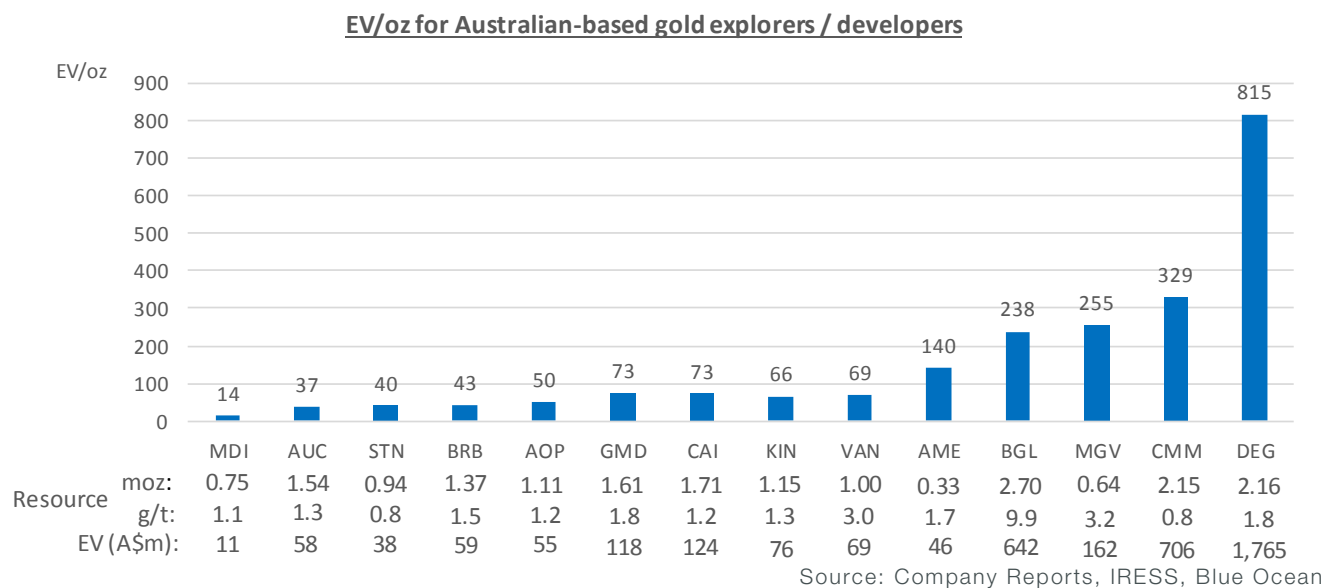
COMPELLING RELATIVE VALUE

The chart below shows the key comparable Australian-based gold explorers on the ASX.

Interestingly, on an EV/oz basis, AUC screens as one of the cheapest WA-based gold explorer/developer in our universe:

- AUC is trading on a very undemanding EV/oz of A\$37/oz
- **AUC is trading on less than 1/4 of the peer average of A\$160/oz!**
- Even excluding the top 4 premium players, the average EV/oz is still A\$61/oz, almost double AUC's current valuation...

Enterprise Value per ounce for Australian-based gold explorers



In our view the company represents compelling value compared to peers and it well positioned to re-rate over the next 12-months as it completes the next phase of its drilling programme.

PRICE TARGET & RATING

We maintain our Spec Buy recommendation, but increase our Price Target 20% to 12c (from 10c), representing an implied potential return of ~173%. Our 12c Price Target is based on:

- A DCF for the Katanning Gold Project using US\$1,800/oz gold and an A\$/US\$ of 0.73 (previously 0.68)
- Our DCF valuation is based on:
 - A 100kozpa gold project (unchanged)
 - At AISC of A\$1,400/oz (unchanged)
 - With initial capex of A\$150m (unchanged)
 - Over an initial mine life of 8-9 years (previously 6-7 years)
 - For a post-tax NPV of ~A\$381m (previously A\$320m) which is then discounted back to 2021
 - We then apply a 50% discount (previously 60%) until the company can complete the necessary studies to confirm project metrics (capex, opex, strip ratio, etc)
- We have also rolled our valuation forward and diluted for the recent A\$11.25m equity raising at 4.5c
- We have also increased our notational exploration value for Ausgold from \$25m to \$35m

STRATEGIC TARGET

We have a 18c Strategic Target on Ausgold, representing a potential return of over 300%.

Ausgold is trading at a material discount to peers. If the exploration success continues and the company *does* re-rate materially to trade more in line with comparable peers, then the potential reduction in dilution could lead to a much higher value per share.

Our base case valuation assumes all future equity is raised at a 10% discount to last close. If Ausgold is able to deliver a material resource upgrade and confirm a 100kozpa project, in our view it is *highly* likely future equity would be raised at much higher (and less dilutive) prices, which could lift our Price Target materially.

Ausgold is increasingly excited about the exploration potential at Rifle Range and believes Rifle Range has “potential to materially change the scale of the KGP Resource”. In our view exploration success at Rifle Range has potential to increase the Katanning resource to 2-3moz+.

KEY RISKS

Ausgold is exposed to all the normal risks associated with exploration and the development of a mining project, including, metallurgy, permitting, funding and in the event the Company can define a go-it-alone scale project, construction risks and normal project ramp up and commissioning risks.

Assuming Ausgold can successfully make the transition into production, its revenues will be derived from the sale of gold. Fluctuations in the prices of gold as well as the Australian dollar could impact the Company’s reported cash flow (in A\$), profitability and share price.

As Ausgold’s Katanning gold project is based in Western Australia, an investment in Ausgold also carries Australian sovereign risk, which we regard as a relatively stable and safe jurisdiction compared to many other gold mining jurisdictions around the world.

MODEL SUMMARY: FINANCIALS & VALUATION
Stock Details

Recommendation:	SPEC BUY			
Target	\$0.12	Share Price	\$0.044	
NAV	\$0.12	52 Week High	\$0.063	
Implied Return	173%	52 Week Low	\$0.012	

Enterprise Value	\$61m
Diluted MCap	\$72m
Diluted Shares	1,643m
Free Float	100%
Avg Daily Value	\$0.29m

Macro Assumptions	FY19	FY20	FY21E	FY22E	FY23E
Exchange Rate (A\$/US\$)	0.72	0.67	0.74	0.73	0.73
Gold Price (US\$/oz)	1,263	1,563	1,846	1,800	1,800
Gold Price Realised (A\$/oz)	1,766	2,328	2,503	2,466	2,466

Profit & Loss (A\$m)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
Operating Profit	-	-	-	-	-
Corporate & Other	(1)	(1)	(2)	(2)	(2)
Exploration Expense	(1)	(1)	(1)	(1)	(1)
EBITDA	(2)	(2)	(2)	(2)	(2)
D&A	(0)	(0)	(0)	(0)	(0)
EBIT	(2)	(2)	(2)	(2)	(2)
Net Interest Expense	0	(0)	0	0	0
Pre-Tax Profit	(2)	(2)	(2)	(2)	(2)
Tax Expense	-	-	-	-	-
Underlying Profit	(2)	(2)	(2)	(2)	(2)
Significant Items (post tax)	-	-	-	-	-
Reported Profit	(2)	(2)	(2)	(2)	(2)

Cash Flow (A\$m)	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow	(1)	(1)	(1)	(2)	(2)
Tax	-	-	-	-	-
Net Interest	0	0	0	0	0
Net Operating Cash Flow	(1)	(1)	(1)	(1)	(1)
Exploration	(3)	(2)	(6)	(4)	(4)
Capex	(0)	(0)	(0)	-	-
Acquisitions / Disposals	-	-	(0)	-	-
Other	(0)	-	-	-	-
Net Investing Cash Flow	(3)	(3)	(6)	(4)	(4)
Equity Issue	-	-	17	-	10
Borrowing / Repayments	2	4	(0)	-	-
Dividends	-	-	-	-	-
Other	(0)	(0)	-	-	-
Net Financing Cash Flow	2	4	17	-	10
Change in Cash Position	(2)	1	10	(5)	5
FX Adjustments	-	-	-	-	-
Cash Balance	0	1	11	5	10

Balance Sheet (A\$m)	FY19	FY20	FY21E	FY22E	FY23E
Cash	0	1	11	5	10
Other Current Assets	0	0	0	0	0
PP&E	0	0	0	0	0
Exploration & Development	42	44	49	53	56
Other Non Current Assets	-	0	0	0	0
Total Assets	43	45	61	59	67
Debt	-	-	-	-	-
Other Liabilities	2	2	2	2	2
Net Assets	41	43	59	57	65

Ratio Analysis		FY19	FY20	FY21E	FY22E	FY23E
Diluted Shares	m	809	1,136	1,585	1,585	1,838
EPS - Diluted	Ac	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)
P/E	x	n.m.	n.m.	n.m.	n.m.	n.m.
CFPS - Diluted	Ac	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
P/CF	x	n.m.	n.m.	n.m.	n.m.	n.m.
FCF - Diluted	Ac	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
P/FCF	x	n.m.	n.m.	n.m.	n.m.	n.m.
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A\$m	72	71	62	67	62
EV/EBITDA	x	(39.9x)	(42.2x)	(26.0x)	(31.9x)	(29.7x)
ROE	%	(4%)	(4%)	(4%)	(3%)	(3%)
ROA	%	(4%)	(4%)	(4%)	(3%)	(3%)
Net Debt / (Cash)		(0)	(1)	(11)	(5)	(0)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	(10%)	(1%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	(9%)	(1%)

Resource & Reserve Updated April 2021

Resource	Tonnes Grade Ounces		
	mt	g/t	koz
Measured	6.4	1.5	303
Indicated	18.7	1.2	718
Inferred	13.0	1.2	518
Total	38.2	1.3	1,540

EV/oz	39
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Reserve
No reserves at Katanning yet

Earnings Sensitivity		FY25E	FY26E	FY25E	FY26E
		A\$m	A\$m	%	%
Gold Price	US\$/oz +10%	17	18	29%	28%
Exchange Rate	A\$/US\$ -10%	19	19	33%	31%

Valuation	Discount	Stake	A\$m	A\$/sh
Katanning (unrisked)		100%	341	0.21
Katanning (risk-adjusted)	50%	100%	170	0.10
Exploration			35	0.02
Corporate & Other			(15)	(0.01)
Debt			-	-
Cash			12	0.01
Option Strikes			-	- P/NAV
Risk adjusted NAV			202	0.12 0.37x

Source: Company data, Blue Ocean Equities

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