

EXPLAURUM LIMITED

White knight rides up to EXU

Explaurum (EXU) proposes placing 66.7M shares to Alkane (ALK.asx) at 12cps, representing 12% of the Company, and 53.4 M options (Nov '19, 13c and 14c exercise prices) – all subject to EXU shareholder approval at a meeting scheduled for early December 2018.

The initial placement is intended to raise \$8M for EXU's exploration and development work at Tampia. Exercise of the options would raise a further \$7M and take Alkane's stake in EXU to 19.9%.

Under the agreement Alkane would get anti-dilution rights, and the right to appoint a director to the Explaurum board. Alkane will have the option of terminating its agreement with EXU if Ramelius acquires 30% or more of EXU shares.

Two solid potential partners

Alkane is an operating gold miner with no debt and \$82M cash and bullion at the end of September 2018. Alkane invested \$4M in Calidus Resources in October 2018, as part of a strategy to invest in independent, undeveloped gold projects.

If approved by EXU shareholders, the Alkane agreement would breach at least one of the conditions set by Ramelius for its 4:1 scrip bid.

And two paths to different places

EXU shareholders have the choice of joining either Ramelius or Alkane in pursuing Tampia's future.

If successful, the Ramelius bid effectively melds Tampia with a suite of other assets. Hartleys values the pre-bid Ramelius assets at 60cps and Explaurum at 15cps. Synergies between Tampia and Edna May assets could raise the per share value.

If successful, the Alkane agreement would allow Explaurum to more fully investigate Tampia's potential before the market again settles upon a value for it. The main difference to the RMS bid is that future financing remains uncertain. Alkane will be under no obligation to provide further support beyond its initial \$8M investment.

Out clause for Ramelius gives pause for thought

The possibility that Ramelius will walk away from its EXU bid, in the event of EXU shareholder approval of the Alkane agreement, leads us to amend our Explaurum recommendation from Buy to Speculative Buy reflecting the potential return to reliance on future exploration success at Tampia. The market could again discount Tampia's stand alone development prospects given the chance. Our stand alone valuation is equivalent to the EXU/RMS merged value (pre synergies), but the risks associated with each outcome are different.

2 Nov 2018

Share Price	\$0.105
Valuation	\$0.15
Price Target (12 month)	\$0.15

Brief Business Description:

WA gold explorer with 695koz in resource at Tampia (90%)

Hartleys Brief Investment Conclusion

Scrip takeover bid by Ramelius ann. Sept 10 means shareholders can get exposure to a larger group.

Chairman & MD

Chris Baker (Non-Executive Chairman)
John Lawton (Managing Director)

Top Shareholders

West Trade Enterprises Pty Ltd	6.3%
Ramelius Resources	5.0%

Company Address

Level 16, Waterfront Place 1 Eagle Street
Brisbane Qld, 4000

Issued Capital 481m

- fully diluted 532m

Market Cap A\$51m

- fully diluted A\$56m

Cash (30 Sept 18) A\$1m

Debt (30 Sept 18) A\$0m

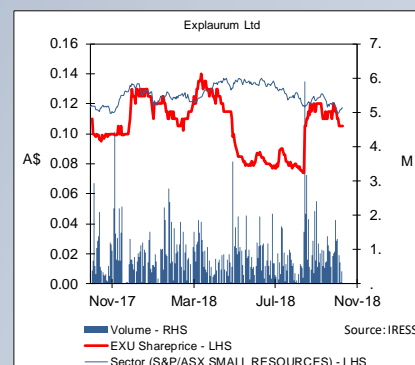
EV A\$49m

EV/Resource oz A\$73/oz

EV/Reserve oz A\$102/oz

	Prelim. (A\$m)	FY18e	FY19e	FY20e
Prod (koz Au)	0	0	0	52
Op Cash Flw (A\$m)	-3	-4	-4	38
Norm NPAT (A\$m)	-3	-5	-5	18
CF/Share (cps)	-0.6	-0.8	-0.8	7.2
EPS (cps)	-0.6	-0.9	-0.9	3.4
P/E	0	0	0	3.1

	Au
Resources (Moz)	0.68
Reserves (Moz)	0.48



John Macdonald
Resource analyst
Ph: +61 8 9268 3020
E: john.macdonald@hartleys.com.au

Hartleys has completed capital raisings in the past 12 months for Explaurum Limited ("Explaurum"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months to Explaurum for which it has earned fees. Hartleys has a beneficial interest in unlisted options in Explaurum Limited.

12 MONTH PRICE TARGET

ASSET VALUATION

Hartleys assumes the operating parameters indicated in EXU's May 2018 feasibility study. We have added 300kt of ore averaging 2 g/t Au (19koz), with a strip ratio of 4:1, added to the first year of production, accounting for the potential at Mace, based on Hartleys' plots of published data and inventory estimates drawn from statistical analysis of the data.

Hartleys' financial assumptions include the following;

- LT gold US\$1250/oz, AUDUSD 0.78 (A\$1608/oz)
- \$5M expenditure FY2018 on feasibility studies and exploration.
- Finance completion by December 2018, assuming external requirement of \$140M comprising \$80M debt and \$60M new equity raised by issue of 550M shares at 11cps in FY2019.
- 12 month construction period. Commissioning June quarter of 2020.
- 8% after tax, real discount rate.

With these inputs EXU's 90% share of Tampia has an estimated after tax NPV of \$83M (17 cps).

EXU has a range of regional gold prospects within its tenure and a well formulated exploration strategy based on recent gravity survey correlation with known mineralisation, and data from intermittent past prospecting combined with recent surface sampling. The value of regional exploration prospects within EXU's tenure also depends on the presence of a base load resource to justify construction of a treatment plant. Hartleys has allocated a nominal \$33M (7cps) to the exploration value.

Corporate overheads of \$27M (-6cps) are subtracted from the valuation reflecting the present value of corporate management costs over the life of the project.

Equity dilution of \$30M (-6cps) reflects the value attributable to current option holders, plus an assumed equity issue in FY2019 (\$55M raised at 11cps).

The net asset valuation of EXU based on the above inputs is \$73M (15cps). At spot price settings (A\$1711/oz) our NAV estimate is 17cps.

RECOMMENDATION

Hartleys has a Speculative Buy recommendation for Explaurum with a 12 month price target of 15cps, based on our NAV. The price target is also equivalent to one quarter of our RMS share price target.

VALUATION RISKS

Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
The RMS takeover offer announced 10 Sept remains valid and acceptable.	Low	Medium	The offer is conditional on no material adverse changes in EXU's affairs, gold price (+A\$1350/oz) and other prescribed occurrences.
92% met recovery is achievable at assumed capital and operating costs	Moderate	Medium	Metallurgical test results indicate 92% met recovery to bullion. 10% of production is associated with löllingite, which reports to flotation concentrate in testing.
EXU will get timely permitting and access	Low	Medium	Community is supportive as a whole. Individual land owner negotiations are required for EXU to access to all prospects within the project.
Gold and currency price forecasts	Moderate	Medium	Tampia project returns are sensitive to the gold price. Corporate capacities to raise equity and repay debt are affected by the gold price.
Returns on exploration will be high	Moderate	Low	Exploration prospects outside the resource area are a significant value contributor.
EXU can obtain capital at reasonable prices	High	Medium	The valuation assumes EXU raises a mix of debt and new equity for future project funding, and that existing share value will be diluted by raisings completed at less than valuation.

Conclusion

The RMS offer changes Explaurum's risk profile by conferring exposure to other assets.

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

Registered Office

Level 6, 141 St Georges Tce Postal Address:

Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.
Buy	

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Jayne Walsh	+61 8 9268 2828
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041

Disclaimer/Disclosure

The author of this publication, Hartleys Limited ABN 33 104 195 057 ("Hartleys"), its Directors and their Associates from time to time may hold shares in the security/securities mentioned in this Research document and therefore may benefit from any increase in the price of those securities. Hartleys and its Advisers may earn brokerage, fees, commissions, other benefits or advantages as a result of a transaction arising from any advice mentioned in publications to clients.

Hartleys has completed capital raisings in the past 12 months for Explaurum Limited ("Explaurum"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months to Explaurum for which it has earned fees. Hartleys has a beneficial interest in unlisted options in Explaurum Limited.

Any financial product advice contained in this document is unsolicited general information only. Do not act on this advice without first consulting your investment adviser to determine whether the advice is appropriate for your investment objectives, financial situation and particular needs. Hartleys believes that any information or advice (including any financial product advice) contained in this document is accurate when issued. Hartleys however, does not warrant its accuracy or reliability. Hartleys, its officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.