Beer & Co. Equity Research

# Aphrodite Gold (AQQ.ASX) 27 April 2016

# 540koz over 6.5 years at $A 870/oz; upfront capex $A 60m

Recommendation
**Speculative; Strong BUY**

Price
**2.0c**

Valuation
**8.5c**

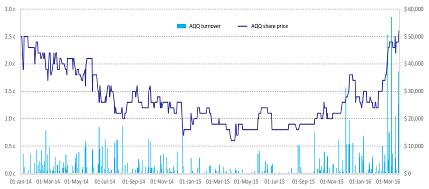
Commodity
**Gold**

- **AQQ announced the results of a scoping study on its oxide / transitional resources, requiring capital of $15m, plus a plant to process the material.**
- **Beer & Co has modelled AQQ as a 4 stage project, starting with the oxide / transitional material, then adding a circuit to treat open cut refractory material with the third stage being the high grade under-ground resources. The 4th stage is extensions to the mine life.**
- **Beer & Co has estimated capital and operating costs based on a range of sources and have found significant potential value in AQQ.**

## Snapshot

| | |
|---|---|
| Market Cap | $10m |
| Net Cash | $0.1m |
| Shares on Issue | 458.9m |
| 52 Week High | 2.6c |
| 52 Week Low | 0.8c |
| 1 month / 6 month VWAP | 2.3c / 1.7c |

**AQQ : daily share price v. value traded**



AQQ has 100% of the Aphrodite gold project, which is 65km north of Kalgoorlie. The deposit is under about 50m of cover and was first discovered in 1996.

AQQ acquired the project in 2009 as the basis for its IPO. At that time, it had a JORC Resource of 983koz in 16.9Mt.

In February 2012, AQQ announced the results of a scoping study, which required capital of $A 244m to process 5.1Mt of material, at an average grade of 3.8g/t, for a C1 cash cost of $A 756/oz.

AQQ has since revised the project to significantly reduce the upfront capital by staging the project.

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## AQQ's scoping study on oxide / transitional resources nets $28m

On 29 February, 2016, AQQ announced the results of a scoping study based on 475koz in 15Mt of oxide and transitional JORC Resources. Entech's review identified a higher grade Resource of 1.1Mt grading 1.6g/t.

Entech estimated a cost of $15m for pre-strip over 6 months, and then production of 54koz over 11 months, generating $43m in cash after the initial capital investment, based on a gold price of $A 1600/oz.

To this needs to be added the cost of a mill. Beer & Co has assumed a cost of $35m for a 1.0Mt/yr CIL plant.

## Stage 2 : Open Cut refractory material : 1.7Mt at 2.75g/t

AQQ's 2012 scoping study identified an open cut mining inventory of 2.8Mt grading 2.3g/t, leaving a mining inventory of 1.7Mt grading 2.75g/t for the primary material, after subtracting 1.1Mt of oxide / transitional material.

Beer & Co assumes a capital cost of $15m to add facilities to treat refractory ore (we assume using the Albion process, with purchased oxygen).

Beer & Co estimate that Stages 1 & 2, combined produce 180koz over 3 years, at an All In Cost of about $A 965/oz.

## Stage 3 : Higher grade under-ground

AQQ's 2012 scoping study showed an inventory of 2.3Mt grading 5.5g/t. Beer & Co assume a cost of $18m to develop the under-ground from the high wall of the open pit, with ore 12 months after the start of mining the open pit primary ore. We assume a mining rate of 600kt/yr.

This 3 stage project produces 540koz at an all in cost of about $A 870/oz over 6.5 years, from initial capital of $60m, including feasibility studies.

## Stage 4 : Extensions, or treating lower grade material

In Beer & Co's analysis, lower grade material adds further value.

## Beer & Co's estimates give significant value : Speculative, Strong BUY

Beer & Co has estimated some capital and operating costs based on a range of sources. Our derived, risked, valuation is a multiple of the share price.

# Aphrodite Gold

## Introduction

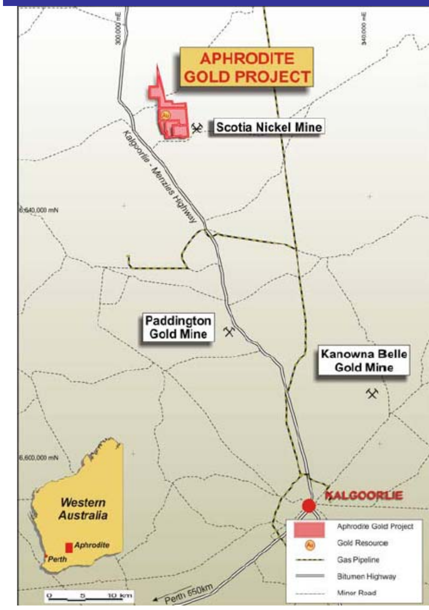
As shown in Figure 1, the Aphrodite gold project is about 65km north of Kalgoorlie in WA.

**Aphrodite gold deposit is about 65km north of Kalgoorlie**

While the project is in Australia's premier gold mining region, and surrounded on all sides by historical and current gold operations, the deposit was first discovered only in 1996, as it is below about 50m of cover.

The project was acquired by Aphrodite Gold in 2009 as the basis for AQQ's Initial Public Offering, which led to AQQ being listed in July 2010.

**Figure 1 : Aphrodite gold project**




Source : AQQ Presentation, February 2015

## Resources

The Aphrodite gold project contains 1.4Moz in JORC (2012) Resources, as shown in Figure 2.

**AQQ has about 1.4Moz in JORC (2012) Resources**

**Figure 2 : Aphrodite : 1.4Moz in Resources**

| | Indicated Resources | | | Inferred Resources | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| **Less than 150m below surface, 0.5g/t cut-off** | | | | | | | | | |
| Oxide | 1,670 kt | 1.17 g/t | 63koz | 2,060 kt | 1.04 g/t | 69koz | 3,730 kt | 1.10 g/t | 132koz |
| Transition | 4,950 kt | 0.96 g/t | 153koz | 6,720 kt | 0.88 g/t | 190koz | 11,670 kt | 0.91 g/t | 343koz |
| Primary | 7,290 kt | 1.39 g/t | 326koz | 2,740 kt | 1.25 g/t | 110koz | 10,030 kt | 1.35 g/t | 436koz |
| Total | 13,910 kt | 1.07 g/t | 479koz | 11,520 kt | 1.00 g/t | 369koz | 25,430 kt | 1.11 g/t | 911koz |
| **From more than 150m to less than 440m below surface** | | | | | | | | | |
| Primary | 2,480 kt | 4.47 g/t | 356koz | 830 kt | 4.79 g/t | 128koz | 3,310 kt | 4.55 g/t | 484koz |
| **TOTAL** | **16,390 kt** | **1.58 g/t** | **835koz** | **12,350 kt** | **1.25 g/t** | **497koz** | **28,740 kt** | **1.51 g/t** | **1,395koz** |

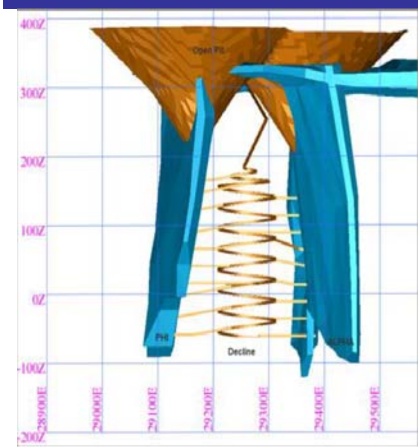
Source : AQQ ASX announcement, 16 May 2012, Beer & Co

**Comprising oxide / transitional material, open pittable primary and under-ground material**

Figure 2 also clearly shows that these Resources comprise :

- About 475koz of Oxide and transitional resources, accessible by an open pit;
- About 436koz in Primary material, accessible by an open pit, underlying the oxide / transitional ore; and
- About 484koz of Primary material more than 150m below surface, that is intended to be accessed by under-ground mining, as it is contained in 2 lodes, as shown in Figure 3.

**Figure 3 : Aphrodite mine plan**




Source : AQQ Presentation, February 2012



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## Development Plan

In their ASX presentation of March 2016, AQQ showed a 3 stage development to the Aphrodite project, as shown in Figure 4.

**AQQ have proposed a 3 stage development plan**

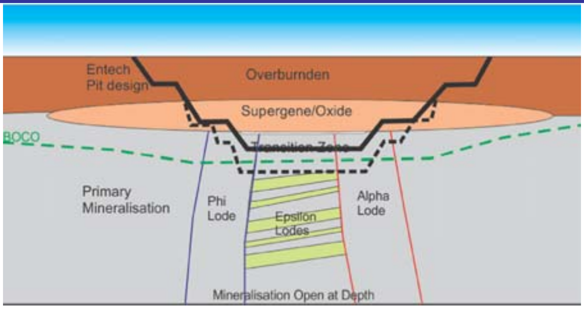
### Stage 1

Stage 1 is a relatively small open cut mine to extract about 1.1Mt of oxide and transitional material grading about 1.6g/t.

**Stage 1 is 1.1Mt of oxide / transitional material, grading 1.6g/t to a depth of about 100m**

AQQ outlined the results of this first stage in its announcement of 29 February 2016.

**Figure 4 : Aphrodite : 3 stage development**




Source : AQQ Presentation, March 2016

In brief, the scoping study :

- Mined 1.124kt of material grading 1.63g/t, for 58.8koz contained gold, to produce 54.1koz, a recovery of 91.9%;
- Moved 7.4m bcm of waste material, of which 4.2m bcm is the pre-strip;
- Had total mining costs of $28.3m or $1.63/t; and
- Without capitalising the pre-strip, estimated cash costs were $A 1,080/oz.

Assuming a gold price of $A 1,600/oz, the project would have a margin of $A 440/oz, after allowing for royalties. Over 54.1koz, this generates a net cash surplus of $A 24m.

**Stage 2 is to deepen the open pit and extract primary / refractory material.**

The Entech study did not allow for the capital cost of a plant to treat oxide / transitional ore.

### Stage 2

**Beer & Co estimate 1.7Mt grading 2.7g/t**

As shown in Figure 4, stage 2 is to deepen the open pit to extract some of the primary material that is less than 150m – 170m below surface. To facilitate this, a circuit needs to be added to the mill to process the refractory, primary ore.

The potential mining inventory, shown in Figure 5 is taken from that given in AQQ's May 2012 scoping study.

**Figure 5 : Mining Inventory**

| | | | |
|---|---|---|---|
| **High Grade** | | | |
| Oxide / Transitional | 1,124 kt | 1.63 g/t | 59koz |
| Open Cut, Primary | 1,676 kt | 2.75 g/t | 148koz |
| Total, Open Cut | 2,800 kt | 2.3 g/t | 207koz |
| Underground | 2,300 kt | 5.5 g/t | 407koz |
| TOTAL, HIGH GRADE | 5,100 kt | 3.7 g/t | 614koz |
| **Low Grade** | | | |
| Oxide / Transitional | 8,000 kt | 1.00 g/t | 257koz |
| Open Cut, Primary | 6,000 kt | 1.15 g/t | 222koz |
| TOTAL, LOW GRADE | 14,000 kt | 1.1 g/t | 479koz |
| **Other** | | | |
| Oxide / Transitional | 6,276 kt | 0.79 g/t | 159koz |
| Open Cut, Primary | 2,354 kt | 0.87 g/t | 66koz |
| Under-ground | 1,010 kt | 2.39 g/t | 78koz |
| **TOTAL RESOURCES** | **28,740 kt** | **1.51 g/t** | **1,395koz** |

Sources: AQQ ASX announcements, 9 February 2012, 12 June 2013, 29 February 2016, Beer & Co

**Stage 3 is to develop an under-ground mine off the high wall of the open cut**

### Stage 3

Stage 3 would use the process plant developed in Stages 1 and 2, and develop an under-ground mine off the walls of the open cut mine, as indicated in Figure 4.

**AQQ's February 2012 scoping study estimated 2.3Mt at 5.5g/t**

### Stage 4

For this analysis, Beer & Co used the low grade material shown in Figure 5.

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## Capital Costs

**Beer & Co estimate $5.5m in feasibility studies over 16 months**

Figure 6 shows Beer & Co's timetable for development, from feasibility through to stage 3, together with our expected capital costs.

**With first ore in mid 2018**

It shows most of the capital is related to stage 1, with relatively minor additional capital for the later, higher grade, stages.

### Figure 6 : Beer & Co's timetable and costs

| | Date | Time taken | Cost |
|---|---|---|---|
| Now | April 2016 | | |
| Pre-Feasibility | February 2017 | 10 months | $ 2.0m |
| Definitive Feasibility | August 2017 | 6 months | $ 3.5m |
| Finance | September 2017 | 1 months | |
| Construction | June 2018 | 9 months | $ 55m |
| Commissioning | August 2018 | 2 months | |
| Refractory Circuit | April 2019 | 8 months | $ 15m |
| Under-ground Developm | December 2019 | 8 months | $ 18m |

Source : Beer & Co estimates

## Production

**Beer & Co assume a mining rate of 1.0M/yt from the open cut**

In our analysis, Beer & Co has projected :

- A mining rate of 1.0Mt/yr of ore grade material from the open cut;
- A mining rate of 600kt/yr from the under-ground; and
- A processing rate of 1.0Mt/yr.

**And 600kt/yr from the under-ground**

Figure 7 shows in detail Beer & Co's projection of Aphrodite's production of ore, from the differing sources, by the applicable grade, showing annual production of 1.0Mt/yr of ore grade material.

### Figure 7 : Beer & Co Potential production from Aphrodite

| | LoM | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2029-30 | 2030-31 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Oxide / transitonal | | | | | | | | | | | | | | |
| Ore mined | | 0 kt | 0 kt | 850 kt | 274 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Ore processed | **1,124 kt** | 0 kt | 0 kt | 725 kt | 399 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Gold grade | **1.63 g/t** | 1.63 g/t | 1.63 g/t | 1.63 g/t | 1.63 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t | 0.0 g/t |
| Gold produced | **53koz** | 0 oz | 0 oz | 33,820 oz | 18,999 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz |
| Open Cut Primary | | | | | | | | | | | | | | |
| Ore mined | | 0 kt | 0 kt | 0 kt | 726 kt | 625 kt | 325 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Ore processed | **1,676 kt** | 0 kt | 0 kt | 0 kt | 601 kt | 625 kt | 450 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Gold grade | **2.75 g/t** | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t |
| Gold produced | **143koz** | 0 oz | 0 oz | 0 oz | 44,982 oz | 45,992 oz | 51,693 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz |
| Under-ground | | | | | | | | | | | | | | |
| Ore mined | | 0 kt | 0 kt | 0 kt | 0 kt | 375 kt | 600 kt | 600 kt | 600 kt | 125 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Ore processed | **2,300 kt** | 0 kt | 0 kt | 0 kt | 0 kt | 375 kt | 600 kt | 600 kt | 600 kt | 125 kt | 0 kt | 0 kt | 0 kt | 0 kt |
| Gold grade | **5.50 g/t** | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t |
| Gold produced | **342koz** | 0 oz | 0 oz | 0 oz | 0 oz | 55,178 oz | 68,924 oz | 93,376 oz | 93,376 oz | 31,125 oz | 0 oz | 0 oz | 0 oz | 0 oz |
| Open cut - Low Grade | | | | | | | | | | | | | | |
| Ore mined | | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 75 kt | 400 kt | 400 kt | 875 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt |
| Ore processed | **7,675 kt** | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 0 kt | 400 kt | 400 kt | 875 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt |
| Gold grade | **1.00 g/t** | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t |
| Gold produced | **224koz** | 0 oz | 0 oz | 0 oz | 0 oz | 0 oz | 1,463 oz | 11,704 oz | 11,704 oz | 23,408 oz | 29,260 oz | 29,260 oz | 29,260 oz | 29,260 oz |
| TOTAL | | | | | | | | | | | | | | |
| Ore mined | | 0 kt | 0 kt | 850 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt |
| Ore processed | **12,725 kt** | 0 kt | 0 kt | 725 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt | 1,000 kt |
| Gold grade | | 1.63 g/t | 1.63 g/t | 1.63 g/t | 2.30 g/t | 3.78 g/t | 4.32 g/t | 3.70 g/t | 3.70 g/t | 1.56 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t | 1.00 g/t |
| Gold produced | **761koz** | 0 oz | 0 oz | 33,820 oz | 63,980 oz | 101,170 oz | 122,080 oz | 105,080 oz | 105,080 oz | 54,534 oz | 29,260 oz | 29,260 oz | 29,260 oz | 29,260 oz |
| C1 Costs | **$A 981/oz** | $A 0/oz | $A 0/oz | $A 782/oz | $A 725/oz | $A 737/oz | $A 662/oz | $A 700/oz | $A 703/oz | $A 854/oz | $A 1,288/oz | $A 1,318/oz | $A 1,407/oz | $A 1,437/oz |
| A I S C | **$A 1,182/oz** | $A 0/oz | $A 0/oz | $A 946/oz | $A 860/oz | $A 854/oz | $A 773/oz | $A 814/oz | $A 817/oz | $A 994/oz | $A 1,473/oz | $A 1,503/oz | $A 1,592/oz | $A 1,622/oz |

Source : Beer & Co estimates

Figure 8 shows that Beer & Co projects gold production at the annual rate of about 35koz, increasing to over 100koz when the higher grade under-ground material dominates feed.

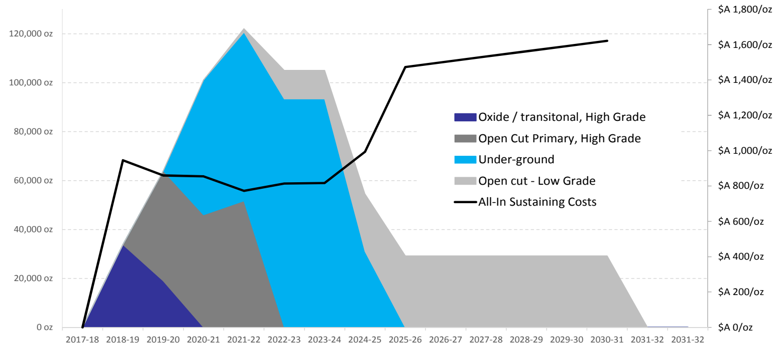
**Production starts at 35koz/yr and ramps up to over 100koz/yr**

It also shows that all-in costs are projected to be about $A 950/oz in year 1 (apparently lower than Entech as Beer & Co has made the pre-strip part of the initial capital cost), then around $A 800/oz while the under-ground is being exploited.

**Beer & Co estimates all in costs of about $A 870/oz across stages 1,2 & 3**

**Beer & Co estimate that processing residual low grade ore will generate a positive value**

## Figure 8 : Chart of Beer & Co production v. all-in costs




Source : Beer & Co estimates

Figure 8 also shows that processing the residual material makes a small but positive contribution at current gold prices.

## Costs

**Beer & Co has developed costs based on AQQ's February 2016 scoping study, revised in April 2016**

**And from other operations Beer & Co has modelled**

Figure 7 showed the detail of Beer & Co's estimates of capital costs and the timing of this expenditure.

Figure 8 shows the pattern of all in costs, in AUD/oz terms, over time.

Figure 9 shows the results of Beer & Co's estimates of operating costs. The costs for mining the oxide / transitional ore were taken from the Entech study.

Beer & Co estimated other costs based on comparatives from modelling other, similar operations. Note :

- Some mining costs may appear low as mining overhead has been included as a separate item;
- Our estimates of under-ground mining costs include development; and
- We project that primary ore costs $16/t more than oxide ore to process.

### Figure 9 : Operating costs

| | |
|---|---|
| Mining : Oxide / transitional | |
| AUD /t material | $ 1.3/t |
| AUD /t ore | $ 9.1/t |
| Mining : Open Cut Primary | |
| AUD /t material | $ 1.9/t |
| AUD /t ore | $ 16.4/t |
| Under-ground mining including development | $ 59.2/t |
| Mining overhead | $ 2.8/t |
| Processing : Oxide | $ 15.2/t |
| Processing : Sulphide | $ 31.2/t |
| Site general & Admin | $ 4.4/t |

Source : Beer & Co estimates

## Valuation

Figure 10 shows the resulting project cashflows from Beer & Co's projections.

### Figure 10 : Beer & Co's projected cashflows, Aphrodite gold project

| AUD m | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 | 2029-30 | 2030-31 | 2031-32 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| AUD-USD | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| Gold price | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz | $ 1,250/oz |
| Gold produced | 0 oz | 0 oz | 0 oz | 33,820 oz | 63,980 oz | 101,170 oz | 122,080 oz | 105,080 oz | 105,080 oz | 54,534 oz | 29,260 oz | 29,260 oz | 29,260 oz | 29,260 oz | 29,260 oz | 29,260 oz |
| Revenue | 0 | 0 | 0 | 56 | 107 | 169 | 203 | 175 | 175 | 91 | 49 | 49 | 49 | 49 | 49 | 49 |
| Cash costs | 0 | 0 | 0 | (26) | (46) | (75) | (81) | (74) | (74) | (47) | (38) | (39) | (39) | (40) | (41) | (42) |
| Royalites | 0 | 0 | 0 | (3) | (5) | (8) | (10) | (9) | (9) | (5) | (2) | (2) | (2) | (2) | (2) | (2) |
| Dep'cn & Amort'sn | 0 | 0 | 0 | (17) | (23) | (25) | (25) | (21) | (15) | (3) | (1) | (1) | (1) | (1) | (1) | (1) |
| E B I T | 0 | 0 | 0 | 10 | 32 | 61 | 87 | 72 | 78 | 37 | 8 | 7 | 6 | 5 | 4 | 3 |
| Feasibility | (1) | (5) | (0) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Initital Project Cap.ex | 0 | 0 | (55) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Subsequent Project Cap.ex | 0 | 0 | 0 | (11) | (23) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sustaining Capital | 0 | 0 | 0 | (1) | (1) | (2) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) |
| **Project net cashflow** | **(1)** | **(5)** | **(55)** | **16** | **31** | **84** | **111** | **92** | **91** | **39** | **8** | **7** | **6** | **5** | **4** | **3** |

Source : Beer & Co estimates



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Figure 14 shows Beer & Co's valuation of AQQ, detailing the projected value for each stage of the project. It shows that the first stage, to develop and process 1.1Mt of oxide / transitional material has a negative value.

This should be expected as :

- the expected free cashflow generated is about enough to pay for a mill, but this stage also bears the full cost of all the feasibility work;
- the project is just over 1 year while a plant can expect to have a life of more than a decade;
- it creates the basis for the later stages which have a higher apparent value, partly because of the costs lumped onto stage 1

**Beer & Co's risked base case valuation is 8.5c/share**

**After allowing for significant further equity raisings**

**Figure 11 : Beer & Co's valuation of AQQ**

| discount rate = 12.0 % | | 30 June 2015 | | | 23-Apr-16 |
|---|---|---|---|---|---|
| | risk : | 100% | Product | per share | |
| Oxide / transitonal | 65% | ($ 9m) | ($ 6m) | (0.4c) | (0.5c) |
| Open Cut Primary | 50% | $ 33m | $ 17m | 1.2 c | 1.5 c |
| franking credits | 30% | $ 5m | $ 1m | 0.1 c | 0.1 c |
| Under-ground | 50% | $ 106m | $ 53m | 3.9 c | 4.7 c |
| franking credits | 30% | $ 21m | $ 6m | 0.5 c | 0.6 c |
| Open cut - Low Grade | 50% | $ 18m | $ 9m | 0.7 c | 0.8 c |
| franking credits | 30% | $ 7m | $ 2m | 0.1 c | 0.2 c |
| Exploration | 125% | ($ 9m) | $ 2m | 0.2 c | 0.2 c |
| Corporate | 100% | ($ 11m) | ($ 11m) | (0.8c) | (0.9c) |
| Cash / Debt | 100% | $ 0m | $ 0m | 0.0 c | 0.2 c |
| Equity raisings | 100% | $ 23m | $ 23m | 1.7 c | 1.6 c |
| **TOTAL** | | **$ 183m** | **$ 96m** | 7.1 c | **8.5 c** |
| | | 451.4m | F P O shares | 35.0m | Options |
| | | 229.3m | Issued FY16 | 35.0m | Ops. Ex'd |
| | | 638.9m | Issued later | | |

Source : Beer & Co estimates

# Sensitivity Analyses

## Capital and Operating Costs, and Risking

**There are risks in Beer & Co's analysis, on commodity price and cost estimates.**

Figure 11 shows that Beer & Co risks the NPV of our projected cashflows for each asset. The un-risked value is that which would result if the project is delivered as we expect it will be; ie the value of certainty and competence in delivery.

This analysis has required Beer & Co to make estimates of some capital and operating costs.

Figure 12 shows that our valuation for AQQ is sensitive to changes in both capital and operating costs. The impact of differing capital costs is magnified by the need to raise more equity, diluting the value in per share terms.

**Figure 12 : AQQ value is sensitive to costs**

| Capital Costs | Operating Costs: - 20% | Base Case | + 20 % | + 40 % |
|---|---|---|---|---|
| - 25% | *11.7 c* | *10.0 c* | *8.5 c* | *6.9 c* |
| Base Case | 9.8 c | **8.5 c** | 6.9 c | 5.5 c |
| + 25 % | *8.2 c* | *6.8 c* | *5.5 c* | *4.4 c* |
| + 50 % | *6.6 c* | *5.5 c* | *4.5 c* | *3.7 c* |

*Source : Beer & Co estimates*

**Figure 13 : Un-risked Sensitivity to costs**

| Capital Costs | Operating Costs: - 20% | Base Case | + 20 % | + 40 % |
|---|---|---|---|---|
| - 25% | 8.5 c | *18.5 c* | *15.8 c* | *13.0 c* |
| Base Case | 17.8 c | **15.6 c** | 12.8 c | *10.1 c* |
| + 25 % | *14.9 c* | *12.2 c* | *9.8 c* | *7.6 c* |
| + 50 % | *11.5 c* | *9.5 c* | *7.5 c* | *5.9 c* |

Source : Beer & Co estimates

## Commodity Prices

Beer & Co's valuation of AQQ is sensitive to different assumptions as to commodity prices, as shown in Figure 14.

**Figure 14 : AQQ value is sensitive to prices**

| | $ 1,200/oz | $ 1,250/oz | $ 1,300/oz | $ 1,400/oz |
|---|---|---|---|---|
| **0.700** | 8.9 c | 9.8 c | 10.7 c | 12.4 c |
| **0.750** | 7.5 c | **8.5 c** | 9.2 c | 10.8 c |

Source : Beer & Co estimates

**Figure 15 : Un-risked Sensitivity to prices**

| | $ 1,200/oz | $ 1,250/oz | $ 1,300/oz | $ 1,400/oz |
|---|---|---|---|---|
| **0.700** | 16.3 c | 17.9 c | 19.4 c | 22.4 c |
| **0.750** | 13.8 c | **15.6 c** | 15.3 c | 19.6 c |

Source : Beer & Co estimates

## Further Risk Factors

**As well as commodity prices and capital and operating costs, AQQ also has financing and management risks.**

In addition to quantifiable risks, analysed above, there are also less quantifiable risks

- Financing; and
- Management.

AQQ needs to raise $60m in capital to get into operation, compared with its current market capitalisation of $10m.

Also, AQQ slimmed down its management when the gold price was low, and costs were high, and will need to re-build to deliver a project.

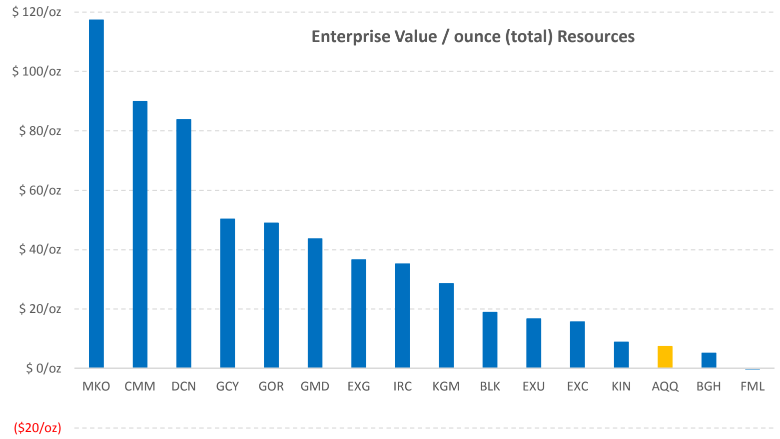
# Conclusions

## Comparisons : EV / Resource ounce

Figure 16 compares the Australian ASX listed gold companies that have JORC Resources, but are not yet in production, which Beer & Co believes is a suitable peer group for AQQ.

**Compared to its peers, AQQ is cheap on a EV per Resource ounce basis**

**Figure 16 : ASX listed gold stocks, EV / Resource ounce**




Source : IRESS, Beer & Co

It shows that AQQ is one of the cheapest gold stocks on the ASX, on an Enterprise Value (ie. market capitalisation less net cash) basis.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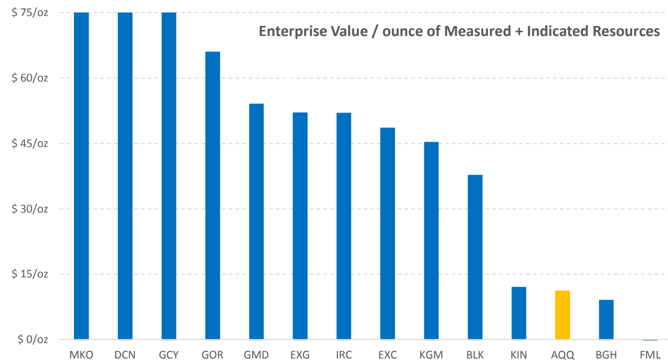
When compared with its peers with at least Indicated Resources, AQQ appears to be a significant discount to most of its peers.

Figure 17 compares only those ASX listed gold stocks, with Australian operations, that have reported Measured or Indicated Resources and compares purely on the basis of Enterprise Value (EV) relative to M + I Resources.

**Figure 17 : Gold stocks WA, EV / oz, M + I Resources**




Source : IRESS, Beer & Co

Figure 17 has truncated the highest values, which are over $200/oz for DCN and $600/oz for MKO.

As with Figure 16, Figure 17 shows that AQQ is one of the cheapest ASX listed gold companies, and a significant discount to most of its peers.

## Comparison : Other economics studies

While some of AQQ's capital and operating costs have been estimated by Beer & Co, when compared with recent, comparable announcements, AQQ costs are in line with or higher than would be expected.

A key thesis is that capital and operating costs have declined while the gold price has increased since 2013, so costs for AQQ now should be expected to be lower than in the 2012 scoping study or the work done in 2013.

On 30 September 2015, DCN announced the results of its scoping study on its Mt Morgans gold project.

On 31 March 2016, Gascoyne Resources announced the results of the Pre-Feasibility Study on their Dalgaranga project.

Both of these projects are open-cut operations.

Figure 18 is a snapshot summary of the results of these 2 studies with that of AQQ as estimated by Beer & Co.

**Figure 18 : Other projects**

| Company | ASX Code | Processing rate | Initial Capital | per tonne | LoM AISC |
|---|---|---|---|---|---|
| Dacian Gold | DCN | 2.5 Mt/yr | $A 157m | $A 63/t | $A 929/oz |
| Gascoyne Resoures | GCY | 2.5 Mt/yr | $A 75m | $A 30/t | $A 913/oz |
| Aphrodite Gold | AQQ | 1.0 Mt/yr | $A 60m | $A 60/t | $A 869/oz |

Source : ASX announcements, Beer & Co

Especially given that AQQ will not have many people on fly-in – fly-out

In our analysis, Beer & Co has assumed that AQQ is able to be operated by people living in the Kalgoorlie district, while the DCN and GCY projects will both require fly-in – fly-out workforces, which increases operating costs by about $40k/yr per person, and also increases capital costs.

Despite these significant cost penalties, Beer & Co's analysis of AQQ generates an estimated cost only about 5% - 6.5% lower than the remote operations, while capital costs, in cost per tonne of capacity, are only in line with the remote DCN project and much higher than GCY.

## Comment

**While there are risks, there is also significant upside potential from a range of sources, including project delivery and better financing**

Our sensitivity analyses all generated values for AQQ that are significantly higher than the current share price.

Comparing Figure 12 with Figure 13 and comparing Figure 14 with Figure 15 showed a significant increase in valuation from successful project delivery.

Beer & Co has assumed a very vanilla financing process, and there is considerable room to generate higher per-share value from being a bit more clever than in this analysis.

## Final Comment

Beer & Co's risked base case valuation of AQQ is 8.5c/share, a multiple of the current share price.

**Beer & Co rates investment in AQQ as Speculative s we have estimated many of the costs.**

Beer & Co rates AQQ as Speculative as our valuation has required Beer & Co to make estimates of many costs. Also, in Beer & Co's view, AQQ will now be challenged to ramp up to deliver the project.

However, sensitivity analysis shows that the investment conclusion is robust, with very significant upside from the current share price.

**Beer & Co rates AQQ as a Strong BUY due to robustness of the investment conclusion**

Beer & Co initiates research on AQQ with a Speculative, Strong BUY recommendation.

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## Beer & Co Research

Aphrodite Gold (AQQ.ASX) — April 2016

| Year ended June | | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|---|---|---|---|
| **Section 1 - P&L** | | | | | | | | | |
| Sales revenue | $A m | 0 | 0 | 0 | 0 | 56 | 107 | 169 | 203 |
| Interest revenue | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Other revenue | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Revenue** | $A m | 0 | 0 | 0 | 0 | 56 | 107 | 169 | 205 |
| Cost of Goods Sold | $A m | 0 | 0 | 0 | 0 | (25) | (46) | (75) | (81) |
| Royalties | | 0 | 0 | 0 | 0 | (3) | (5) | (8) | (10) |
| Corporate Costs | $A m | (0) | (1) | (1) | (1) | (2) | (2) | (2) | (2) |
| Exploration Expense | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Operating Expenses | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total Operating Expenses** | $A m | (0) | (1) | (1) | (1) | (30) | (53) | (85) | (93) |
| **EBITDA** | $A m | (0) | (1) | (1) | (1) | 27 | 54 | 83 | 112 |
| Dep'cn & Amort'sn | $A m | (0) | (0) | 0 | 0 | (17) | (23) | (25) | (25) |
| **EBIT** | $A m | (0) | (1) | (1) | (1) | 10 | 31 | 58 | 87 |
| Interest Expense | $A m | (0) | (0) | 0 | (0) | (6) | (5) | (2) | (0) |
| Other | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Pre-Tax Profit** | $A m | (1) | (1) | (1) | (1) | 4 | 26 | 56 | 86 |
| Tax Expense | $A m | 0 | 0 | 0 | 0 | (1) | (8) | (17) | (26) |
| **NPAT** | $A m | (1) | (0) | (1) | (1) | 3 | 18 | 39 | 60 |
| **Section 2 - Key Data** | | | | | | | | | |
| Ordinary shares - year end | m | 451.4 | 680.7 | 777.9 | 1,366.4 | 1,366.4 | 1,366.4 | 1,366.4 | 1,366.4 |
| Fully diluted shares on issue | m | 486.4 | 715.7 | 812.9 | 1,401.4 | 1,366.4 | 1,366.4 | 1,366.4 | 1,366.4 |
| Weighted # shares | m | 297.3 | 516.8 | 729.3 | 1,366.4 | 1,366.4 | 1,366.4 | 1,366.4 | 1,366.4 |
| Earnings per Share | | (0.3c) | (0.1c) | (0.1c) | (0.1c) | 0.2 c | 1.3 c | 2.9 c | 4.4 c |
| Dividends Per Share | | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c |
| **Section 3 - Balance Sheet** | | | | | | | | | |
| Cash | $A m | 0 | 3 | 0 | 1 | 8 | 22 | 81 | 173 |
| Receivables | $A m | 0 | 0 | 0 | 0 | 3 | 5 | 7 | 7 |
| Inventory | $A m | 0 | 0 | 0 | 0 | 2 | 3 | 4 | 4 |
| Other | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Current Assets** | $A m | 0 | 3 | 0 | 1 | 12 | 29 | 92 | 184 |
| Receivables | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| P , P & E | $A m | 0 | 0 | 0 | 55 | 54 | 61 | 43 | 25 |
| Mining Properties / Exploratior | $A m | 24 | 25 | 30 | 30 | 25 | 19 | 13 | 7 |
| Other | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-Current Assets** | $A m | 24 | 25 | 30 | 85 | 79 | 80 | 57 | 33 |
| **Total Assets** | $A m | 25 | 28 | 30 | 86 | 91 | 109 | 149 | 217 |
| Payables | $A m | 0 | 0 | 0 | 0 | 3 | 5 | 7 | 6 |
| Debt | $A m | 0 | 0 | 0 | 3 | 11 | 11 | 7 | 0 |
| Other | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Current Liabilities** | $A m | 0 | 0 | 0 | 3 | 13 | 16 | 14 | 7 |
| Long Term Debt | $A m | 3 | 0 | 0 | 33 | 29 | 19 | 7 | 0 |
| Other | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Non-Current Liabilities** | $A m | 3 | 0 | 0 | 33 | 29 | 19 | 7 | 0 |
| **Total Liabilities** | $A m | 3 | 0 | 0 | 36 | 43 | 35 | 22 | 7 |
| **NET ASSETS** | $A m | **22** | **28** | **30** | **49** | **49** | **74** | **127** | **210** |
| Accumulated Profit (Loss) | $A m | (3) | (4) | (4) | (5) | (3) | 16 | 55 | 115 |
| Reserves | $A m | 0 | 2 | 2 | (2) | (5) | 2 | 16 | 38 |
| Contributed Equity | $A m | 26 | 30 | 32 | 57 | 57 | 57 | 57 | 57 |
| **Total Equity** | $A m | 22 | 28 | 30 | 49 | 49 | 74 | 127 | 210 |
| **Section 4 - Cashflow** | | | | | | | | | |
| Net Cashflow from operations | $A m | (0) | (1) | (1) | (1) | 27 | 54 | 83 | 112 |
| Hedging | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Paid | $A m | (0) | (0) | 0 | (0) | (6) | (5) | (2) | (0) |
| Taxes Paid | $A m | 0 | 0 | 0 | 0 | 0 | (1) | (8) | (16) |
| Change in Working Capital | $A m | 0 | 0 | 0 | (0) | 0 | (0) | (0) | 0 |
| Other | $A m | | | | | | | | |
| **Operating Cashflow** | $A m | (1) | (1) | (1) | (2) | 21 | 48 | 73 | 95 |
| Exploration / Feasibility | $A m | 0 | (1) | (5) | (0) | 0 | 0 | 0 | 0 |
| Maintenece Capex | $A m | 0 | 0 | 0 | 0 | (1) | (1) | (2) | (1) |
| Expansion Capex | $A m | 0 | 0 | 0 | (55) | (11) | (23) | 0 | 0 |
| **PPE Acquisitions (Total Ca** | $A m | 0 | (1) | (5) | (55) | (11) | (24) | (2) | (1) |
| PPE Divestments | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Investing Cashflow** | $A m | 0 | (1) | (5) | (55) | (11) | (24) | (2) | (1) |
| Change in Equity | $A m | 0 | 4 | 3 | 24 | 0 | 0 | 0 | 0 |
| Dividends Paid | $A m | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | $A m | 3 | (3) | 0 | 36 | 4 | (10) | (16) | (14) |
| **Financing Cashflow** | $A m | 3 | 1 | 3 | 61 | 4 | (10) | (16) | (14) |
| **Free Cashflow** | $A m | (1) | (1) | (6) | (56) | 9 | 24 | 71 | 94 |
| **Net Cashflow** | $A m | 2 | 0 | (3) | 4 | 13 | 14 | 56 | 79 |

**Major shareholders**

| | | | |
|---|---|---|---|
| Peter Buttigieg | Executive Chairman | 203.1m | 43.3 % |

**Commodity price assumptions**

| Year ended June | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|---|---|---|
| AUD-USD | | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 | 0.750 |
| Gold | US$ / oz | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 | 1,250 |
| | AUD / oz | 1,667 | 1,667 | 1,667 | 1,667 | 1,667 | 1,667 | 1,667 |

**Mine Production**

| | | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
|---|---|---|---|---|---|---|---|---|
| Oxide / transitonal | | | | | | | | |
| Ore processed | '000t | 0 | 0 | 725 | 399 | 0 | 0 | 0 |
| Gold grade | | 1.63 g/t | 1.63 g/t | 1.63 g/t | 1.63 g/t | 0.00 g/t | 0.00 g/t | 0.00 g/t |
| Gold produced | (ounces) | 0 | 0 | 33,820 | 18,999 | 0 | 0 | 0 |
| Open Cut Primary | | | | | | | | |
| Ore processed | '000t | 0 | 0 | 0 | 601 | 625 | 450 | 0 |
| Gold grade | | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t | 2.75 g/t |
| Gold produced | (ounces) | 0 | 0 | 0 | 44,982 | 45,992 | 51,693 | 0 |
| Under-ground | | | | | | | | |
| Ore processed | '000t | 0 | 0 | 0 | 0 | 375 | 600 | 600 |
| Gold grade | | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t | 5.50 g/t |
| Gold produced | (ounces) | 0 | 0 | 0 | 0 | 55,178 | 68,924 | 93,376 |

**Resources**

| | Indicated Resources | | | Inferred Resources | | | TOTAL | | |
|---|---|---|---|---|---|---|---|---|---|
| Less than 150m below surface, 0.5g/t cut-off | | | | | | | | | |
| Oxide | 1,670 kt | 1.17 g/t | 63koz | 2,060 kt | 1.04 g/t | 69koz | 3,730 kt | 1.10 g/t | 132koz |
| Transition | 4,950 kt | 0.96 g/t | 153koz | 6,720 kt | 0.88 g/t | 190koz | 11,670 kt | 0.91 g/t | 343koz |
| Primary | 7,290 kt | 1.39 g/t | 326koz | 2,740 kt | 1.25 g/t | 110koz | 10,030 kt | 1.35 g/t | 436koz |
| Total | 13,910 kt | 1.07 g/t | 479koz | 11,520 kt | 1.00 g/t | 369koz | 25,430 kt | 1.11 g/t | 911koz |
| From more than 150m to less than 440m below surface | | | | | | | | | |
| Primary | 2,480 kt | 4.47 g/t | 356koz | 830 kt | 4.79 g/t | 128koz | 3,310 kt | 4.55 g/t | 484 kt |
| **TOTAL** | **16,390 kt** | **1.58 g/t** | **835koz** | **12,350 kt** | **1.25 g/t** | **497koz** | **28,740 kt** | **1.51 g/t** | **1,395koz** |

**Mining Inventory**

| | | | |
|---|---|---|---|
| **High Grade** | | | |
| Oxide / Transitional | 1,124 kt | 1.63 g/t | 59koz |
| Open Cut, Primary | 1,676 kt | 2.75 g/t | 148koz |
| Total, Open Cut | 2,800 kt | 2.3 g/t | 207koz |
| Underground | 2,300 kt | 5.5 g/t | 407koz |
| **TOTAL, HIGH GRADE** | **5,100 kt** | **3.7 g/t** | **614koz** |
| **Low Grade** | | | |
| Oxide / Transitional | 8,000 kt | 1.00 g/t | 257koz |
| Open Cut, Primary | 6,000 kt | 1.15 g/t | 222koz |
| **TOTAL, LOW GRADE** | **14,000 kt** | **1.1 g/t** | **479koz** |

**Costs, AUD / oz**

| | LoM | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 |
|---|---|---|---|---|---|---|---|---|
| **C 1 cash costs** | **911** | 739 | 715 | 739 | 663 | 693 | 696 | 825 |
| **All-In** | **1,151** | 902 | 849 | 857 | 774 | 808 | 811 | 965 |

**Asset based Valuation**

| discount rate = 12 % | | 30 June 2015 | | | 23-Apr-16 |
|---|---|---|---|---|---|
| | risk : | 100% | Product | per share | |
| Oxide / transitonal | 65% | ($ 9m) | ($ 6m) | (0.4c) | (0.5c) |
| Open Cut Primary | 50% | $ 33m | $ 17m | 1.2 c | 1.5 c |
| franking credits | 30% | $ 5m | $ 1m | 0.1 c | 0.1 c |
| Under-ground | 50% | $ 106m | $ 53m | 3.9 c | 4.7 c |
| franking credits | 30% | $ 21m | $ 6m | 0.5 c | 0.6 c |
| Open cut - Low Grade | 50% | $ 18m | $ 9m | 0.7 c | 0.8 c |
| franking credits | 30% | $ 7m | $ 2m | 0.1 c | 0.2 c |
| Exploration | 125% | ($ 9m) | ($ 11m) | (0.8c) | 0.2 c |
| Corporate | 100% | ($ 11m) | ($ 11m) | (0.8c) | (0.9c) |
| Cash / Debt | 100% | $ 0m | $ 0m | 0.0 c | 0.2 c |
| Equity raisings | 100% | $ 23m | $ 23m | 1.7 c | 1.6 c |
| **TOTAL** | | **$ 184m** | **$ 84m** | **6.1 c** | **8.5 c** |
| Shares on issue | | 451.4m | F P O shares | 35.0m | Options |
| | | 229.3m | Issued FY16 | 35.0m | Ops. Ex'd |
| | | 650.7m | Issued later | | |

**Financial Ratios**

| Year ended June | | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 | 2020-21 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $A m | 0 | 0 | 0 | 0 | 56 | 107 | 169 |
| EBITDA | $A m | (0) | (1) | (1) | (1) | 27 | 54 | 83 |
| EBIT | $A m | (0) | (1) | (1) | (1) | 10 | 31 | 58 |
| NPAT (reported) | $A m | (1) | (0) | (1) | (1) | 3 | 18 | 39 |
| Adjusted EPS (cps) | | (0.3c) | (0.1c) | (0.1c) | (0.1c) | 0.2 c | 1.3 c | 2.9 c |
| EPS Growth (%) | | | | (56%) | 35 % | 419 % | 589 % | 114 % |
| DPS (c) | | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c | 0.0 c |
| Dividend Yield (%) | | 0 % | 0 % | 0 % | 0 % | 0 % | 0 % | 0 % |
| PE adj. (x) | x | (2.7) | (36.6) | (23.4) | (36.0) | 11.3 | 1.6 | 0.8 |
| EV / EBITDA (x) | x | (13.4) | (16.0) | (17.5) | (68.2) | 2.3 | 0.7 | (0.4) |
| EV / EBIT (x) | x | (12.6) | (15.8) | (17.5) | (68.2) | 6.4 | 1.3 | (0.6) |
| Gearing (%) | | 10 % | 0 % | 0 % | 42 % | 44 % | 28 % | 10 % |
| Return on Assets | | (2%) | (3%) | (3%) | (1%) | 11 % | 28 % | 39 % |
| Return on Equity | | (3%) | (1%) | (2%) | (2%) | 5 % | 25 % | 31 % |
| EBITDA Margin (%) | | n/a | n/a | n/a | n/a | 47 % | 50 % | 49 % |
| Interest Cover (x) | x | n/a | n/a | n/a | n/a | (1.6) | (6.7) | (25.6) |


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A Director of Beer & Co provides company secretarial services to Aphrodite Gold Limited.

**Analyst Certification**
The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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