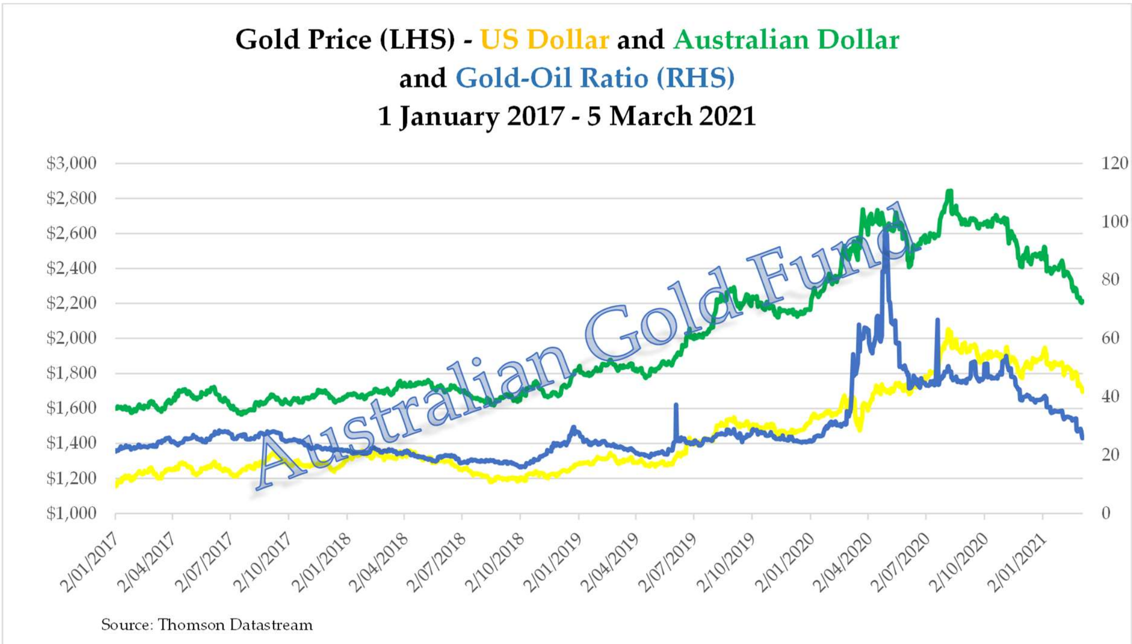
Australian Gold Fund

2020 December Quarter Summary
Published on 17th March 2021 with Prices Based on 5th March 2021

Summary



Even though January and February are typically strong months for gold prices, this year appears to be an exception, almost as if following on from things in the past few months that have made the world appear to have turned upside down. At the same time, the oil price has risen sharply by some 30% since the beginning of the year. This has therefore served negatively decrease the profit margin of gold producer stocks and hence push the prices down. Since the start of the year, the ASX Gold Index fell by around 15% with certain gold producer stocks also declining by more than that of the index.

The reason for the gold price falling appears to be largely due to the US Treasury and its subsidiary the US Federal Reserve (the appointment by Joe Biden of Former Federal Reserve Chair Janet Yellen to the US Treasury appears to have confirmed our understanding mid-last year that the US Treasury had nationalised the Federal Reserve back in early March 2020) seeking to raise the long-term bond yield in their bid to "normalise" the global economy that they had previously destroyed through their massive currency printing to bail out investment banks and other institutions. Furthermore, the oil price has risen significantly with Biden closing the Keystone pipeline, thus ending US energy dominance and reducing global oil supply. The closing of the Keystone pipeline cost the oil industry thousands of jobs, clearly showing the Biden administration had broken their promise to not do this and threaten the energy industry.

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At the same time while gold and precious metals prices showed weaknesses, the cryptocurrencies prices rose significantly. Over the last three months since mid-December, several cryptocurrencies tripled their price. Part of this is driven by the oil price as cryptocurrencies intrinsically is valued based on the energy cost required to power the computers mining these currencies. The other force that is driving this seemingly manic rally is the demand by retail investors who are warming to the idea of a digital financial system in the future. Many believe that cryptocurrencies may be a decentralised alternative to the regulated and government monitored financial system that currently exists. Cryptocurrencies itself as an asset class have become the undisputed third party to join in the fray in the global currency wars, previously fought between the fiat currency and precious metals. And, given the heavily controlled precious metals prices by paper contracts, investors have moved instead to cryptocurrencies believing that this may provide a refuge against the continual beating down of precious metals prices.

That being said about the wild rise of cryptocurrencies allegedly driven by the increasing demand and uptake by the general public, we believe that contrary to popular narrative that this should prolong the rise, it may potentially lead to a strong correction and cryptocurrencies unable to continue its meteoric rise. We hold to the belief that there is a difference between absolute demand and marginal demand on the effects of the market clearing price. Parabolic rises are not part of a normally functioning market, as prices will reflect informational transparency, little or no market friction and hence mispricing is almost non-existent. Rather, prices can rise like this where there is significant bottlenecks in the market, either due to the large proportion of an asset held by a small number of holders, a concerted buying or selling wave or market friction leading to transactions being unable to be executed in a timely and efficient manner. In the case of cryptocurrencies, the first two reasons appears to be more likely than the third. As more financial institutions announce their recognition of Bitcoin being used for transactions, this will increase public uptake. The proportion of the cryptocurrencies being held by the largest holders will similarly decrease, leading to a more liquid and frequently traded market. Furthermore, as more investors participate in the market, this leads to greater difficulty in launching a concerted buying or selling wave to cause parabolic market movements. How high the cryptocurrency asset class will rise, we do not know but we do not share the sentiment of many "laser-eyes" in Twittersphere who believe in million dollar Bitcoins, just as those who saw what happened in past manias.

The December quarter performance for most gold companies have been quite strong, following from the accommodative conditions offered by the gold and oil prices. In addition, governments around the world began to relax their restrictions to allow for businesses to resume pre-outbreak levels. Given these conditions, companies reported more positive operating and financial results for the December quarter. 14 out of 27 companies (51.9%) in the sample increased their quarterly production compared to the previous quarter while 16 (59.3%) decreased their AISC. With the stock price for gold producers falling, we believe that 16 (59.3%) are now undervalued, 7 (25.9%) are fairly valued and 4 (14.8%) are overvalued. Compared to 16th March 2020 when the gold producers were at their bottom during the market crash last year arising from the virus outbreak, there are more undervalued stocks now.

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Key Events and Transactions

Since the last summary report released in early January 2021, the following major events occurred:

- Joe Biden and Kamala Harris were both inaugurated on 20th January 2021, purportedly as the Chief Executive Officers of USA Incorporated, as per the past Presidents who won the election held in the beginning of November of the previous year since the Act of 1871 was implemented. Interestingly, the inauguration occurred 12 minutes before the scheduled time and hence may have infringed on the rules as the supposed Former President's powers do not lapse till noon of the same day.
- Janet Yellen was confirmed on 25th January 2021 as the US Treasury Secretary and the Chair of the Federal Reserve, Jerome Powell, will now report to Yellen given the US Treasury has become the owner of the Federal Reserve after the National Emergency last March gave President Trump extraordinary powers, allowing him to nationalise the privately owned Federal Reserve.
- A bunch of investors following the Reddit Group, WallStreetBets, began in late January to execute a short squeeze on several technology company stocks in the bid to force Wall Street institutions and hedge funds to cover their short positions at a significant loss. Companies including Gamestop and AMC Entertainment saw prices rise to stratospheric levels until brokers such as Robinhood sought to break this by restricting buying. Despite this, Melvin Capital, Citadel Group and several hedge funds incurred multibillion dollar losses in this first bout of the short squeeze.
- The Biden administration authorised the bombing of Iranian-backed militia in Syria on 25th February as they seek to resume stepping up pressure on the Syrian government led by Bashar el Assad. Strangely, Kamala Harris and the Democrat Congress members were unaware of the strike and many vocally criticised Biden for authorising this attack.
- For over 40 days since the supposed inauguration, Biden has not held a single joint Congressional session, nor held a public press conference (with the first scheduled for 25th March) and increasingly Kamala Harris is being seen to meet with foreign leaders to discuss official business matters. Also, since the Syrian strikes, the House Speaker has suggested the need for the President to share the nuclear codes and authority to launch nuclear weapons with the Congress.
- Interestingly, the White House in Washington DC is temporarily closed with the author having called the White House Switchboard number on 11th March 2021 in the presence of 25 witnesses and having the operator divert my call to a recording that informed callers of the temporary closure. This is also confirmed by other callers over the last six to eight weeks.

In relation to the ASX-listed gold producers featured in this report, the following major transactions and events occurred in the past three months:

- Austral Gold (ASX: AGD) completed its acquisition of Revelo Resources Corporation

- Aeris Resources (ASX: AIS) delivered an impressive $45.9m half-year net profit after tax on the back of rising copper prices and also a rather strong first six months of performance from the Cracow mine.
- Alkane Resources (ASX: ALK) reported that their San Antonio and Roswell resources have increased to 1.1Moz.
- Aurelia Metals (ASX: AMI) announced on 23rd February of a 35% increase in the tonnage of ore in the Federation deposit, with a 103% increase in contained gold.
- Dacian Gold (ASX: DCN) announced on 17th November 2020 a merger with NTM Gold (ASX: NTM), valued at approximately $85m. This would provide Dacian Gold with an additional 679 000oz of Resources that can prolong the mining life at the Mount Morgan mine. This merger was completed on 15th March 2021.
- Evolution Mining (ASX: EVN) announced on 17th February that they would approve of the development of the Red Lake Decline, a low-cost and high grade deposit that would be expected to produce gold in the second quarter of 2022, in accordance with their plan to have the Red Lake Complex produce annually in excess of 300 000oz.
- Gold Road Resources (ASX: GOR) announced on 16th February of the 3-year growth strategy that should see the Gruyere mine increase production to over 300 000oz for 2022 and as much as 375 000oz by 2023. The company also announced a maiden 1.5c dividend on 10th March, payable on 14th April.
- Medusa Mining (ASX: MML) announced that they will pay a 5c special dividend on 31st March on the back of a strong US$40.1m (around A$52m) net profit after tax for the 2021 half year.
- Newcrest Mining (ASX: NCM) announced on 13th January that they will commit $146m into developing the Havieron project, a joint gold and copper venture with Greatland Gold Plc.
- Northern Star (ASX: NST) announced on 3rd February that the merger with Saracen Mineral Holdings (ASX: SAR) has been completed and a special dividend of 3.8c was paid to Saracen shareholders. The longstanding Executive Chairman, Bill Beament, announced on 24th February that he would retire effective 1st July.
- Oceanagold (ASX: OGC) presented on 19th February their five-year outlook that detailed their plan to bring the company's annual production from around 350 000oz in 2021 to over 500 000oz in 2024 through their extensive development of their existing mines.
- Pantoro Resources (ASX: PNR) announced on 10th February that it has awarded a $57m engineering contracting with GR Engineering to construct the processing facilities at the Central Norseman Gold Project.
- Red 5 (ASX: RED) announced on 9th March that they have awarded MACA Limited a contract for the Phase 2 of the construction of the King of the Hills processing facilities and to Macmahon Limited a 5-year mining contract. The company announced on 17th March of a $60m equity raising and $175m debt facility to fully fund the King of the Hills development.
- Ramelius Resources (ASX: RMS) announced on 28th January its update on their current mining operations including excellent intercepts in the Eridanus Deeps deposit, their decision to further review options to upgrade their Mount Magnet processing plant given

their current plan does not meet the investment hurdles and their decision to expand production in the Edna May Stage 3 project to have a parallel open-pit and underground campaign.

- Saracen Mineral Holdings (ASX: SAR) merged with Northern Star as at 3rd February.
- Silver Lake Resources (ASX: SLR) completed the sale and transfer of the Andy Well and Gnaweeda projects to Latitude Consolidated (ASX: LCD) on 16th February.
- Troy Resources (ASX: TRY) announced on 15th March that their production progress is starting to stabilise to a higher rate after last year's mine suspension.
- Wiluna Mining (ASX: WMX) announced on 16th March an update on their definition of resources and reserves with a reallocation of reserves from the open-pit operations to the underground deposit due to changes in their development plans for the sulfide processing plants.

The Big Picture

ASX Code	Category	Market Capitalisation	Net Cash	Net Cash Flow-Capex	Production	% Annual Guidance	Rise/Fall?	AISC	Rise/Fall?
AGD*	D	$114.290	$12.126	$31.579	13,643	22.00%	Fall	$1,635.838	Rise
AIS	D	$227.640	-$20.571	-$12.861	18,011	24.84%	Fall	$1,567.000	Rise
ALK	E	$404.860	$27.099	$6.671	15,919	32.16%	Rise	$1,201.000	Fall
AMI	D	$438.190	$48.263	$48.173	15,874	14.91%	Fall	$1,037.000	Rise
DCN	D	$200.340	-$2.240	$17.785	27,162	23.62%	Fall	$1,356.000	Rise
EVN	B	$6,578.370	-$79.691	$215.418	180,305	25.76%	Rise	$1,166.000	Fall
GCY	D	$129.190	-$13.166	$0.517	20,381	27.17%	Rise	$1,100.000	Fall
GOR*	C	$941.520	$132.887	$0.000	35,397	27.23%	Rise	$1,265.000	Fall
KLA*	A	$11,766.816	$1,071.018	$1,060.832	369,434	26.87%	Rise	$1,079.626	Fall
MML	D	$177.730	$96.728	$63.241	26,075	28.19%	Fall	$1,474.578	Fall
NCM	A	$18,976.770	-$1,900.562	$579.128	535,477	26.12%	Rise	$1,322.884	Fall
NST^	A	$11,122.510	-$123.314	$244.235	402,683	24.86%	Rise	$1,454.542	Fall
OGC*	C	$1,298.860	-$168.341	-$60.779	99,155	30.99%	Rise	$1,475.944	Fall
PNR	E	$295.760	$64.900	$3.968	10,143	28.18%	Rise	$1,435.000	Fall
PRU	C	$1,349.100	-$35.089	-$38.201	68,614	21.80%	Fall	$1,415.813	Rise
RED	D	$325.200	$79.188	-$3.341	21,534	26.10%	Rise	$2,181.000	Rise
RMS	C	$1,115.200	$169.168	$84.588	72,896	27.00%	Rise	$1,279.000	Rise
RRL	C	$1,536.080	$178.664	$76.231	91,411	24.87%	Rise	$1,400.000	Rise
RSG*	C	$673.370	-$338.625	-$50.978	89,888	21.66%	Rise	$1,369.348	Fall
SAR	B	$5,265.570	$156.183	$140.128	155,122	25.02%	Rise	$1,224.000	Rise
SBM	C	$1,364.870	-$5.184	$24.625	89,670	22.99%	Rise	$1,517.000	Fall
SLR	C	$1,247.430	$254.993	$75.560	57,566	23.50%	Fall	$1,592.000	Rise
SSR*	B	$4,008.769	$664.989	$257.986	191,885	29.41%	Rise	$1,333.816	Fall
TRY	E	$51.510	$8.850	-$13.551	4,195	11.19%	Rise	$4,498.897	Rise
WAF*	D	$664.320	-$130.888	$35.297	50,389	26.87%	Rise	$1,355.682	Fall
WGX	C	$815.920	$122.349	$37.585	65,214	22.88%	Rise	$1,293.000	Fall
WMX	D	$123.500	-$4.144	-$16.126	13,398	21.61%	Rise	$1,675.000	Fall

* Denotes companies trading in 2020 Q4

^ Northern Star includes Saracen through their merger

The 2020 December quarter saw an improvement in the operations of the gold producers, with 20 out of the 27 companies (74.1%) reporting a higher production in the quarter compared to the previous and 16 (59.3%) companies reporting a lower AISC. The average production increased to 101 535oz compared to 88 251oz in the previous quarter, though we note that we have combined the NST-SAR and AQG-SSR mergers. The average AISC is $1 508/oz, down from $1 545/oz in the last quarter, while the production-weighted average AISC is $1 331/oz, down from $1 394/oz. The average net cash position for the 27 gold producer companies has increased from $1.84m to $9.84m, with 15 companies (55.6%) having more cash than debt in their balance sheet, unchanged from last quarter. 20 companies (74.1%) reported a positive Net Operating Cashflow after Capex for the quarter, with an average of $103.99m that is substantially higher than the previous quarter of $54.4m and the June quarter of $49.64m (both

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excluding Newcrest). 15 companies (55.6%) have delivered at least 25% of their annual guidance, a significant increase from the previous two quarters where 8 and 9 companies, respectively delivered on track to satisfy the company's guidance for the quarter. In fact, since the Australian Gold Fund has published quarterly summary reports, we have not yet seen that many gold producers deliver at least 25% of their annual guidance in a quarter. Either this is due to sandbagging by the management through setting underwhelming targets or these gold producers are catching up on their pent-up production arising from last year's slowdown in operations from the economic lockdowns.

During this quarter, we have downgraded Pantoro and Troy Resources to micro producer status due to their reduction in production to less than 50 000oz. We note that Pantoro will be upgraded in the future after they complete the construction of the processing facilities at the Central Norseman Gold Project. Also, as of next quarter, we will elevate West African Resources into mid-tier producer status.

ASX Code	Quarter	Category	Market Capitalisation	Cumulative Production	Midpoint Annual Guidance	Guidance Change	% Annual Guidance	Cumulative AISC
AGD*	4	D	$114.29	58,567	62,000	Upgrade	94.46%	$1,448.40
AIS	2	D	$227.64	38,248	72,500	Maintain	52.76%	$1,416.21
ALK	2	E	$404.86	27,418	49,500	Upgrade	55.39%	$1,289.77
AMI	2	D	$438.19	45,869	106,500	Upgrade	43.07%	$1,262.90
DCN	2	D	$200.34	59,961	115,000	Maintain	52.14%	$1,467.84
EVN	2	B	$6,578.37	350,326	700,000	Maintain	50.05%	$1,120.71
GCY	2	D	$129.19	40,695	75,000	Maintain	54.26%	$1,322.98
GOR*	4	C	$941.52	129,087	130,000	Maintain	99.30%	$1,274.38
KLA*	4	A	$11,766.82	1,369,652	1,375,000	Maintain	99.61%	$1,157.96
MML	2	D	$177.73	54,438	92,500	Maintain	58.85%	$1,556.60
NCM	2	A	$18,976.77	1,038,566	2,050,000	Maintain	50.66%	$1,314.38
NST^	2	A	$11,122.51	788,665	1,620,000	Upgrade	48.68%	$1,403.16
OGC**	4	C	$1,298.86	301,676	320,000	Maintain	94.27%	$1,850.07
PNR	2	E	$295.76	18,155	36,000	Downgrade	50.43%	$1,552.84
PRU	2	C	$1,349.10	137,386	314,750	Downgrade	43.65%	$1,421.47
RED	2	D	$325.20	41,817	82,500	Downgrade	50.69%	$2,019.15
RMS	2	C	$1,115.20	144,240	270,000	Maintain	53.42%	$1,232.24
RRL	2	C	$1,536.08	172,978	367,500	Maintain	47.07%	$1,339.54
RSG*	4	C	$673.37	395,137	415,000	Maintain	95.21%	$1,562.90
SAR	2	B	$5,265.57	309,510	620,000	Maintain	49.92%	$1,169.62
SBM	2	C	$1,364.87	162,660	390,000	Maintain	41.71%	$1,474.39
SLR	2	C	$1,247.43	119,828	245,000	Maintain	48.91%	$1,449.94
SSR*	4	B	$4,008.77	471,707	652,500	Maintain	72.29%	$1,321.81
TRY	2	E	$51.51	10,529	37,500	Maintain	28.08%	$3,264.97
WAF*	4	D	$664.32	128,353	187,500	Upgrade	68.45%	$1,389.08
WGX	2	C	$815.92	126,011	285,000	Maintain	44.21%	$1,384.15
WMX	2	D	$123.50	26,758	62,000	Maintain	43.16%	$1,837.67

* Denotes companies trading in 2020 Q4

^ Northern Star includes Saracen through their merger

In terms of the cumulative progress as at the December quarter, companies appear to have moved slightly ahead of schedule through a strong quarter's performance. The average cumulative production for companies that have finished the 2021 half-year is 185 703oz, up from an average of 83 401oz at the end of the 2021 first quarter. As for companies that completed their 2020 full year, the average cumulative production is 407 740oz, up from an average of 286 341oz. This result takes into account that Silver Standard merged with Alacer Gold. Overall, the 2020 December quarter is perceived to be a strong one and we are interested in seeing if this trend prevails. The average cumulative AISC for all companies is $1 493/oz, slightly down from $1 507/oz. As for the production-weighted average cumulative AISC, this has decreased from $1 393/oz to $1 344/oz. This also compares to last year's $1 344/oz while the production-weighted cumulative AISC average this year is $1 222/oz.

5 out of 27 companies (18.5%) upgraded their guidance for 2021, with Austral Gold and West African Resources expecting 2021 production to be higher than the 2020 levels while Alkane

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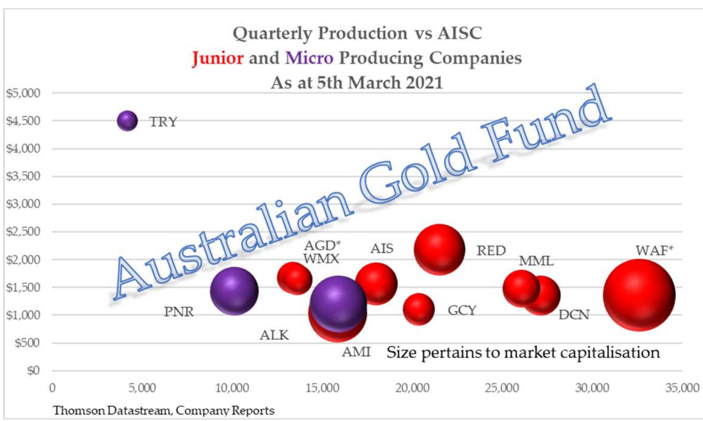
Resources upgraded their production due to their operations moving underground. Aurelia Metals and Northern Star upgraded their 2021 guidance as a result of acquisitions. 19 companies (70.4%) maintained their guidance while 3 (11.1%) downgraded their guidance. To be fair, Perseus Mining did not downgrade their guidance, but in the September quarterly summary report, we had made an assumption that they would produce 345 000oz for 2021 but the management has confirmed that they are expecting the 2021 production to be between 300 500-329 000oz.

The bubble charts show the relative standing for these gold producers in relation to their quarterly production, AISC and their market capitalisation:



The relationship between production and AISC again appears to be reasonable, with larger producers generally delivering lower AISC due to greater economies of scale. For the major, large and mid-tier gold producers, we can see there is a clustering of these companies in their particular category and as it trends downwards as production increases. Gold Road is producing at a lower cost than the other mid-tiers because it is holding 50% of the Gruyere mine, so it enjoys the economies of scale. Kirkland Lake Gold is the lowest cost producer for this quarter, not surprisingly, given their very high-grade flagship Fosterville mine. That being said, we note that there is a noticeable drop in the Fosterville mine ore grade. Silver Lake Resources production has fallen against its peers and the AISC has approached $1 597/oz. The company has amassed a substantial cash reserves over the last three years on the back of two to three strong quarters during the 2020 full year that allowed them to upgrade their management guidance twice.

For the junior and micro producers, the relationship between production for the quarter and AISC is not as obvious. Interestingly, a number of junior producers such as Aurelia Metals, Alkane Resources, Dacian Gold, Gascoyne Resources and West African Resources delivered lower AISC than the mid-tier producers for the quarter. However, we note that given their production level and the amount of gold they sell for the quarter (some companies use gold sold volume as the divisor to determine the AISC), their AISC are more likely to vary. We can look at the cumulative progress to see which companies sustainably produce lower cost gold. Red 5 and Troy Resources both produced gold at very high cost this quarter. Troy Resources has since announced that their production is starting to increase and hence we expect their AISC to decline. As for Red 5, the Darlot mine appears to be ageing and hence it is likely that their elevated cost will continue until their King of the Hills processing plant is built.

Despite the falling oil price in the last two years, we have noticed there is an increase in the AISC across all gold mining companies, not just for the smaller producers. The rising AISC may be associated with increasing development expenditure as companies consolidate their operations and due to declining ore grade in several mines leading to higher per unit processing costs.

Cumulative Progress

ASX Code	Category	MCap	Net Cash	Rise/Fall?	Cumulative CF-Capex	Cumulative Production	Resources	Reserves	2020 Guidance	Change?	% Progress	On Track?
AGD*	D	$114.290	$12.126	Fall	$31.579	58,567	875,000	241,583	62,000	Upgrade	94.46%	No
AIS	D	$227.640	-$20.571	Rise	-$12.861	38,248	420,000	146,250	72,500	Maintain	52.76%	Yes
ALK	E	$404.860	$27.099	Fall	$6.671	27,418	1,831,300	176,000	49,500	Upgrade	55.39%	Yes
AMI	D	$438.190	$48.263	Fall	$48.173	45,869	1,117,000	558,950	106,500	Upgrade	43.07%	No
DCN	D	$200.340	-$2.240	Fall	$17.785	59,961	2,067,000	754,000	700,000	Maintain	52.14%	Yes
EVN	B	$6,578.370	-$79.691	Rise	$215.418	350,326	26,204,000	9,382,000	75,000	Maintain	50.05%	Yes
GCY	D	$129.190	-$13.166	Rise	$0.517	40,695	1,311,300	426,300	130,000	Maintain	54.26%	Yes
GOR*	C	$941.520	$132.887	Rise	$0.000	129,087	4,526,000	1,740,000	1,375,000	Maintain	99.30%	No
KLA*	A	$11,766.816	$1,071.018	Fall	$1,060.832	1,369,652	45,386,000	24,793,000	92,500	Maintain	99.61%	No
MML	D	$177.730	$96.728	Rise	$63.241	54,438	825,200	332,000	2,050,000	Maintain	58.85%	Yes
NCM	A	$18,976.770	-$348.604	Fall	$579.128	1,038,566	120,743,000	54,556,000	1,620,000	Maintain	50.66%	Yes
NST^	A	$11,122.510	-$123.314	Fall	$244.235	788,665	31,807,000	10,805,000	320,000	Upgrade	48.68%	No
OGC*	C	$1,298.860	-$168.341	Rise	-$60.779	301,676	9,380,000	5,378,333	36,000	Maintain	94.27%	No
PNR	E	$295.760	$64.900	Rise	$3.968	18,155	2,542,884	752,000	314,750	Downgrade	50.43%	Yes
PRU	C	$1,349.100	-$35.089	Fall	-$38.201	137,386	7,131,000	3,281,000	82,500	Downgrade	43.65%	No
RED	D	$325.200	$79.188	Fall	-$3.341	41,817	6,371,900	3,076,950	270,000	Downgrade	50.69%	Yes
RMS	C	$1,115.200	$169.168	Fall	$84.588	144,240	4,716,600	1,139,000	367,500	Maintain	53.42%	Yes
RRL	C	$1,536.080	$178.664	Fall	$76.231	172,978	7,690,000	3,620,000	415,000	Maintain	47.07%	No
RSG*	C	$673.370	-$338.625	Fall	-$50.978	395,137	8,479,000	3,362,000	620,000	Maintain	95.21%	No
SAR	B	$5,265.570	$156.183	Rise	$140.128	309,510	17,400,000	8,500,000	390,000	Maintain	49.92%	No
SBM	C	$1,364.870	-$5.184	Rise	$24.625	162,660	11,556,000	6,005,000	245,000	Maintain	41.71%	No
SLR	C	$1,247.430	$254.993	Fall	$75.560	119,828	5,311,000	1,153,000	652,500	Maintain	48.91%	No
SSR*	B	$4,008.769	$664.989	Rise	$257.986	471,707	14,722,000	8,628,550	115,000	Maintain	72.29%	No
TRY	E	$51.510	$8.850	Rise	-$13.551	10,529	1,007,000	72,200	37,500	Maintain	28.08%	No
WAF*	D	$664.320	-$130.888	Rise	$47.124	128,353	5,100,000	1,557,250	187,500	Maintain	68.45%	No
WGX	C	$815.920	$122.349	Fall	$37.585	126,011	8,799,000	2,555,000	285,000	Maintain	44.21%	No
WMX	D	$123.500	-$4.144	Rise	-$16.126	26,758	6,337,000	1,380,000	62,000	Maintain	43.16%	No

* Denotes companies trading at 2020 Q4

^ Northern Star includes Saracen through their merger

10 out of 27 companies (37%) are either on track or have delivered to their management guidance at the end of the December quarter. This is slightly higher than the trend in previous quarters. While we saw the December quarter being one where a record proportion of companies have delivered above the guidance for the quarter, some of these companies are slightly behind in the cumulative progress. 19 companies (70.4%) have delivered positive operating cashflows net of maintenance capital expenditure up to this point by the end of the December quarter, which is similar to previous quarters. The average net operating cashflow

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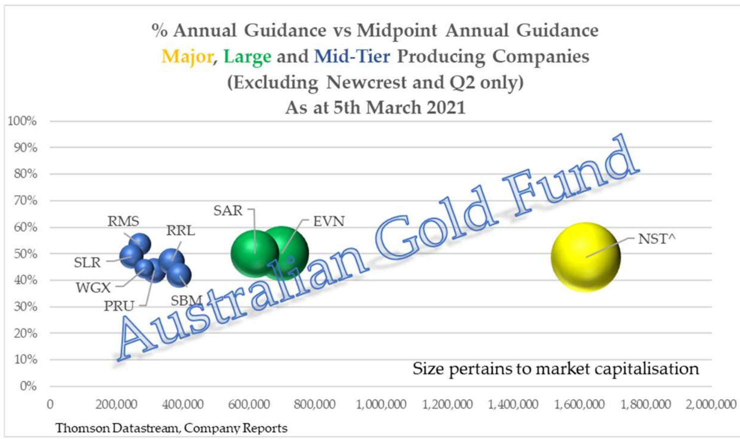
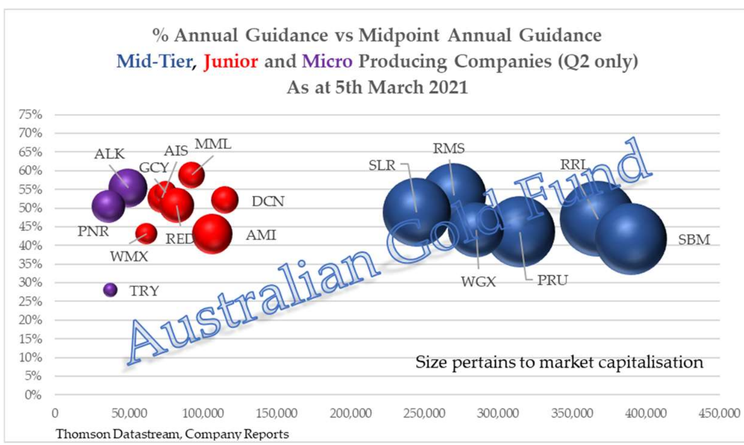
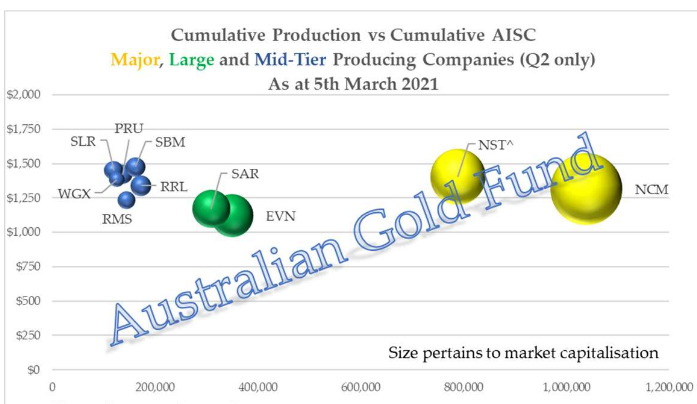
for this quarter is $108.44m. 13 companies (48.1%) have increased their net cash balance at the end of the December quarter, which is markedly lower than in the previous quarters where it averages between 60-75%. We are aware that several gold producers are undergoing significant capital expenditure and development to expand their mines or to explore and replenish their existing resources and reserves. Given there has been a number of companies that have recently merged or acquired a new mine property, substantial expenditures are being incurred to integrate these into their current operations or in developing these to bring into production. Several companies including Gold Road, Northern Star, Oceanagold and Westgold have indicated production growth in their three to five-year outlook.

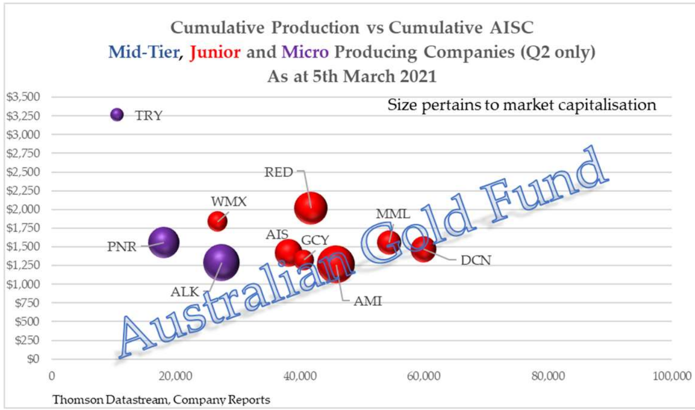
The bubble charts in the next page shows the companies' cumulative performance relative to their annual guidance and also the midpoint of their guidance:

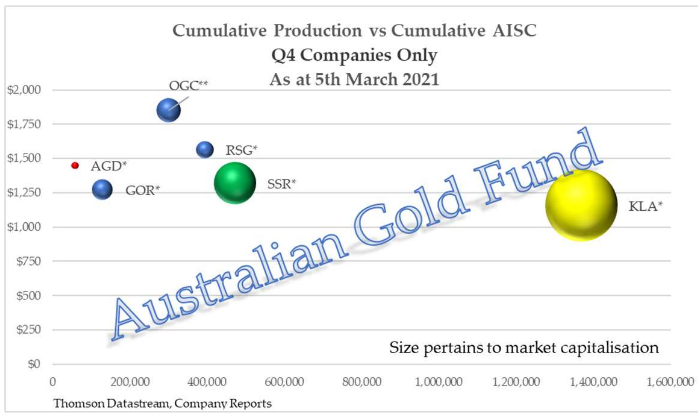




For major, large and mid-tier companies, the annual production guidance and the % of the annual guidance achieved to date for the quarter is moderately positively correlated at 0.58. For junior and micro companies, they are similarly positively correlated at 0.60. Like last quarter, the relationship is slightly negative for the individual companies within each category. Interestingly, it seems that the a number of smaller gold producers are able to deliver within or ahead of their guidance by the end of this quarter though this group is more varied in its progress. For companies that ended the 2021 half year, Aeris Resources, Alkane Resources and Medusa Mining are ahead of their guidance, Aurelia Metals, Troy Resources and Wiluna Mining are quite behind. As for companies that have just completed the 2020 full year, both Gold Road and Kirkland Lake Gold have almost met their production guidance. Silver Standards and West African Resources are behind, but Silver Standards merged with Alacer Gold and the reported production does not take into account the full production of Alacer Gold. As for West African Resources, management had not given a guidance for 2020 but had indicated the first full year of production would be around 250 000oz, so we inferred 187 500oz given the company had three full quarters of production.







A weakly negative relationship exists between the cumulative production of the gold producers with the cumulative AISC. Again, the trend is slightly more evident for larger producers than for smaller producers. For larger producers (mid-tier producers and larger), the cumulative AISC ranges from $1 120-$1 850/oz while for smaller producers (junior producers and smaller), the cumulative AISC ranges from $1 260-$3 265/oz. Oceanagold and Troy Resources both stand out as outliers with production falling well below their past trends and thus seeing their costs escalate markedly. Surprisingly, both Dacian Gold and Gascoyne Resources have shown signs that their operations are stabilising with production ramping up and AISC falling.

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Stock Price Performance

ASX Code	Category	Market Capitalisation	Price - 5th Mar	Price - 1st Jan	YTD Returns
AGD	D	$114.29	$0.190	$0.210	-9.5%
AIS	D	$227.64	$0.120	$0.100	20.0%
ALK	E	$404.86	$0.68	$0.955	-28.8%
AMI	D	$438.19	$0.355	$0.430	-17.4%
DCN	D	$200.34	$0.360	$0.410	-12.2%
EVN	B	$6,578.37	$3.850	$4.990	-22.8%
GCY	D	$129.19	$0.515	$0.430	19.8%
GOR*	C	$941.52	$1.070	$1.325	-19.2%
KLA	A	$11,766.82	$43.890	$56.150	-21.8%
MML	D	$177.73	$0.855	$0.770	11.0%
NCM	A	$18,976.77	$23.240	$25.780	-9.9%
NST^	A	$11,122.51	$9.560	$12.690	-24.7%
OGC*	C	$1,298.86	$1.845	$2.580	-28.5%
PNR	E	$295.76	$0.210	$0.220	-4.5%
PRU	C	$1,349.10	$1.100	$1.300	-15.4%
RED	D	$325.20	$0.165	$0.260	-36.5%
RMS	C	$1,115.20	$1.370	$1.685	-18.7%
RRL	C	$1,536.08	$3.000	$3.740	-19.8%
RSG*	C	$673.37	$0.610	$0.795	-23.3%
SAR	B	$5,265.57	$4.690	$4.750	-1.3%
SBM	C	$1,364.87	$1.935	$2.360	-18.0%
SLR	C	$1,247.43	$1.415	$1.790	-20.9%
SSR	B	$4,008.77	$18.020	$26.090	-30.9%
TRY	E	$51.51	$0.068	$0.099	-31.3%
WAF*	D	$664.32	$0.755	$1.045	-27.8%
WGX	C	$815.92	$1.925	$2.290	-15.9%
WMX	D	$123.50	$1.040	$1.390	-25.2%

* Denotes companies trading at 2020 Q4
^ Northern Star includes Saracen through their merger

Up to the 5th March, 24 companies (88.9%) have fallen in price compared to the start of the year. The average return across these 27 companies since the start of the year is -16.1%, while the ASX Gold Index fell 17.3% over the same period. The three companies that saw its stock price increase are Aeris Resources (up 20%), Gascoyne Resources (up 19.8%) and Medusa Mining (11.0%). For Aeris Resources and Medusa Mining, their price rise is a result of strong half-year results, while Medusa Mining has announced a 5c special dividend to be paid on the back of its strong cash balance. In the case of Gascoyne Resources, the rise is due to evidence that the worst of its operational challenges appears to be over.

The stock price decline over the last three months appears to apply across the entire industry, regardless of the company scope. As we can see, the major and large producers have seen the stock prices decline between 1.3%-30.9%, the mid-tier producers declining 15.4%-28.5% and the junior and micro producers declining 4.5%-36.5% (with the exception of the three smaller producers rising).

The decline in the stock price over the last five months from its peak has seen substantial reduction in the market capitalisation, so much so that none of the mid-tier companies are valued at $2 billion or more when back in early October 2020 there were four companies. Resolute Mining has a market capitalisation of less than $700m while Westgold Resources is just above $800m. While mid-tier companies with production exceeding 300 000oz are supposed to have a higher market capitalisation, we notice that Ramelius Resources, Resolute Mining and Silver Lake Resources do not really follow this. For junior producers, the market capitalisation ranges between $115-$665m, compared to in October when the market capitalisation for these companies was as high as $900m. In the case of junior producers, the total production does not necessarily drive the market capitalisation as there are several companies including Pantoro, Red 5 and West African Resources that have substantial resources and reserves beneath the ground that are economically viable and thus contribute to the company's value.

Surprisingly, a number of companies have a market capitalisation that is similar to that on 16th March 2020 when the gold producer stocks traded at their lowest. These companies are Evolution Mining, Kirkland Lake Gold, Oceanagold, Regis Resources and Resolute Mining. We are aware of the development pipeline for Oceanagold and the operational troubles faced by Resolute Mining. However, for the other three companies, we consider their current value to be compelling and have added to our holdings.

Valuation

ASX Code	Category	Market Capitalisation	Annualised Production	Resources	Reserves	EV/AISC Production	Valuation	Profit Margin	EV to Profit Multiple	EV/Resources	EV/Reserves
AGD*	D	$114.29	58,567	875,000	241,583	$2,526.580	Undervalued	$918.330	2.75	$116.759	$422.894
AIS	D	$227.64	76,496	420,000	146,250	$4,595.248	Fair Value	$977.154	4.70	$590.979	$1,697.169
ALK	E	$404.86	54,836	1,831,300	176,000	$8,885.157	Overvalued	$1,083.851	8.20	$206.280	$2,146.369
AMI	D	$438.19	91,738	1,117,000	558,950	$5,367.888	Undervalued	$1,587.218	3.38	$349.084	$697.606
DCN	D	$200.34	119,922	2,067,000	754,000	$2,479.578	Undervalued	$902.944	2.75	$98.007	$268.674
EVN	B	$6,578.37	700,652	26,204,000	9,382,000	$10,649.752	Undervalued	$1,308.340	8.14	$254.086	$709.663
GCY	D	$129.19	81,390	1,311,300	426,300	$2,313.974	Undervalued	$1,535.062	1.51	$108.561	$333.934
GOR*	C	$941.52	129,087	4,526,000	1,740,000	$7,983.094	Fair Value	$1,065.466	7.49	$178.664	$464.732
KLA*	A	$11,766.82	1,369,652	45,386,000	24,793,000	$9,042.651	Undervalued	$1,480.950	6.11	$235.663	$431.404
MML	D	$177.73	108,876	825,200	332,000	$1,158.085	Undervalued	$1,145.658	1.01	$98.161	$243.983
NCM	A	$18,976.77	2,077,132	120,743,000	54,556,000	$12,228.857	Undervalued	$1,203.167	10.16	$160.054	$354.230
NST^	A	$11,122.51	1,577,330	31,807,000	10,805,000	$10,004.047	Undervalued	$934.231	10.71	$353.564	$1,040.798
OGC*	C	$1,298.86	301,676	9,380,000	5,378,333	$8,997.834	Fair Value	$830.958	10.83	$156.418	$272.798
PNR	E	$295.76	36,310	2,542,884	752,000	$9,873.031	Overvalued			$90.787	$306.995
PRU	C	$1,349.10	274,772	7,131,000	3,281,000	$7,160.781	Fair Value	$853.455	8.39	$194.109	$421.880
RED	D	$325.20	83,634	6,371,900	3,076,950	$5,939.378	Overvalued	$82.503	71.99	$38.609	$79.953
RMS	C	$1,115.20	288,480	4,716,600	1,139,000	$4,040.984	Undervalued	$1,032.461	3.91	$200.575	$830.581
RRL	C	$1,536.08	345,956	7,690,000	3,620,000	$5,255.922	Undervalued	$917.544	5.73	$176.517	$374.977
RSG*	C	$673.37	395,137	8,479,000	3,362,000	$4,002.778	Undervalued	$887.298	4.51	$119.353	$301.010
SAR	B	$5,265.57	619,020	17,400,000	8,500,000	$9,654.063	Undervalued	$1,113.130	8.67	$293.643	$601.104
SBM	C	$1,364.87	325,320	11,556,000	6,005,000	$6,209.267	Fair Value	$627.025	9.90	$118.558	$228.152
SLR	C	$1,247.43	239,656	5,311,000	1,153,000	$6,004.343	Fair Value	$806.600	7.44	$186.864	$860.743
SSR*	B	$4,008.77	471,707	14,722,000	8,628,550	$9,369.915	Undervalued	$1,258.998	7.44	$227.128	$387.525
TRY	E	$51.51	21,058	1,007,000	72,200	$6,614.283	Overvalued	-$1,881.711	-3.52	$42.363	$590.859
WAF*	D	$664.32	128,353	5,100,000	1,557,250	$8,605.991	Undervalued	$1,243.722	6.92	$155.923	$510.649
WGX	C	$815.92	252,022	8,799,000	2,555,000	$3,809.223	Undervalued	$1,117.028	3.41	$78.824	$271.456
WMX	D	$123.50	53,516	6,337,000	1,380,000	$4,383.122	Fair Value	$934.203	4.69	$20.143	$92.496

* Denotes companies trading in 2020 Q4

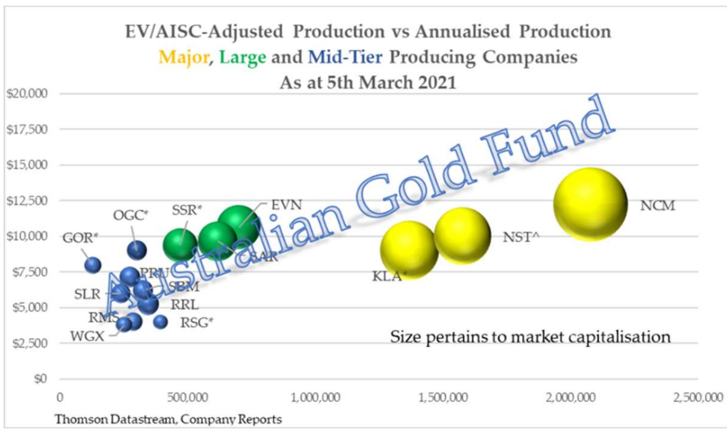
^ Northern Star includes Saracen through their merger (Market cap only, excludes production, financials, resources and reserves)

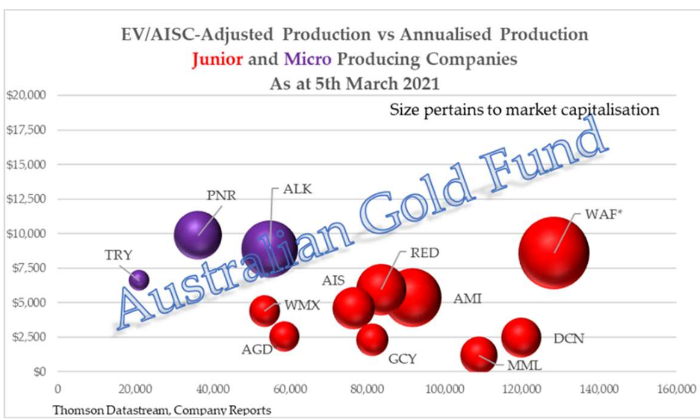
As previously mentioned, we believe that the combination of a strong December quarter in operation terms and the low stock prices for most of these companies have made the ASX-listed gold producer stocks compelling value, even more so than last March. We classify 16 companies (59.3%) to be undervalued, 4 companies (14.8%) to be overvalued and 7 companies (25.9%) to be fairly valued. This compares to the previous report where 13 companies are undervalued, 10 being overvalued and 4 fairly valued.

The average levels of the producers' valuation relative to AISC-Adjusted Production, Ore Reserves and Mineral Resources are given below:

	EV/AISC Production	EV/Resources	EV/Reserves
A	$10,425.18	$249.76	$608.81
B	$9,891.24	$258.29	$566.10
C	$5,940.47	$156.65	$447.37
D	$4,152.20	$175.14	$483.04
E	$8,457.49	$113.14	$1,014.74

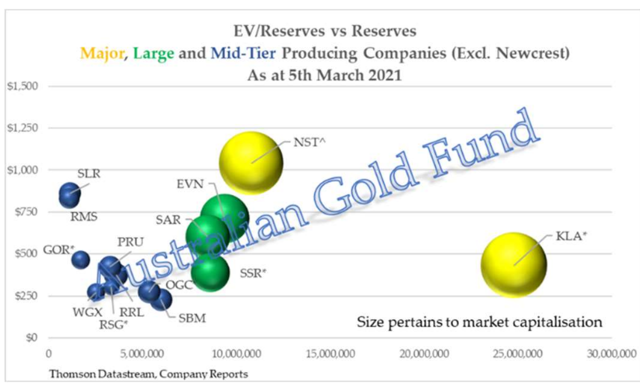
Over the quarter, 18 companies (66.7%) are trading lower in their EV/AISC-Adjusted Production with an average of 12.9% decline while 21 companies (77.8%) are trading lower in their EV/Resources and EV/Reserves, with an average decline of 14.8% and 11.4%, respectively. The average EV/AISC-Adjusted Production fell by 24.2% from $8 655/oz to $6 561/oz, the production-weighted average fell by 21.8% from $11 266/oz to $8 806/oz with declines between 24.7% to 44.3% across different categories. The average EV/Resources has fallen from 16.9% from $216/oz to $180/oz, the production-weighted average fell 11.8% from $222/oz to $196/oz with the average across different categories of producers ranging from -57.1% to rising by 6.4%. The average EV/Reserves has fallen 16% from $659/oz to $553/oz, the production-weighted average fell 11% from $505/oz to $450/oz while across different categories the decline ranges from 17.1% to as much as 75.9%.

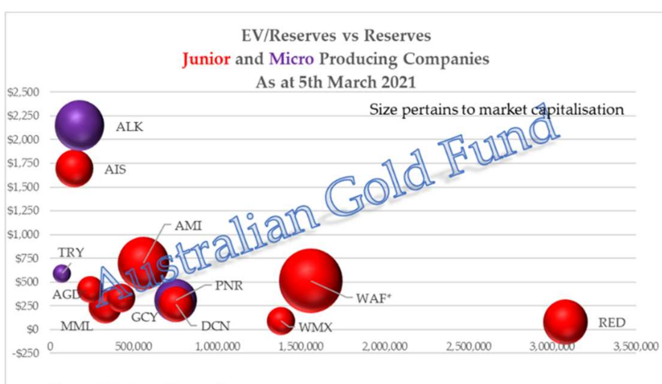


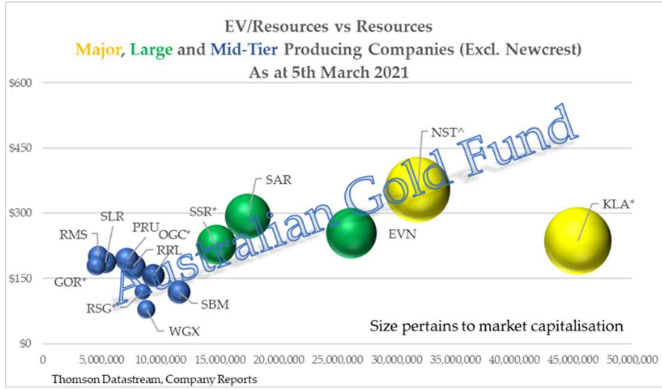


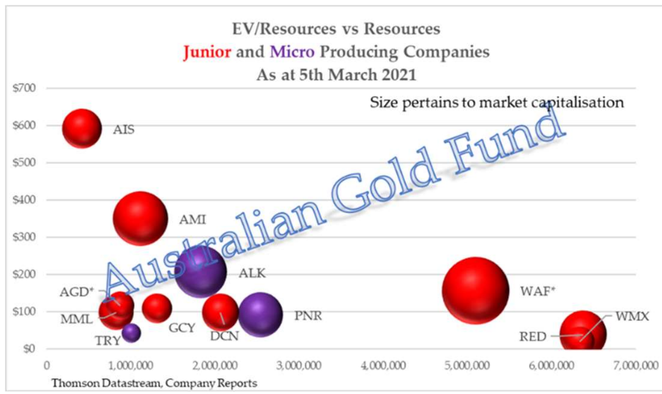
The figure above suggests that the larger the company, the higher the EV/AISC-Adjusted Production, meaning that larger companies are valued at a premium. The correlation coefficient for mid-tier companies and larger between the company's market capitalisation and EV/AISC-Adjusted Production is 0.76 (moderately positive) while for junior producers and smaller is 0.59 (slightly positive). This is also a result of larger companies having the benefits of economies of scale so they produce lower cost gold and generate higher profit margins. Among the mid-tier producers, Oceanagold and Gold Road have the highest levels for this metric even though neither companies are the largest producers in this category. For Oceanagold, the valuation may be due to either the market expectation of the future growth in production not yet reflected for 2020 or because the market is still about to adjust downwards the price for Oceanagold as a result of poor performance in 2020 compared to its past years. As for Gold Road, investors appear to be willing to ascribe a premium to the company relative to its peers due to its higher profit margin and economies of scale in the Gruyere mine. On the other end of the spectrum, Resolute Mining is the largest producer among the mid-tiers but the last four years have seen the company invest over $400m into the Syama and Ravenswood mine expansion but the operations appeared to have not delivered the intended results, leaving many investors heavily disappointed. We notice that compelling value appears to exist for Ramelius Resources, Regis Resources and Westgold Resources as their EV/AISC-Adjusted Production are around $5 000/oz or less and their EV to Profit Margin ratio is also less than 6.

For the junior producers, many companies have been viciously sold down such that their EV/AISC-Adjusted Production levels are below $3 000/oz, even as their profit margins are not particularly poor. We note that Alkane Resources, Pantoro and West African Resources are overvalued based on this metric. However, all three companies show significant potential for growth going forward due to their development pipelines – Alkane Resources with the Tomingley underground and San Antonio deposit, Pantoro with the Central Norseman Gold Project and West African Resources with their Sanbrado mine and the Toega satellite deposit acquired last year. All three companies have a solid cash reserve, though Alkane and Pantoro produces less than 50 000oz annually in their existing operations.









At the end of the December 2020 quarter, we find that there is a weak yet positive correlation between the market capitalisation and the EV/Resources and EV/Reserves metrics for the larger producers while it is much weaker yet positive relationship in the case of junior producers. In addition, there appears to be a weakly positive relationship between the EV metrics with the resources and reserves for larger producers and a somewhat negative relationship for junior and micro producers. We can infer that for larger producers, the resources and reserves belong to already operating mines so investors have confidence in paying more for these. The acquisition of Detour Gold by Kirkland Lake Gold significantly reduced the EV/Resources and EV/Reserves over the past year. The level the company is trading at under this metric is comparable to a large producer with half the resources and reserves it currently owns. Among the mid-tier companies, Resolute Mining, St Barbara Mines and Westgold Resources are trading at rather low levels under both metrics, suggesting that investors have either identified some of their operations as being unsatisfactory or they are awaiting confirmation that the deposits they own will produce economically viable gold going forward.

As for smaller producers, these resources and reserves are more likely to belong to undeveloped or developing deposits – as is the case for Pantoro (over 75% are in the developing Central Norseman Gold Project), Red 5 (almost 80% are in the King of the Hills deposit), West African Resources (the Sanbrado mine is ramping up) and Wiluna Mining (substantial amounts of its resources and reserves are sulfides that they are now building processing facilities to extract them).

Valuation Thesis

Our key valuation metric is the **EV/AISC-Adjusted Annual Production** as we have found in our empirical study that the market valuation is most aligned to this metric, as opposed to earnings, resources and reserves. We also prefer a multiples method over the typical Discounted Cashflow Method for valuation because we understand that beyond even one year of projection, everything is highly speculative – whether it is the management outlook on production and costs as well as the gold price and broader economic drivers. To allow for comparison across all classes of producers, our metric can standardise by the company's scope of production as we observe that the market values the companies with higher production with a greater multiple. However, we scale production by AISC because we believe that not all ounces are equal. Companies that can produce gold at lower cost are naturally more profitable and deserve a higher multiple of their production and other operational or financial performance measures. We use the following classes for the different tiers of gold producing companies – **A** (major producer – 1Moz p.a. or more), **B** (large producer – 0.5-1Moz p.a.), **C** (mid-tier producer – 150 000-500 000oz p.a.), **D** (junior producer – 50 000-150 000oz p.a.) and **E** (micro producer – less than 50 000oz p.a.).

The **Enterprise Value** is the sum of the market value of equity (stock price multiplied by number of issued stocks) and net debt (total borrowings less cash and gold bullion, but excluding gold in circuit and ore stockpiles). This metric quantifies the market value of the company's assets deployed in the company's operations. The **AISC-Adjusted Annual Production** calculated as the annual production of gold per oz divided by the AISC adjusted by a factor of 1 000. The factor of 1 000 is arbitrarily chosen as a way to standardise the final metric. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

When determining the production ranges in our valuation metric, we take the management guidance as this is based on their access to information relating to their operations and progress. We believe that the market will use the guidance figures to base their valuation and investment decisions. This may not always be optimal given that some management may have their bias in reporting their outlook, as well as having a track record of announcing surprises. In such cases, we seek to qualify this in our SWOT analysis and adjust it in our EV/AISC-Adjusted Production multiple.

The **Price Range** determines a reasonable range for which the company stock price should be trading at. This range is relatively wide as it considers the **margin of safety**. A company whose stock price is currently outside the fair value range is significantly over or undervalued and investors should look more deeply into the company's operations, financial performance and recent market announcements. This range should not be taken as the sole driver for investment decisions, but as a starting point for further research to identify the potential causes for the current stock price.

We recognise that many analysts consider discretionary forecasts and adjustments on the company's production level, ore grade, cost levels, resources and reserves and economic factors into their valuation. We have studied many of these reports and recognise their merits. However, our view is that such subjective adjustments are dubious in terms of additional accuracy of their estimations. This is because with mining companies, both internal and external drivers that affect the company's future performance are unpredictable. Furthermore, we understand that while a company with substantial resources and reserves have potential to convert into substantial value in future, this is contingent on the successes in building the infrastructure, extracting the ore from the ground and processing it in a cost-effective manner. We recognise the criticism by many regarding our approach, but we have tried and tested our valuation against the actual price performance as well as through our own investment performance. We let these results speak for themselves.

Given the rise in gold price in the recent three months, we see reason to re-rate the gold mining companies' valuation metrics upwards to reflect their improving profitability as well as increased enthusiasm from investors. As a rough guide, the fair value ranges for different mining company classes are as follows:

***Major and Large Companies** - $8 000-$12 000/oz*

***Mid-Tier Companies** - $4 000-$7 000/oz*

***Micro and Junior Companies** - $1 500-$4 000/oz*

We also add that after reviewing our reports, we have found another metric that may inform the fair value ranges, namely the Operating Margin. The Operating Margin is the difference between the Gold Sale Price per oz and the AISC. A higher Operating Margin implies higher cashflow generation. We have also found that the market appears to take this into account when determining the price they will pay to purchase the stocks. We found that there is a link between the Operating Margin and our EV/AISC-Adjusted Production in that 8-12 times the Operating Margin gives a reasonable EV/AISC-Adjusted Production.

Glossary

The **All-in Sustaining Cost (AISC)** is a measure adopted by the World Gold Council as a standardised measure of production costs. This cost includes typically the **Cash Cost** associated with the direct production (extraction, transportation, processing and refining costs, staff salary and wages and relevant corporate costs) as well as **Sustaining Expenditure** that may include maintenance of mine equipment and infrastructure, insurance and administration costs over its production life. Companies may still have discretion in apportioning their expenses.

The **Net Cash/Debt** is the net amount of cash and bullion the company holds after their borrowings and interest-bearing debt are paid. This represents the liquidity position of the company, although this measure does not consider whether the debt is current (due within the next twelve months) or not. A company in a significant net debt position is owing more than they currently have in cash and bullion, which may potentially put them in financial distress if the debt is due soon.

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The **Net Cashflow from Operations Excluding Maintenance Capital Expenditure** measures to what extent the company can generate cashflows from its operations after paying for its operating costs as well as Cash Paid for Purchases of Property, Plant and Equipment and the Cash Paid for Development Expenditure in the Investing Cashflows section of the Statement of Cash Flows. It does not include Cash Paid for Exploration and Evaluation, which is assumed to be growth capital expenditure. This is by no means a stable and comparable measure as different companies may have discretionary interpretation of what constitutes as Operating Activities and Investing Activities or Development, Exploration and Evaluation expenditures.

Disclaimer

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