

A1 CONSOLIDATED GOLD

Research Note

POISED TO DELIVER

Investment Highlights

- A1 Consolidated Gold (AYC) is poised to commence bulk underground mining at its A1 Gold mine in Victoria.** The Company has the backing of mining contractor PYBAR Mining Services (PYBAR) who is taking \$1m in AYC shares to complete the decline development and commence production. This will provide strong cashflow for the Company with the potential to generate \$27mpa in EBITDA over the life of the mine. Squadron Resources (Andrew Forrest's group) is also a significant supporter and has provided funding and technical assistance to the Company. With imminent gold production from the A1 Gold mine, we rate AYC a Speculative Buy.
- Near-Term Gold Production:** With the assistance of mining contractor PYBAR, AYC is set to complete the remainder of the decline development and to commence bulk underground mining at the A1 Gold mine. The decline has reached the 1420L with 70m remaining to be completed (10m vertical). Based on the A1 Gold mine stage 1 Scoping Study, AYC expects to produce 30kozpa of gold at an All-in-Sustaining Cost (AISC) of \$849/oz. Clearly, AYC is in a proof of concept phase, however, with this "proof" expected over the next 3 months (with production from the 1400L) the focus will become how much cash the Company might generate and how it might be used.
- Significant Industry Support:** AYC would not have been able to move into a production scenario without the support of mining contractor PYBAR, who is taking shares for its services (up to \$1m) and the Squadron Resources Fund who has provided a \$2m convertible note and technical assistance of some of the mining industries most talented people. This support demonstrates the potential that these companies see in moving the A1 Gold mine into production.
- Valuation \$0.05/sh:** Our valuation of \$0.05/sh is based on the A1 Gold mine Stage 1 scoping study, which suggests the potential for a margin of \$700-800/oz. Our modelling suggests an EBITDA of c\$27mpa over the mines two and a half year mine life. Whilst funding is tight, with \$1.9m expected expenditure for the March Q, PYBAR is covering \$1m, there is an estimated \$0.9m in the bank and AYC are producing small amounts of gold at Maldon. The Company is confident that it is funded to production.
- Upside from Higher Grades and Exploration:** The estimated grade of 6.5g/t Au for the A1 mine used in the Scoping Study could potentially be materially higher given the "nuggety" nature of the ore body. We see the largest upside coming from extending the mine life at the A1 Gold mine. This suggests that, at an A\$1,600/oz gold price, our valuation would improve from \$0.05/sh to \$0.10/sh, if the mine life was doubled. If the mine life was extended to 10 years our valuation improves to \$0.16/sh. We have also conducted a sensitivity on grade. If the A1 Gold mine grade was 8g/t Au our valuation increases to \$0.08/sh (from \$0.05/sh). At 9g/t and 10g/t, our valuation increases to \$0.09/sh and \$0.11/sh respectively.
- Potential to Build a Mid-Tier Gold Producer:** Conceptually, AYC has the opportunity to emerge as a mid-tier gold producer over the next 12-24 months. Once the A1 Gold mine is in production, AYC can look to add high grade ore from the Union Hill gold mine where the mine has been capital constrained with limited funds available for exploration and development. Furthermore, with the technical expertise and relationships that Squadron Resources and PYBAR bring to the table, there is potential for further project acquisitions/opportunities.
- Next Steps:** 1) completion of decline development at the A1 Gold mine and first production 2) drilling to add mine life at the A1 Gold mine and 3) strategic re-assessment of the Union Hill gold mine which could provide additional material to the plant. 4) Further project acquisitions.



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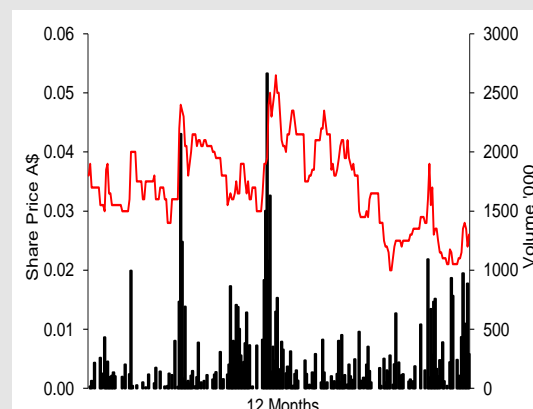
12mth Rating	SPECULATIVE BUY	
Price	A\$	0.025
Target Price	A\$	0.05
12mth Total Return	%	100
RIC: AYC.AX BBG: AYC AU		
Shares o/s	m	495.8
Free Float	%	86.3
Market Cap.	A\$m	12.4
Cash (est)	A\$m	0.9
3mth Av. D. T'over	A\$	5600
52wk High/Low	A\$	0.054/0.02
2yr adj. beta		-0.3
Valuation:		
Methodology		DCF
Value per share	A\$	0.05

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Disclosure: Patersons Securities acted as Lead Manager and Underwriter for an Entitlement Issue that raised \$0.65m at \$0.024/sh in January 2016. Patersons Securities acted as Lead Manager to a placement which raised \$0.35m at \$0.024/sh in January 2016. Patersons Securities acted as Lead Manager for a \$2.5m convertible note which was issued in June 2015. Patersons Securities acted as Lead Manager and Underwriter for an Entitlement Issue that raised \$2.2m at \$0.03/sh in November 2014. Patersons received fees for these services.

An investment in this company should be considered speculative and note assumptions employed are contingent on broader market conditions remaining buoyant. These can change at short notice. Recommendations are current at the time of publication.

12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	4	-21	-28
Rel. S&P/ASX 300	-5	-11	8

VALUATION

Our valuation of \$0.05/sh (previously \$0.07/sh) is based on the A1 Gold mine Stage 1 Scoping Study, which contemplates treating 150ktpa at 6.5g/t Au producing around 30kozpa at an All-in-Sustaining Cost (AISC) of \$849/oz. This suggests the potential for a margin of \$600-700/oz and, based on our modelling, EBITDA of c\$27mpa over the two and a half year mine life. Clearly, AYC is in a proof of concept phase, however, with this proof expected over the next 3 months (with production from the 1400L), the focus will become how much cash the Company might generate and what it might do with it.

The reason for the slight reduction in our valuation to \$0.05/sh (from \$0.07/sh) is dilution related the PYBAR shares (\$1m in AYC shares to complete the decline) and the recent entitlement issue to raise \$350k. The funding injection was necessary as the Company encountered poor ground conditions in the decline which hampered development efforts. This has now been resolved and the Company is confident in reaching the targeted 1400L for bulk underground mining by the end of February with ore production in March. We understand there is only 10m vertical remaining which is about 70m of decline development. Once the first parcels of ore from the 1400L are processed at the Maldon plant AYC should begin to get a feel for the potential grade of the ore. The ore-body tends to be nuggety in nature and has a large proportion of inferred material therefore making the grade more difficult to estimate. The Company has used a grade of 6.5g/t Au in its scoping study. We discuss this further in our note.

Figure 1: AYC Net Asset Value

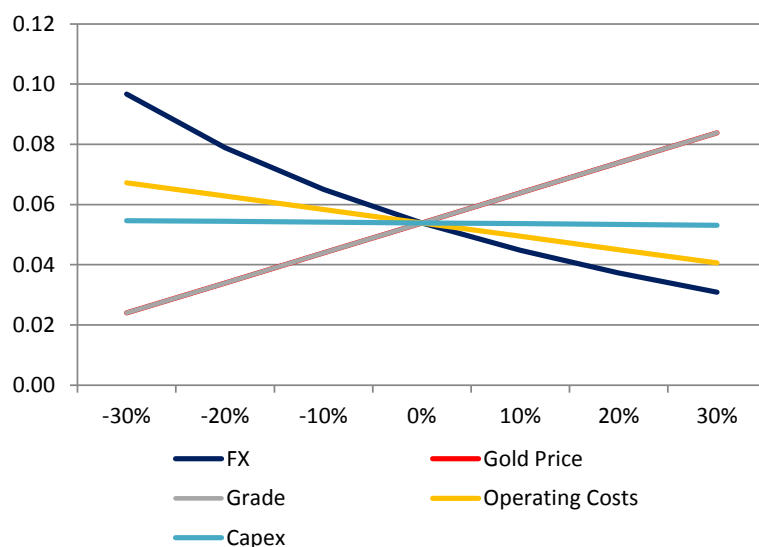
Sum-Of-Parts Valuation	\$m	A\$/sh
A1 Gold Mine (@5%)	37.4	0.05
Cash	0.9	0.00
Unpaid Capital	0.0	0.00
Corporate overheads	-\$5.9	-0.01
Convertible Note	-\$2.5	0.00
Con Note Interest	-\$0.9	0.00
Tax Losses	\$9.1	0.01
Net Asset Value (NAV)	38.1	0.05

Source: Patersons Securities Limited

Sensitivities

In Figure 2, we have conducted a sensitivity analysis on the A1 Gold Mine. The project is most sensitive to movements in grade and the gold price. A 10% favourable move in the grade or gold price results in a 19% increase to our valuation. The next most sensitive factor is exchange rate with a 10% movement resulting in a 17% change to our valuation. A 10% change in operating costs and upfront capital has a 8% and 0.5% impact to our valuation.

Figure 2: Sensitivity Analysis



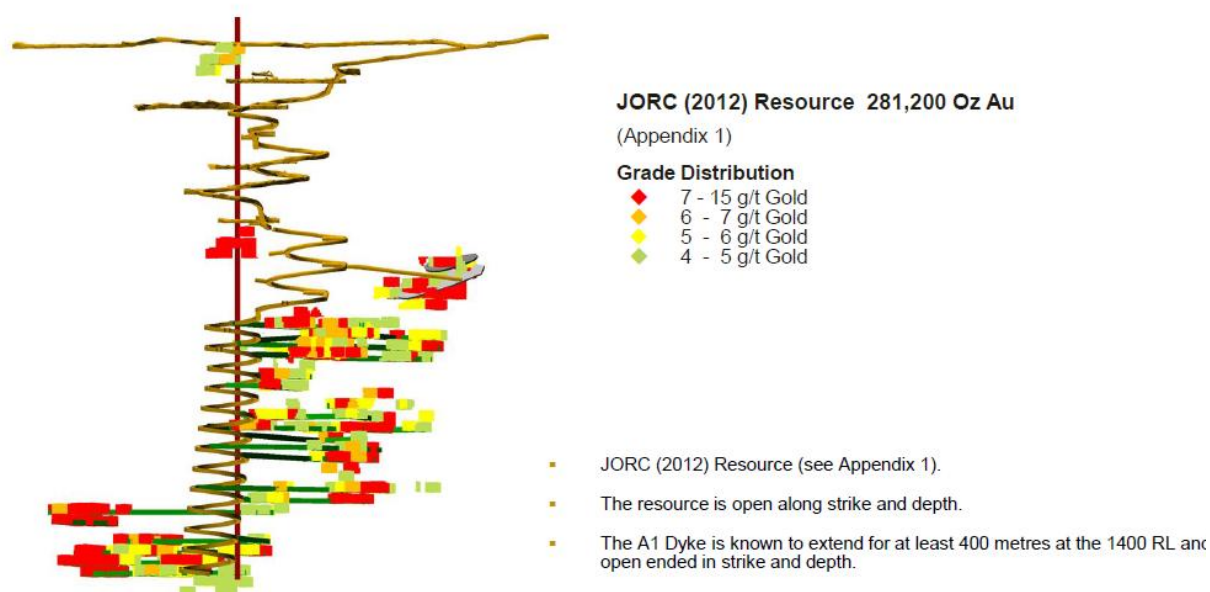
Source: Patersons Securities Limited;

Note: The gold price (red) and the grade (grey) are the same line.

Upside – Extension to mine life at A1 Gold mine from 3 to 6 years and beyond

We see the potential to significantly increase mine life with further drilling at the A1 Gold mine. Three areas of interest are 1) Near Decline 2) Northern Extension and 3) Southern Extension/Repetition. We have conducted a scenario analysis whereby the mine life at the A1 Gold mine is increased from 3 to 6 years. In addition, we see potential within the dyke to add further ore grade material. The dyke is known to extend for 400m and there are a number of areas that have simply not been tested by drilling. The current resource of 1.4Mt at 6.2g/t Au for 281.2koz is predominately Inferred (1.17Mt at 6.4g/t Au) with Indicated Resources of 250kt at 5.1g/t Au. We see the potential to find further material within the dyke, which may extend the mine life toward 10 years.

Figure 3: A1 Gold Mine Grade Distribution



Source: A1 Gold Consolidated

Based on a gold price of A\$1,600/oz (currently \$1685/oz), the extension of mine life from 3 to 6 years increases our valuation from \$0.05/sh to \$0.10/sh. If AYC was successful in extending the A1 Mine to 10 years, this would further increase our valuation to \$0.16/sh.

Figure 4: Sensitivity Analysis Increasing Mine Life from 3 year to 6 or 10 years

Sensitivities Table (Company NAV@5% \$/sh)

A\$ Gold Price	1400	1500	1600	1700	1800
3 year mine life	0.037	0.043	0.049	0.055	0.061
6 year mine life	0.074	0.086	0.097	0.109	0.120
10 year mine life	0.121	0.140	0.158	0.177	0.196

Source: Patersons Securities

Grade Upside

We believe there could be potential for the A1 Gold mine to outperform on grade considering the nuggety nature of the orebody. The 6.5g/t Au used in the scoping study appears conservative, however, is the best estimate at the current time. Once processing of the bulk underground mining ore commences, AYC will be able to assess the potential for a grade overcall. If the A1 Gold mine grade was 8g/t Au our valuation increases to \$0.08/sh (from \$0.05/sh). At 9g/t and 10g/t Au, our valuation increases to \$0.09/sh and \$0.11/sh respectively.

Figure 5: Sensitivity Analysis Increasing Mine Life from 3 year to 6 or 10 years

NPV (\$m) at 12%	Grade							
	0.05	-30%	-20%	-10%	0%	10%	20%	30%
Exchange Rate	-30%	0.05	0.07	0.08	0.10	0.11	0.12	0.14
	-20%	0.04	0.05	0.07	0.08	0.09	0.10	0.12
	-10%	0.03	0.04	0.05	0.06	0.08	0.09	0.10
	0%	0.02	0.03	0.04	0.05	0.06	0.07	0.08
	10%	0.02	0.03	0.04	0.04	0.05	0.06	0.07
	20%	0.01	0.02	0.03	0.04	0.05	0.05	0.06
	30%	0.01	0.02	0.02	0.03	0.04	0.05	0.05

Source: Patersons Securities Limited

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