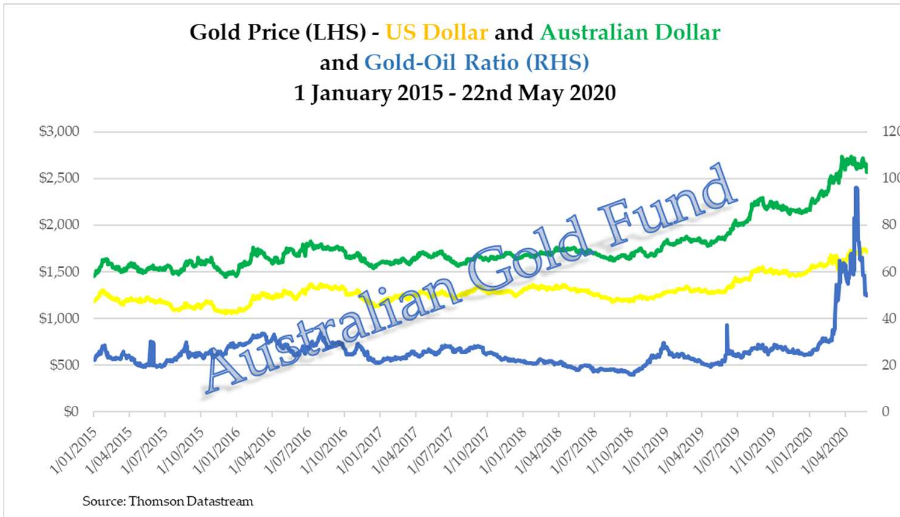
Australian Gold Fund

2020 March Quarter Summary

Summary



This summary report follows on from the 2019 December Quarter Summary that we released just over a month ago. This past month has seen the financial markets somewhat return to more normal conditions. The broader stock market indices around the world continued to rise, somewhat against the expectation of the mainstream media that had been busy with writing headlines calling for an economic recession and market crash. Thus far, their calls have not eventuated. On the contrary, the markets rallied steadily and almost appeared to be off the back of caution by investors who believed the media narrative. We hold the contrarian view to their narrative, believing that these commentaries appear to serve to confirm public opinion rather than inform them. And, where the majority exercises caution, we will be greedy and where they exercise exuberance, we are cautious.

The gold price in US dollar terms remained steady during the past month while in Australian dollar terms it fell by around 5% as the US dollar weakened. This might be brought about by a combination of more currency being printed and increasing risk-on behaviour from the markets as many countries lift their lockdown restrictions. The price of crude oil also recovered from their absurd levels at the end of April. We note that from now on, we will no longer use the WTI crude oil spot price as the reference price, instead opting for the 3-month forward price instead as this may be more reflective of the demand for crude oil. The spot price has proven itself to be unstable given what we witnessed on 20-21st April when it went negative due to massive dumping of contracts expiring within 48 hours. Using this measure for crude oil instead, the gold-oil ratio fell from the mid-80's to almost 50. This level is still highly conducive to higher profit margins for gold producing companies going forward. However, we notice that the crude oil price has increased almost 100% from its bottom in the short space of one month. We expect that this level should prevail going forward as we believe that the pandemic is likely to be behind us and that the economy will recover and demand for oil will be maintained.

Since the previous month, we have seen the stock prices of the ASX-listed gold producers rally substantially. In fact, since the bottom in mid-March, many ASX-listed gold producers saw their stock price recover strongly and even exceeding their levels at the pre-crash peak in late February. This recovery has also seen a number of the best gold producers such as Alacer Gold (ASX: AQG), Evolution Mining (ASX: EVN), Gold Road Resources (ASX: GOR), Northern Star (ASX: NST), Ramelius Resources (ASX: RMS), Regis Resources (ASX: RRL) and Saracen Mineral Holdings (ASX: SAR) break their all-time record price levels. Despite the strong trading conditions, the March quarter results showed that over 70% of the companies saw their quarterly production fall from the December quarter while the AISC rose. The disappointing operating conditions are driven largely by government recommendation of mine shutdowns, social distancing and other safety measures aimed at curbing the spread of the virus. Furthermore, a number of companies reported mining or processing bottlenecks. Uncertainty regarding the outlook on the economy and government recommendations over safety measures led to four companies withdrawing their 2020 annual guidance. Silver Lake Resources (ASX: SLR) was the only company to report an upgrading of their 2020 guidance, the second quarter in a row that this has happened.

Based on our valuation metrics on production, we find that only 3 out of 26 companies (12%) can be classified as being undervalued with 11 out of 26 companies (54%) deemed overvalued. While these proportions may appear to suggest that these companies could end up experiencing correction, one should keep in mind that investors can be exuberant even to the point of irrationality for a prolonged time period. Thus, despite our assessment, we do not believe this implies the gold producers will necessarily correct any time soon. Many factors need to be taken into account, including the gold-oil ratio, market sentiment in the broader market, risk tolerance and many more.

Going forward, we will also increase our attention towards the company's reserves and resources when considering the overall valuation. This is because since mid-March as the gold mining companies recovered, we have noticed that a number of explorers and developers has rallied even more explosively than the producers. This points to the increased enthusiasm of investors in this industry. Furthermore, we notice that investors are considering the company's reserves and resources and placing more weight on them. Nonetheless, we hold to the view that reserves and resources are speculative and are subject to mine infrastructure construction as well as mining and processing efficiency, thus the production level and cost remain as the paramount performance metrics in our valuation.

Key Events and Transactions

Since the last summary report released in late April, the following major events occurred:

- As at 28th May 2020, the global number of "confirmed cases" of the Wuhan/coronavirus stands at over 5.6 million while the number of "recorded deaths" from this virus is over 350 000. However, the data is being put into question as different regions (let alone countries) are recording their confirmed cases and deaths with discretion. Furthermore, hospital staff and medical professionals have reported that there is a confounding of the definitions and criteria to classify deaths or even confirmations of those infected.

- Since late April, many countries have begun to lift their lockdown restrictions including allowing people to gather in public as well as in other people's homes, restaurants and cafes allowing limited sit-down customers and being outside without having to justify it using necessary activities or exercise.
- After initial rumours from several mainstream media sources of North Korea's Chairman Kim Jong Un being brain dead in mid to late April after an operation, this rumour was addressed with footages showing that the North Korean leader is alive with a public appearance on 1st May.
- Since the start of May, classified documents have been released by the US Department of National Intelligence and Department of Justice showing that the investigation of the Russian involvement in the US election in 2016 was backed by Congress, public officials and the media who had admitted under oath they had no direct knowledge or witness evidence of collusion by the Trump campaign. This has sparked a substantial amount of controversy including the proliferation of #Obamagate beginning on 10th May, with over 4 million tweets in the space of 4 days. Further releases of classified documents have shown the involvement of high ranked Obama administration personnel on the unmasking of Lieutenant General Michael Flynn as well.
- Division amongst nations around the world as Australia led the call on the need to investigate China and the World Health Organisation relating to the origins and handling of the Wuhan/coronavirus pandemic. China responds with a combination of tariffs and rhetoric against Australia as well as the US and other nations who are backing this call.
- As at the end of May, tensions have begun to increase in the China-India border with military build-up on both sides.

The events that are in motion appear to suggest that geopolitical tensions and trade tensions will dominate the global economy going forward. While central bank and government stimuli have now entered into the economy and have provided an initial boost to the financial markets around the world, these underlying tensions need to be monitored as these can escalate. These may provide support for safe haven assets including gold and other precious metals, but may weigh down on the US dollar depending on the US-China trade conditions and its impact on the relative strengths of these two super economies.

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

- Austal Gold (ASX: AGD) is included into our report for the first time (previously overlooked). The company reported a miners' strike in early May at their Guanaco/Amancaya mine.
- Alkane Resources (ASX: ALK) has planned a major drilling program in their Boda deposit scheduled for Q3 2020. Furthermore, Alkane has indicated that they will demerge in July with a spin-off Australian Strategic Materials focusing on the development of the Dubbo project and clean energy material exploration and mining.
- Aurelia Metals (ASX: AMI) appointed Tim Poole to be the Chief Financial Officer.
- On 12th May, Alacer Gold (ASX: AQG) announced that they have entered into an arrangement to merge with Silver Standards Resources (TSX: SSRN) to form a large gold-

silver mining company with production of up to 800 000oz p.a. in the US, Argentina and Turkey. This merger involves no premium paid and Alacer Gold shareholders will be expected to own 43% of the combined entity with a market capitalisation of approximately $6.5 billion.

- Dacian Gold (ASX: DCN) completed their retail entitlement offer with 74% of the stocks being taken by retail investors and the shortfall being underwritten.
- Gascoyne Resources (ASX: GCY) continues to show improving operational performance in their mine, with the March quarterly production meeting quarterly guidance for the first time. The company still remains in voluntary administration.
- Newcrest Mining (ASX: NCM) announced on 30th April they would acquire the finance facilities of Ecuador's Fruta del Norte mine (a joint venture between Lundin Gold and Newcrest Mining) for US$460m (A$704m) that allows the company to receive payments for part of the company's production up to 2026. The company financed this acquisition with a A$1 billion capital raising at $25.60 with the remaining $296m being expected to fund further growth and working capital needs.
- Red 5 (ASX: RED) announced over 300koz of resources in satellite deposits in the King of the Hills deposit on 6th May 2020, further update on the King of the Hills development update on 13th May 2020 that included the selection of contractors to build the processing plant and for mining activities. The company exercised on 22nd May an option to acquire the Cables and Missions deposits for $2m, with $500 000 deferred payment.
- Ramelius Resources (ASX: RMS) released a Life of Mine update on 30th April showing lower than expected development cost in bringing the Tampia project to production and increased 2021 production guidance. Further update expected before the end of the financial year to include production plans for Tampia and Penny West (acquired via Spectrum Minerals).
- Resolute Mining (ASX: RSG) completed the capital raising for $196m announced in late January with Tranche 2 being placed to the company's directors and ACM amounting to $25m on 13th May.
- St Barbara Mines (ASX: SBM) announced on 5th May that the Simberi Sulfide project would proceed to feasibility status with a decision on whether to mine being made around March 2021.
- Westgold Resources (ASX: WGX) sold the Higginsville Pastefill plant to Galena Resources (ASX: G1A) for $2.25m in stocks on 1st May, settled the Albury Heath project sale to Cervantes Corporation (ASX: CVS) for $700 000 on 8th May and conducted a $45m placement at $2.25 on 22nd May to fund their exploration and growth and also for their internal mining services working capital needs.

The Big Picture

ASX Code	Category	MCap	Net Cash	Rise/Fall?	Net CF Less Capex	Cumulative Production	Resources	Reserves	2020 Guidance	Change?	% Progress	On Track?
AGD*	D	$86.710	-$7.516	Fall	$3.645	16,176	875,000	241,583	57,500	Maintained	28.13%	Yes
ALK	E	$481.430	$70.900	Fall	-$11.600	20,149	1,413,000	89,000	32,500	Maintained	62.00%	No
AMI	D	$284.040	$51.400	Fall	-$13.400	66,475	804,566	330,073	90,000	Withdrawn	73.86%	No
AQG*	C	$3,086.420	-$84.354	Rise	$82.730	70,290	7,965,000	3,413,050	268,000	Maintained	26.23%	Yes
BLK	D	$130.370	$3.300	Rise	-$11.704	50,518	6,381,000	1,380,000	66,000	Downgraded	67.36%	No
DCN	D	$253.100	$11.500	Rise	-$33.210	106,932	2,067,000	754,000	141,000	Maintained	75.84%	Yes
EVN	B	$10,056.040	-$401.100	Rise	$159.700	528,359	22,136,000	8,692,000	725,000	Maintained	72.88%	No
GCY	D	$39.190	-$91.327	Rise	$6.913	52,362	1,805,500	501,800	75,000	Maintained	69.82%	No
GOR*	C	$1,543.900	$34.149	Rise	$15.762	29,798	3,610,000	1,860,000	133,750	Maintained	22.28%	No
KLA*	A	$61.000	$871.453	Fall	$198.760	330,864	39,216,000	23,041,000	1,505,000	Withdrawn	21.98%	No
KRM	E	$30.660	$35.920	Rise	$1.990	24,289	343,000	366,500	27,000	Maintained	89.96%	Yes
MML	D	$155.850	$42.614	Rise		73,109	1,275,900	332,000	100,000	Maintained	73.11%	No
NCM	A	$25,557.150	-$1,798.900	Rise		1,581,521	125,023,000	61,235,000	2,455,000	Maintained	64.42%	No
NST	A	$10,634.500	-$169.200	Fall	$108.200	637,816	26,609,000	9,024,000	980,000	Withdrawn	65.08%	No
OGC*	C	$2,072.340	-$196.389	Rise	$100.239	80,707	9,380,000	5,378,333	370,000	Maintained	21.81%	No
PNR	D	$199.910	$8.562	Fall	-$2.019	29,119	2,597,884	179,000	47,500	Maintained	61.30%	No
PRU	C	$1,460.070	$20.423	Fall	-$19.744	192,963	7,267,000	3,271,000	285,000	Withdrawn	67.71%	No
RED	D	$585.320	-$3.889	Fall	$0.953	72,072	6,371,900	2,184,950	100,000	Downgraded	70.31%	No
RMS	C	$1,358.960	$92.900	Rise	$20.100	143,909	4,537,000	876,000	215,000	Maintained	66.93%	No
RRL	C	$2,662.860	$168.000	Rise	$65.300	264,782	8,189,000	4,034,000	355,000	Maintained	74.59%	No
RSG	C	$1,257.220	-$347.193	Rise	-$7.594	110,763	11,498,000	3,950,000	430,000	Maintained	25.76%	Yes
SAR	B	$6,132.070	-$19.700	Rise	$138.000	374,583	15,710,000	6,950,000	605,000	Maintained	61.91%	No
SBM	C	$2,221.780	-$17.614	Rise	$76.000	273,275	12,173,000	6,427,000	385,000	Maintained	70.98%	No
SLR	C	$1,918.060	$227.300	Rise	$52.800	193,355	5,746,000	1,070,000	255,000	Upgraded	78.92%	Yes
TRY	D	$60.680	$9.199	Rise		16,345	932,600	86,500				
WGX	C	$956.550	$30.063	Rise		175,361	9,121,000	2,619,000	287,500	Miss Expected	61.00%	No

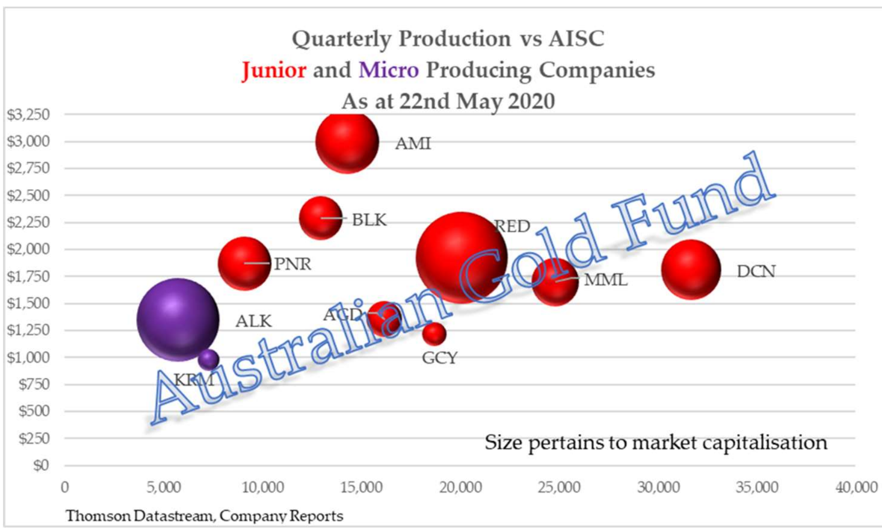
* Denotes companies trading at 2020 Q1

The 2020 March quarter saw production fall to 90 423oz on average across the 25 companies (excluding AGD) from 92 419oz. When including AGD, average production was even lower at 87 567oz. The average AISC for the 26 producers was $1 503/oz, up from $1 336/oz, although when taking into account the production-weighted average, this was at $1 335/oz compared to the December quarter average of $1 219/oz. 6 out of 25 companies (24% – excluding Troy Resources due to a prolonged shutdown of production late last year) produced more than 25% of their annual guidance during this quarter, which was disappointing although only 32% met this last quarter.

7 out of 25 companies (28%) delivered a higher quarterly production than the previous quarter and the same proportion recorded a lower AISC. Out of these companies, Gascoyne Resources and Medusa Mining (ASX: MML) delivered a higher quarterly production at a lower AISC than in the December quarter. Of the 22 companies that reported quarterly cashflows, we found that 15 out of 22 (68%) generated excess operating cashflows after accounting for sustaining capital expenditures while 15 out of 26 (58%) have a positive cash balance as at the end of the March quarter.

In terms of their cumulative progress in meeting their guidance for the year, 6 out of 25 (24%) appear to be delivering within their targets, down from 32% last quarter and 40% in the 2019 September quarter. Regarding the 2020 annual guidance, 17 out of 25 companies (68%) maintained their guidance, 1 out of 25 (4%) upgraded their guidance, 2 downgraded (8%), 4 withdrew (16%) and 1 (4%) expected to miss their guidance. For companies that withdrew their guidance, we have retained the most recent guidance prior to their withdrawal for reference purposes. The negative trend regarding operating performance and management outlook is understandable given the unprecedented times arising from the pandemic leading to government restrictions and companies acting prudently to limit the spread of the virus among their staff. However, this raises our attention for the need to invest in these producers while taking into account their fundamental and operational performance rather than be chasing momentum and following the herd.

We also present below for the first time the bubble charts showing the relative standing for these gold producers in relation to their quarterly production, AISC and their market capitalisation to allow for easier visual comparison:



The bubble charts showed an interesting trend in that with the exception of Northern Star, the major and large gold producers delivered lower cost ounces. However, the economies of scale did not seem to play out as expected since Saracen and Evolution Mining produced the lower cost ounces during the quarter. For the mid-tier companies, the performance was at best described as mediocre given that almost half of the companies produced at AISC exceeding $1 500/oz. That being said, some of these companies report in USD and due to the low AUD, the costs being converted back looked less flattering. For the junior producers, they have been largely plagued by higher costs exceeding $1 600/oz, largely due to lower production delivered. Ironically, the lowest cost junior producers were still outdone by the two micro producers for the quarter. Such perverse observations are indeed unusual and worth mentioning. We understand that AISC is dependent on gold sold and some companies timed their sales and hence the costs are distorted.

Stock Price Performance

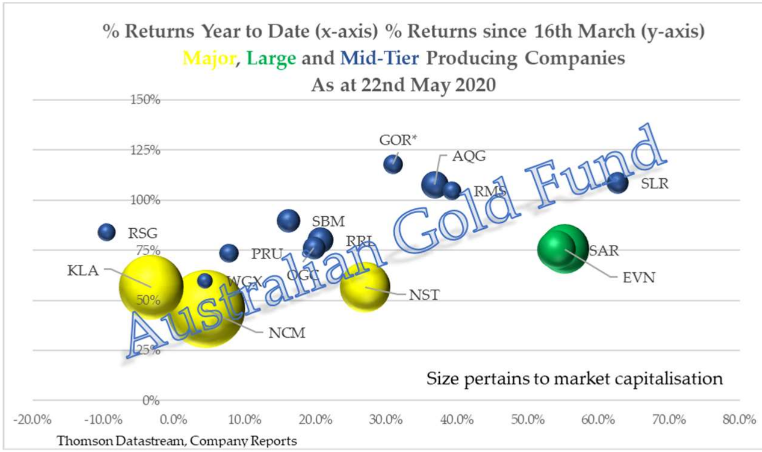
ASX Code	Category	Market Capitalisation	Price - 22nd May	Price - 1st Jan	Returns Since 16 Mar	YTD Returns
AGD	D	$86.71	$0.155	$0.090	55.0%	72.2%
ALK	E	$481.43	$0.83	$0.585	66.0%	41.9%
AMI	D	$284.04	$0.325	$0.435	44.4%	-25.3%
AQG	C	$3,086.42	$10.470	$7.650	107.7%	36.9%
BLK	D	$130.37	$0.013	$0.012	85.7%	8.3%
DCN	D	$253.10	$0.455	$1.590	-67.5%	-71.4%
EVN	B	$10,056.04	$5.900	$3.800	75.6%	55.3%
GCY	D	$39.19	$0.039	$0.039	0.0%	0.0%
GOR*	C	$1,543.90	$1.755	$1.340	118.0%	31.0%
KLA	A	$17,521.64	$61.000	$63.000	56.4%	-3.2%
KRM	E	$30.66	$0.042	$0.029	61.5%	44.8%
MML	D	$155.85	$0.750	$0.790	72.4%	-5.1%
NCM	A	$25,557.15	$31.620	$30.250	45.6%	4.5%
NST	A	$10,634.50	$14.370	$11.310	56.4%	27.1%
OGC	C	$2,072.34	$3.330	$2.780	76.2%	19.8%
PNR	D	$199.91	$0.170	$0.155	132.9%	9.7%
PRU	C	$1,460.07	$1.250	$1.160	73.6%	7.8%
RED	D	$585.32	$0.300	$0.330	46.3%	-9.1%
RMS	C	$1,358.96	$1.720	$1.235	104.8%	39.3%
RRL	C	$2,662.86	$5.240	$4.340	80.1%	20.7%
RSG	C	$1,257.22	$1.140	$1.260	83.9%	-9.5%
SAR	B	$6,132.07	$5.100	$3.310	75.3%	54.1%
SBM	C	$2,221.78	$3.160	$2.720	89.8%	16.2%
SLR	C	$1,918.06	$2.180	$1.340	108.6%	62.7%
TRY	D	$60.68	$0.096	$0.090	52.4%	6.7%
WGX	C	$956.55	$2.390	$2.290	59.9%	4.4%

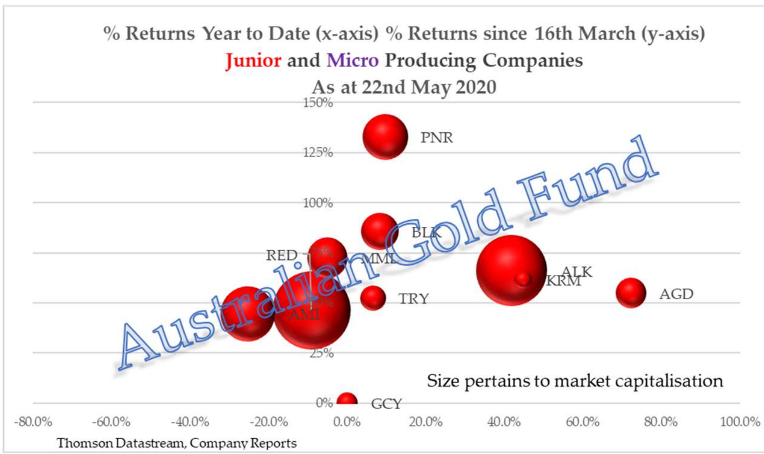
* Denotes companies trading at 2020 Q1

Since the start of the year, 18 out of 26 (69%) are trading higher than their levels at the start of the year. The top performers since the start of the year are Austal Gold, Saracen, Silver Lake Resources, Evolution Mining and Kingsrose Mining. However, the stock price performance across these 26 companies during the 10 weeks has been nothing short of breathtaking, as much as the decline over the three-week period from 24th February to 16th March was equally shocking. The average return across these companies over the mid-March to late May period was 68%. The top performers were Pantoro, Gold Road, Silver Lake Resources, Alacer Gold and Ramelius Resources, tripling their stock price during this period.

The observed trend suggests that the bull market for gold producers is evident. However, as we look into the valuation metrics, we may see that many of these producers are trading at increasingly generous levels. At this stage, the Australian Gold Fund has reduced holdings in a number of the top performing producers and moved some towards some mid-tier producers as well as towards precious metals ETFs while we wait for the June quarter results. These results are critical since we seek an update on their operational performance and progress on growth and development as evidence to support their current valuation.

The bubble charts below show the comparison of these producers' YTD performance against the performance since mid-March:





The bubble charts show that the best performers in terms of cost-adjusted production appear to explain the year-to-date performance for the larger gold producers as evidenced by Saracen, Evolution Mining and Silver Lake Resources being the top 3 performers. We then see following behind are Ramelius Resources, Alacer Gold and Gold Road Resources, all of which also have relatively low AISC. The exception to this is Kirkland Lake Gold as a result of the company starting the year at a high price and their acquisition of Detour Gold. The Detour Lake mine is a large open-pit operation that delivers low grade ounces relative to the other mines the company holds in their portfolio. The larger-cap producers such as Newcrest Mining, Kirkland Lake and Northern Star were less volatile during the market crash in late February-March as evidenced by a more modest gain since mid-March and the year-to-date performance not changing much. However, as they did not report any particularly strong operating performance like that of Evolution Mining and Saracen, their stock price did not rally too far above their January levels.

For junior and micro producers, the results were perhaps more polarised. These companies saw massive swings in their prices as the markets crashed owing to their less diversified operations and the risk appetite of their investors. Only Austal Gold and the two micro producers rallied significantly from the start of year levels. The others experienced wild swings but their year-to-date performance are not particularly strong. They have rallied though are trading at around 10-20% above their levels at the start of the year. Pantoro saw their stock price rally over 100% since their mid-March trough, but their year-to-date return is less than 10%.

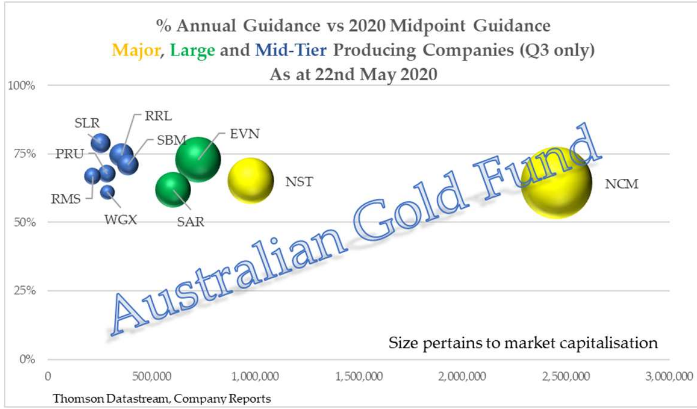
While the gold producers experienced a turbulent ride in the first five months of this year, what should not be lost amidst all this are their valuation levels, which we will discuss shortly. The gold producers as a whole have begun to rally in the second half of 2018 and took off noticeably as the gold price rose above A$2 000/oz around same time last year. This may be worth keeping in mind going forward as we believe that it is tempting to chase momentum without taking into account the fundamentals. Thus far, despite the gold price being strong, we are seeing AISC rise and also companies reporting operational problems that have led to sharp rises in operating costs, reduction of production or even suspension of mine operations. Several companies have raised equity capital to boost their balance sheets for working capital needs as well as expansion, rather than using their cash reserves. In some cases, the cash reserves have been depleting or net debt has been rising over several quarters, as seen in the mid-tier and junior producers.

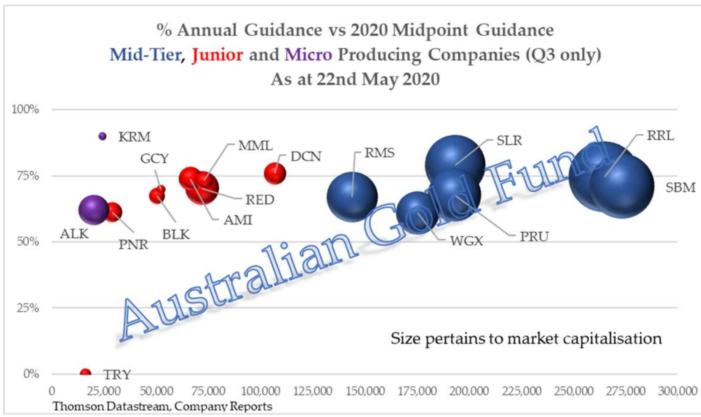
Cumulative Progress

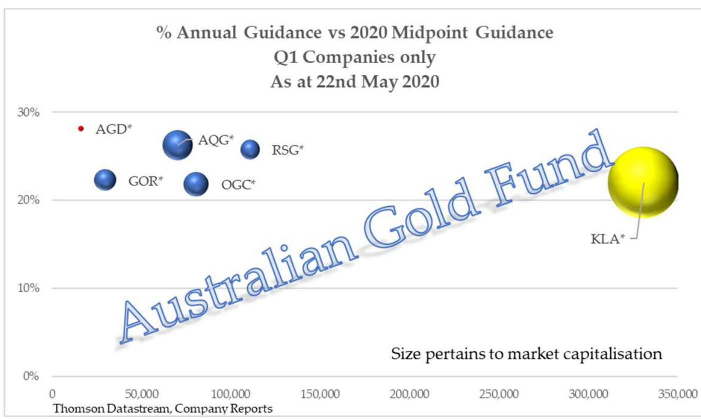
ASX Code	Quarter	Category	Market Capitalisation	Cumulative Production	2020 Midpoint Guidance	Guidance Change	% Annual Guidance	Cumulative AISC
AGD*	1	D	$86.71	16,176	57,500	Maintained	28.13%	$1,356.26
ALK	3	E	$481.43	20,149	32,500	Maintained	62.00%	$1,349.65
AMI	3	D	$284.04	66,475	90,000	Withdrawn	73.86%	$1,551.46
AQG*	1	C	$3,086.42	70,290	268,000	Maintained	26.23%	$1,063.14
BLK	3	D	$130.37	50,518	66,000	Downgraded	67.36%	$1,719.04
DCN	3	D	$253.10	106,932	141,000	Maintained	75.84%	$1,635.30
EVN	3	B	$10,056.04	528,359	725,000	Maintained	72.88%	$1,026.04
GCY	3	D	$39.19	52,362	75,000	Maintained	69.82%	$1,596.87
GOR*	1	C	$1,543.90	29,798	133,750	Maintained	22.28%	$1,135.00
KLA*	1	A	$17,521.64	330,864	1,505,000	Withdrawn	21.98%	$1,178.57
KRM	3	E	$30.66	24,289	27,000	Maintained	89.96%	$909.24
MML	3	D	$155.85	73,109	100,000	Maintained	73.11%	$1,683.17
NCM	3	A	$25,557.15	1,581,521	2,455,000	Maintained	64.42%	$1,273.98
NST	3	A	$10,634.50	637,816	980,000	Withdrawn	65.08%	$1,505.06
OGC*	1	C	$2,072.34	80,707	370,000	Maintained	21.81%	$1,849.86
PNR	3	D	$199.91	29,119	47,500	Maintained	61.30%	$1,767.64
PRU	3	C	$1,460.07	192,963	285,000	Withdrawn	67.71%	$1,457.22
RED	3	D	$585.32	72,072	100,000	Downgraded	70.31%	$1,650.59
RMS	3	C	$1,358.96	143,909	215,000	Maintained	66.93%	$1,242.70
RRL	3	C	$2,662.86	264,782	355,000	Maintained	74.59%	$1,209.30
RSG*	1	C	$1,257.22	110,763	430,000	Maintained	25.76%	$1,529.40
SAR	3	B	$6,132.07	374,583	605,000	Maintained	61.91%	$1,078.32
SBM	3	C	$2,221.78	273,275	385,000	Maintained	70.98%	$1,392.99
SLR	3	C	$1,918.06	193,355	255,000	Upgraded	78.92%	$1,276.58
TRY	3	D	$60.68	16,345				$2,141.69
WGX	3	C	$956.55	175,361	287,500	Miss Expected	61.00%	$1,428.71

* Denotes companies trading in 2020 Q1

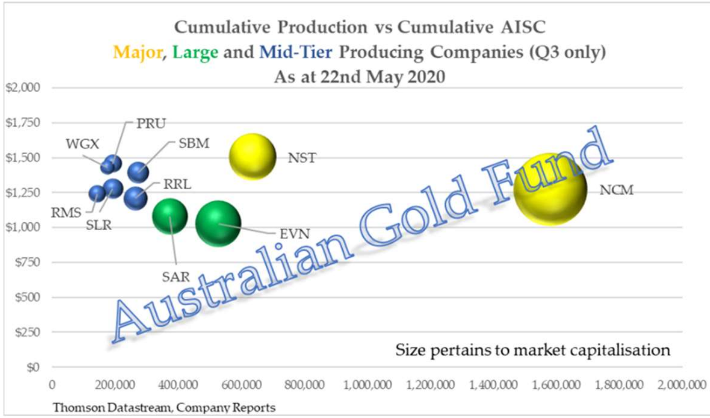
The March quarter saw most companies report weaker production compared to the previous quarter on the back of the pandemic affecting on-site operations as well as transporting of workers to and from mine sites. Out of those companies that finished their third quarter in March, their average production relative to annual guidance was 69.9% while those finishing their first quarter was 24.4%. In the previous quarter, the companies that finished their second quarter produced 48.9% of their annual guidance. The AISC similarly increased for the quarter due to lower production and gold sales, as mentioned before. The average cumulative AISC for this quarter was $1 423/oz, while the production-weighted average AISC was $1 312/oz. These are higher than last quarter when it was $1 344 and $1 222, respectively.

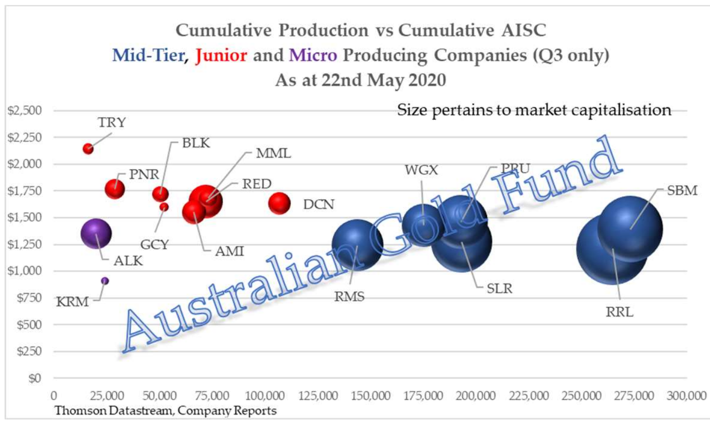


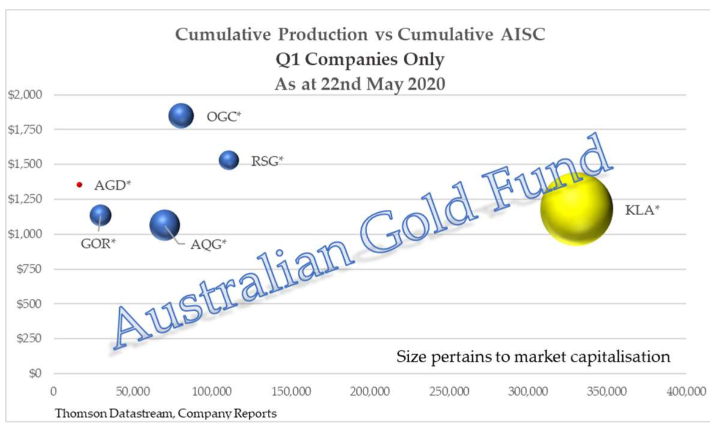




As mentioned earlier, what is worth keeping in mind is that almost every producer has either downgraded their 2020 guidance from what they originally announced or they are likely to need to catch up substantially for the June quarter to meet their guidance. The exceptions are Kingsrose Mining, Medusa Mining, Regis Resources and Silver Lake Resources, with both Kingsrose Mining and Silver Lake Resources looking to exceed the guidance they announced at the start of the financial year.







The cumulative production vs cumulative AISC bubble charts largely support the economies of scale applying in this industry, with larger producers seeing lower AISC. However, some exceptions are seen in the case of Northern Star and Oceanagold delivering production at higher costs. For Northern Star, this arose from the Pogo mine experiencing issues for the first half of the year. For Oceanagold, costs escalated for the Haile mine and also their flagship Macraes mine, while their low-cost Didipio mine continues to remain suspended due to legal issues in the Philippines. Interestingly, the micro producers such as Alkane Resources and Kingsrose Mining have been able to deliver low cost production, despite not having the benefit of economies of scale.

Valuation

ASX Code	Category	Market Capitalisation	Annualised Production	Resources	Reserves	EV/AISC-Adjusted Production	Valuation	EV/Production	EV/Resources	EV/Reserves
AGD*	D	$86.71	64,704	875,000	241,583	$1,975.067	Undervalued	$1,456.258	$107.687	$390.034
ALK	E	$481.43	26,865	1,413,000	89,000	$20,624.002	Overvalued	$15,281.031	$290.538	$4,612.697
AMI	D	$284.04	88,633	804,566	330,073	$4,072.197	Fair Value	$2,624.746	$289.150	$704.813
AQG*	C	$3,086.42	281,160	7,965,000	3,413,050	$11,989.521	Fair Value	$11,277.472	$398.088	$929.015
BLK	D	$130.37	67,357	6,381,000	1,380,000	$3,242.979	Fair Value	$1,886.506	$19.914	$92.080
DCN	D	$253.10	142,576	2,067,000	754,000	$2,771.074	Fair Value	$1,694.535	$116.884	$320.424
EVN	B	$10,056.04	704,479	22,136,000	8,692,000	$15,230.299	Overvalued	$14,843.799	$472.404	$1,203.076
GCY	D	$39.19	69,816	1,805,500	501,800	$2,985.249	Fair Value	$1,869.443	$72.289	$260.098
GOR*	C	$1,543.90	119,190	3,610,000	1,860,000	$14,376.771	Overvalued	$12,666.759	$418.214	$811.694
KLA*	A	$17,521.64	1,323,456	39,216,000	23,041,000	$14,827.344	Fair Value	$12,580.839	$424.576	$722.633
KRM	E	$30.66	32,385	343,000	366,500	-$147.678	Undervalued	-$162.419	-$15.335	-$14.352
MML	D	$155.85	97,479	1,275,900	332,000	$1,955.250	Undervalued	$1,161.648	$88.750	$341.072
NCM	A	$25,557.15	2,108,695	125,023,000	61,235,000	$16,527.312	Fair Value	$12,972.978	$218.808	$446.739
NST	A	$10,634.50	850,421	26,609,000	9,024,000	$19,120.162	Overvalued	$12,703.938	$406.017	$1,197.219
OGC*	C	$2,072.34	322,828	9,380,000	5,378,333	$13,000.220	Overvalued	$7,027.670	$241.869	$421.827
PNR	D	$199.91	38,825	2,597,884	179,000	$8,711.699	Overvalued	$4,928.441	$73.655	$1,068.985
PRU	C	$1,460.07	257,284	7,267,000	3,271,000	$8,153.978	Overvalued	$5,595.558	$198.108	$440.125
RED	D	$585.32	96,096	6,371,900	2,184,950	$10,120.547	Overvalued	$6,131.462	$92.470	$269.667
RMS	C	$1,358.96	191,879	4,537,000	876,000	$8,199.644	Overvalued	$6,598.232	$279.052	$1,445.274
RRL	C	$2,662.86	353,043	8,189,000	4,034,000	$8,545.790	Overvalued	$7,066.738	$304.660	$618.458
RSG*	C	$1,257.22	443,052	11,498,000	3,950,000	$5,538.383	Fair Value	$3,621.275	$139.538	$406.181
SAR	B	$6,132.07	499,444	15,710,000	6,950,000	$13,281.890	Overvalued	$12,317.237	$391.583	$885.147
SBM	C	$2,221.78	364,367	12,173,000	6,427,000	$8,561.274	Overvalued	$6,145.990	$183.964	$348.435
SLR	C	$1,918.06	257,807	5,746,000	1,070,000	$8,372.150	Overvalued	$6,558.248	$294.250	$1,580.150
TRY	D	$60.68	21,793	932,600	86,500	$5,059.225	Overvalued	$2,362.256	$55.202	$595.161
WGX	C	$956.55	233,815	9,121,000	2,619,000	$5,661.263	Fair Value	$3,962.487	$101.577	$353.756

* Denotes companies trading in 2020 Q1

The strong rally over the last ten weeks plus the mediocre overall operating performance for these producers has meant that many of these companies may be deemed overvalued when we compare their market capitalisation relative to their AISC-Adjusted production. This opinion may not be popular in the current atmosphere, and the price trends observed may even show that some of these producers have the potential to rally even further in the coming period as a result of the massive stimuli programs implemented worldwide by both governments and central banks. However, we maintain our investment thesis and continue to allow our metrics to inform us on our strategy.

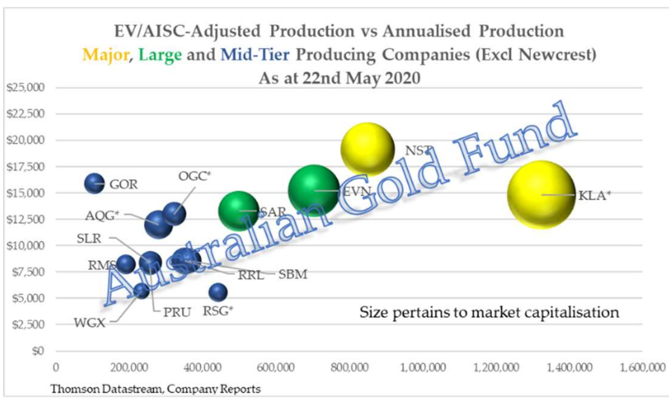
Using the EV/AISC-Adjusted Production multiples in our Investment Thesis that we have already upgraded earlier this year after recognising the more bullish conditions for gold producers, we find that 54% are overvalued, 35% are fairly value and 11% are undervalued. Compared to 10 weeks ago when we found that 20% were overvalued, 24% were fairly valued and 56% were undervalued, we can see how violent the rally has been in this period.

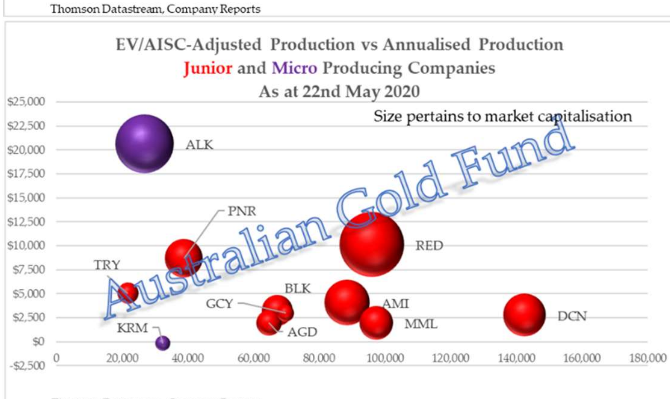
The average levels of the producers' valuation relative to AISC-Adjusted Production, Ore Reserves and Mineral Resources are given below:

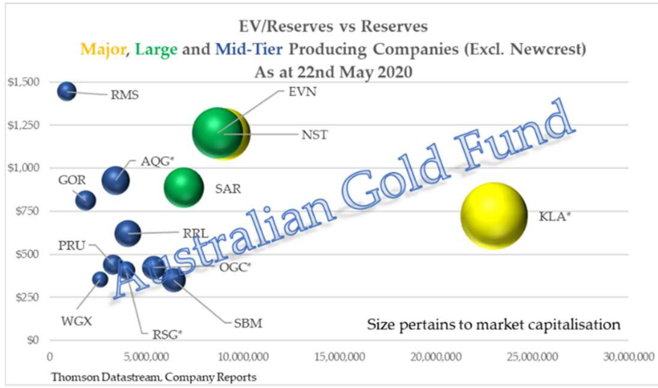
	EV/AISC-Adjusted Production	EV/Resources	EV/Reserves
A	$16,824.94	$349.80	$788.86
B	$14,256.09	$431.99	$1,044.11
C	$9,239.90	$255.93	$735.49
D	$4,543.70	$101.78	$449.15
E	$10,238.16	$137.60	$2,299.17

Compared to the previous report when we measured valuation metrics at the short-term trough, the average EV/AISC-Adjusted Production metrics rose 52% for the major producers, 68% for the large producers, 82% for the mid-tier producers, 68% for the junior producers and 111% for the micro producers. The metrics rose also as a result of lower production and higher AISC experienced by some of the producers. For the EV/Resources, the large and micro producers saw the average levels fall 11% and 41%, respectively. This is due to Alkane Resources recognising an additional 1Moz of resources. The major, mid-tier and junior producers saw their average metric rise from between 57%-89%, with the mid-tier producers seeing the largest jump. In terms of the EV/Reserves average, the large producers saw this fall by over 13% as Kirkland Lake was elevated to being a major producer. The major producers saw their EV/Reserves rise by 11%, which is moderate. For the mid-tier producers, junior producers and the micro producers, their averages rose 108%, 78% and 177%, respectively.

In a bullish period, it is difficult to ascribe value based on fundamentals because investors may become enthusiastic and allow stocks to trade at multiples that would seem absurd. We are appearing to begin entering into this phase. As a result, we also will be referring to our historical analysis of the valuation ranges that these companies have traded relative to their AISC-adjusted production, reserves and resources. We are observing that companies are beginning to rally beyond their fair value ranges on production as investors are paying more attention to the company's reserves and resources, even if some of these are in undeveloped deposits. What is evident is that investors are willing to pay substantial premium currently for resources and reserves as they hold expectation of higher future production as the rising gold price leads to some of these resources being economically viable to extract.






EV/Reserves vs Reserves
Major, Large and Mid-Tier Producing Companies (Excl. Newcrest)
As at 22nd May 2020
$1,500
$1,250
$1,000
$750
$500
$250
$0
RMS
EVN
NST
AQG*
GOR
SAR
KLA*
RRL
PRU
OGC*
WGX
RSG*
SBM
Size pertains to market capitalisation
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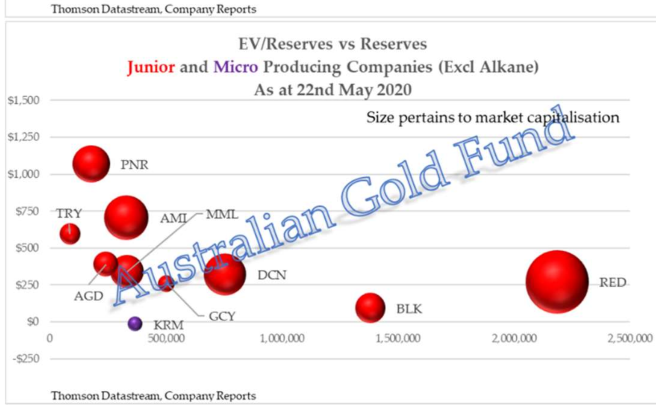
Thomson Datastream, Company Reports
Australian Gold Fund


EV/Reserves vs Reserves
Junior and Micro Producing Companies (Excl Alkane)
As at 22nd May 2020
$1,500
$1,250
$1,000
$750
$500
$250
$0
-$250
Size pertains to market capitalisation
PNR
TRY
AMI
MML
DCN
RED
AGD
BLK
GCY
KRM
0
500,000
1,000,000
1,500,000
2,000,000
2,500,000
Thomson Datastream, Company Reports
Australian Gold Fund


EV/Resources vs Resources
Major, Large and Mid-Tier Producing Companies (Excl. Newcrest)
As at 22nd May 2020
$600
$400
$200
$0
GOR
AQG*
EVN
NST
KLA*
SAR
SLR
RRL
OGC*
RMS
SBM
PRU
RSG*
WGX
Size pertains to market capitalisation
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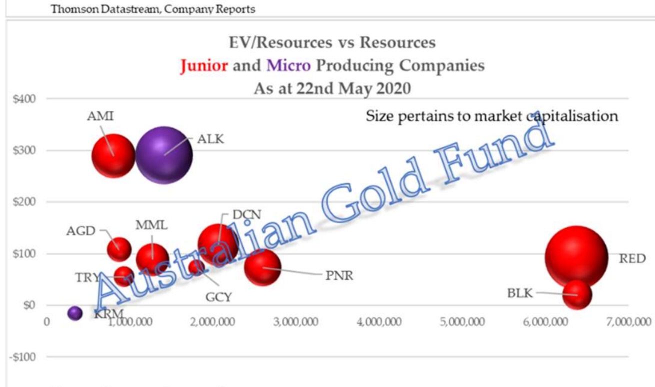
Australian Gold Fund


EV/Resources vs Resources
Junior and Micro Producing Companies
As at 22nd May 2020
$400
$300
$200
$100
$0
-$100
Size pertains to market capitalisation
AMI
ALK
DCN
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MML
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Australian Gold Fund

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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*

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.

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

Information in this report is not intended to be financial advice and should not be used as such. While every effort is made to ensure the information is reliable and accurate, errors and omissions may still exist. The interpretation of financial reports, market announcements and management commentary is subject to personal views and discretion. Users of this report are highly advised to seek professional financial advice before making their decisions.