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# Talga Group Ltd (TLG)

## FEED complete, next up - Supreme court decision

**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$0.785**  
**Valuation**  
**\$2.35** (previously \$2.50)  
**Risk**  
**Speculative**

**GICS Sector**

**Materials**

**Expected Return**

Capital growth	<b>199%</b>
Dividend yield	<b>0%</b>
Total expected return	<b>199%</b>

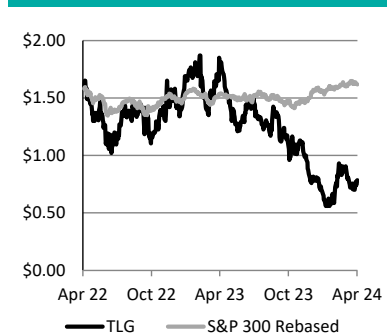
**Company Data & Ratios**

Enterprise value	<b>\$265m</b>
Market cap	<b>\$298m</b>
Issued capital	<b>380m</b>
Free float	<b>93%</b>
Avg. daily val. (52wk)	<b>\$1m</b>
12 month price range	<b>\$0.55-\$1.92</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.88	0.73	1.70
Absolute (%)	-10.3	7.5	-53.7
Rel market (%)	-10.8	4.3	-59.7

**Absolute Price**



SOURCE: IRESS

### FEED completion ✓, permitting remains the key.

TLG have provided an update on estimated capital costs at the Vittangi natural graphite anode project following the completion of its front-end engineering and design work (FEED). Capex rose modestly (+12% vs BPe) to €560m + €39m in contingency. We had previously estimated US\$570m including a \$47m contingency. On a positive note, TLG believes the optimisation of the plant will drive a 23% saving in energy requirements. The key hurdle remains the Supreme Court decision as to whether the appeals to TLG's environmental permit will be heard. Once a decision has been made, TLG will be clear to progress the development of Vittangi (if appeals are dismissed) or the Environmental Court (which granted the licence) will have to hear the appeals to TLG's licence. Either way we view the outcome as ending in a permit being granted, with the only difference being time. This therefore presents an attractive risk vs reward trade off. If there were a 12m delay in hearing the appeals, our valuation is reduced by 9% to \$2.12 (+170% upside on current prices). An excessive 3-year delay reduces our valuation by 25% to \$1.75 (+130% upside).

### Sparks flying, only a matter of time...

Global EV sales continue to advance rapidly, eventually we see this translating to upstream commodities like graphite and rare earths. The recent bans on the export of graphite products from China are yet to be witnessed in pricing, despite flake graphite exports from China being down 64% in Jan and Feb 24 vs a year prior. Whilst normalisation may occur in the months coming as export permits are granted, the impact to how OEM's view their supply chains will last a lot longer.

### Investment thesis: Buy (Spec), Valuation \$2.35/sh

We maintain our speculative Buy rating following the update, and reduce our valuation to \$2.35/sh (previously \$2.50) fully diluted and funded. Key milestones over the next 12 months which support our thesis for TLG include 1) Environmental permit clearance 2) Binding offtake for ~75% of production, 3) project funding (BPe 60/40 debt/equity) and 4) construction commencement (BPe 2HCY24).

**Earnings Forecast**

Year end 30 June	2023a	2024e	2025e	2026e
Sales (A\$m)	0	0	23	141
EBITDA (A\$m)	-40	-26	-13	71
NPAT (reported) (A\$m)	-43	-47	-53	5
NPAT (adjusted) (A\$m)	-43	-47	-53	5
EPS (adjusted) (eps)	(12.0)	(7.7)	(8.7)	0.8
EPS growth (%)	0%	-36%	13%	-109%
PER (x)	0.0 x	0.0 x	0.0 x	102.7 x
FCF Yield (%)	-13%	-64%	-2%	9%
EV/EBITDA (x)	-6.6 x	-27.9 x	-62.1 x	10.8 x
Dividend (eps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-91%	-13%	-17%	2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Vittangi FEED update

## Highlights from the announcement:

- Optimised equipment and process design reduces the number of purification and anode production lines required at the Refinery, reducing the building footprint and improving energy needs.
- Anode production process configured and qualified to customer requirements, facilitating battery maker and automotive OEM offtake negotiations.
- Positive update to capital expenditure to a total of €560m (excluding €39m contingency) amid inflationary macro environment.
- Identified near term initial Refinery capacity expansion opportunity subject to further technical and commercial work underway.

**Table 1 - Capital cost increase**

Direct capex		BPe	TLG Updated	Change %
Mining & Crushing	US\$m	16.7		
Concentrator	US\$m	87.1		
Purification	US\$m	90.5		
Coating	US\$m	184.6		
<b>Subtotal</b>	<b>US\$m</b>	<b>379.0</b>		
<b>Indirect Capex</b>				
Concentrator	US\$m	9.8		
Purification	US\$m	14.1		
Coating	US\$m	22.6		
<b>Subtotal</b>	<b>US\$m</b>	<b>46.4</b>		
Infrastructure	US\$m	97.6		
Contingency	US\$m	47.6	41.5	
<b>Total</b>	<b>US\$m</b>	<b>570.6</b>	<b>637.2</b>	<b>12%</b>

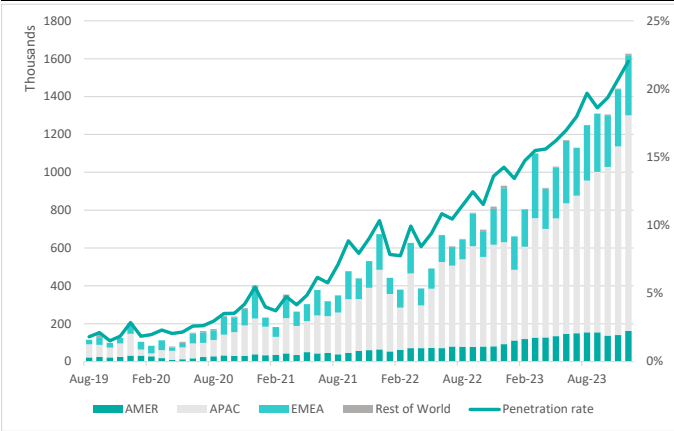
SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, EUROP CONVERTED TO USD FOR COMPARISON AT 0.94

## Risk vs reward

From our view, we see a positive risk / reward trade-off for TLG at these levels with respect to the **Environmental permit** – if the Supreme Court dismisses the appeals to TLGs granted permit, then we suspect an immediate re-rating in the stock. **If the Supreme Court accepts the appeals**, this will then revert the case back to the Environmental Court which must assess the appeals. Given the support for the project in the Environmental Court, evidenced by the previous granting of the licence, we view the outcome as being the identical, i.e. TLG is granted its permit in which case the project will be approved for development. The only difference between the two outcomes is time to development in our opinion. Pushing our valuation out by a further 12m has a -9% reduction to our post funding valuation, effectively dropping the valuation to \$2.12/sh (+170% upside on the current stock price). Running an alternative scenario in which the project is delayed by 3 years reduces our valuation to \$1.75 (-25%) and still implying a +130% upside.

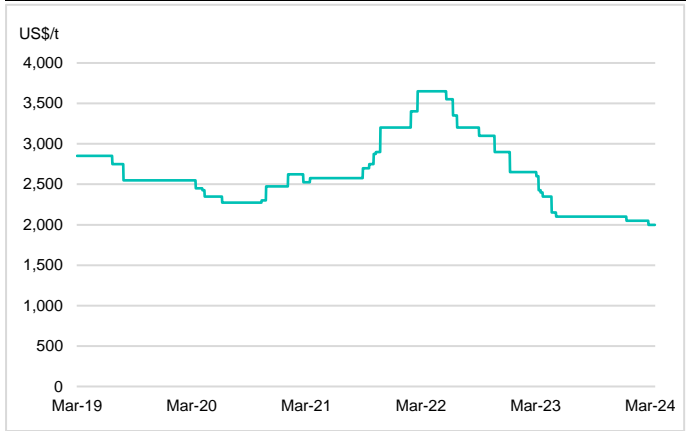
# All is needed is a spark

**Figure 1 - EV sales expanded rapidly in 2HCY23, raw materials lagging**



SOURCE: BLOOMBERG, BELL POTTER SECURITIES ESTIMATES

**Figure 2 - SPG pricing remains depressed**



SOURCE: FASTMARKETS

**What do we know?** – Graphite anodes can be found in almost all EV’s, and are made up of either Synthetic (current dominant source ~60%), natural (~40%) or a mixture of both. Synthetic anodes are typically more expensive due to energy intensity in graphitisation, and are there for more pollutive. Over 95% of battery anodes are produced in China, taking the spheroidized + purified graphite (SPG) and coating the particles for use as active anode material. This process of coating has attracted historical premiums to the SPG price of between US\$3,600/t for low quality anodes to US\$18,000/t for high-quality anodes.

**When will we see graphite prices lift?** – Graphite prices will have to lift to support current production in China and to incentivise ex-China sources of supply. When that occurs is difficult to estimate, we currently see an increase in demand for EV’s which should drive an increase in demand for battery anodes all else being equal. Secondly, whilst the recent export bans from China may stem the flow of graphite products initially until businesses are granted permits to export, the threat to downstream users will force their hand to secure ex-China sources of supply.

# Valuation & Recommendation

## Recommendation

We maintain a **Speculative Buy recommendation for TLG**. Our DCF valuation drops to **\$2.35/sh Valuation for TLG on inclusion of higher capital costs** and an updated cash balance. We see TLG's vertically integrated, mine to anode, business model as attractively capturing downstream margins.

## Valuation

We have utilised a sum-of-the-parts discounted cash flow approach to value TLG, combining a discounted present valuation of the Nunasvaara South (Stage 1) and Niska (Stage 2) on a risked basis. We have included a present value for corporate overheads (-\$90m) and nominal value for further exploration (\$50m). To account for dilution, we have assumed a capital raise of A\$342m @\$1.35/sh, we have not factored in an assumed raise for Stage-2. We arrive at a risked, diluted + funded valuation for the business of \$2.35/sh, rounded to the nearest 5c.

**Table 2 - TLG sum-of-the-parts DCF valuation**

Ordinary Shares (basic)	m	380
Options in the money	m	0
<b>Diluted</b>	<b>m</b>	<b>380</b>
<hr/>		
<b>Sum-of-the-parts</b>	<b>A\$m</b>	<b>A\$/sh</b>
Nunasvaara South (Stage 1) - NPV 10%, 90% risked	\$279	\$0.74
Niska (Stage 2) - NPV 10%, 50% risked	\$878	\$2.31
Exploration/ Other	\$50	\$0.13
Corporate overheads	-\$90	\$(0.24)
Subtotal	\$1,117	\$2.94
Net cash (debt)	\$33	\$0.09
<b>Total undiluted</b>	<b>\$1,150</b>	<b>\$3.03</b>
Cash from options	\$-	\$-
<b>Total diluted (unfunded)</b>	<b>\$1,150</b>	<b>\$3.03</b>
Assumed raise - (\$1.35 x 262m shares)	\$344	642 m
<b>Total diluted + funded</b>	<b>\$1,494</b>	<b>\$2.33</b>

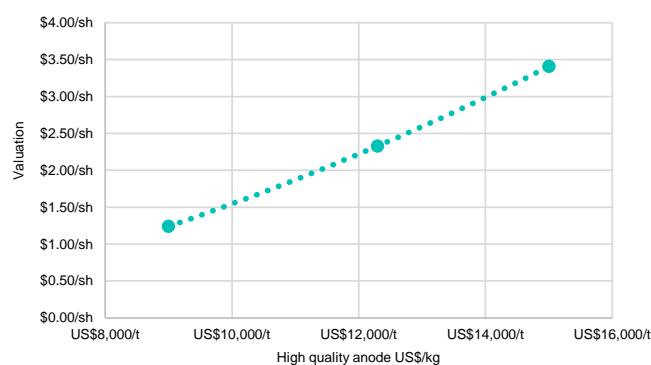
SOURCE: BELL POTTER SECURITIES ESTIMATES

**Figure 3 – DCF valuation sensitivity (unfunded)**

	Low	Bell Potter	High
<b>Anode price deck</b>	<b>US\$9,000/t</b>	<b>US\$12,295/t</b>	<b>US\$15,000/t</b>
Nunasvaara South (Stage 1) - NPV 10%, 90% risked	32	279	598
Niska (Stage 2) - NPV 10%, 50% risked	428	878	1,252
Other	-40	-40	-40
EV (risked)	420	1,117	1,809
Net debt/(cash) + options	-33	-33	-33
<b>Equity value</b>	<b>\$453m</b>	<b>\$1,150m</b>	<b>\$1,842m</b>
Diluted shares on issue	380m		
Assumed raise - (\$1.35 x 262m shares)	\$344m	642m	
<b>Equity value (diluted &amp; funded) \$/sh</b>	<b>\$1.24/sh</b>	<b>\$2.33/sh</b>	<b>\$3.41/sh</b>
Share price	\$0.79/sh		
Uplift	58%	197%	334%

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Figure 4 - Valuation sensitivity graph (unfunded)**



SOURCE: BELL POTTER SECURITIES ESTIMATES

# Investment thesis

## Recommendation – Speculative Buy \$2.35/sh

Our investment thesis is based on:

### 1. Natural Graphite in deficit over the next decade as demand outstrips supply

- a. **Demand:** We estimate the demand for batteries in EVs to be 4,632 GWh by 2030 and 14,128 GWh by 2040 (BPe 2022 ~528 GWh). At an average EV basis of 72kWh, this assumes EV sales CAGR of 20% out to 2040, at which point EV's as a proportion of total vehicle sales is roughly 95%. To reach these expectations, we estimate the demand for natural coated spherical purified graphite (CSPG) to expand to 2.4Mt by 2030 and 3.6Mt by 2040 from 2021 levels of ~0.4Mt (BPe 2022 0.63Mt). As graphite makes up ~90% of the volume of the anode, the translation through to anode demand is similar.
- b. **Supply:** We estimate the current supply of natural graphite concentrate at 1.1Mtpa. Furthermore ~70% of natural graphite concentrate supply currently resides in China with greater concentration (~99%) in downstream purification, spheroidization and refining into anode material. A push towards decentralized supply routes for EV manufacturers should support ex-China processing, however we note that the road to market for battery anode material is long and, for most may be an uneconomic one, due to the characteristics of the underlying orebody, processing costs and qualification process. Whilst we have assumed supply additions of ~830ktpa of graphite concentrate to the end of the decade makes its way through to the EV market we view most projects as being inherently risky, with limited commercial studies underpinning production estimates.
- c. **Outlook, pricing and volume:** With both supply and demand considered, we anticipate a growing supply deficit in natural graphite and by extension anode material, supporting prices out to the end of the decade. Anode pricing is currently opaque, with a wide variety in price points dependent upon EV specifications. High-grade synthetic graphite prices (which feed into top tier European EV's) are forecasted by Benchmark Minerals Intelligence to reach US\$20,000/t by 2025.

### 2. TLG, most advanced, High-grade battery anode business

- a. TLG's core business is the mining and concentrating of graphite at its 100% owned Vittangi mine in Northern Sweden. Graphite concentrate will then be trucked 280km south to Luleå, where further refining, spheroidization, purification and coating produces a battery anode product for direct sales into the European car manufacturing sector.
- b. **Downstream business supported by high-grade, unique deposit –** the unique characteristics of the Vittangi ore-body (being highly-crystalline 100% fine flake graphite) supports the production of premium natural graphite anode material with minimal yield losses (9%) through to a final product. The location of the business (adjacent to hydro-power infrastructure) helps to reduce operating expenses whilst simultaneously minimising environmental impact. TLG's high-quality, low-impurity anode product is suited to high-performance EV's and battery products and is likely to be priced at a premium, similarly to synthetic graphite anodes.
- c. **Nunasvaara, & Luleå Stage 1 –** With the environmental permit approved on 6<sup>th</sup> April 2022, TLG can advance Stage 1 of its vertically integrated graphite

business. Stage 1 anticipates 19.5ktpa of TLG's patented battery anode material (Talnode-C). We have assumed construction beginning in 2H CY23 with an 18-to-24 month build time, which should see production beginning in 3QFY25 (Mar-25). We have assumed a 12 month ramp up period, to a steady state production level of ~19.5ktpa on average over a 24 year mine life. We have assumed total capital cost of US\$571m (TLG DFS US\$484m) and operating costs of US\$2,647/t Talnode-C, with a LOM sales price for Talnode-C of US\$12,295. We have risked our post tax NPV<sup>10%</sup> by 10% to arrive at a current equity valuation in AUD (utilising a \$0.74 exchange rate) of A\$341m.

- d. Stage 2 takes capacity to over 100ktpa, of anode production, supported by an underground mining operation of the Niska deposit. For Stage 2, we have assumed production beginning in CY28, with a capital cost of US\$1,353m (TLG Scoping study US\$1,246m), operating costs of US\$2,625/t Talnode-C and LOM sales price for Talnode-C of US\$12,295 and Talphene-Si US\$15,000/t. We have risked our post tax NPV<sup>10%</sup> by 50% to arrive at a current equity valuation in AUD (utilising a \$0.74 exchange rate) of A\$878m. Advancing through funding, offtake, permitting and the performance of Stage 1, will warrant an unwinding of our risk discount for Stage 2.

### 3. Ticking the boxes for institutional investors

- a. We believe TLG will appeal to institutional investors for the following reasons:
- i. TLG's vertically integrated mine to anode business model reduces intermediary overheads, whilst attracting premiums for the high-quality product for use in Tier-1 European EV's. Whilst margins may compress over-time with the entrance of additional anode capacity, we see TLG being better positioned to protect margins.
  - ii. TLG boasts a strong management team who have grown the business and are directly aligned with the performance of the shares. CEO Mark Thompson is the largest individual holder on the register with 4% of shares on issue.
  - iii. Proximity to customers, and low-cost hydroelectricity reduces TLG's carbon footprint, appealing to ESG conscious investors as well as auto manufacturers requiring visibility of environmental footprint for components.

#### Potential catalysts

1. Construction commencement (2HCY24)
2. Binding offtake (Now to 2HCY24)
3. Funding (2HFY24)
4. Production (Stage 1) (BPe 3QFY25)
5. Production (Stage 2) (BPe CY28)

# Graphite market

## Demand & Supply overview

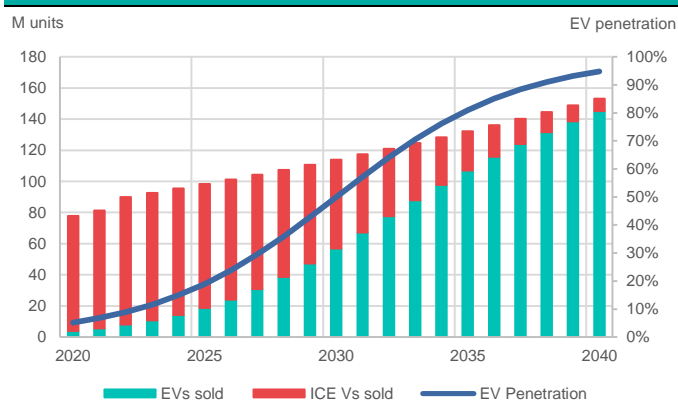
We have provided below our outlook for graphite demand and supply primarily driven from the expansion of EV adoption. For the purpose of this analysis we have begun with an analysis of demand for CSPG from EV adoption, and worked back towards demand for graphite concentrate.

**Table 3 - Graphite demand modelling: Light passenger electric vehicles**

		2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2040
<b>Global passenger vehicle market</b>													
Passenger vehicle sales	m units	78	81	90	93	95	98	101	104	107	111	114	153
Growth rate	%		4.6%	10.7%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EV market penetration	%	5%	7%	9%	12%	15%	19%	24%	30%	36%	43%	50%	95%
EV sales	m units	4	6	8	11	14	19	24	31	39	47	57	145
<b>Graphite intensity</b>													
Average kWh capacity per EV	kWh	65	65	66	66	67	67	69	71	74	77	81	97
Market GWh capacity required	GWh	264	364	528	710	949	1,261	1,665	2,185	2,844	3,661	4,632	14,128
Average kg CSPG per kWh	kg / kWh	1.20	1.20	1.20	1.19	1.19	1.18	1.17	1.16	1.14	1.11	1.08	0.96
Total CSPG demand	kt	317	436	632	847	1,128	1,490	1,950	2,526	3,230	4,061	5,002	13,586
Less: Scrap supply	kt	0	0	0	1	2	5	11	23	47	96	190	6,278
Primary CSPG Demand	kt	317	436	631	846	1,125	1,485	1,940	2,504	3,182	3,965	4,812	7,308
<b>Graphite market share</b>													
Natural graphite	%	42%	43%	45%	46%	47%	48%	49%	49%	49%	50%	50%	50%
Synthetic graphite	%	58%	57%	56%	54%	53%	52%	51%	51%	51%	50%	50%	50%
Natural CSPG demand	kt	133	188	281	388	529	713	944	1,231	1,575	1,970	2,397	3,654
Yield - CSPG production	%	52%	53%	53%	54%	55%	55%	56%	57%	58%	59%	60%	68%
Other graphite concentrate demand	kt	600	618	637	656	675	696	716	738	760	783	806	831
Growth rate	%	0%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Global graphite concentrate demand	kt	854	974	1,163	1,374	1,644	1,982	2,397	2,894	3,474	4,121	4,801	5,456
<b>Natural graphite concentrate supply</b>													
Existing supply	kt	695	914	978	1,075	1,285	1,335	1,282	1,621	1,717	1,570	1,680	3,306
Probable additional supply (staged)	kt	0	0	0	29	165	137	0	249	249	0	0	0
Cumulative additional supply	kt	0	0	0	29	194	330	330	579	828	828	828	828
Total concentrate supply	kt	695	914	978	1,103	1,478	1,665	1,612	2,200	2,545	2,398	2,508	4,134
<b>Supply/ Demand balance</b>													
	kt	-159	-60	-185	-271	-166	-318	-785	-694	-929	-1,723	-2,292	-1,322
<b>As a % of supply</b>													
		23%	7%	19%	25%	11%	19%	49%	32%	37%	72%	91%	32%

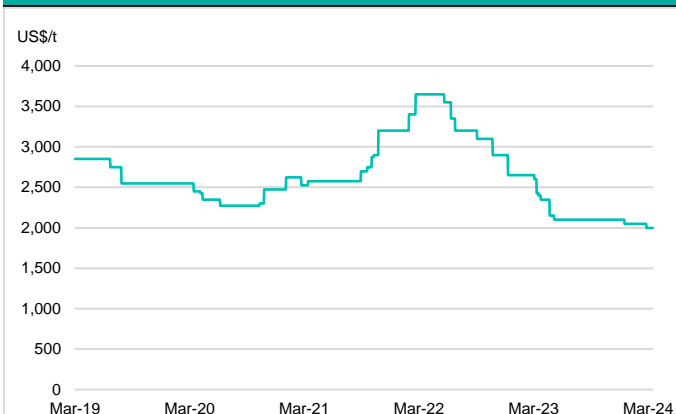
SOURCE: BELL POTTER SECURITIES ESTIMATES, UNITED STATES GEOLOGICAL SURVEY

**Figure 5 – Global passenger vehicles & EV take-up**



SOURCE: BELL POTTER SECURITIES ESTIMATES

**Figure 6 – Spherical graphite 99.95% Cg 15 micron, fob China**



SOURCE: BELL POTTER SECURITIES ESTIMATES

# Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Mining companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks:** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.



Table 4 - Financial summary

ASSUMPTIONS							FINANCIAL RATIOS												
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E				
<b>COMMODITY PRICE</b>							<b>VALUATION</b>												
High-Quality Anode price	US\$/t	12,000	12,000	12,563	12,698	12,719	12,278	NPAT	A\$/m	(20)	(37)	(43)	(47)	(53)	5				
Spherical graphite 99.95%, 15 µm, fob China	US\$/t	2,446	3,036	2,730	2,694	2,692	2,250	Reported EPS	Ac/sh	(6.6)	(12.1)	(12.0)	(7.7)	(8.7)	0.8				
AUD/USD	A\$/US\$	0.75	0.73	0.73	0.73	0.74	0.74	Adjusted EPS	Ac/sh	(6.6)	(12.1)	(12.0)	(7.7)	(8.7)	0.8				
<b>PRODUCTION &amp; COST</b>							<b>LIQUIDITY &amp; LEVERAGE</b>												
Talnode-C	tpa	-	-	-	-	2,684	11,632	EPS growth	%	21%	82%	0%	-36%	13%	-109%				
Operating cost	A\$/t	-	-	-	-	2,647	2,647	PER	x	0.0 x	0.0 x	0.0 x	0.0 x	0.0 x	102.7 x				
<b>PROFIT AND LOSS</b>							<b>ORE RESERVES AND MINERAL RESOURCES</b>												
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Vittangi Graphite Project (100%)			Mt	TGC %	Mt						
Revenue	A\$/m	0.1	0.0	0.3	0.0	23.0	141.0	<b>Mineral Resources</b>											
Expense	A\$/m	(19.3)	(35.8)	(39.9)	(25.6)	(35.6)	(70.4)	Measured			0.0	0.0%	-						
EBITDA	A\$/m	(19.2)	(35.8)	(39.6)	(25.6)	(12.6)	70.6	Indicated			27.8	23.8%	6.6						
Depreciation	A\$/m	(0.7)	(1.0)	(3.8)	(0.8)	(8.3)	(33.3)	Inferred			9.0	21.2%	1.9						
EBIT	A\$/m	(19.9)	(36.8)	(43.4)	(26.4)	(20.9)	37.4	<b>Total</b>			<b>36.9</b>	<b>23.1%</b>	<b>8.5</b>						
Net interest expense	A\$/m	0.0	0.0	0.0	(24.9)	(33.2)	(33.2)	<b>Ore Reserves</b>											
Unrealised gains (Impairments)	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	Proven			0	0.0%	-						
Other	A\$/m	0.0	0.0	0.0	4.7	1.2	0.4	Probable			2.26	24.1%	0.54						
PBT	A\$/m	(19.9)	(36.8)	(43.4)	(46.5)	(52.8)	4.6	<b>Total</b>			<b>2.26</b>	<b>24.1%</b>	<b>0.54</b>						
Tax expense	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	<b>DCF VALUATION</b>											
NPAT (reported)	A\$/m	(19.9)	(36.8)	(43.4)	(46.5)	(52.8)	4.6	<b>Ordinary shares (m)</b>			380								
NPAT (underlying)	A\$/m	(19.9)	(36.9)	(43.4)	(46.5)	(52.8)	4.6	<b>Options in the money (m)</b>			-								
<b>CASH FLOW</b>							<b>Sum-of-the-parts valuation</b>												
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E												
<b>OPERATING CASHFLOW</b>							<b>Current</b>							<b>+ 12 months</b>			<b>+ 24 months</b>		
Receipts	A\$/m	0.1	0.1	0.3	2.9	11.8	132.7	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh	\$m	\$/sh				
Payments	A\$/m	(3.9)	(8.4)	(9.6)	(6.1)	(23.3)	(54.8)	Nunasvaara South (Stage 1) - NPV 10%, 90% risked	279	0.74	307	0.81	1,116	2.94					
Tax	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	Niska (Stage 2) - NPV 10%, 50% risked	878	2.31	966	2.54	1,062	2.80					
R&D + Exploration	A\$/m	(13.4)	(20.4)	(28.2)	(18.0)	(18.0)	(18.0)	Corporate overheads	(90)	(0.24)	(90)	(0.24)	(90)	(0.24)					
Other	A\$/m	1.4	2.1	1.3	0.0	0.0	0.0	Subtotal	1,117	2.94	1,183	3.11	2,088	5.50					
Operating cash flow	A\$/m	(15.9)	(26.5)	(36.2)	(21.1)	(29.5)	59.9	Net cash (debt)	33	0.09	(417)	(1.10)	(484)	(1.27)					
<b>INVESTING CASHFLOW</b>							<b>Total (undiluted)</b>							<b>1,150</b>	<b>3.03</b>	<b>766</b>	<b>2.02</b>	<b>1,604</b>	<b>4.22</b>
Property, plant and equipment	A\$/m	(1.9)	(12.4)	(6.4)	(757.7)	(5.4)	(10.8)	Add Options in the money (m)			-			-					
Mine development	A\$/m	0.0	0.6	0.0	0.0	0.0	0.0	Add cash			-			-					
Other	A\$/m	0.3	(0.5)	(0.0)	0.0	0.0	0.0	<b>Total (diluted)</b>			<b>1,150</b>	<b>3.03</b>	<b>766</b>	<b>2.02</b>	<b>1,604</b>	<b>4.22</b>			
Investing cash flow	A\$/m	(1.7)	(12.4)	(6.4)	(757.7)	(5.4)	(10.8)	Assumed raise - (\$.15 x 262m shares)			344			344					
Free Cash Flow	A\$/m	(17.5)	(39.0)	(42.7)	(778.8)	(34.9)	49.1	<b>Total diluted + funded</b>			<b>1,494</b>	<b>2.33</b>	<b>1,110</b>	<b>1.73</b>	<b>1,948</b>	<b>3.04</b>			
<b>FINANCING CASHFLOW</b>							<b>CAPITAL STRUCTURE</b>												
Share issues/(buy-backs)	A\$/m	65.0	0.0	72.1	354.3	0.0	0.0	Shares on issue			m			380					
Debt proceeds/ (repayments)	A\$/m	0.0	0.0	0.0	(20.1)	(31.9)	(32.7)	Escrow shares / other			m			-					
Dividends	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	<b>Total shares on issue</b>			m			380					
Other	A\$/m	(0.1)	(0.5)	(4.3)	499.4	0.0	0.0	<b>Share price</b>			A\$/sh			0.79					
Financing cash flow	A\$/m	65.0	(0.5)	67.9	833.6	(31.9)	(32.7)	Market capitalisation			A\$/m			298					
Change in cash	A\$/m	47.4	(39.5)	25.2	54.8	(66.8)	16.3	Net cash			A\$/m			33					
<b>BALANCE SHEET</b>							<b>Enterprise value (undiluted)</b>												
Year Ending June	Unit	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E	Options outstanding (m)			m			-					
<b>ASSETS</b>							<b>Options in the money (m)</b>												
Cash & short term investments	A\$/m	52.5	13.0	38.2	93.0	26.2	42.5	Issued shares (diluted for options)			m			380					
Accounts receivable	A\$/m	2.7	1.5	2.5	0.1	11.4	19.6	Market capitalisation (diluted)			m			298					
Property, plant & equipment	A\$/m	4.8	15.2	20.7	777.6	774.7	752.2	Net cash + options			A\$/m			-					
Mine development expenditure	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	<b>Enterprise value (diluted)</b>			A\$/m			265					
Exploration & evaluation	A\$/m	0.3	0.4	0.1	0.1	0.1	0.1	<b>MAJOR SHAREHOLDERS</b>											
Other	A\$/m	0.7	3.0	3.6	3.0	8.0	10.4	Shareholder			%			m					
Total assets	A\$/m	61.0	33.2	65.1	873.8	820.3	824.9	Mark Thompson			4%			14.4					
<b>LIABILITIES</b>							Yandal Investments Pty Ltd							1%			5.0		
Accounts payable	A\$/m	5.0	4.0	4.8	6.3	5.6	5.6	Anthony Holman			1%			3.6					
Income tax payable	A\$/m	0.0	0.0	0.0	0.0	0.0	0.0	Insignia Financial Ltd			1%			2.6					
Borrowings	A\$/m	0.0	0.0	0.0	510.0	510.0	510.0				7%			25.6					
Other	A\$/m	0.9	2.5	3.3	3.3	3.3	3.3												
Total liabilities	A\$/m	5.9	6.5	8.2	519.7	519.0	519.0												
<b>SHAREHOLDER'S EQUITY</b>																			
Share capital	A\$/m	130.2	133.5	203.4	546.2	546.2	546.2												
Reserves	A\$/m	11.1	16.1	19.9	19.9	19.9	19.9												
Retained earnings	A\$/m	(86.2)	(123.0)	(166.3)	(212.9)	(265.7)	(261.0)												
Total equity	A\$/m	55	27	57	353	300	305												
Weighted average shares	m	300	305	361	605	605	605												

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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