

Spec Buy

Current Price \$0.10
Target Price \$0.19

Ticker: EXU
Sector: Materials

Shares on Issue (m): 472.7
Market Cap (\$m): 47.3
Cash and Bullion Estimate (\$m): 6.0
Debt Estimate (\$m): 0.0
Enterprise Value (\$m): 41.3

52 wk High/Low: \$0.17 \$0.10
12m Av Daily Vol (m): 1.15

Mineral Inventory (at May 2018)

	Mt	g/t	koz
Reserves	7.2	2.1	485
Resources	11.3	1.9	696

	\$/oz
EV / Reserve	85
EV / Resource	59

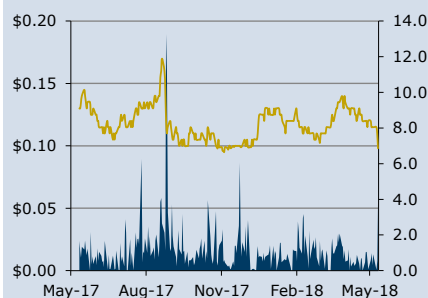
Directors and management:

Chris Baker	Non Executive Chairman
John Lawton	Managing Director
Stephen Stroud	Non-Executive Director
Paul Frederiks	Company Secretary

Substantial Shareholders:

West Trade Enterprises	6%
Misty Grange P/L	4%

Share Price Graph



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

Wednesday, 30 May 2018

Explaurum Ltd

Tampia Feasibility

Analysts | James Wilson | Matthew Keane

Quick Read

EXU has released a positive result for their Tampia Gold Project Feasibility Study (FS) outlining a low cost and high margin operation with All-in sustaining cost (AISC) of \$998/oz for the life of mine (LOM) and AISC of \$886/oz over the first two years. The capital cost of \$119m (+/- 15%) includes a contingency of \$10.8m. EXU envisages a 1.5Mtpa processing plant (hard rock capacity) with an initial mine life of 6 years and 534koz mined. Production will peak at 104koz in the first two years, with LOM average production of 92kozpa. The project will generate average EBITDA of \$62mpa over the LOM with a pre-tax NPV_{8%} of \$125m, an IRR of 47% and a payback of 1.5 years. EXU will now move to complete the Bankable Feasibility Study by October 2018 with board approvals for finance and development options expected by December 2018. Maintain Speculative Buy and TP \$0.19ps (prior \$0.21ps).

Event & Impact | Positive

A positive feasibility: The Tampia Project FS outlined an initial 6-year mine life, Process plant capex of \$119m (vs \$105m in the Scoping Study), process plant size of 1.5Mtpa was identical to the SS at a cost of \$84.1m (vs \$74.4m in the SS) showing cost escalation in line with our expectations. Production rates of 104kozpa (years 1-2) were identical to the SS. AISC remained low at \$886/oz (for years 1-2) and \$998/oz LOM (+12% vs SS), largely as a result of higher strip ratios. EXU has factored in an AUD \$0.75 and A\$1650/oz gold price in their forecasts with an estimated \$12m of costs included to account for FX escalation and \$10.8m project contingency.

Mill capable of up to 1.9Mtpa if more oxide is discovered: Throughput tonnage will range between 1.5-1.9Mtpa depending on material type. Softer oxide and transitional ores will be processed at 1.6Mtpa. This highlights the potential of the shallow supergene mineralisation adjacent to the Tampia Pit with intercepts including 5m@7.62g/t Au and 11m @ 1.24g/t Au at depths of 5-14m below surface. This and the other recent near mine discoveries have the potential to add incremental ounces and improve production versus the current feasibility numbers.

Key peer metrics support significant upside: EXU trades at a fully funded EV/Reserve oz ~\$290/oz versus its peer group of emerging producers including GCY (\$416/oz), DCN (\$555/oz) and GOR (\$342/oz) which are either under construction (GOR) or have recently poured first gold (DCN, GCY). On a forward-looking EV/Production basis (fully funded) EXU trades on an undemanding \$1,749/oz vs GCY (\$2,200/oz), DCN (\$3,062/oz) and GOR (\$3,100/oz).

Recommendation

Our valuation drops to \$0.19ps (prior \$0.21ps) after modifying our modelled capex and cost assumptions in-line with the revised Feasibility Study. Maintain SPEC BUY and TP \$0.19ps.

Explaurum Ltd

Equities Research

Analyst: James Wilson

Recommendation	Spec Buy
Current Price	\$0.10
Valuation	\$0.19

Sector	Metals & Mining
Issued Capital (m)	472.7
Market Cap (m)	\$47.3
Date	30-May-2018

Profit & Loss (A\$m) 31 December	2016A	2017A	2018E	2019E
Sales revenue	0.0	0.0	0.0	0.0
+Other income	0.6	0.1	0.1	0.1
-Operating costs	0.3	0.4	0.4	0.4
-Exploration and evaluation	0.3	0.0	0.0	0.0
-Corporate	0.5	0.7	0.7	0.7
-Other expenses	0.1	0.3	0.3	0.3
EBITDA	-0.7	-1.2	-1.2	-1.2
-D&A	0.0	0.0	0.0	0.0
EBIT	-0.7	-1.2	-1.2	-1.2
+ Interest Revenue	0.0	0.1	0.1	0.1
-Impairments	0.0	0.0	0.0	0.0
-Finance costs	0.0	0.0	0.0	0.0
Operating profit	-0.7	-1.2	-1.2	-1.2
-Tax expense	0.0	0.0	0.0	0.0
+Other	0.0	0.0	0.0	0.0
NPAT	-1.2	-0.7	-0.7	-0.7
NPAT Adjusted	-1.2	-0.7	-0.7	-0.7

Financial Summary	2016A	2017A	2018E	2019E
Reported earnings				
Net profit (A\$m)	(1.2)	(0.7)	(0.7)	(0.7)
EPS (A\$cps)	(0.3)	(0.1)	(0.1)	(0.1)
PER (x)	(39.9)	(67.9)	(67.9)	(67.9)
Normalised earnings				
Net profit (A\$m)	(1.2)	(0.7)	(0.7)	(0.7)
EPS (A\$cps)	(0.3)	(0.1)	(0.1)	(0.1)
EPS growth (%)	(85.2)	(41.3)	0.0	0.0
PER (x)	(398.7)	(679.4)	(679.4)	(679.4)
Cashflow				
Operating cashflow (\$m)	(1.1)	(0.6)	(0.6)	(0.6)
GCFPS (A\$cps)	(0.2)	(0.1)	(0.1)	(0.1)
PCF (x)	(43.9)	(78.5)	(78.5)	(78.5)
Dividend				
Dividend (A\$cps)	N/A	N/A	N/A	N/A
Yield (%)	N/A	N/A	N/A	N/A

Cash Flow (A\$m) 31 December	2016A	2017A	2018E	2019E
Operating Cashflow	-1.1	-0.6	-0.6	-0.6
- Capitalised Items (excl. exploration)	0.0	0.0	0.0	0.0
- Exploration & Evaluation	1.3	5.8	5.8	5.8
+ Other	0.5	0.6	0.6	0.6
Free Cashflow	-1.9	-5.8	-5.8	-5.8
+ Debt Drawdown (Repaid)	0.0	0.0	0.0	0.0
+ Equity Raised	2.6	7.6	7.6	7.6
- Finance Costs	0.0	0.0	0.0	0.0
Net Change in Cash	0.7	1.9	1.9	1.9
Cash at End Period	0.6	2.5	2.5	2.5

Financial Ratios	2016A	2017A	2018E	2019E
Balance Sheet Ratios				
Total Debt / Equity (%)	0	0	0	0
Interest cover (x)	0	0	0	0
Acid test ratio (x)	0.0	0.0	0.0	0.0
Profitability Ratios				
Net profit margin (%)	N/A	N/A	N/A	N/A
Return on assets (%)	-13.5	-11.4	-7.0	-7.0
Return on equity (%)	-22.3	-5.8	-5.8	-5.8

Balance Sheet (A\$m) 31 December	2016A	2017A	2018E	2019E
Cash and Cash Equivalents	0.6	2.5	8.0	8.0
Total assets	5.6	13.3	20.0	20.0
Current Debt	0.0	0.0	0.0	0.0
Non Current Debt	0.0	0.0	0.0	0.0
Total liabilities	0.3	1.4	1.4	1.4
Shareholders funds	5.3	11.9	11.9	11.9

Valuation Summary (10% Discount Rate)	A\$m	A\$/sh
Tampia Project - 50% risk weighted	60	0.13
Exploration upside	23	0.05
Cash	6	0.01
NAV	89	0.19

Production and Assumptions	2016A	2017A	2018E	2019E
Assumptions				
Gold Price (US\$/oz)	1,167	1,300	1,300	1,300
AUD/USD FX	0.73	0.74	0.77	0.72

Directors	
Chris Baker	Non-Executive Chairman
John Lawton	Managing Director
Stephen Stroud	Non-Executive Director
Paul Frederiks	Company Secretary

Tampia Gold Production				
Gold Ounces (koz)	0.0	0.0	0.0	0.0
Costs				
C1 Costs (A\$/oz)	0	0	0	0
All-in Sustaining Cost (A\$/oz)	0	0	0	0

Tampia Reserves & Resources (Attributable)	Mt	Au g/t	Au (Moz)
Resources			
Tampia	11.3	1.9	0.68
Reserves			
Tampia	7.2	2.1	0.49
Tampia Mine Plan (Feasibility)	8.0	2.1	0.53

Substantial Shareholders	%
West Trade Enterprises	6.4%
Misty Grange Pty Ltd	3.8%

Tampia Project Feasibility

The Tampia Feasibility outlined a high margin project producing 104kozpa in Years 1 & 2.....

At an All-in sustaining cost of A\$886/oz

Capital costs are forecast at \$119m, which includes ~\$11m of contingency and \$12m of capex flex

Mining services costs have risen since the original scoping study so the higher capex comes as no surprise

Once in production, EXU would sit in the lower half of costs amongst ASX listed gold producers

The FS outlined a high margin scalable project producing 104koz over the first two years and 92kozpa over the ~6-year mine life. Open pit feed will contribute 534koz at an all-in sustaining cost of A\$998/oz.

Figure 1. Tampia Feasibility vs Scoping Study vs GCY Feasibility

Parameter	Scoping Study November 2017	Feasibility Study May 2018	vs GCY Feasibility (26 Nov 2016)
Mine life (years)	5.4	5.3	6
LOM ore mined (Mt)	8.1	8.0	12
LOM waste mined (Mt)	51.8	60.8	
LOM strip ratio (Waste:Ore)	6.4	7.6	7.01
Indicated Resources (%)	94	91	
Inferred Resources (%)	6	9	
Annual ore throughput (Mtpa)	1.5	1.5	2.5
Average grade (g/t Au)	2.1	2.1	1.3
Metallurgical recovery (LOM Average %)	92	92	91.3
LOM Gold production (koz)	502	490	553
Average annual Gold production (kozpa)	93	92	~90
Average annual Gold production – first 2 years (kozpa)	104	104	105
Initial capital cost A\$M (+/- 15%)	105 (+/-30%)	119	86
Deferred capital cost A\$M	-	4	
LOM Sustaining capex (A\$M)	9	8	
WA Govt royalty (%)	2.5	2.5	
Other royalty (%)	0	2.0	
Average C1 cash cost (A\$/oz)*1	799	886	
Average AISC cash cost (A\$/oz)*2	888	998	931
LOM gold price (A\$/oz)	1,650	1,650	1600
Gross revenue (A\$M)	829	808	866
LOM EBITDA (A\$M)	392	327	
Average Annual EBITDA (A\$M)	73	62	
Base case pre-tax NPV _{8%} (A\$M)	181	125	177
Project IRR (%) pre-tax	45	47	65

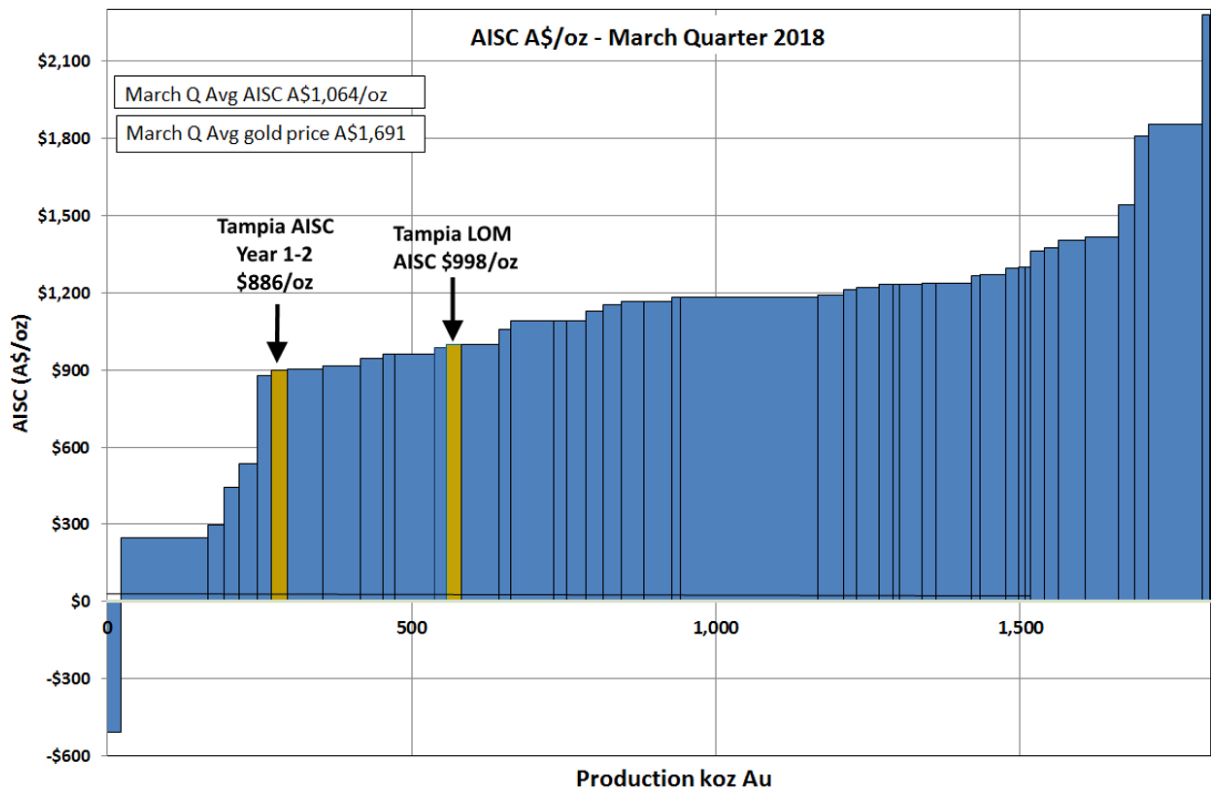
Source: Argonaut

Changes since the scoping study

The total capital cost for the project has risen by \$13.4m compared with the scoping study. This included escalation in costs for the process plant itself (+\$9.7m) and higher costs for the TSF (+\$800k vs the SS), Mine establishment (+\$1.9m vs SS) and General Infrastructure (+\$2.6m vs the SS). Contingency of \$10.8m (vs \$9.6m in SS) is also included in the total cost of \$118.5m.

Based on the FS data, Tampia would sit in the lower half of the Australian listed gold producer's production costs as shown below. EXU's AISC is forecast at A\$886/oz in the first two years and A\$998/oz over the life of mine (~16% and 6% lower than the March Q average AISC in the Australian gold sector in the March Q).

Figure 2. ASX Gold Producers – All-in sustaining costs (AISC) March Q CY18 vs Tampia FS costs



Source: Argonaut, Company Reports

Upside to 1.9mtpa on oxide feed

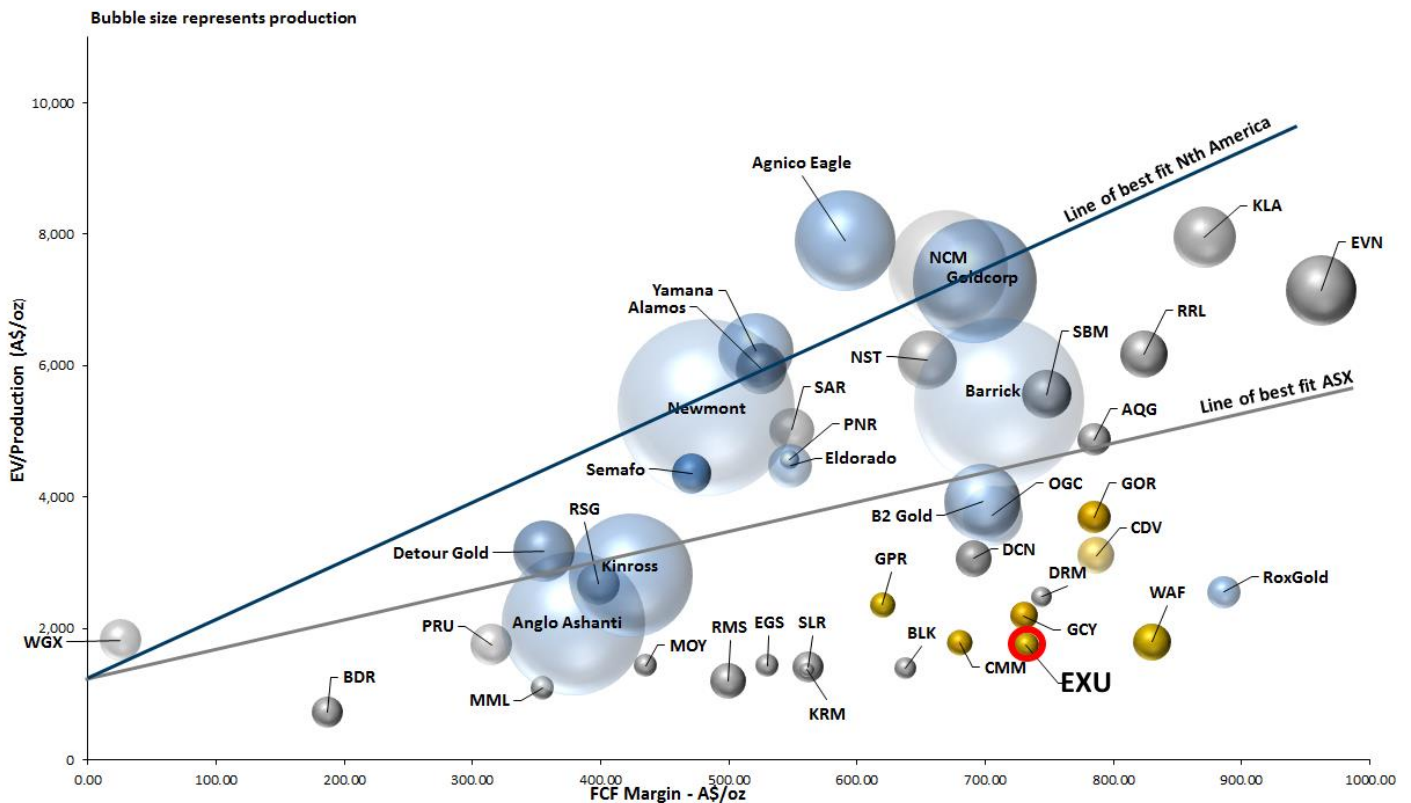
The tonnage throughput will range between 1.5 and 1.9 Mtpa reflecting the variation in feed grade and the proportion of weathered ore in process plant feed material from the open pit. Softer oxide and transitional material mined in the early stages of LOM will be processed at a rate 1.6Mtpa. Fresh material, which represents more than 90% of total material processed, will be treated at 1.5 Mtpa. Low grade material which has a lower flotation mass pull and lower CIL feed grade can be processed at the higher 1.9Mtpa rate.

Comparisons to peer competitors

EXU trades at a fully funded EV/Reserve oz ~\$290/oz versus its peer group of emerging producers including GCY (\$416/oz), DCN (\$555/oz) and GOR (\$342/oz) which are either under construction (GOR) or have recently poured first gold (DCN, GCY). On a forward-looking EV/Production basis (fully funded) EXU trades on an undemanding \$1,749/oz vs GCY (\$2,200/oz), DCN (\$3,062/oz) and GOR (\$3,100/oz).

We note the direct comparison in production size and capex roughly matches that of Gascoyne Resources (GCY). We have also made comparisons between EXU’s Scoping and Feasibility Study versus GCY’s Feasibility outcomes which compare well on most metrics.

Figure3. EV/Production vs Free cash flow margin – Global Gold Producers and Emerging Developers



Source: Argonaut, Company Reports

Revisions to our model

We have made the following revisions to our outlook:

- We continue to model a 7-year mine life, factoring in the current Feasibility Capex and LOM AISC of \$998/oz.
- We include an additional year of mine life to account for the recent discovery of the supergene ores to the west of the main Tampia Pit as well as down-plunge mineralisation to the south-east and south of the pit which has yet to be included in the mine plan.
- We make no further assumptions to additional exploration discoveries or resources in the regional tenements at this time.

Investment thesis

EXU trades at undemanding metrics with significant upside. We continue to view EXU’s regional exploration portfolio as highly prospective. We maintain our Speculative Buy recommendation and revise our target price to \$0.19ps (prior \$0.21ps). We identify 90% upside to our NPV risked valuation of 19cps based on the aggregate valuations of EXU’s assets.

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Important Disclosure: Argonaut participated in the Placement that raised \$8.0M in February 2018 and received fees commensurate with this service. The reporting analyst owns shares.

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