Australian Gold Fund Valuation and SWOT Analysis

Stock Valuation Report
Resolute Mining Limited (ASX: RSG)

Date	2/05/2019
Classification	Mid-Tier Gold Miner
Current Price	$1.130
No. Issued Stocks (m)	758.1
Net Cash + Bullion + 0.5 x GIC ($ m)	-$82.09
Last Dividend Payment ($ p.a.)	$0.02
Market Capitalisation ($ m)	$856.65
Enterprise Value ($ m)	$938.74

Ranking	**Fair Value**
Price Range	$0.74-$1.475
Annual Production Guidance (oz p.a.) ***Estimated***	300 000-320 000
All-In Sustaining Cost Guidance ($/oz) ***Estimated***	$1 200-$1 400
EV/AISC-Adjusted Production Guidance ($/oz)	$3,937.00
EV/AISC-Adjusted Production Range ($/oz)	$3 000-4 500
Resources (oz)	14,810,000
Reserves (oz)	5,070,000

Summary

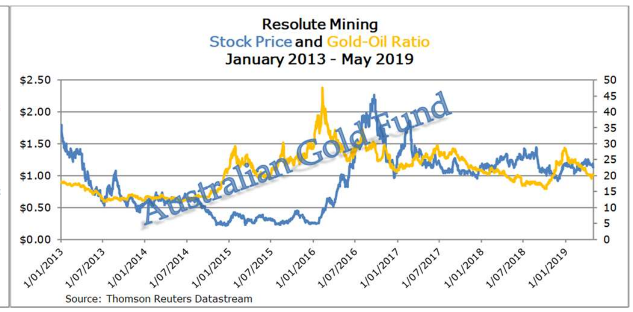
Resolute Mining released their March quarterly report on 30th April. Production for the March quarter has hit a high of 98 105oz at AISC $1 039/oz, compared to 73 691oz last quarter at AISC $1 362/oz. Most of this production is driven by a bumper performance at the Syama oxide plant, delivering an outstanding 71 186oz (Dec quarter 34 653oz). However, the production at Syama sulfide plant was a disappointing 13 366oz, lower than the previous quarter of 21 554oz, and Ravenswood delivered 13 554oz, down from 17 484oz. Cash balance has decreased to $32.5m, bullion down to $22.1m and debt also reduced slightly to $198.2m (Dec quarter cash $38.7m, bullion $39.5m, debt $207.2m). This resulting in a net debt of $143.6m, which is higher than last quarter where it stood at $129m. The reducing cash balance and increasing net debt are driven by further expenditure on the Syama underground mine development. The CEO, John Wellborn, has indicated in the conference call that he expects a further A$50m at most on the Syama underground mine development. The company has maintained its 2019 full year guidance of 300 000oz at AISC $1 280/oz. Given the strong performance this quarter, albeit weighted towards the Syama oxide plant, this guidance should be achievable.

The March quarter was interestingly a challenging one for many gold mining companies as the reports released showed operational difficulties, production falling below management guidance and costs rising. Resolute Mining went against the trend, but due to the Syama oxide plant production more than doubling the production in the December quarter. However, the production in their other operations were weak and fraught with operational issues. The Syama underground mine faced some delays in ore haulage and blasting practices that will be rectified over time. Production at the Tabakoroni mine is expected to remain strong. With further increase in resources in the Tabakoroni mine to 1Moz at 5.1g/t, up from 850 000oz at 2.2g/t, this may provide the company with a reliable oxide production while the underground mine and Syama sulfide plant are being rectified. The Malian government resignations arising from tribal tensions may cast a shadow on the stability of the Syama operations. However, the management has affirmed that the mining permit with the government will not change despite what has happened.

The Ravenswood mine has now appeared to be affirmed once again to remain with the company, after previous reports stating that the company has plans to offload this mine. Production from the Mount Wright underground mine fell further this quarter to 13 554oz, which is 30% less than the September quarter and 22% lower than the previous quarter. The company continues to review their plans to developing their open-pit mining.

Capital expenditure continued to be substantial at A$87m, largely associated with the Syama underground mine development. While the company delivered a substantial $90.6m in gross operating cash flows for the quarter, the cash balance nevertheless reduced by $23.6m. This reduction corresponded also with a repayment of debt facility of $11.1m and $3m in interest. Management reaffirms their liquidity is strong, with US$50m undrawn credit from their revolving facilities.

Taking into account the company should now be seeing the Syama mine proceed to its next stage with the Syama underground mine expected to reach commercial production and the Tabakoroni mine recording substantially higher grades, the EV/AISC-Adjusted Production Range has been upgraded to $3 000-$4 500. This implies the current price of $1.13 is at fair value, with potential for further upward revaluation as the benefits from the capital development projects gain momentum.



Prevailing Environment

The March quarter has been a challenging one for many gold mining companies despite the gold price trading in the US$1 280-1 345/oz and A$1 790-1 880/oz range. Part of this is caused by the oil price rising 33% from US$45/bbl to US$60/bbl during the quarter, leading to the gold to oil ratio placing some pressure on costs. Since the December 2018 rate rise by the US Federal Reserve that brings the Federal Funds Rate to 2.25-2.5%, the gold price rose to over US$1 300/oz and reached as high as US$1 345/oz in late February. The corresponding rise in the oil price came as a result of higher demand during the northern hemisphere winter as well as increasing geopolitical tension in the Middle East. Furthermore, the oil price rose partly due to reduction in the US inventory. The gold to oil ratio for the March quarter started at a strong 28.3 and gradually fell to 21.5 at the end of the quarter, resulting in an average gold to oil ratio of 23.9 during this period.

Since the end of the March quarter, the gold price has further weakened while the oil price has increased. The gold to oil ratio has fallen to the 20-21 mark, but there are signs that the gold price is nearing a bottom while the oil price is falling. The months of April and May tend to be cyclical bear periods for gold, with June and July seeing its price recover. This may be repeated in 2019 as the global stock markets are again approaching a peak.

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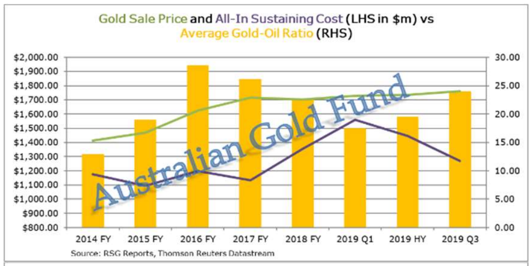
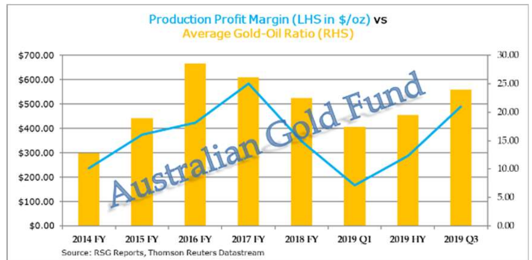
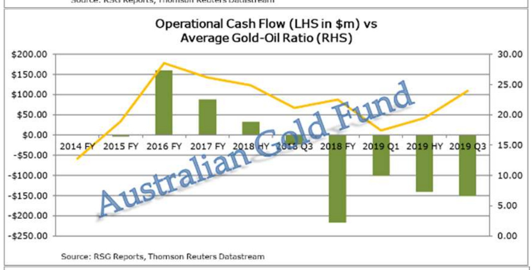
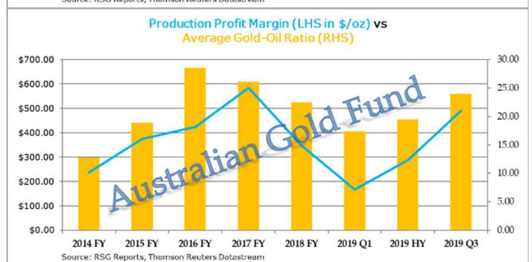
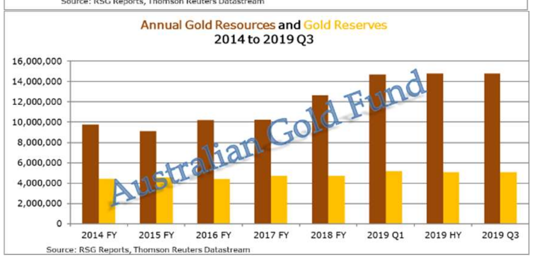
Operational and Financial Performance Charts

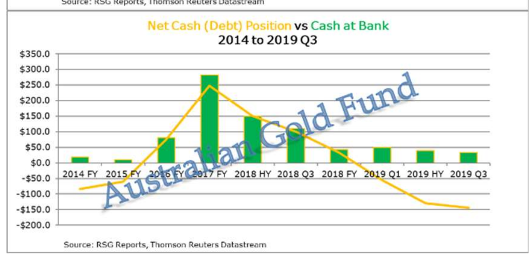








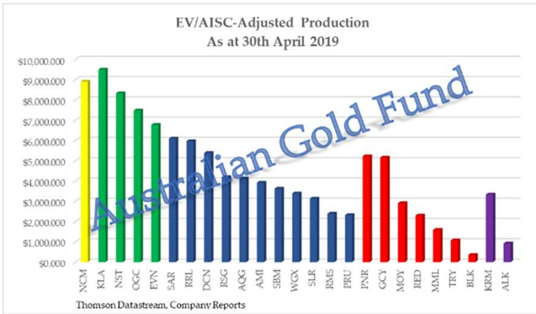


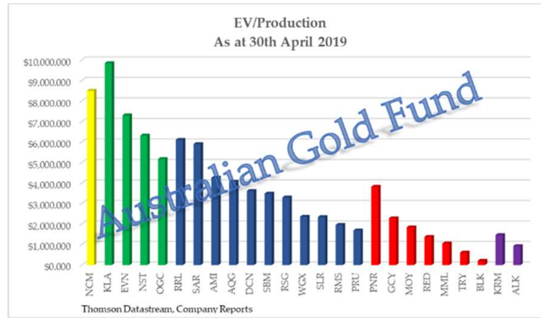


SWOT Analysis

Strengths • Production upgrading to approach 400 000oz p.a. after substantial development in Syama. • Management team with substantial experience in a variety of environments. • Successful track record of exploration and development evidenced by reserves and resources increasing net of depletion.	**Weaknesses** • Prolonged period of underdelivering for the Syama sulfide plant and Ravenswood mine despite large capex investment. • Investor interest has been tepid since early 2017 as a result of disappointment on operational performance and consistent reduction of a once-large cash reserve.
Opportunities • The Ravenswood expansion project has been enhanced with increased mine life and annual production as well as reduced costs. The project has been approved by the government to proceed until 2020.	**Threats** • Expectation of further cash drawdown in the June quarter, and possibly September quarter due to further capital expenditure and uncertainty surrounding production levels and costs. • Malian government instability and the resignation of officials may bode civil unrest and extremist insurrections.

Peer Comparison





Glossary

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.

EV/AISC-Adjusted Annual Production is a *comparative measure* used for valuing companies in this report and can be used to determine relative value. 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). The AISC-adjusted annual production is measure whereby the annual production of gold per oz is divided by the AISC adjusted by a factor of 1 000. The intuition behind this measure is to value the company by taking into account annual production but giving favourable treatment for lower AISC and penalising for higher AISC. The factor of 1 000 is arbitrarily chosen. As an illustration, if a company produces 250 000oz p.a. at AISC of $1 250, the AISC-adjusted production is 200 000.

The measure is by no means perfect and other factors should be considered including reserve and resource life, projected production volume and costs, management quality and geographic location. Further, it is of a retrospective nature, focusing on past performance and this may not be a good indicator for future performance.

The **EV/AISC-Adjusted Production Range** is used to determine the Price Range for the company. This range takes into account the baseline range depending on the company's classification, as determined by the annual gold production level. The range can be adjusted upwards or downwards based on other factors that are presented in the SWOT Analysis section.

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.