BRIDGE STREET
CAPITAL PARTNERS

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LEFROY EXPLORATION LTD

LEX:AU, $0.08/sh. Market cap A$19.8m

Significant value could emerge from a new business model

- In our October 2024 report we noted that there have been a number of toll milling deals negotiated recently around the Kalgoorlie area, driven by declining reserves and hungry mills, and greatly assisted by a buoyant domestic gold price.
- Earlier in the month LEX announced that it had struck a profit-sharing deal with contractor BML Ventures over its 80koz Lucky Strike resource, one of several of its type now being seen around the Eastern Goldfields. This is a mining/milling profit share model which has enabled the monetisation of a number of small gold deposits in the Kalgoorlie/Norseman area.
- The model appears to be similar to that put in place with Horizon (ASX HZN) and BML at the Boorara deposit, located a short distance to the SE of Kalgoorlie. Ore is mined by BML and transported to the Paddington mill. Based on the information provided by HZN we estimate cash costs to be a little under A$3,000/oz, leaving a healthy margin against the current gold price. A slightly higher (c. A$3,100/oz) cost structure is inferred for the Auric/Jefferies Find project, also being mined by BML (and milled at Three Mile Hill in Coolgardie).
- On the following page we have pulled apart detail provided by Horizon of what the economics of the BML JV might be at a project level. In this analysis we are able to match HNZ's detail with what we think are reasonable estimates of earthmoving, trucking and milling costs in the region.
- In the following conceptual analysis, we incorporate these assumptions into a series of "what if" estimates based on an A$4,500/oz gold price for LEX's Lucky Strike open cut. We have estimated three free cashflow estimates for the project, based on possible mining inventories, as follows:

Lucky Strike Mining inventory	% of resource	Recovered ounces (Koz)	Free cashflow to LEX (A$m)	Revenue per recovered ounce for LEX (A$/oz)
Low case	25%	18.3	12.7	691
Base case	50%	36.6	26.3	719
Upside case	75%	54.9	39.9	727

- The current resource at Lucky Strike is 1.27Mt at 1.95g/t for just under 80koz contained gold. In the estimates above we have assumed proportions (25-75%) of an assumed a diluted 1.6Mt inventory at a mineable grade of 1.5g/t tonnage (25-75%) is extractable with 92% metallurgical recoveries. We'd think the "low case" is easily achievable and would represent around $12-13m into the hands of LEX (after a 50/50 split of the free cashflow between LEX and the contractor).
- The base case will be strip ratio dependent with some of the higher grade ore at Lucky Strike at depth. The upside case will probably require resource additions from the forthcoming drill programme. However, both are quite realistic outcomes, we believe. Recall as well that LEX has accumulated losses of over $30m, so the company may see much, if not all of this cashflow.
- This is a very good outcome for LEX, which with a market cap of around $20m, appears to be significantly undervalued. And then there is the possibility of similar deals may be done at Mt Martin and Burns Central. In this note we speculate that there could be >$50m in value available from these two projects. Early days, but this represents significant upside.

A comparison with Horizon at Boorara

- HRZ approved the development of part of the Boorara orebody in July 2024 to mine a series of four open pits containing 1.24 Mt of ore at 1.24 g/t Au for 49.5 koz of gold as part of a production sharing agreement with contractor BML. On 3 October, first ore was produced from Boorara.
- Mining is to occur over 14 months and processing over 19 months at Norton's Paddington plant. Mining and transport is to be undertaken by Hampton Transport with no payments made until revenues from gold sales have been obtained.
- We have pulled apart the detail provided by HZN and applied what we consider to be realistic earthmoving, trucking and contract milling costs, and can replicate the costs inferred by HZN's disclosure. Interestingly, in this case cash costs back out at A$2,855/oz ("all in" costs, including modest capex for the start of mining).

Horizon/Boorara		Reported		BSCP estimates			A$m
Total pit volume	MBCM	4.37		Mining	A$/BCM	11.0	48.1
Strip ratio	w:o	6.10		Trucking	A$/t	7.2	8.9
Waste mined (calc)	Mt	8.80		Milling	A$/t	60.0	74.4
Ore mined	Mt	1.24					131.4
Ore milled	Mt	1.24		Capex	A$m		0.45
Grade	g/t	1.24		Total cost	A$m		130.9
Met recovery	%	93%					
Recovered gold (calc)	Koz	47.82					
Recovered gold (reported)	Koz	45.80					
Gold price	A$/oz	3600	The price at which HZN reported this detail				
Free cashflow	**A$m**	**30.0**	**HZN to receive 50% of the FCF**				
Revenue	A$m	164.9					
Revenue less WA royalty	A$m	160.8					
Revenue less FCF (= all in costs)	A$m	130.8					
All in costs	A$/oz	2855					

- Free cashflow, in this example A$30m, determined at A$3,600/oz gold price, is split 50/50 between HZN and the contractor.
- We have applied the same assumptions to Lucky Strike and generated the following model (displayed as the "Base Case" with 50% conversion of a mining inventory, as shown in the table above). Note the following:
  - We assume the same number of ounces are within the diluted mining inventory as the resource, with grades diluted to 1.5g/t and tonnes escalated proportionally.
  - A strip ratio of 10:1 (waste tonnes:ore tonnes) is assumed.
  - Mining costs are estimated at $11/BCM. Road haulage at 12c/t/km.
  - In this example 36.6koz gold is extracted from a toll milling agreement with one of the local mills (eg Paddington, Lakewood*, Three Mile Hill). Toll milling charges are estimated at $60/t.
  - We have included a $2m set-up charge (for mine establishment, haul roads, etc). This needs to be recovered by the contactor prior to distribution of surplus cashflows.
- The average cash cost generated from this analysis for Lucky Strike is A$2,953/oz, not dissimilar to that calculated for Boorara.
- Cash costs (and therefore free cashflow) is very sensitive to the assumed strip ratio. Increasing our assumption from 10:1 to 15:1 results in costs escalating to over $3,600/oz.

- In our 'base case" example and with a gold price of A$4,500 (spot is over $4,600/oz), over $50m in free cashflow is generated, 50% of which is available for distribution to LEX. Even assuming the production of under 40koz, this would be a very attractive outcome for LEX shareholders. And if exploration delineates additional ounces, the outcome could be even better.
- Importantly, this comes with little capital risk to LEX. The budget for the forthcoming drill programme is likely to be around $250,000, to be funded by LEX.

Lucky Strike (conceptual)			
Resource			
Tonnes	Mt	1.27	
Grade	g/t	1.95	
Conversion rate		50%	
Mining inventory	Mt	1.65	Diluted
Grade	g/t	1.5	Diluted
Strip ratio, t:t		10	
Ore mined	Mt	0.83	
Ore milled	Mt	0.83	
Grade	g/t	1.5	
Met recovery	%	92%	
Recovered gold	Koz	36.6	
Costs			
Mining	$/t	5.80	$11/BCM
Milling	$/t	60.00	
Trucking distance	km	40	
Trucking rate	$/t/km	0.12	
Mining	A$m	52.7	
Milling	A$m	49.5	
Trucking	A$m	4.0	
Subtotal		106.2	
Capital	A$m	2.0	Assumed
Total costs	A$m	108.2	
All in costs	A$/oz	2953	
Gold price	US$/oz	4500.0	
Gold price after WA Govt royalty	US$/oz	4387.5	
Free cashflow	A$m	52.6	

- LEX has now committed to complete a 3000m shallow exploration programme to increase confidence in the resource and allow upgrading to reserves. This programme is to be started as early as this week. LEX has also started the approvals process at Lucky Strike. Given the project is already on a Mining Lease, we don't see any delays here.
- LEX state that operations are likely to commence in 2H of 2025.

Optionality from Mt Martin and Burns

- We would guess that the contractor BML will look at the 439Koz resource at Mt Martin and a 159Koz resource at Burns Central (the high gold component at Burns).

Orogenic Gold Style									
	Indicated			Inferred			Total Resource		
Deposit	Mt	Au (g/t)	Oz	Mt	Au (g/t)	Oz	Mt	Au (g/t)	Oz
Red Dale	0.64	1.21	24,660	0.03	0.60	570	0.67	1.18	25,230
Lucky Strike	0.70	1.93	43,400	0.57	1.97	36,200	1.27	1.95	79,600
Mt Martin	5.60	1.40	2.47,500	3.69	1.61	191,500	9.29	1.47	439,000
TOTAL	**6.94**	**1.41**	**315,560**	**4.29**	**1.66**	**228,270**	**11.23**	**1.51**	**543,830**

Porphyry Gold-Copper Style														
	Indicated					Inferred					Total Resource			
Deposit	Mt	Au (g/t)	Cu (%)	Au (Oz)	Cu (t)	Mt	Au (g/t)	Cu (%)	Au (Oz)	Cu (t)	Mt	Au (g/t)	Au (Oz)	Cu (t)
Burns Central	32.31	0.38	0.16	394,308	50,253	10.65	0.3	0.08	103,165	8,047	42.96	0.36	497,472	58,300
Total	**32.31**	**0.38**	**0.16**	**394,308**	**50,253**	**10.65**	**0.3**	**0.08**	**103,165**	**8,047**	**42.96**	**0.36**	**497,472**	**58,300**

- Even if only 20% of the combined ounces at Mt Martin and Burns Central (around 100-110koz recovered), applying a margin per ounce of say A$700/oz, there could be a further $70m available to LEX. Early days, but potentially very attractive.

*Note that the Lakewood mill, used exclusively for toll treating, is up for sale. No reason to think that the new owner will not continue with a toll milling business model.

— Street Talk

Westgold Resources shops gold mill acquired in $2.5b Karora merger

Sarah Thompson, Kanika Sood and Emma Rapaport

Feb 18, 2025 – 6.37pm

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West Australian gold miner Westgold Resources is ready to get cracking on the synergies it promised shareholders last year when it agreed to a $2.5 billion merger with Toronto-listed Karora Resources.

Street Talk understands Westgold is running a sale process for the Lakewood Mill gold processing facility near Kalgoorlie, which Karora bought in July 2022 for $80 million. The sale is in advanced stages, with a new owner expected to be announced next month, sources said.

Westgold operates mines all over Western Australia.

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