

LEFROY EXPLORATION LTD

LEX:AU, \$0.08. Market cap A\$15.6m

Monetising gold resources to fund exploration opportunities

- LEX is getting its 1.02Moz resource base into a state where the company should be able to deal one or more of its deposits to one of the several contract mining/toll-milling groups around the Kalgoorlie area. Disappointing that none of Lucky Strike, Mt Martin and Burns are of sufficient size to justify a stand-alone operation. But with the current A\$ gold price we are aware that a number of the mills around Kalgoorlie are actively sourcing ore for toll milling.
- LEX has highlighted in its recent release: *“The Company has engaged with multiple regional operators and prospective developers along its pathway to commercialise advanced gold resource projects within the broader Lefroy Gold Project”*.
- In preparation for a final appraisal of its 100% owned Mt Martin project – located 35km from Kal - LEX has just announced a revision to resources compared to earlier estimates. The new resource has been limited to a depth of 200m (potentially a maximum open pit depth). Around 113koz of the original 501koz Mt Martin resource lies below a 200m depth, and has now been excluded from the inventory.

		April 2013			Oct 2024		
	Category	Tonnes	Au g/t	Oz	Tonnes	Au g/t	Oz
Total Resource *	Indicated	4,356,486	1.81	253,937	5,597,000	1.40	247,500
	Inferred	2,484,081	1.68	134,493	3,698,000	1.60	191,500
	Total	6,840,567	1.77	**388,430	9,295,000	1.47	439,000

* Incorporating Mt Martin, Swift and Adelaide resource numbers

- We are aware of 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. Below we summarise two examples: Black Cat’s (BC8) Myhree deposit, 30km east of Kal and Horizon’s (HRZ) Boorara project (15km east). Both ore parcels are destined to be processed at the ca. 3.7mtpa Paddington mill located 35km north of Kal. At current spot prices, we estimate that Boorara could generate over A\$50m in free cashflow over a 19 month period, representing a margin of over A\$1100/oz. (Details of these projects are provided below.)
- We see no reason why similar deals can’t be done at LEX’s 100%-owned Mt Martin (439Koz at 1.47g/t) and Lucky Strike (80Koz at 1.95g/t) deposits. However, we do await details of mining studies for both projects, which may require additional drilling, feasibility studies and final permitting. For this exercise let’s assume just 20% of Mt Martin’s resource could convert to shallow reserves (say 78Koz) and perhaps 50% of Lucky Strike (say 40Koz).
- **If 100koz could be recovered from both at margins projected for HRZ’s Boorara project at current gold prices (A\$1100/oz) and 50% paid away to the contractors (as is the case for Boorara), free cashflow of over A\$50m might be generated from the two projects for LEX. This could be very attractive for a \$15m market cap company.**
- And let’s not forget that next door neighbour, Gold Fields, at its Tier 1 St Ives complex with 4Mtpa milling capacity and declining reserves, is an 11% shareholder in LEX.
- In the meanwhile, LEX has just reported on an aircore programme within the Lefroy project which has generated some success. Shallow drilling has identified a number of anomalies, which together with Coogee and perhaps Burns, have become important follow-up drill targets.

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LEX's advanced projects

- LEX's main projects, Lucky Strike and Mt Martin (in red) are shown below in relation to two local mills, the Randalls and St Ives mills (green).

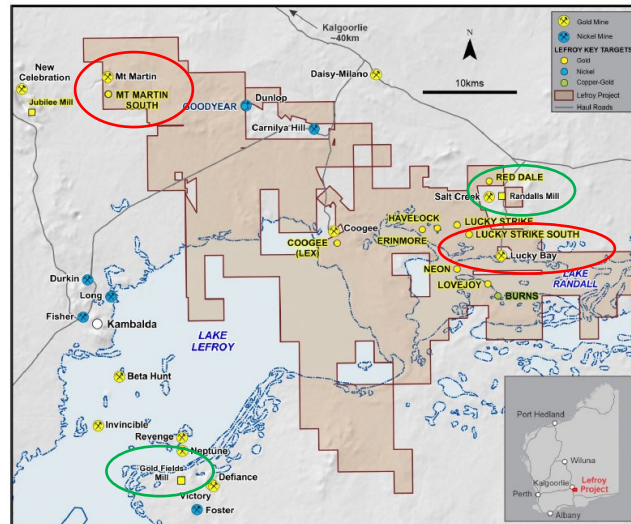
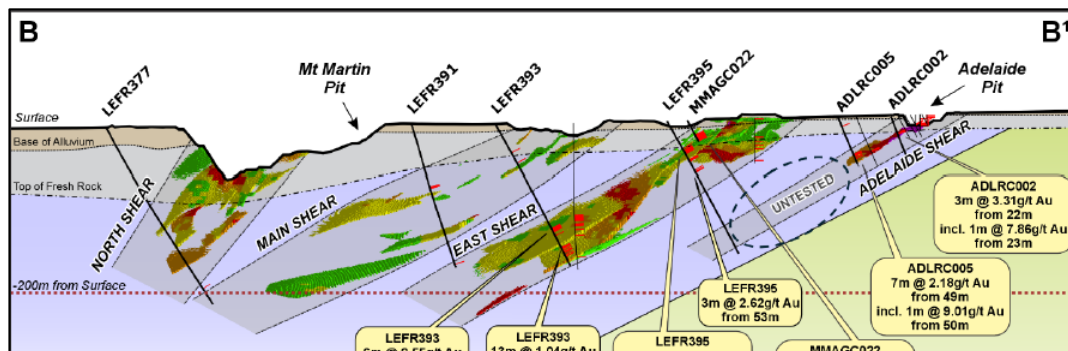


Figure 1: Lefroy tenure and key targets in the Kalgoorlie – Kambalda district

- The Mt Martin gold deposit lies within Location 45, a freehold block acquired in 2023. Already a +400koz resource there are clear opportunities for extending the deposit along strike of the Main, East and Adelaide shears. The Adelaide shear lies perhaps 100m below the East Shear, and is largely untested at depth. Additional tonnes here may assist in reducing the strip ratio of a pit designed to extract ore from the Main and East Shears.



- Other resources held by LEX, with a reasonable probability of open-pit extraction at current gold prices, include:
 - **Lucky Strike:** 1.27mt at 1.95g/t for 79.6Koz (55% Indicated)
 - **Red Dale:** 0.67mt at 1.18g/t for 25.2Koz (95% Indicated)
 - **Burns Central (high gold):** 4.22mt at 1.18g/t for 159Koz (98% Indicated) where additional met testwork is required.
- As well, LEX needs to advance permitting, especially of Mt Martin and Lucky Strike the two projects most likely to attract the interest of toll millers. Mt Martin is held within freehold property (Location 45). Lucky Strike is covered by a mining lease. Environmental permits, approvals to mine and road access still need to be advanced.
- Given the proximity of both deposits to the St Ives and Randalls mills, it's possible deals will be done with Gold Fields or Red 5.

- LEX states in its recent release: *“The Company is now in advanced conversations under confidentiality agreements with several parties towards an outcome of commercialising its advanced gold projects, with the clear goal of unlocking the value of its gold assets, through a strategic partnership. The Company’s main focus is to realise value for its shareholders and recognises that a partnership with plant owner operators and mining contractors substantially reduces risk. This is likely to be the fastest pathway to gold production and cashflow for Lefroy.”*
- This would be a very sensible outcome for Lefroy in our view.

Contract mining and toll milling: two examples from the Kalgoorlie area

We have seen a number of toll milling deals negotiated around the Kalgoorlie area in recent months, driven by hungry mills and declining reserves, and greatly assisted by a gold price of over A\$4000/oz. Black Cat (BC8) has done a contract mining/toll milling deal over 52koz at 2.2g/t at its Myhree deposit, 30km east of Kal. More recently a similar deal has been done over 49.5Koz at 1.24g/t at Horizon’s (HRZ) Boorara project 15km east of Kal. Both parcels are destined to be processed at the hungry (ca. 3.7mtpa) Paddington mill located 35km north of Kal. Boorara is estimated to generate around A\$30m free cashflow for the project, to be split 50/50 between HZN and the mining contractor.

Horizon Minerals/Boorara

- HRZ approved the development of part of the Boorara orebody in late 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. 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 has been obtained.
- Using HRZ’s public estimates from the Boorara DFS, we estimate that at the current spot price (over A\$4000) the project could generate over A\$50m in free cashflow. This equates to a FCF margin of just over A\$1,000/oz for the project. As we understand it, the free cashflow for the project will be split equally between HZN and the contractor.
- We summarise our production, costs and cashflow estimates from information provided by HZN. At current spot gold prices, HRZ’s share of pretax cashflow could be over A\$25m, delivered over a 19 month timeframe.

HRZ-BML-PGPL Boorara Gold Deal				
Waste mined	Mt	7.56	7.56	7.56
Ore mined	Mt	1.24	1.24	1.24
S/R	w/o	6.1	6.1	6.1
Grade	g/t Au	1.24	1.24	1.24
Contained Gold	oz Au	49,435	49,435	49,435
Recovery	%	92.5%	92.5%	92.5%
Recovered Gold	oz Au	45,727	45,727	45,727
Revenue		Spot		
Gold Price	A\$/oz	3,300	3,600	4,060
Gross Revenue	A\$m	150.9	164.6	185.7
WA Royalty	%	2.5%	2.5%	2.5%
Private Royalty - t	A\$m	1.0	1.0	1.0
Private Royalty - oz	A\$m	1.2	1.4	1.5
Net Revenue	A\$m	144.9	158.2	178.5
Cost Assumptions				
Waste Mining	A\$/t	5.50	5.50	5.50
Ore Mining	A\$/t	6.50	6.50	6.50
G&A	A\$/t	1.50	1.50	1.50
Haulage Distance	km	56	56	56
Haulage Rate	c/t/km	15.00	15.00	15.00
Processing Costs	A\$/t	58.00	58.00	58.00
A\$/oz Costs				
Mining	A\$/oz	1,086	1,086	1,086
G&A	A\$/oz	41	41	41
Hauling	A\$/oz	228	228	228
Processing	A\$/oz	1,573	1,573	1,573
Cash Costs	A\$/oz	2,927	2,927	2,927
EBITDA	A\$m	17.04	30.76	51.79
Capex	A\$m	0.45	0.45	0.45
Pre-Tax Free Cashflow, project	A\$m	16.59	30.31	51.34
HRZ quoted Free Cashflow, project	A\$m	19.90	30.00	N/A

Source: Horizon Minerals, July 2024, BSCP estimates

Black Cat at Myhree and Boundary

- BC8's Kal East Gold Project comprises a large tenement position to the east of Kalgoorlie. Kal East contains a Resource of 18.8Mt @ 2.1g/t Au for 1,294koz, including a preliminary Reserve of 3.7Mt @ 2.0 g/t Au for 243koz.
- A turn-key funding, development and processing arrangement to mine and mill the Myhree and Boundary open pit deposits is in place to provide early cashflows for the company.
- Contract miner Mineral Mining Services (MMS) will provide all funding to develop and haul ore from the fully approved Myhree and Boundary open pits for processing at Paddington. Black Cat does not need to contribute any funding for the development.
- Separately, Black Cat has entered into an Ore Sale Agreement with Paddington Gold (PGPL), the owner of the Paddington mill. The agreement includes the following:
 - Processing allocation of 850kt of open pit ore, delivered in ~45ktpm stockpiles over 18 months, commencing in the September 2024 quarter;
 - Within 5 business days of PGPL fully treating the stockpile, a final revenue calculation is made based on the determined grade, metallurgical recovery and moisture, minus agreed processing and State royalty costs;
 - Payment terms are 50% upon open pit ore delivery, with the balance payable once a stockpile is processed.
- The Ore Reserves total 50koz with 46koz at 2.4g/t Au at Myhree and 6koz at 1.5g/t Au at Boundary.
- Following recovery of start-up costs, the first \$30M of cashflow generated will be received by Black Cat. Thereafter, MMS and Black Cat will share profits (determined after mining, milling and transport costs).
- BC8 does not disclose the strip ratio of the Myhree and Boundary open cuts, so we are unable to estimate cashflow potential of each project. First ore from Myree was produced in July this year.

Further exploration opportunities within the Lefroy Project

Regional aircore

LEX has released the results of recent exploration work, which included over 300 shallow aircore drillholes. These were undertaken within Location 45 and also tested extensions to known mineralisation elsewhere in the broader Lefroy project area. Anomalous intercepts were obtained from:

- The Wren prospect within Location 45: 16m at 0.27g/t.
- Carnilya South/Talcum Fault: 4m at 0.45g/t.
- Havelock/Lucky Strike corridor: 4m at 0.55g/t.
- Ogden: 3m at 0.26g/t and 1m at 0.9g/t.

Coogee

The company will look to target extensions to mineralisation to the south of the old Coogee open cut where extensive +100ppb gold anomalism has been encountered. It is thought that historic aircore drilling was unable to penetrate hard surficial rock unit. Gold mineralisation may occur beneath this unit.

Burns

LEX has reviewed the exploration opportunity at Burns, where historically a large but largely subeconomic resource was defined. A review of shallow aircore drilling and geophysics, especially of the northern anomalies, has identified a number of features which may host structurally controlled higher grade gold mineralisation.

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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has over 30 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in LEX. He is remunerated by BSCP but is not paid a specific fee for providing this report.

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Appendix 1

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