

# AUSGOLD LIMITED (AUC)

**INITIATION: Katanning shaping up as an exciting 100kozpa gold project in WA**

**Analyst** Stuart McIntyre  
**Email** steuarmcintyre@boeq.com.au  
**Phone** +61 2 8072 2909  
**Date** 9 October 2020

We say

Price

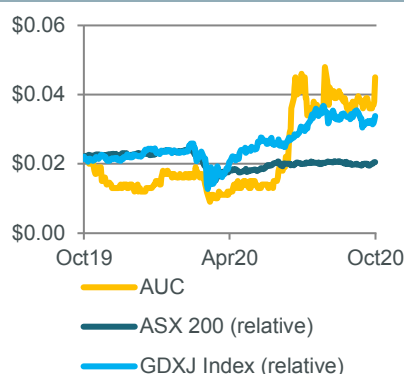
Target

Strategic Target

# SPEC BUY 0.045 0.10 0.15

Ausgold is a WA-based gold explorer/developer focused on its 100%-owned Katanning Gold Project located 275km south of Perth in WA. Over the next 12-months, we expect Ausgold to surprise the market as Katanning comes together as an exciting 100kozpa gold project. The company has begun a 25,000m drilling campaign and is due to upgrade its 1.2moz resource in Q1 CY21. We expect a PFS to follow in 2H CY21. We initiate coverage with a Spec Buy and 10c Target.

## SHARE PRICE CHART



## 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	\$54m
Diluted market cap*	\$60m
Diluted shares*	1,335m
Free float	100%
12-month price range	\$0.01-0.05
GICS sector	Gold
Board/Management holds ~9%.	
*Diluted for 35m perf rights	

## IMPLIED RETURN

Implied potential return	122%
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## 1.2MOZ IN RESOURCE INCL HIGH GRADE CORE

The Katanning Gold Project has a 1.2moz resource at 1.1g/t, including a high-grade core comprising 456koz @ 1.48g/t. Since the management changes in 2017, the company has established a new geological model designed to target high grade mineralisation and we look forward to the results of the 25,000m drill programme currently underway. We expect the resource to grow and a resource upgrade is due in Q1 CY21.

## POTENTIAL FOR A MATERIAL RE-RATING

Ausgold is trading at a very large discount to peers on an EV/oz of just A\$45/oz and we see potential for a material re-rating if the company can establish Katanning has the critical mass to support a 100kozpa gold project – which we believe highly likely over the next 3-9 months. The Katanning resource is also on approved Mining Licences, on freehold land (not subject to Native Title).

## INITIATE WITH SPEC BUY, 10C PRICE TARGET

We initiate on Ausgold with a Spec Buy rating and 10c Price Target, an implied potential return of ~120%. Our Price Target is based on a DCF for a 100kozpa gold project at Katanning at US\$1,800/oz gold and an A\$/US\$ of 0.68. Until AUC has completed the necessary studies we have applied a 60% discount to our NPV for Katanning. We provide more detail on our valuation approach p13 of this report.

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## INVESTMENT THESIS

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### MACRO: A PERFECT STORM FOR GOLD

In our view we are in a gold bull market which is likely to continue for several years, driven by:

- Low real interest rates which are likely to persist for the foreseeable future. History shows the gold price typically performs best during periods of low or negative real rates. The Fed has signalled that it is unlikely to raise rates until 2023 at the earliest.
- The other key driver of gold is money printing which reduces the purchasing power of underlying currencies. The recent unprecedented levels of stimulus/QE (money printing) during the Coronavirus pandemic is very positive for the outlook for gold.
- With Coronavirus cases still climbing, in our view ongoing central bank support via more stimulus/QE appears highly likely which is likely to drive higher gold prices.
- In summary, the combination low real rates, unprecedented money printing and elevated global uncertainty caused by the Coronavirus represent a perfect storm for gold.

### STOCK SPECIFIC: WHY AUSGOLD?

Ausgold Limited (Ausgold or the Company) (ASX:AUC) is a ~A\$60m market cap gold explorer/developer focused on its flagship 100%-owned Katanning Gold Project in WA.

At 1 September 2020 the company had \$6m in cash and no debt. The key highlights of our investment thesis for Ausgold are:

- **A 1.2moz gold resource:** Despite its relatively modest market cap of ~A\$60m, Ausgold already has a 1.2moz resource at Katanning and we see promising potential to grow.
- **A high-grade core:** The Katanning resource includes a high-grade core comprising 456koz @ 1.48g/t. Some of the best hits include **28m @ 11.3 g/t from 90m; 20m @ 10.5 g/t from 10m; 20m @ 15.6 g/t from 97m**. With a **new geological model in hand (see p7-8)**, we are excited to see if AUC can find repetitions or extensions of this high grade mineralisation.
- **A very large, prospective tenement package in WA:** Ausgold holds a large ground position comprising over 4,000km<sup>2</sup> covering 130km of strike of underexplored greenstone in WA. The company has identified 46 advanced gold targets for testing.
- **Large fully-funded 25,000m drilling campaign:** A 25,000m RC programme is underway, targeting resource growth and extensions of high-grade mineralisation. The company is also undertaking EIS co-funded drilling at Jinkas North and Red Hill followed by AC/RC drilling at Rifle Range and soils and AC drilling on regional targets.
- **Catalyst Rich:** Ausgold has A\$6m in cash and a significant 25,000m drilling programme is underway, followed by a resource upgrade in Q1 CY21. We expect a PFS in 2H CY21.
- **Re-rating potential near-term:** Ausgold is trading at a *significant* discount to peers with an EV/oz of only A\$45/oz which we believe may be due to a Scoping Study which was published on the project in November 2019 which we believe understates the potential of the project. We see potential that the current drilling campaign, in combination with new metallurgical studies and higher gold prices could lead to material increase in project scale and NPV which could lead to a re-rating of the company's shares. We provide detailed analysis on p13.
- **Well Qualified Board & Management Team:** Ausgold's non-exec Chairman is Richard Lockwood, who has many years experience in mining investment and funds management as one of the founders of New City Investment Management. The MD, Dr Matthew Greentree is an experienced geologist with a PHD in geology from the University of WA. One of the Non-Exec Directors, Mr Geoffrey Jones is the MD of GR Engineering.

## COMPANY OVERVIEW

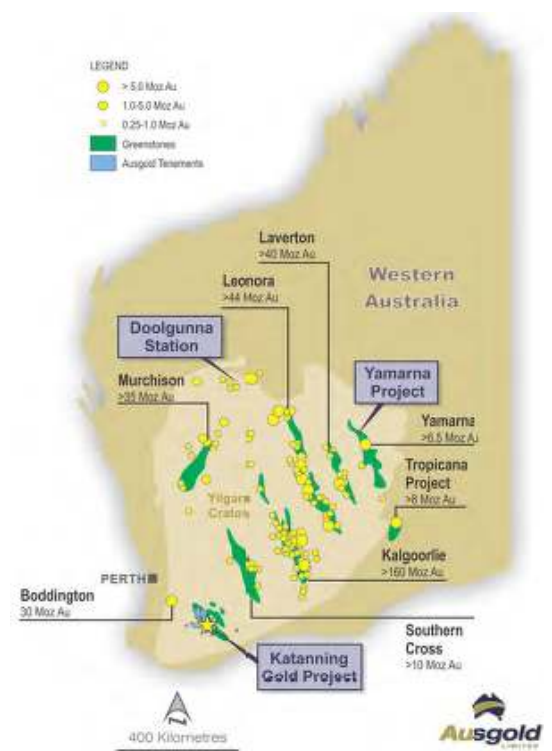
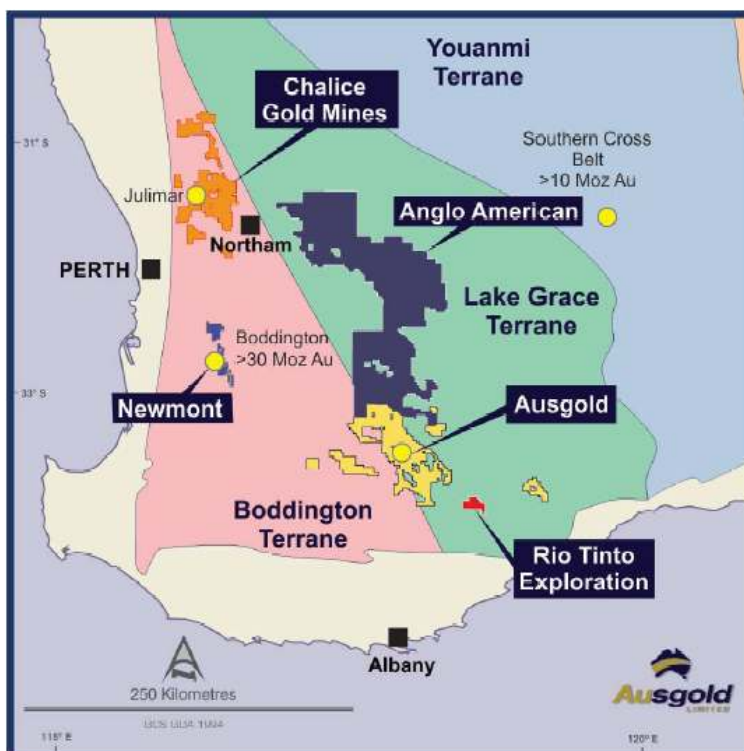
Ausgold Limited (Ausgold or the Company) (ASX:AUC) is a ~A\$60m market cap gold explorer/developer focused on its flagship 100%-owned Katanning Gold Project in south-western WA which has a resource of 1.2moz.

The company has a significant ground position in the region, holding over 4,000km<sup>2</sup> of underexplored greenstone. Over 95% of Ausgold's tenure in the Katanning region is yet to be tested, representing potential for additional near-mine and regional discoveries.

At 1 September 2020 the company had \$6m in cash and no debt and has commenced a substantial 25,000m drilling campaign which aims to grow the Katanning resource and to find repetitions or extensions of this high grade material, we believe it could materially change the economics of the project.

The company also owns a number of other projects in Western Australia & Queensland focused on gold, base metals and vanadium. A brief snapshot is provided on p16 of this report.

### Ausgold's tenement package in Western Australia



Source: Company

## A BRIEF HISTORY OF AUSGOLD

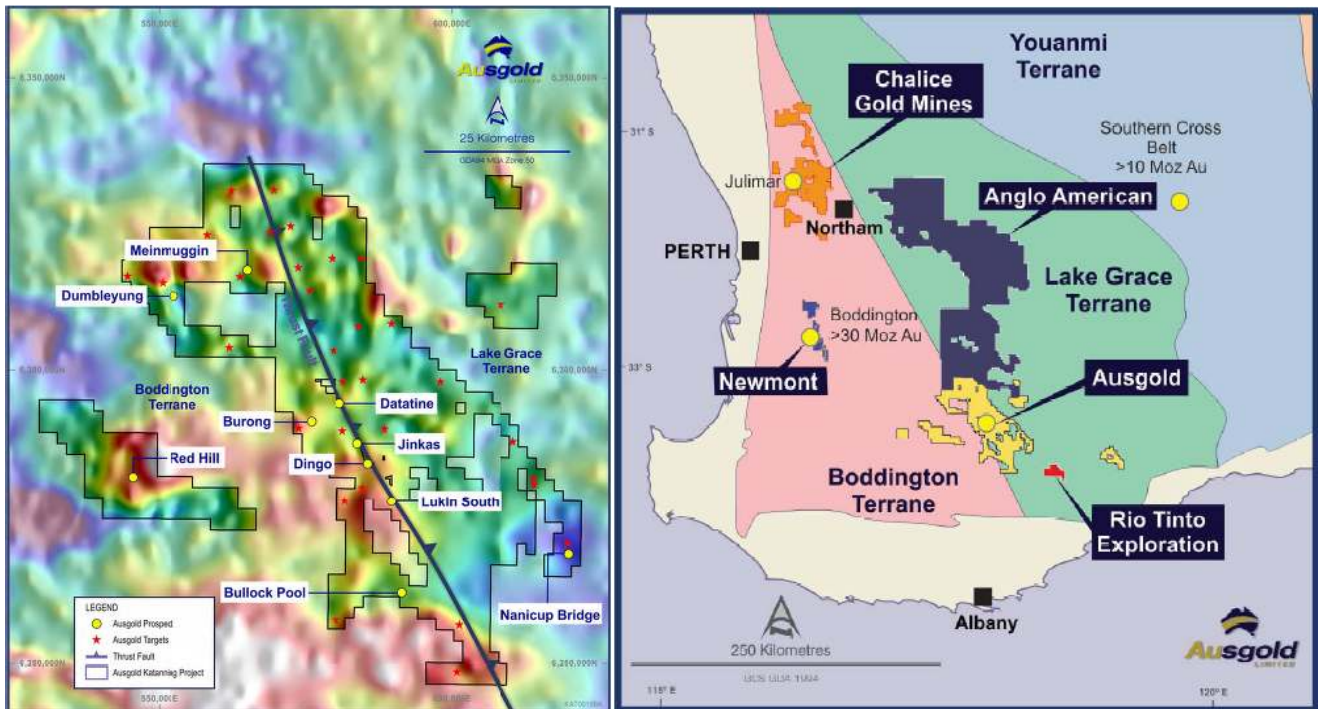
Ausgold was listed on the ASX in December 2009, raising A\$10.4m at 20c. The company's primary focus for gold and copper exploration in Australia.

The first round of high grade hits at Katanning (then called Boddington South) were announced in Nov/Dec 2010. After a change in management in 2017, the Company began a thorough re-interpretation of the geological model for the Katanning gold Project and the application of a systematic exploration approach across the tenement package.

## THE KATANNING GOLD PROJECT

The 100%-owned Katanning Gold Project is located ~275km south of Perth in WA and ~40km north-east of the town of Katanning.

Ausgold's tenements cover over 4,000km<sup>2</sup> of the Katanning Greenstone Belt in the south-west corner of the Yilgarn Craton, which hosts some of Australia's largest gold deposits.



Source: Company

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

- **Excellent infrastructure:** Access to grid power (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**

The resource comprises 1.2moz at 1.1g/t as outlined in the table below. The company sees significant potential to expand the resource which is open both along strike and at depth below 170m. The resource also includes a **high grade core comprising 456koz @ 1.48g/t (M+I)**.

Since the change in management in 2017, Ausgold has developed a new geological model, which has enabled it to accurately identify potential high-grade targets. More detail is provided on pages 7 and 8 of this report.

### The Katanning Gold Project Resource

Resource category	Tonnes	Grade (g/t au)	Contained gold (oz)
Measured	2.26	2.05	149,000
Indicated	11.99	1.14	440,690
Inferred	19.68	0.97	611,340
<b>Total Resource</b>	<b>33.93</b>	<b>1.10</b>	<b>1,201,030</b>

Source: Company, 1 Nov 2019



## **A BRIEF HISTORY OF THE KATANNING GOLD PROJECT**

Exploration on the Katanning greenstone belt has been limited compared to other Archean greenstone belts within the Yilgarn.

Gold mineralisation was discovered by Otter Exploration NL in 1979 at Jinkas Hill, Dyliabing, Lone Tree and White Dam after following up stream sediment anomalies. Between 1984 and 1988 Otter and related companies evaluated the region with several other explorers including South West Gold Mines and Minasco Resources Pty Ltd.

In 1987 Glengarry Mining NL purchased the project and in 1990 entered into a joint venture with Uranerz who agreed on minimum payments over three years to earn 50% interest. Uranerz withdrew from the project in 1991 after a decision by their parent company in Germany to cease Australian operations.

International Mineral Resources NL ("IMR") purchased the mining leases and the Grants Patch treatment plant from Glengarry Mining NL in 1995 and commenced mining at the Jinkas deposit in December 1995. Ausgold understands the mine was closed in 1997 after producing approximately 20koz of gold from the Jinkas and Dingo Hill open cuts at a head grade of approximately 2.4g/t. In addition, the mine closure was brought about by a combination of the low gold price of the time (<US\$400/oz) and the inability of the processing plant's comminution circuit to process hard ore from below the base of weathering. Reports from the period indicate that the ore bodies were reasonably predictable in terms of grade and continuity and appeared to produce consistent and reproducible results from grade control (Ravensgate, 1999).

Great Southern Resources Pty Ltd ("GSR") purchased the mining and exploration leases from IMR in August 2000. Ausgold entered into a joint venture with GSR in August 2010, and the mineral titles were transferred to Ausgold in entirety in August 2011.

The first round of high grade hits at Katanning (then called Boddington South) were announced in Nov/Dec 2010. After a change in management in 2017, the Company began a thorough re-interpretation of the geological model for the Katanning gold Project and the application of a systematic exploration approach across the tenement package.

### Historic pit at Jinkas



Source: Company

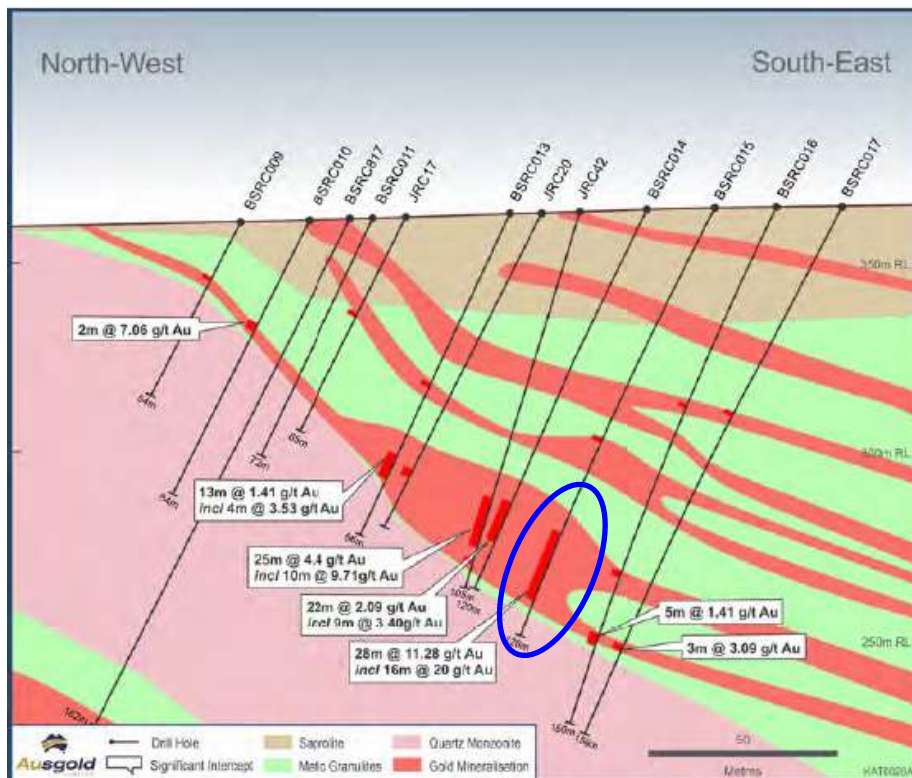
## GEOLOGICAL SETTING & GEOLOGICAL MODEL

Gold mineralisation at the Katanning Gold Project occurs as a series of stacked lodes similar to orogenic shear-hosted deposits common in the Yilgarn Craton.

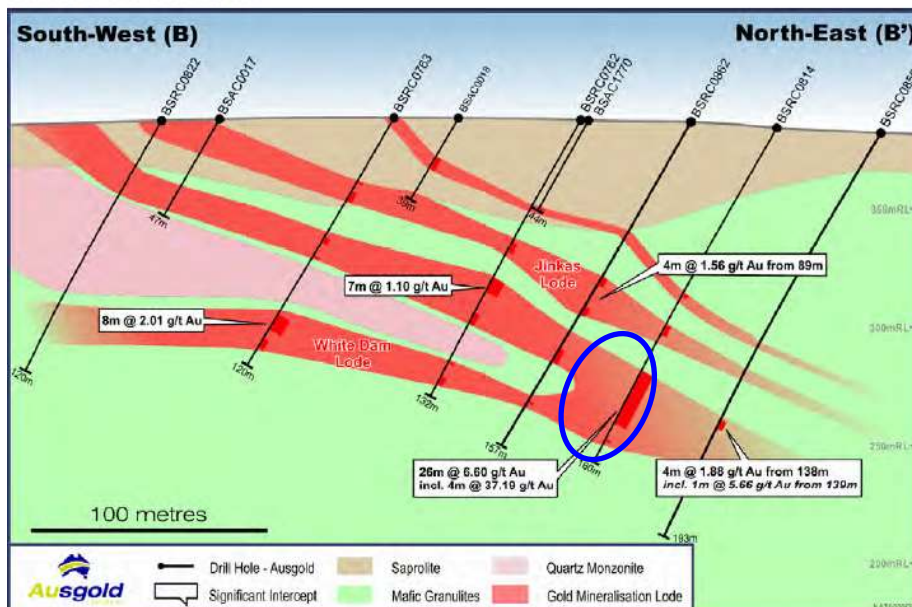
Gold mineralisation has undergone metamorphism and deformation which has created the characteristic high-grade zones of gold mineralisation (10-182 g/t gold), which occur within pipe-like structures encapsulated within broad zones of gold mineralisation.

High-grade gold zones at Katanning tend to occur at the 'hinge' zones (folded ore body)

### Jinkas North lode



### Jinkas South lode



Source: Company, Blue Ocean (blue circles)

Since the change in management in 2017, Ausgold has developed [a new geological model](#).

At Katanning, the **high-grade gold is strongly correlated with the magnetic mineral pyrrhotite** which tends to **concentrated at hinge zones** in the mineralisation as shown here circled in blue. These hinge zones are due to a folded orebody.

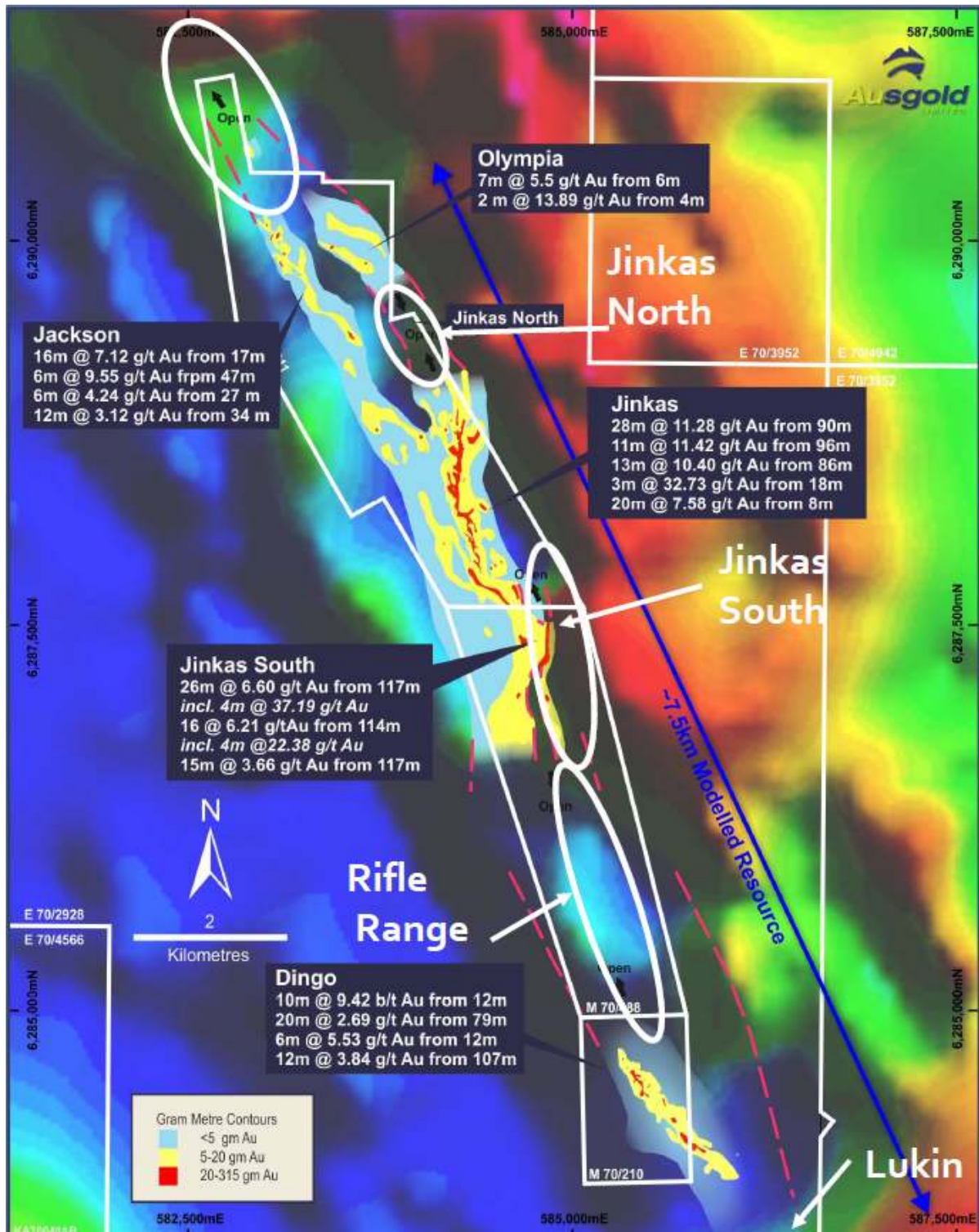
This relationship **allows the company to more effectively target potential high-grade gold using Electromagnetic (EM) geophysical surveys and Down Hole EM**.



Along the mine corridor, three mineralised trends have been identified showing strong continuity with mineralisation strongly correlating to NNW trends seen in magnetic and a gravity high geophysical imagery.

High gold grades have a strong relationship with magnetic pyrrhotite, making targeting effective through Electromagnetic (EM) geophysical surveys and Down Hole EM that has been used to directly target high-grade gold mineralisation.

Resource modelled over 7.5km of strike; Total mineralised strike length is 130km



Source: Company

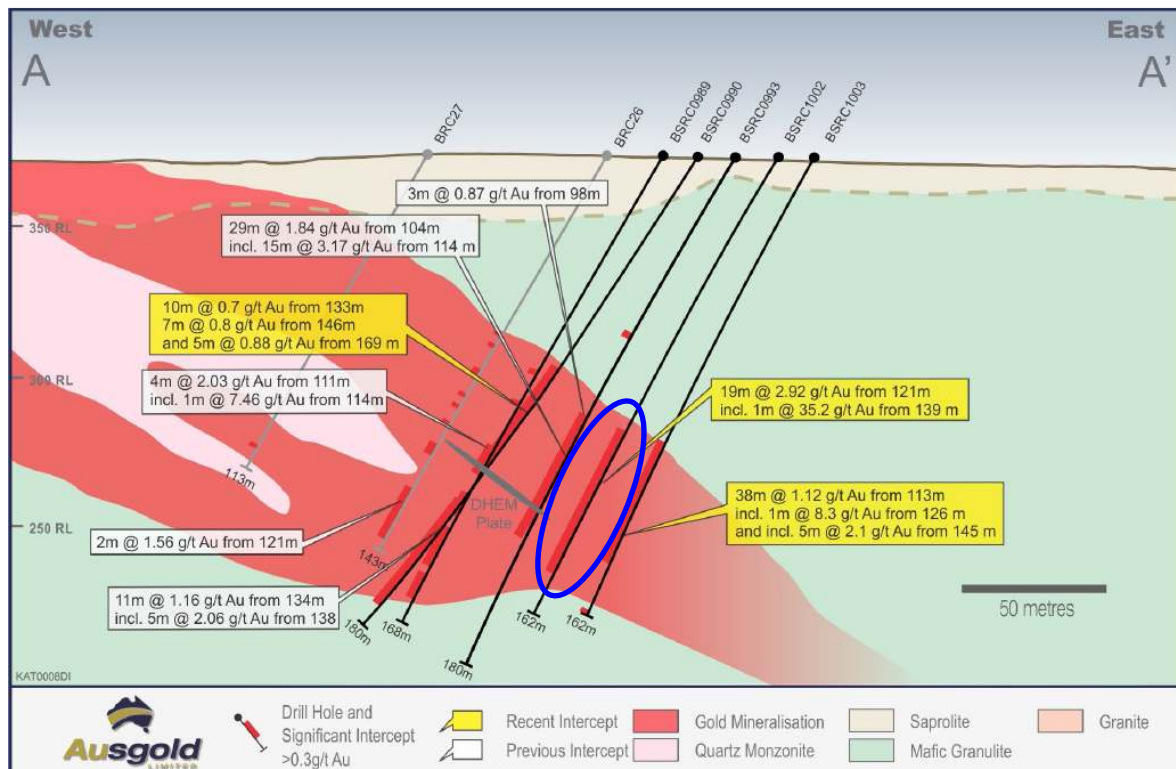


## RECENT DRILLING VALIDATES NEW GEOLOGICAL MODEL

Earlier today (9 October 2020), Ausgold released a very promising set of drilling results down dip at Jinkas South, confirming broad zones of higher-grade gold mineralisation well beyond the current 1.2moz resource in a parallel lode, boding well for the resource upgrade due in Q1 CY21.

More importantly, the drilling results validated the company's geological model – i.e. the high-grade gold mineralisation is strongly associated with the magnetic pyrrhotite, which typically occurs at 'hinges' in the gold mineralisation and can be targeted using Down Hole EM (DHEM).

### Cross Section at Jinkas South showing new drilling results down dip



Source: Company, Blue Ocean (blue circle)

New results from 11 holes for 1,666m from Jinkas South lode, included:

- 29m @ 1.84 g/t from 104m incl 18m @ 2.72 g/t
- **19m @ 2.92 g/t from 121m incl 1m @ 35.4 g/t**
- 38m @ 1.12 g/t from 113m incl 1m @ 8.30 g/t
- 7m @ 4.09g/t from 111m incl 1m @ 24.90 g/t
- 30m @ 0.95 g/t from 132m incl 9m @ 1.56 g/t
- 19m @ 1.02 g/t from 114m incl 5m @ 2.65 g/t

Importantly, **most of these hits were higher grade than the average resource grade of 1.1g/t.**

Additional DHEM and ground gravity programs within Central Zone have identified further target zones which further extend potential mineralisation.

RC drilling is continuing with results from a further 17 holes for 1,948m pending.

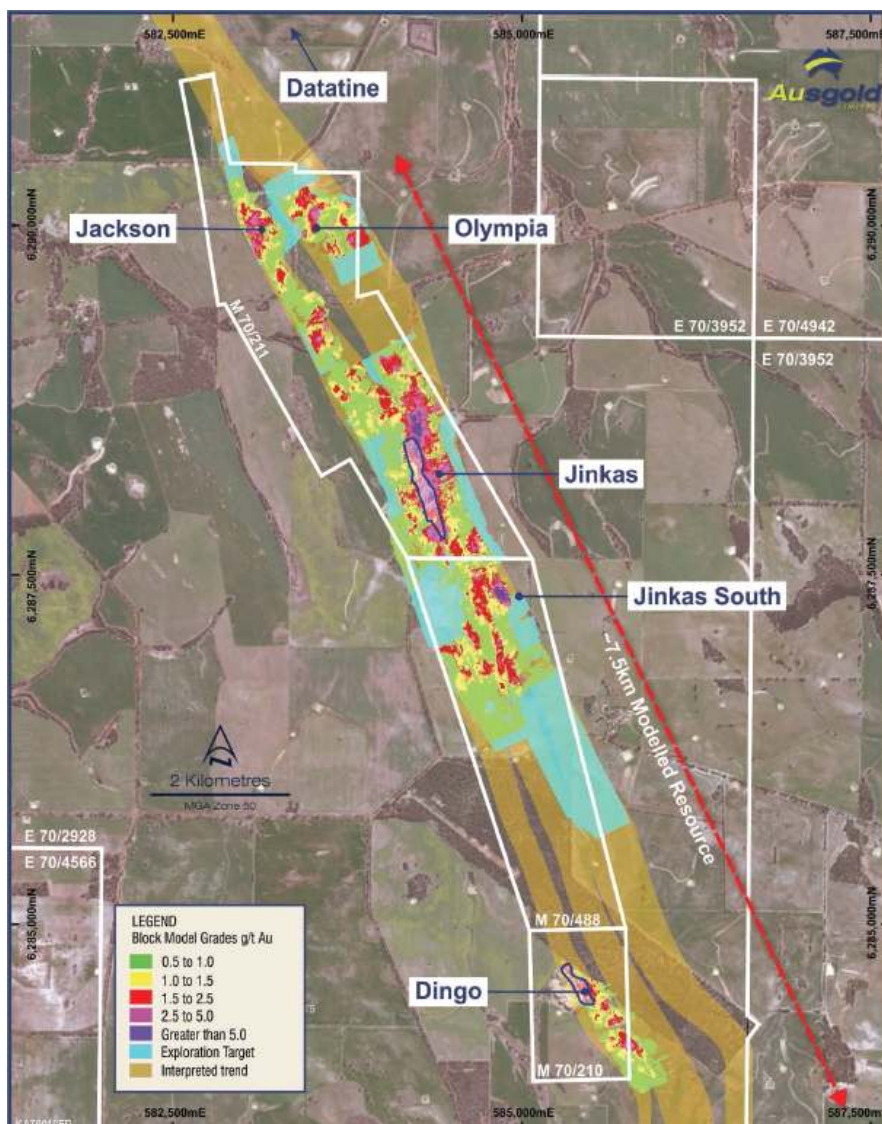
A larger Topdrill Schram 650 RC rig has been added to the program to enable more rapid drill testing as well as targeting deeper portions of the mineralisation.

## POTENTIAL FOR RESOURCE EXTENSIONS

Ausgold has identified a number of areas where it sees potential to grow the existing 1.2moz resource at Katanning. A 25,000m RC programme is underway, targeting both resource growth and extensions of high-grade mineralisation. Key targets include:

- **Jinkas North:** There is an 850m gap in drilling along strike from the high grade Jinkas lode coincident geophysical (Fixed Loop EM, gravity and magnetic) and geochemical anomalies. This is a high priority target with good potential to add ounces. The company has also received Western Australian Exploration Incentive Scheme co-funding
- **Jinkas South:** High grade mineralisation intersected over 700m, a parallel lode, open at least 1,250m strike length. New results released today validate model (see previous page). Jinkas South over 400m long from previous Resource update in 2019, likely to include a much larger portion of total resource.
- **Depth potential:** Resource currently restricted to an open pitable depth of 170m
- **Rifle Range:** Untested potential along strike between Jinkas South and Dingo. We see promising potential that the zone between these deposits is mineralised.
- **Lukin:** Gold mineralisation over 6km strike length (south of Dingo)

### The Katanning Gold Project

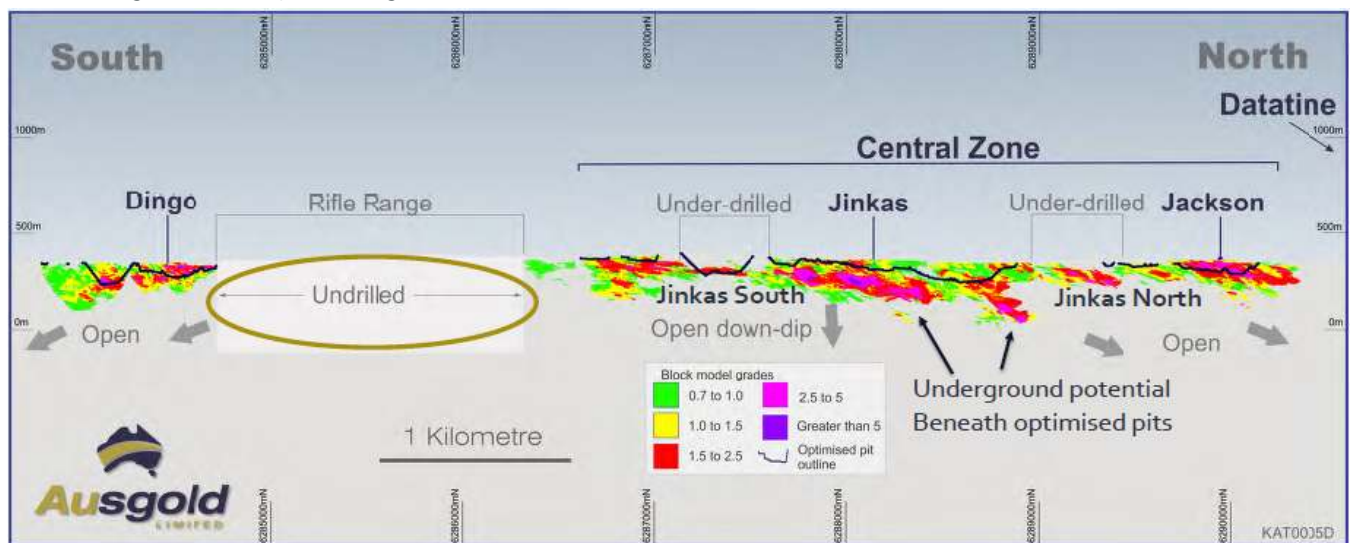


Source: Company

The longitudinal section below provides important context and highlights:

- **Rifle Range untested:** This prospect sits between the Jinkas South and Dingo deposits and we see promising potential that this zone could be mineralised.
- **High-grade outside pit shells:** For us, this longitudinal section also highlights that a large percentage of the high-grade material at Katanning (denoted by red, pink and purple) did *not* make it into the pit shells (shown in black) in the Scoping Study in November 2019.
- **Jinkas North:** Due to an 850m gap in the drilling at Jinkas North there is clear potential to add additional ounces (again there is essentially no open pit shell in this zone due to lack of drilling).

### Katanning Gold Project longitudinal section

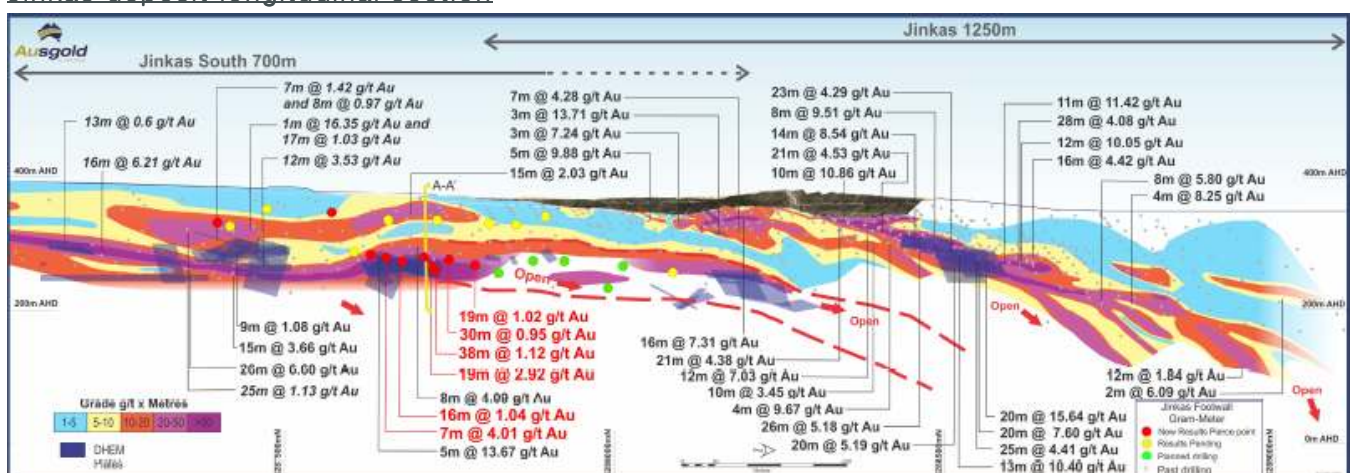


Source: Company

The longitudinal section below provides a zoomed in view of the Jinkas deposit showing the high-grade shoots plunging to the north.

Importantly, the company has not yet tested the depth extensions of these high-grade shoots and the new downhole EM targets highlight untested potential targets (Downhole EM Targets shown in dark blue).

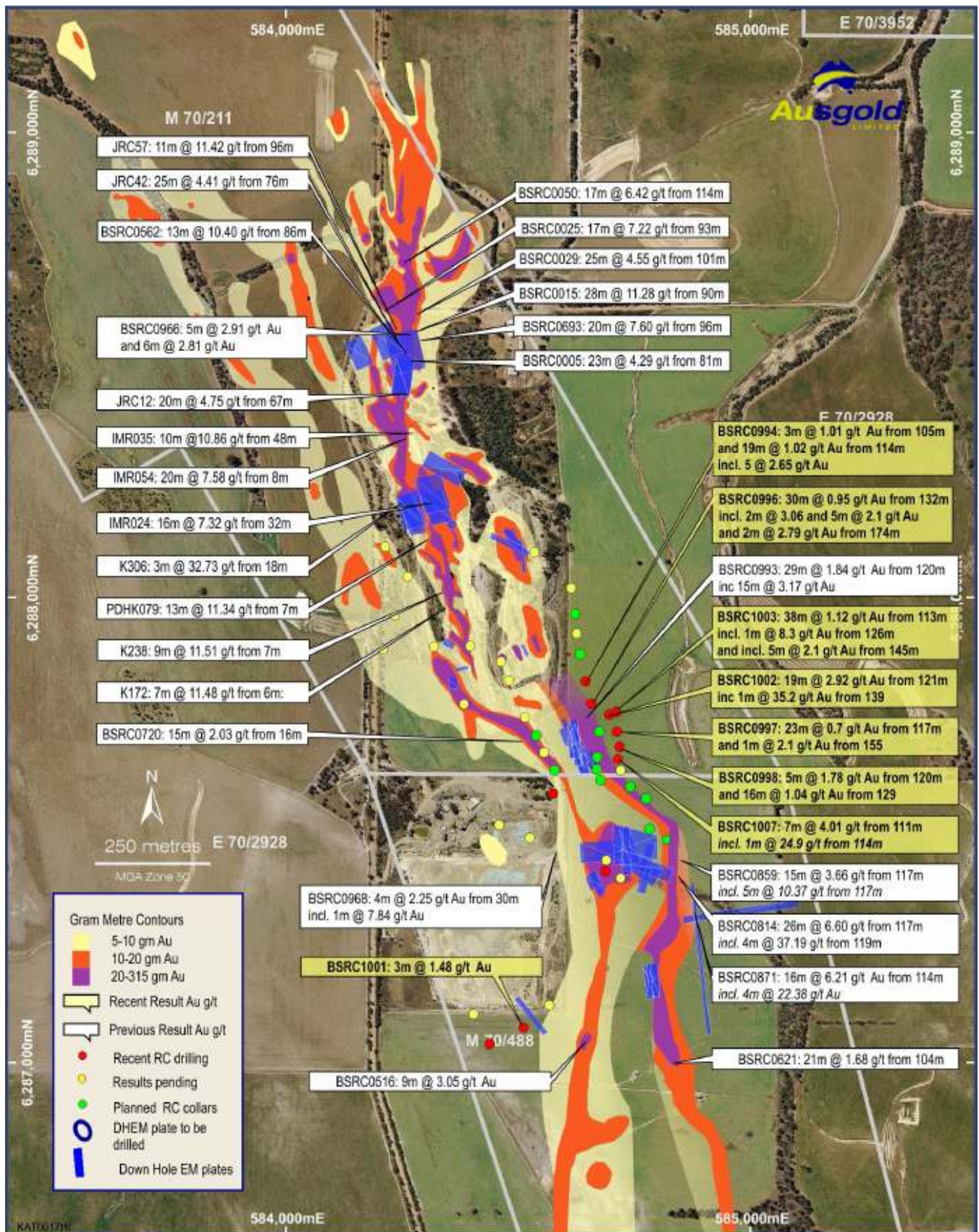
### Jinkas deposit longitudinal section



Source: Company



Down Hole EM plates (in blue) at Jinkas highlighting potential for resource extensions



Source: Company

## SCOPING STUDY – WE SEE POTENTIAL FOR LARGER SCALE PROJECT

In November 2019, Ausgold completed a Scoping Study for the Katanning Gold Project which we believe understates the potential of the project, due to a combination of conservative gold prices, insufficient drilling and conservative recovery assumptions due to incomplete metallurgical studies at the time.

We see potential that the current drilling campaign, in combination with new metallurgical studies and higher gold prices could lead to material increase in project scale and NPV which could lead to a re-rating of the company's shares.

The table below highlights the company's Scoping Study from November 2019 alongside our view on what the project could potentially look like if the company can grow the resource and mining inventory sufficiently to increase the scale of the project from ~50ktpa to ~100kozpa.

**We see potential for a re-rating of Ausgold if the company can successfully grow the mining inventory to 600-700koz to scale up Katanning to ~100kozpa.**

### Katanning Scoping Study & potential for larger scale project

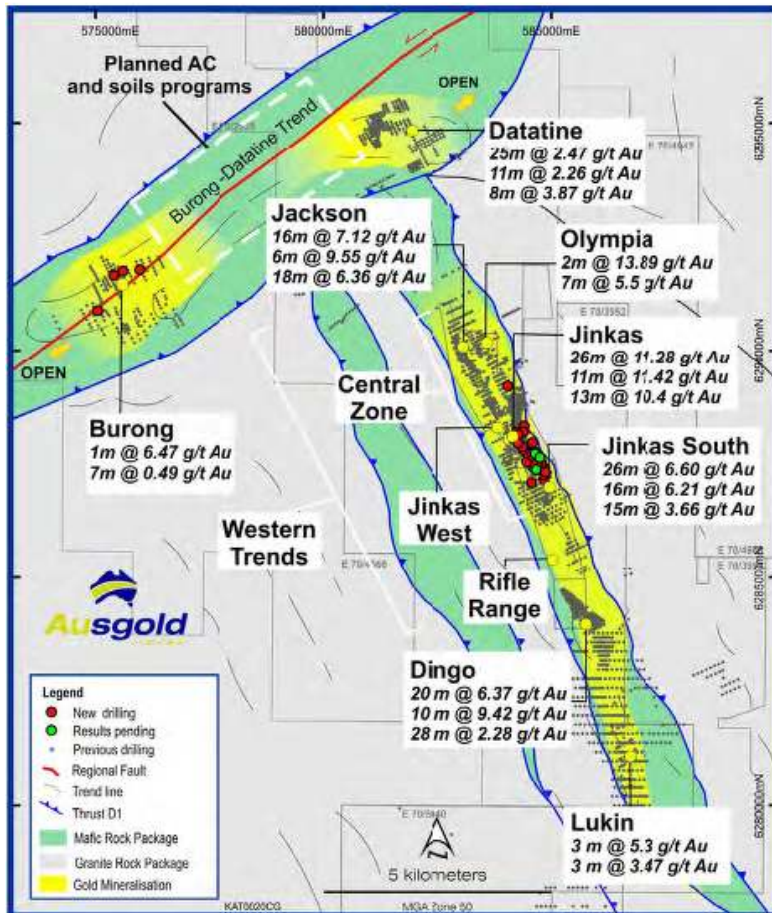
		Scoping Study (Nov-19)	Potential Project (Blue Ocean)	Our View
Resource	moz	1.2	1.5+	We see clear scope for growth
<b><u>Mining Inventory</u></b>				
Gold price	A\$/oz	1,900 / 2,000	Spot ~A\$2650/oz	Conservative gold prices in SS
Max open pit depth	m	170m	200-220m+	Potential for deeper pits*
<b>Mining Inventory</b>	<b>koz</b>	<b>391</b>	<b>600-700</b>	<b>Would justify a 100kozpa mine</b>
<b><u>Production &amp; AISC</u></b>				
Plant scale	mtpa	1.25	3.0	Blue Ocean estimate
Initial capex	A\$m	103	150	Blue Ocean estimate
Head grade	g/t	1.29	1.15	Blue Ocean estimate
Recovery	%	90%	93%	Met testwork shows 93-95%
<b>Gold Production</b>	<b>kozpa</b>	<b>~50kozpa</b>	<b>~100kozpa</b>	<b>An institutional scale mine</b>
AISC	A\$/oz	~A\$1,350/oz	~A\$1,400/oz	ASX producer avg is A\$1,400/oz
<b><u>Financial Metrics</u></b>				
<b>NPV post-tax</b>	<b>A\$m</b>	<b>~A\$50m</b>	<b>A\$330m</b>	<b>AUC's EV is ~A\$50m</b>
IRR post-tax	%	18%	62%	Potential for a robust project

Source: Company, Blue Ocean estimates. \*Note: Both cases are based on an average strip ratio of 6:1.



## REGIONAL POTENTIAL

In addition to the low hanging fruit in close proximity to the existing Katanning resource, we also see significant exploration potential in Ausgold's substantial ground position which comprises over 4,000km<sup>2</sup> and covers 130km of strike of underexplored greenstone in WA.



Resource centred within a large mineralised system extending over 17km strike length, identified along major regional faults. Total mineralised strike is 130km

Katanning is a large mineralised system with a number of promising (and untested) targets within only 5km of the main deposit.

Ausgold has identified 46 advanced gold targets in underexplored greenstone (denoted by the red stars in the left hand picture on p5 of this report).

### Burong – Dateline Trend

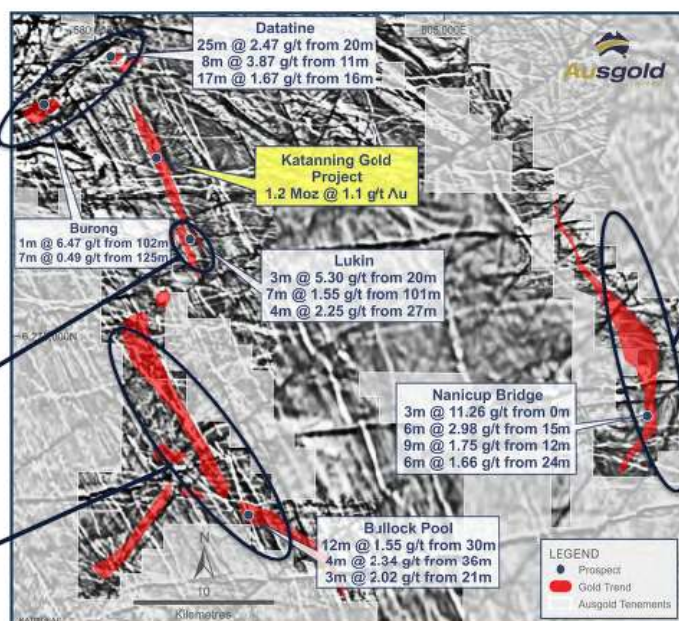
- ✓ New discovery
- ✓ Mineralisation identified along a strike length of 2.5km
- ✓ Maiden RC drill program intersect broad zone of mineralisation up to 6.47 g/t bottom of hole

### Lukin

- ✓ Gold anomalism over 7km of strike length
- ✓ Mineralisation intersected in wide-spaced RC drilling

### Bullock Pool

- ✓ Gold mineralisation over strike length of 25km



### Nanicut Bridge

- ✓ Gold mineralisation over 20km strike
- ✓ Large structure parallel to the KGP



## RESOURCE UPGRADE & DEVELOPMENT SCHEDULE

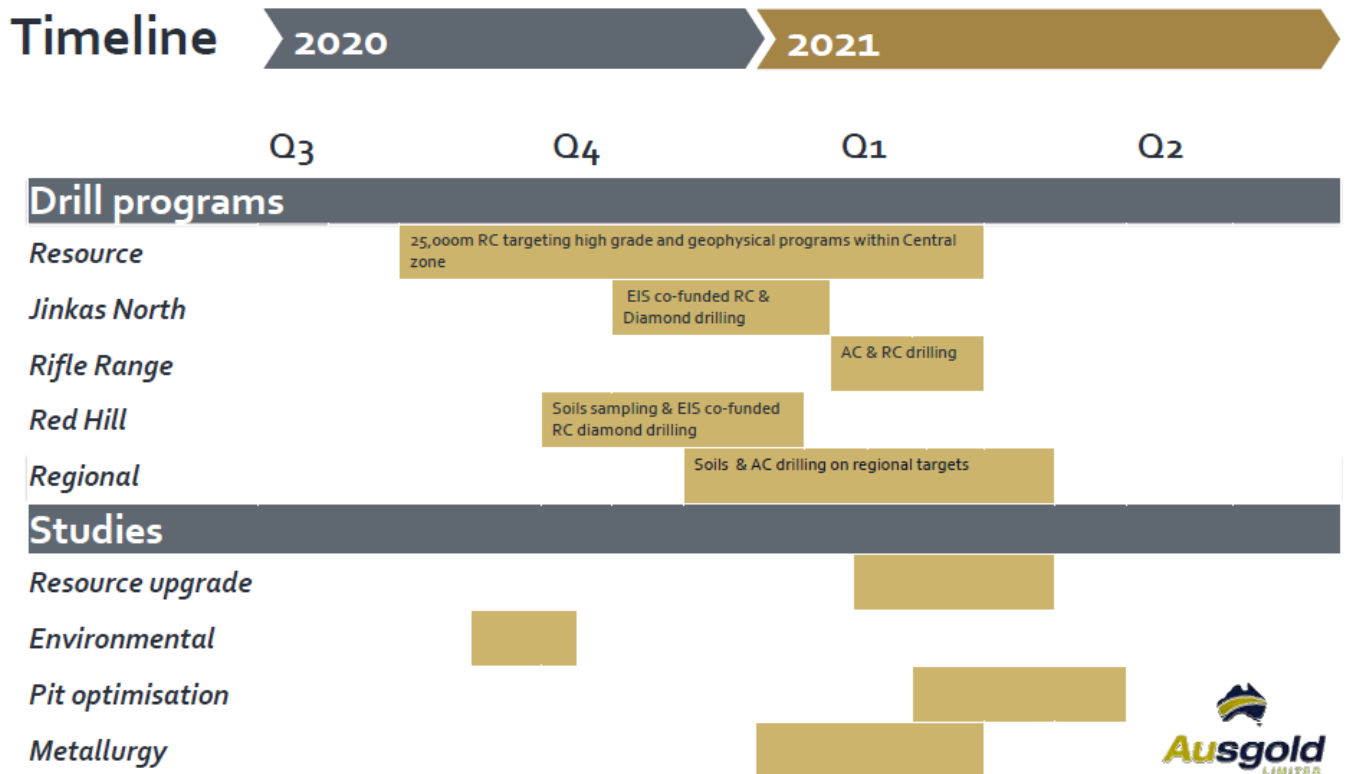
Over the next 6 months, Ausgold plans to drill ~25,000m at the key targets identified in the schedule below and plans to release a resource upgrade at the end of Q1 CY21.

We see promising potential for a material resource upgrade given:

- The company is on track to complete ~33,000m of additional RC drilling in the resource areas (completed and planned) since the last resource update
- There is an additional 5,000m of diamond drilling in the budget which will come later in the drilling season (time permitting)
- There is an additional 2,200m of RC and diamond drilling in the budget for Jinkas North (with half funded by the WA Govt)

In parallel, the company will be undertaking the necessary environmental work, pit optimisation and metallurgy test work. We expect to see a PFS in 2H CY21.

### Ausgold Development Schedule



Source: Company

## OTHER PROJECTS

Ausgold also owns a number of other exploration projects in Western Australia & Queensland:

### Ausgold's other projects



Source: Company

- **Red Hill Vanadium Project:**
  - Vanadium exploration with PGE potential, only 20km from Katanning town
  - Past work includes airborne magnetics, soil geochemistry, 1,200 soil & rock chip samples, 94 RC holes, 6 diamond holes
  - Grades 0.6 –1.4% V<sub>2</sub>O<sub>5</sub> up to 60 metres thick within layered mafic intrusive complex 30km in strike length with potential for significant vanadium mineralisation.
  - Preliminary metallurgical test work has produced highly encouraging results
- **Yamarna Joint Venture:**
  - Located in prospective Yamarna Greenstone Belt 125km NE of Laverton in WA
  - Winchester Prospect: A copper-nickel-cobalt discovery on an underexplored belt
  - Farm-in agreement with Great Boulder Resources (ASX:GBR). Ausgold retains 25% free carry to decision to mine
- **Doolgunna Joint Venture:**
  - Located in WA's Bryah Basin (150km north-east of Meekatharra)
  - Highly prospective for volcanic-hosted massive sulphide (VHMS) copper-gold and Plutonic-style gold mineralisation, adjacent to DeGrussa VHMS deposit
  - Farm-in agreement with AIC Mines (ASX:A1M). Ausgold retains 30% contributing interest after AIC has earned 70% by spending A\$2.15m or 20% free carry to decision to mine
  - 2,400m DD program identified prospective rocks for VHMS mineralisation
- **Cracow Project:**
  - 375km NW of Brisbane, covers over 200km<sup>2</sup> and hosts Camboon Volcanics which are the same as those that host the Cracow gold mine
  - Grab samples contain native copper, chalcocite and malachite, with assay grades up to 1.8% Cu and 5.5 g/t Ag
- **Lake Magenta:** Gold exploration project located the South West Yilgarn

## INVESTMENT PROPOSITION

This section provides an overview of our valuation assumptions for Ausgold.

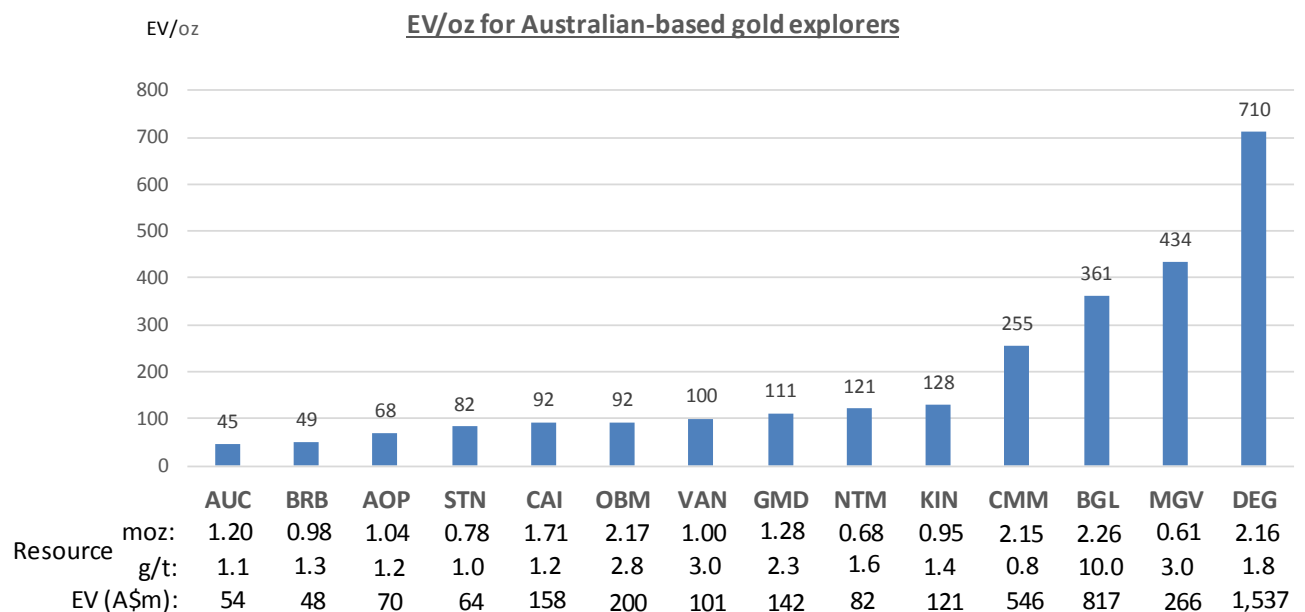
### RELATIVE VALUE

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

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

- AUC is trading on a very undemanding EV/oz of A\$45/oz
- **AUC is trading on less than 1/4 of the peer average of A\$200/oz!**
- Even excluding the top 4 premium players, the average EV/oz is still A\$94/oz, more than double AUC's current valuation...

#### Enterprise Value per ounce for Australian-based gold explorers



As at 9 October 2020

Source: Company reports, IRESS, Blue Ocean estimates  
Source: Company Reports, IRESS, Blue Ocean

We believe AUC is trading at a material discount to peers for several key reasons:

- The high-grade zones at the Katanning Gold Project were first discovered in Nov/Dec 2010 but the company fell off the radar for many investors when it wasn't able to quickly replicate the high-grade results. However, since the management changes in 2017, the company has developed a new geological model and has recently been enjoying renewed success. More detail on the new geological model is provided on page 7-8 of this report.
- In our view the Scoping Study in November 2019 understated the potential of the project for a range of reasons, as outlined on page 13 of this report.

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 its 25,000m drilling campaign, provides an updated resource in Q1 CY21 and delivers a PFS for Katanning which we expect in 2H CY21.



## PRICE TARGET & RATING

We initiate coverage of Ausgold with a Spec Buy recommendation and 10c price target, an implied potential return of ~120%. Our 10c Price Target is based on:

- A DCF for the Katanning Gold Project using US\$1,800/oz gold and an A\$/US\$ of 0.68
- Our DCF valuation is based on:
  - A 100kozpa gold project
  - At AISC of A\$1,400/oz
  - With initial capex of A\$150m
  - Over an initial mine life of 6-7 years
  - For a post-tax NPV of ~A\$330m which is then discounted back to 2020
  - We then apply a 60% discount until the company can complete the necessary studies to confirm project metrics (capex, opex, strip ratio, etc)

## STRATEGIC TARGET

We have a 15c Strategic Target on Ausgold, representing a potential return of over 230%.

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 also has a *very* large ground position of over 4,000km<sup>2</sup> in a largely untested greenstone belt – we believe there is a good chance the company will have additional exploration success at one or more of its regional targets. Again, this possibility is not catered for in our base case valuation.

## 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.

As this stage, the key risk to our valuation is exploration success since both our Price Target and Strategic Target are based on continued exploration success.

Assuming Ausgold can successfully grow its gold resource and 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:	<b>SPEC BUY</b>		
Target	\$0.10	Share Price	\$0.045
NAV	\$0.10	52 Week High	\$0.05
Implied Return	122%	52 Week Low	\$0.01

Enterprise Value	\$54m
Diluted MCap	\$60m
Diluted Shares	1,335m
Free Float	100%
Avg Daily Value	\$0.17m

Macro Assumptions	FY19	FY20	FY21E	FY22E	FY23E
Exchange Rate (A\$/US\$)	0.72	0.67	0.68	0.68	0.68
Gold Price (US\$/oz)	1,263	1,563	1,800	1,800	1,800
Gold Price Realised (A\$/oz)	1,766	2,331	2,647	2,647	2,647

Profit & Loss (A\$m)	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
<b>Operating Profit</b>	-	-	-	-	-
Corporate & Other	(1)	(1)	(2)	(2)	(2)
Exploration Expense	(1)	(1)	(0)	(0)	(0)
<b>EBITDA</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
D&A	(0)	(0)	(0)	(0)	(0)
<b>EBIT</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Net Interest Expense	0	(0)	(0)	(0)	(0)
<b>Pre-Tax Profit</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Tax Expense	-	-	-	-	-
<b>Underlying Profit</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Significant Items (post tax)	-	-	-	-	-
<b>Reported Profit</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>

Cash Flow (A\$m)	FY19	FY20	FY21E	FY22E	FY23E
Operating Cashflow	(1)	(1)	(2)	(2)	(2)
Tax	-	-	-	-	-
Net Interest	0	0	(0)	(0)	(0)
<b>Net Operating Cash Flow</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>(2)</b>	<b>(2)</b>
Exploration	(3)	(2)	(4)	(4)	(4)
Capex	(0)	(0)	-	-	(75)
Acquisitions / Disposals	-	-	-	-	-
Other	(0)	-	-	-	-
<b>Net Investing Cash Flow</b>	<b>(3)</b>	<b>(3)</b>	<b>(4)</b>	<b>(4)</b>	<b>(79)</b>
Equity Issue	-	-	8	10	72
Borrowing / Repayments	2	4	-	-	27
Dividends	-	-	-	-	-
Other	(0)	(0)	-	-	-
<b>Net Financing Cash Flow</b>	<b>2</b>	<b>4</b>	<b>8</b>	<b>10</b>	<b>99</b>
Change in Cash Position	(2)	1	2	4	18
FX Adjustments	-	-	-	-	-
<b>Cash Balance</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>7</b>	<b>26</b>

Balance Sheet (A\$m)	FY19	FY20	FY21E	FY22E	FY23E
Cash	0	1	3	7	26
Other Current Assets	0	0	0	0	0
PP&E	0	0	0	0	75
Exploration & Development	42	44	48	52	56
Other Non Current Assets	-	0	0	0	0
<b>Total Assets</b>	<b>43</b>	<b>45</b>	<b>51</b>	<b>59</b>	<b>157</b>
Debt	-	-	-	-	27
Other Liabilities	2	2	2	2	2
<b>Net Assets</b>	<b>41</b>	<b>43</b>	<b>49</b>	<b>58</b>	<b>128</b>

Ratio Analysis		FY19	FY20E	FY21E	FY22E	FY23E
Diluted Shares	m	809	1,136	1,335	1,582	3,360
EPS - Diluted	Ac	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)
<b>P/E</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>
CFPS - Diluted	Ac	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>P/CF</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>
FCF - Diluted	Ac	(0.1)	(0.1)	(0.1)	(0.1)	(2.3)
<b>P/FCF</b>	<b>x</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	60	59	57	53	61
<b>EV/EBITDA</b>	<b>x</b>	<b>(33.1x)</b>	<b>(35.0x)</b>	<b>(29.9x)</b>	<b>(27.6x)</b>	<b>(32.1x)</b>
ROE	%	(4%)	(4%)	(4%)	(3%)	(2%)
ROA	%	(4%)	(4%)	(4%)	(3%)	(1%)

Net Debt / (Cash)		(0)	(1)	(3)	(7)	(0)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	(15%)	(1%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	(13%)	(1%)

### Resource & Reserve Updated Nov 2019

Katanning	Tonnes	Grade	Ounces
Resource	mt	g/t	koz
Measured	2.3	2.1	149
Indicated	12.0	1.1	441
Inferred	19.7	1.0	611
<b>Total</b>	<b>33.9</b>	<b>1.1</b>	<b>1,201</b>

<b>EV/oz</b>	<b>45</b>
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**Reserve**  
No reserves at Katanning yet

Earnings Sensitivity		FY24E	FY25E	FY24E	FY25E
		A\$m	A\$m	%	%
Gold Price	US\$/oz +10%	9	19	29%	27%
Exchange Rate	A\$/US\$ -10%	10	21	33%	30%

Valuation	Discount	Stake	A\$m	A\$/sh
Katanning (unrisked)		100%	298	0.22
Katanning (risk-adjusted)	60%	100%	119	0.09
Exploration			25	0.02
Corporate & Other			(22)	(0.02)
Debt			-	-
Cash			6	0.00
Option Strikes			-	-
<b>Risk adjusted NAV</b>			<b>128</b>	<b>0.10</b>
				<b>0.45x</b>

Source: Company data, Blue Ocean Equities

## BOARD & MANAGEMENT

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**Richard Lockwood, Non-Exec Chairman:** Mr Lockwood has forged a successful career in fund management and mining investment and was the founder of New City Investment Management. Mr Lockwood was formerly a Director of AIM-listed Kalahari Minerals which was acquired by CGNPC Uranium Resources Co. Ltd. Formerly a mining investment partner for Hoare Govett and McIntosh Securities he was involved in the development and financing of several gold and base metals projects in Europe, Australia and Africa. Mr Lockwood's intimate knowledge and experience in the mining and uranium industries is an asset to the Company during its current growth phase. Mr Lockwood was appointed as a non-exec Director of Ausgold in July 2011 and was subsequently appointed non-exec Chairman in Sept 2015.

**Matthew Greentree, Managing Director:** Dr Greentree holds a B.Sc. 1st Class (Hons) in Geology from Macquarie University and a Ph.D. in Geology from The University of Western Australia. He has over 20 years of experience in minerals exploration and mining in Australia, Asia, Africa and South America. Dr Greentree is a highly experienced geologist with expertise in structural geology, exploration targeting in greenfield and brownfields environments, managing multidisciplinary studies and the evaluation of mineral projects. He is a member of the Australian Institute for Mining and Metallurgy (AusIMM) and the Australian Institute of Geoscientists (AIG) and is Vice Chair of the AIG Western Australian Branch Committee and a member of the VALMIN Committee. Dr Greentree was appointed MD of Ausgold in March 2017.

**Denis Ivan Rakich, Executive Director and Company Secretary:** Mr Rakich is an Accountant and Company Secretary with extensive knowledge and experience within the mineral production and exploration industries. He is a member of CPA Australia and has served as a Director and/or Company Secretary for other ASX Listed companies within the resources sector. Mr Rakich is responsible for the financial, legal and corporate management of Ausgold Limited.

**Neil Fearis, Non-Executive Director:** Mr Fearis is a leading corporate and commercial lawyer in Western Australia specialising in mergers and acquisitions, capital raisings and corporate reconstructions with a particular focus on the mining and resources sector. He has been in practice for more than 40 years and worked as a commercial lawyer in London, Sydney and Perth. Prior to studying law, Mr Fearis spend several years engaged in mineral exploration in both Australia and Southern Africa and as a results has a good understanding of the practical issues facing companies developing resource projects in remote locations, both in Australia and overseas. Mr Fearis has been a Director of a number of ASX and TSX Listed companies, primarily though not exclusively in the resources sector.

**Mr Geoffrey Jones, Non-Executive Director:** Geoffrey is a civil engineer with over 30 years' experience in construction, engineering, minerals processing and project development in Australia and overseas. Geoff previously worked for Baulderstone Hornibrook, John Holland, Minproc Engineers and Signet Engineering before serving as Group Project Engineer for Resolute Mining Limited. **Geoff is currently the Managing Director for GR Engineering Services.** Prior to joining GR Engineering Services in 2011, Geoff was the General Manager of Sedgman Limited's metals engineering business and was also responsible for the strategic development of the metals engineering division internationally.



## CONTACTS

### ANALYST

#### Steuart McIntyre

Senior Resource Analyst

P +61 2 8072 2909

E [steuartmcintyre@boeq.com.au](mailto:steuartmcintyre@boeq.com.au)

### AUTHORITY

#### David O'Halloran

Executive Director

P +61 2 8072 2904

E [doh@boeq.com.au](mailto:doh@boeq.com.au)

#### Philip Pepe

Senior Industrials Analyst

P +61 2 8072 2921

E [philpepe@boeq.com.au](mailto:philpepe@boeq.com.au)

#### Stuart Turner

Senior Industrials Analyst

P +61 2 8072 2923

E [stuartturner@boeq.com.au](mailto:stuartturner@boeq.com.au)

#### Michael Gerges

Investment Analyst

P +61 2 8072 2935

E [michaelgerges@boeq.com.au](mailto:michaelgerges@boeq.com.au)

#### Garry Marsden

Energy Analyst

P +61 2 8027 2919

E [garrymarsden@boeq.com.au](mailto:garrymarsden@boeq.com.au)

#### Doc Cromme

Institutional Dealing

P +61 2 8072 2925

E [doccromme@boeq.com.au](mailto:doccromme@boeq.com.au)

#### Adam Stratton

Institutional Dealing

P +61 2 8072 2913

E [adamstratton@boeq.com.au](mailto:adamstratton@boeq.com.au)

#### Mathan Somasundaram

Market Portfolio Strategy

P +61 2 8072 2916

E [mathan@boeq.com.au](mailto:mathan@boeq.com.au)

#### Josie Nicol

Dealing Associate

P +61 2 8072 2031

E [josienicol@boeq.com.au](mailto:josienicol@boeq.com.au)

## HEAD OFFICE

#### Blue Ocean Equities Pty. Ltd.

AFSL No. 412765

ABN 53 151186935

P +61 2 8072 2988

E [info@boeq.com.au](mailto:info@boeq.com.au)

W [blueoceanequities.com.au](http://blueoceanequities.com.au)

Level 29, 88 Phillip Street

Sydney NSW 2000

Australia

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Steuart McIntyre does not own shares in Ausgold Limited.