

## **LEFROY EXPLORATION LTD**

**LEX:AU, \$0.22. Market cap A\$35m**

**Location 45 acquisition a transformative deal for LEX**

*Investment view: LEX's CEO Wade Johnson and his team have done an excellent job of consolidating prospective exploration tenements south of Kalgoorlie. The acquisition of Location 45 is unquestionably the best yet, with over 500koz contained gold resources, contiguous with the company's Lucky Strike (and other) tenements, obtained for zero cost up front and a 4% NSR royalty. LEX will now be one of the larger tenement holders in the region. With the recent Burns MRE, together with Lucky Strike and Red Dale projects, LEX now boasts a total resource inventory of over 1.1Moz, for an inexpensive EV/resource ounce of \$30/oz.*

*This places no recognition on the potential for the ca. 15kt nickel resource at the Goodyear deposit, and several other nickel targets within the tenement, very useful additions to the asset base for LEX's forthcoming spin-out, Johnston Lakes Nickel (JLN). Our EV/resource ounce drops to \$21/oz applying a realistic EV estimate for the nickel assets.*

*This is an excellent deal for LEX (and JLN), and can rightly be described as transformative for the company. Gold production through one of several nearby mills might not be that far away.*

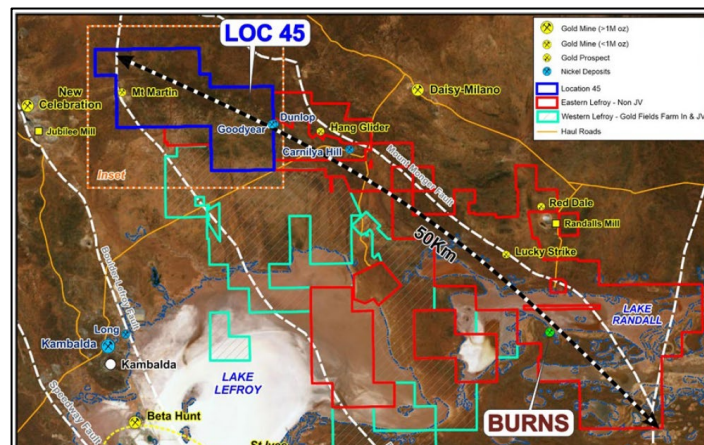
Key points:

- Hot on the heels of a maiden resource for its Burns project LEX has announced the acquisition of mineral rights to explore and develop all resources on the Location 45 freehold property located >30km southeast of Kalgoorlie from TSX royalty major, Franco Nevada.
- Remarkably, this has been done at nil upfront cost for a term of 21 years with a 4% production royalty going forward. Mineral rights are privately owned and are therefore exempt from a 2.5% State royalty. This is an attractive deal.
- Location 45 (or Loc45) is one of the freehold Hampton Areas, an anomaly of history where vast tracts of prospective areas south and north of Kalgoorlie are held freehold, with private mineral rights. Ownership of Loc 45 (and several others) have had varied ownership over the past 40 years, with much of the ore processed through the nearby New Celebration mill (now dismantled) and Jubilee mill (now on care and maintenance). Much of the region – other than Loc45 – is controlled by Northern Star's South Kal operations.
- This takes LEX's resource inventory for a 50km tenement strike length of highly prospective geology to 1.1Moz gold and just under 15kt contained nickel.
- Ounces which seem likely to be toll-treatable through nearby gold plants, Mt Martin, Lucky Strike and Red Dale now total 607koz at a grade of around 1.8g/t.

Deposit	Mt	Au (g/t)	Contained oz
Mt Martin	8.72	1.79	501,891
Lucky Strike	1.27	1.95	79,630
Red Dale	0.67	1.18	25,421
<b>Total</b>	<b>10.66</b>	<b>1.77</b>	<b>606,942</b>
Burns Central	42.96	0.36	497,286
<b>Combined</b>	<b>53.62</b>	<b>0.64</b>	<b>1,103,434</b>

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- These resources appear to be open-pittable (at least in part) and are amenable to conventional CIP extraction, we believe. The last serious work done on the Mt Martin resource was by Alacer in 2012. Here a mine plan was placed around the old HBJ deposit (adjacent to the Jubilee mill and now exhausted we believe) and the Mt Martin project.
- Importantly, we understand that there is an existing haul road which extends from Mt Martin to the New Celebration/Jubilee area and to the main Kalgoorlie-Kambalda highway. This served a modest open cut and underground operation at Mt Martin in the 1990's. No mining has occurred since.
- LEX's next priority will be to obtain the original drill data and integrate Mt Martin into a mine plan with its 100%-owned Lucky Strike and Red Dale deposits. As shown in the following plan, LEX now controls around 50 strike kilometres of highly prospective rock types along the western flank of the Mt Monger Fault. With the Gold Fields JV over Lake Lefroy, LEX must now be the largest titleholder in the region.

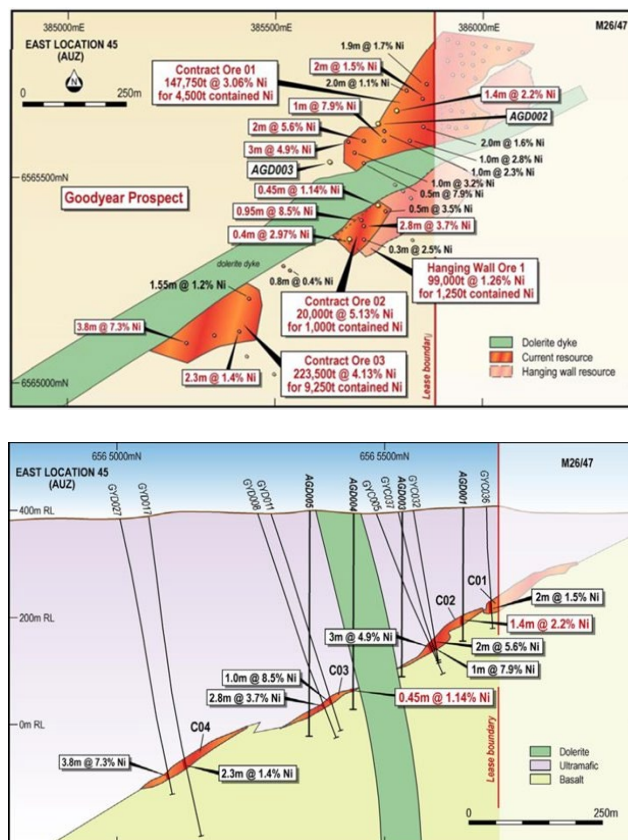


- As we've noted in previous reports, LEX is well located to existing gold mills, including:
  - The Gold Fields/St Ives mill. Given the JV with GFI over Lake Lefroy, we'd be very surprised if this isn't the most likely opportunity.
  - Silver Lake's Randall's mill
  - Northern Star's Jubilee mill
  - Karora's Lakewood mill
  - Karora's Higginsville mill.
- The last serious exploration for additional gold resources within Loc45 was done by Alacer over 10 years ago. It seems that little work was done while under the control of Northern Star (which is curious, given the project's proximity to the Jubilee mill).
- There does seem to be an excellent opportunity to add further ounces within Loc45.
- So, in summary, this looks to be an excellent opportunity for LEX to move towards production from a +600koz resource base, potentially more with additional exploration effort.

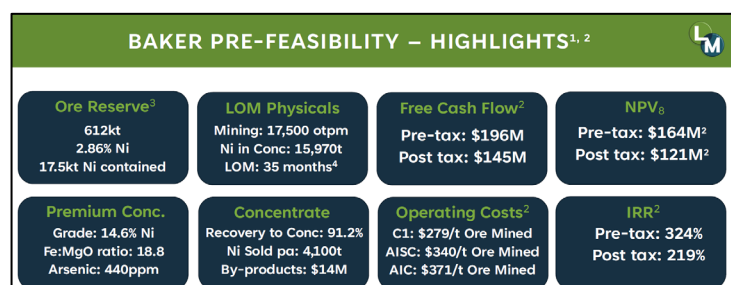
### The nickel opportunity

- This acquisition is timely given the imminent spin-out of Johnston Lakes Nickel (JLN), proposed in late 2022. As we understand, the Loc45 opportunity emerged from a study to increase the nickel asset base of JLN. Ownership for Loc45 was traced back to Franco and a deal was done. JLN will hold the rights for nickel, lithium and rare-earths with LEX holding the gold rights.

- Early exploration at Loc45 for nickel was undertaken by WMC in the 1980s and 90s which led to the discovery of the Dunlop deposit (located in Mincor's tenements to the east). This was followed by the discovery of the Goodyear nickel deposit by Titan Resources in 1996, located along the eastern edge of the East Location 45 property.
- This work was followed up by Australian Mines some years later and an Inferred Resource of **391,250 tonnes at 3.78% Ni for 14,780 tonnes of contained nickel** was identified. This appears to be a down-plunge extension of Dunlop.
- We have had a cursory look for historical drill information on Goodyear. The following plan and section from Australian Mines in 2008 reveals some juicy intercepts. The deepest intercept of 3.8m at 7.3% nickel is certainly encouraging. (Dunlop is to the east within the ML now owned by Mincor, recently taken over by Andrew Forrest's Wyloo):



- We've not yet had the opportunity to even consider the economic potential for Goodyear. However, it's interesting to compare with one of the recent Kambalda success stories, Lunnon Metals (LM8) which has recently released a PFS for the Baker nickel project, based on a reserve of 612kt at 2.9% Ni (17.5kt contained Ni).



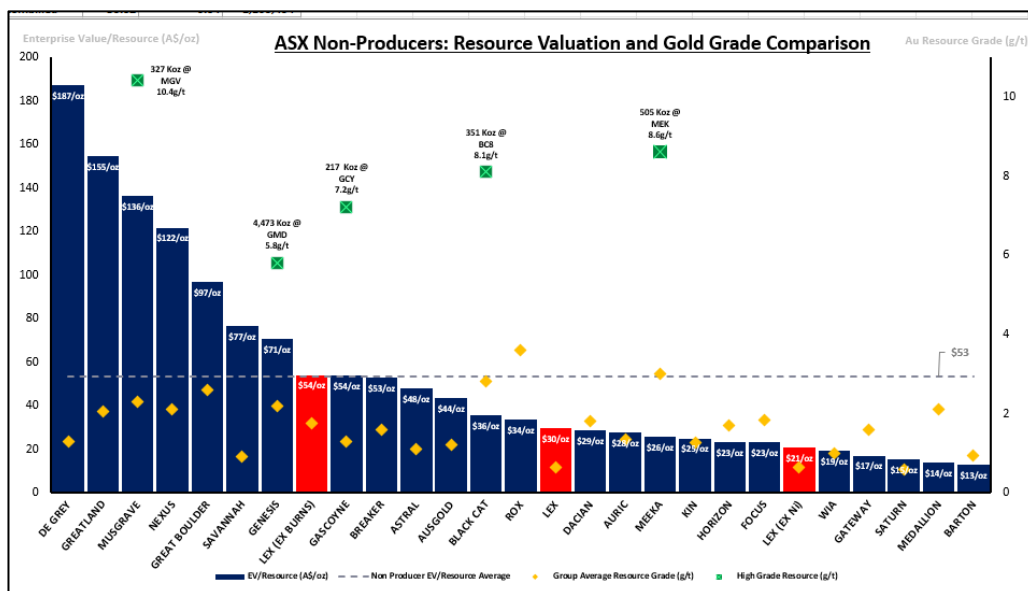
- Note that the Goodyear grade is some 30% higher than the Baker deposit, and contained nickel 15% lower. There could be an interesting project emerging here, but it is early days.
- LM8’s market capitalisation is now over \$100m. This would be an unfair comparison with the soon-to-list JLN as it holds a resource base of over 90kt of nickel resource. But it does show what the market is prepared to pay for a quality nickel exploration company in the Kalgoorlie/Kambalda belt. We look forward to comparable success from JLN.
- As well, LEX notes other nickel prospects within LOC45, including Fat Rat, Anomaly 7 and Wren, largely unexplored at depth. There appears to be at least 10-15% of the tenement underlain by ultramafic rock types, a common host for Kambalda-style nickel sulphide mineralisation.
- This is an important addition to JLN’s asset base, and will likely underpin an IPO later in 2023.

## Valuation

At its current level of resource development, it’s challenging to place a value on LEX and its now quite significant resource base.

The chart below compares the EV/resource ounce for a number of exploration and pre-development gold companies against three separate valuation scenarios for LEX.

- Considering just the 606koz from the Mt Martin/Lucky Strike/Red Dale resources, LEX is \$54/oz, in line with the inexpensive ounces from, for example, Gascoyne Resources.
- Considering the entire 1.1Moz resource base LEX’s value drops to \$30/resource ounce, excluding copper credits from Burns.
- Both of these figures exclude a potential value for the Goodyear nickel resource of 14.7kt. Lunnon Metals 87.8kt of nickel is capitalised at an EV of around \$1000/annual tonne. In the third valuation scenario we have applied an EV of \$10m for LEX’s nickel assets, representing a conservative 30% discount to the possible value of Goodyear’s nickel alone. Deducting \$10m from LEX’s EV results in an inexpensive \$21/oz valuation at LEX’s recent share price.



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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.

BSCP acted as Joint Lead Manager of the IPO of LEX in October 2016 and received corporate finance fees for this role. BSCP acted as Joint Lead Manager of a placement of shares for LEX in July 2018, August 2019 and November 2021 and received corporate finance fees for this role. BSCP, its directors and consultants may own shares and options in LEX and may, from time to time, buy and sell the securities of LEX.

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