

4 March 2024

Recommendation

Buy (High Risk)

Last Price

\$1.23

Target Price

\$1.70 (Initiation)

Expected return

Capital growth	30%
Dividend yield	0%
Total expected return	30%

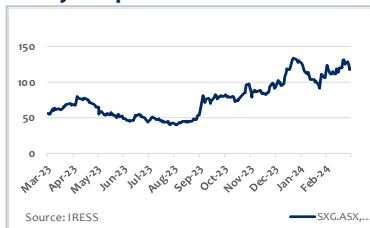
Company data

Market capitalisation	A\$239m
Enterprise value	A\$235mm
Issued capital (shares)	184m
Free float	47% ^m
Average daily vol (12mths)	400k
Price range (12mths)	
GICS sector	Materials

Share price performance

Period	1 mth	3 mths	12 mths
Price (A\$)	1.12	1.03	0.55
Change (%)	-16.1	26.2	236.3

One year price chart



Business description

Southern Cross Gold Ltd (ASX:SXG) is a mineral exploration company.

The company's primary focus is on exploring and developing gold projects in Victoria, Australia.

SXG's flagship asset is the Sunday Creek Project, which is a gold and antimony mineral system near Melbourne. It also has JV interests in the Redcastle and Whroo gold projects, and owns a precious and base metal project near Mt Isa in Queensland.

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Southern Cross Gold (ASX:SXG)

Climbing the Golden Ladder

Southern Cross Gold is exploring the Sunday Creek gold-antimony project in Victoria (SXG 100%). High-grade drilling intercepts, many exceeding 100 gram-metres (g/t x metres) of gold, have excited the market, as has an Exploration Target of 1.0-1.6Moz @ 7.2-9.7g/t AuEq. The deposit is remarkable for its high content of a critical metal, antimony, which is used to harden alloys and for high-tech applications. We initiate research coverage with a rating of Buy (High Risk) and a Target Price of A\$1.70/sh.

Key points

- Sunday Creek Project:** exploration target of 1Moz to 1.6Moz grading 7.2-9.7g/t AuEq (gold equivalent, including antimony value), with a resource expected in late 2024 or early 2025. This target is based on 33% of the drill area, which is itself 10% of the mineralised trend. In our view, there is upside risk to 3Moz Au over time.
- Strong newsflow:** drilling has returned high-grade gold and antimony hits from near surface to depths c.1000m, including a remarkable 331.5m @ 7.1g/t AuEq from 467.9m. Early metallurgical studies show high recoveries.
- Other projects** are the Redcastle and Whroo JV's (Au, VIC) and Mt Isa (base, QLD).
- Price outlook for gold is positive**, driven by ongoing and heightened geopolitical risks with expectations of falling global interest rates, while by-product **antimony features on most critical mineral lists**.
- High quality gold assets are rare** so SXG has considerable corporate appeal, in our view. A potential acquirer might wait until a Sunday Creek resource is defined and technical studies are advanced before acting, preferring to pay more for a de-risked project. Equity investors, however, can choose to come in at an earlier stage.

Investment View: Buy (High Risk); Target Price A\$1.70/sh

We initiate coverage of SXG with a Buy (High Risk) and a 12-month Target Price of \$1.70/sh, subject to de-risking of Sunday Creek via resource estimation, ongoing metallurgical and environmental studies and engagement with stakeholders regarding mine development. **Our valuation is based on SXG achieving an initial resource within the Exploration Target range of 1.0-1.6Moz.** There is, in our view, upside risk over the medium term, to c.3Moz AuEq, based on regional exploration potential. Our Bull Case valuation is \$3.03/sh and our Bear Case is \$0.90/sh.

Production and Financial Forecasts

YEAR END: May	Nov-23a	Feb-24F	FY-22a	FY-23a	FY-24F
Gold Production (koz)	na	na	na	na	na
Cash Costs (US\$/oz)	na	na	na	na	na
Exploration and Evaluation (A\$m)	3	3	2	5	12
Staff and Corporate (A\$m)	0.5	0.8	0.7	0.8	2.7
Exploration/(Expl.+ Corporate) (%)	84.0	79.7	73.5	86.0	80.8
Shares on issue (pr end) (m shares)	172	184	52	170	214
Drilling - AC/RAB (m)	0	0	0	0	0
Drilling - RC/Diamond (m)	7,500	7,500	20,000	25,000	30,000
Land holding ('km ²)*	929	929	na	929	929
Capital Raisings (A\$m)	0.1	0.0	11.8	15.9	30.1
Funding from JV partners (A\$m)	0	0	0	0	0
Cash (A\$m)	11.7	8.0	7.9	15.2	29.8
Cash Backing (Ac/share)	14.0	10.0	10.8	17.7	36.9
Net Asset Backing (Ac/share)	38.3	37.0	26.8	36.2	72.5

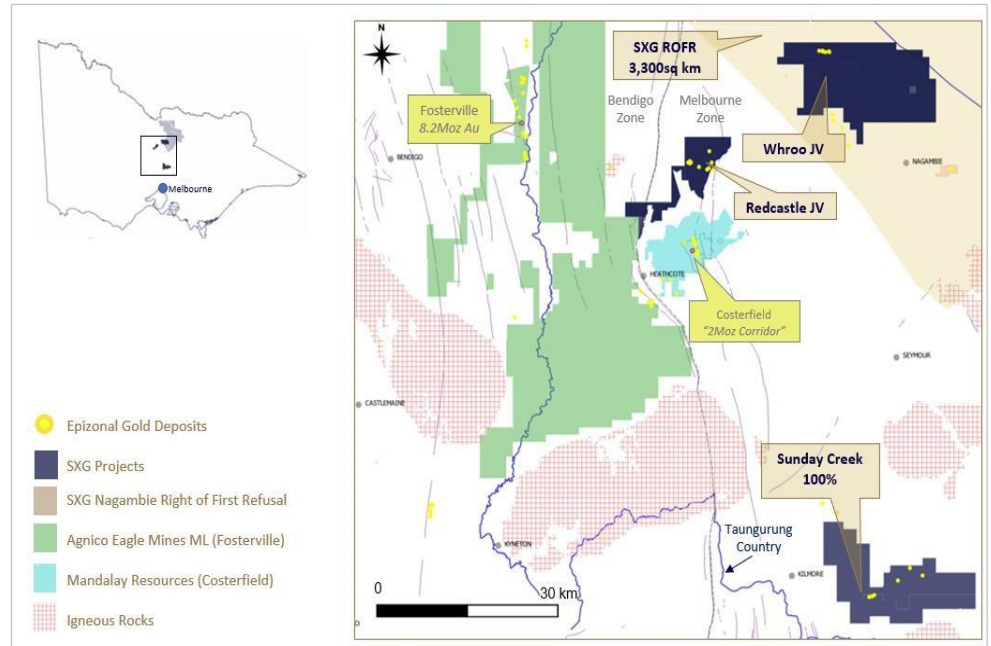
*Both held and under application. Quarters stated on calendar year basis.

Southern Cross Gold (ASX:SXG)

Overview

Southern Cross Gold Ltd (SXG) is a mineral exploration company based in Melbourne, Australia. It is listed on the ASX, where it has been trading since May 16, 2022. The company is primarily focused on exploring and developing gold projects in Victoria.

Figure 1: Map of SXG’s Victorian projects and simplified geology



Source: Company report

SXG’s three Victorian Projects – flagship Sunday Creek, with Redcastle and Whroo – are all in the Melbourne geological zone.

The Melbourne Zone is the same province that hosts the high-grade Fosterville (9Moz Au) and Costerfield (2Moz Au) mines.

Other well-known mining districts in Victoria, such as Ballarat and Bendigo, sit in the more westerly Bendigo Zone – these are certainly high-grade but are also geologically complex, which can make mining a challenge.

SXG’s flagship asset is the 100%-owned Sunday Creek Project, which is a large, gold and antimony mineral system near Melbourne. It also has JV interests in two other Victorian gold projects, Redcastle (SXG, 70%) and Whroo (earning 70%), as well as owning a grassroots, base and precious metal project near Mt Isa in Queensland.

Since being spun out of TSX-listed Mawson Gold (MAW), SXG has been successful in drilling at Sunday Creek, establishing the potential for a multi-million-ounce resource of gold, with significant economic value from critical metal antimony.

Figure 2: Key Projects

Project	Ownership	Metal	JV Partner	Target Type	Area (km ²)	Project Status	Location
Sunday Creek	100%	Au-Sb	None	Orogenic/epizonal	193.85	Mid Expl.	Aus (Vic)
Redcastle	70%	Au-Sb	ASX:NAG	Orogenic/epizonal	56.7	Early Expl.	Aus (Vic)
Whroo	Earn 70%	Au-Sb	ASX:NAG	Orogenic/epizonal	220.45	Early Expl.	Aus (Vic)
Mt Isa	100%	Base	None	IOCG/BH	458	Early Expl.	Aus (Qld)

Valuation and price target

Our valuation of SXG is a sum of the parts (SOTP). **Key project Sunday Creek is assessed by applying the ratios of SXG's enterprise value (EV in A\$m) to conceptual in-ground equivalent resources (Moz AuEq) based on the 1.0-1.6Moz AuEq Exploration Target (ET) range.** Other metrics could be considered but SXG is pre-resource so we're using broad strokes at this stage.

Applying the mid-range of the ET, which is 1.3Moz AuEq, SXG is trading at a conceptual A\$168/oz AuEq. The average industry EV/resource valuation for SXG's ASX peer group is c.A\$176/oz (see the chart in Appendix 1). On this basis, SXG might be considered fair value at the moment, considering it's actually pre-resource.

However, this doesn't, in our view, provide fair upside given the likely EV/resource premium the market could award SXG based on the high grades and "mineability" of Sunday Creek; or the longer-term resource upside beyond the Exploration target.

Figure 3: SXG valuation

Metric	Exploration Target	Valuation multiple	Ownership	Value	Weight for risk	Value to SXG risked	Comment
Units	Moz Au	A\$EV/oz Au	%	A\$m	%	A\$m	
Sunday Creek	Min	1	100	100	100	100	Minimum exploration target and multiple
	Max	1.6	350	100	560	80	Maximum exploration target and multiple
	Average					274	Base case value of exploration target
Redcastle			70	10	100	7.5	Nominal value
Whroo			70	5	100	5	Nominal value
Mt Isa			100	5	100	5	Nominal value
Exploration potential: +30%						87	Additional 20% of asset SOTP
Corporate (NPV)						-20	NPV (5% nominal) of forecast corporate costs
Cash (MarQ25 est)						4	Placement expected JunQ25
Debt (MarQ25 est)						0	No bank debt expected
Total						363	Sum of the parts
Shares on issue (MarQ25 est): m						214	Post expected raise in MarQ24
Value, base case: A\$/sh						1.70	Base case value after 12mths
Bear case: A\$/sh						0.90	Minimum of exploration target, low range multiple
Bull case: A\$/sh						3.03	Maximum of exploration target, high range multiple
Current price: A\$/sh						1.30	As at Feb 27, 2024
12mth gain/loss						30%	12-month gain implied by base-case target
Recommendation							SPECULATIVE BUY

Source: Company report, GBA Capital

Figure 3 summarises our valuation. Any exploration company valuations are, of course, conceptual so a conservative approach is best.

- We've valued the higher and lower ET range using reasonable EV/resource multiples and taken a risked average of the two.
- Other assets (Redcastle, Whroo, Mt Isa) are given a conceptual valuation based on a likely three-year exploration spend.
- **We've added 30% upside to the NPV of Sunday Creek based on exploration potential – we conservatively think +3Moz Au - along the full 11km strike and to c.2km depth, outside the Exploration Target zone.**
- Corporate costs and cash are adjusted for in the usual way.

Our initial call on SXG is Buy (High Risk), with a Price Target of A\$1.70/sh.

Likely drivers of the share price, to reach our \$1.70/sh target, include exploration results at Sunday Creek, further technical and permitting studies, and an initial resource.

This results in a 12mth Price Target of A\$1.70/sh and a recommendation of Buy (High Risk). Achieving this target will be subject to de-risking of the Sunday Creek project by drilling through 2024 and meeting market expectations of the Exploration Target, and via ongoing technical studies.

There is an upside risk to this target from a higher-than-expected resource estimate, and downside from missing the target, and from dilution to the capital structure via raising capital to fund exploration and feasibility studies. We don't expect SXG to release a full study until 2025, although processing/metallurgical test work is already being reported.

Possible share price catalysts

The key share price driver for SXG over the coming 12 months should be **exploration results at Sunday Creek, culminating in an initial resource**. How the share price reacts to these results will depend on how they track in comparison to the Exploration Target – an indication of over delivery on ounces or grades will be viewed positively – and contribute to the picture of “mineability” in terms of factors such as metal ounces per vertical and lateral metre, mineralised widths and depth below surface.

The initial resource itself, which we expect in late 2024 or early 2025, will be an important milestone as it should lead into mining and economic studies (scoping, feasibility with mining reserves) in 2025-26. Until the resource is delivered any valuation of SXG is purely conceptual.

In parallel with technical studies, SXG will make **progress on the environmental, social and governance (ESG) aspects of Sunday Creek**: these might include baseline environmental studies; engaging with local stakeholders; and having conversations with local, state and federal government agencies with the aim of earning permission to develop the project. In our view, the small-scale underground gold and antimony operation likely to be proposed for Sunday Creek (<2Mtpa) should, with some time and patience, successfully result in a mining permit – **we estimate first gold production some time in 2H2027 or 1H2028**.

There is potential for new gold discoveries both along strike at Sunday Creek and at SXG's other projects, although the latter will receive less focus than the former.

Asset Summary

Sunday Creek

Location

The project area is located east of Kilmore, c.60km north of Melbourne, or a pleasant 70-minute drive from the metropolis. Granted exploration tenements cover 194km². The country is a mixture of cleared grazing land, with some small holdings, and eucalypt forest including State Forest areas. SXG owns 320 acres (1.3km²) of freehold over the core area.

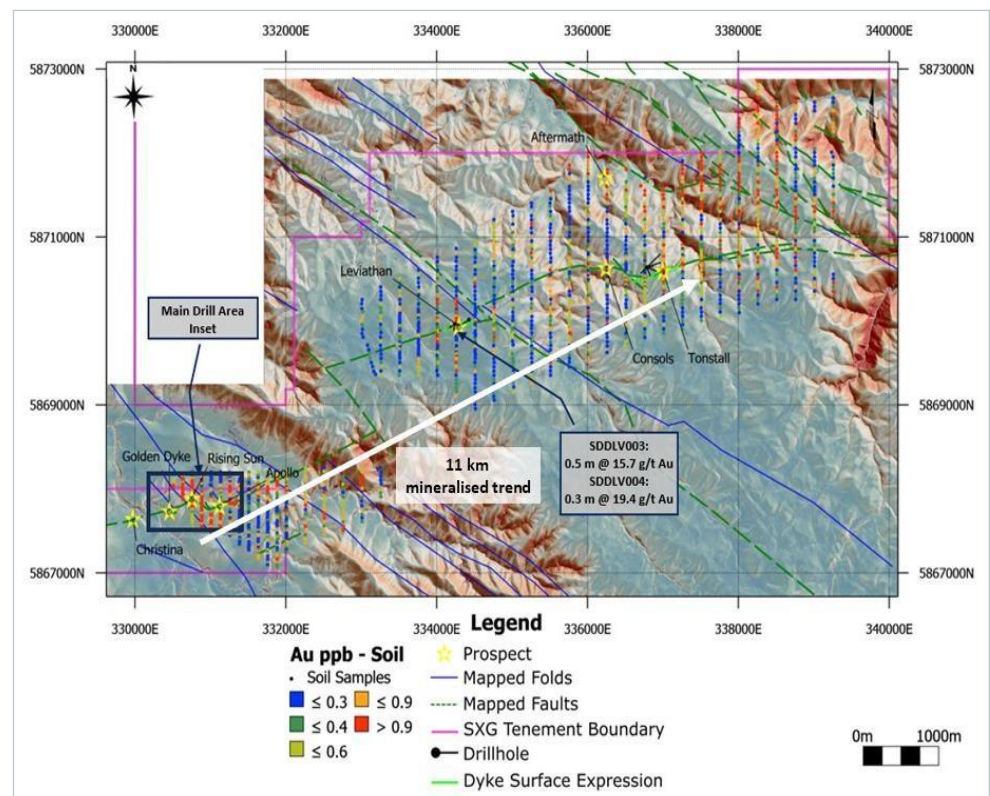
Mining and exploration history

Alluvial gold mining in the area started in the 1850s, with hard rock commencing in the 1880s and continuing until the 1920s. According to SXG: “Historical production occurred with multiple small shafts and alluvial workings across the existing permits. Past production at the Sunday Creek prospect is reported as 41koz gold at a grade of 33 g/t. Historic workings along the trend from west to east include Christina, Golden Dyke, Rising Sun and Apollo”.

Some of these areas are historic sites but when we visited the site there appeared to be no large-scale infrastructure (buildings, stamper batteries, head frames etc.) remaining in place, only old mining shafts.

In 2020 the project was acquired as licences EL6163 and RL6040 by Mawson Gold (TSX.MAW), which spun it out and listed it as part of Southern Cross Gold (ASX.SXG) in May'22. Gold drilling started in earnest shortly after, with immediate success.

Figure 4: Sunday Creek regional plan view



The Sunday Creek gold field has 11km of known strike. Most of the previous mining, and SXG's current exploration efforts, are focused on c.1km at the south-western end, but there are historic workings scattered along the entire prospective length.

Source: Company report

Geology and mineralisation

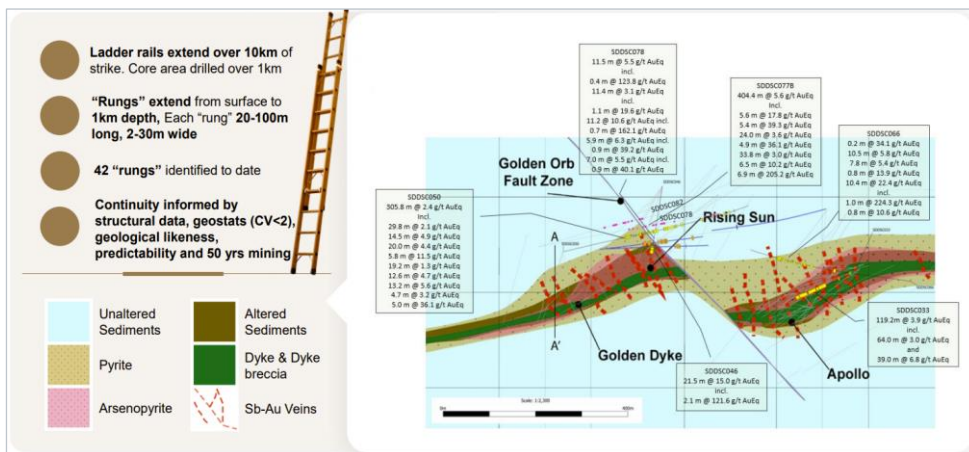
The Sunday creek gold and antimony deposits are of **epizonal-orogenic style**. Situated in the Melbourne orogenic zone, they are of Devonian age, being of similar vintage to Fosterville and Costerfield, rather than the rich but highly structured, nuggety and sometimes value-destructive Stawell-Ballarat-Bendigo (Ordovician aged and mesozonal).

The host rock is a brecciated diorite dyke, intruding Siluro-Devonian metasediments that were folded during the Tabberabberan Orogeny. Regional folds are striking NW-SE but the dyke is oriented approximately ENE-WSW, dipping at c.70 degrees to the north. The strike length of this prospective structure c.11km, between Christina in the west and Tonstall in the east. **The current focus of drilling is on c.1km at the western end at Golden Dyke, Rising Sun and Apollo.**

Mineralisation is expressed as sub-vertical packages of quartz-carbonate vein sets with fine to coarse (visible) native gold, and sulphides including stibnite (antimony) and arsenopyrite (arsenic and iron). Alteration is late-stage pale sericitization of the diorite and metasediments. Vein packages trend NW-SE, possibly in line with the regional fault axes, and at 60-90 degree angle to the diorite margin.

Figure 5: Sunday Creek – “The Golden Ladder” geological model

SXG has a neat exploration model for Sunday Creek, based on its ladder-like geometry.



Source: Company report

SXG geologists describe the geology as being similar in plan section to a ladder with vein packages forming the rungs. Using this “Golden Ladder” analogy, the various rungs are approximately 20-100m long, 2-30m wide and with a vertical extent of +100m. Spacing between rungs / vein sets is 10-20m. Mineralisation has been tracked to +1000m depth below surface. So far, 42 individual vein sets have been identified.

Drilling by SXG at Sunday Creek has delivered numerous high-grade intercepts, indicating a rich gold field that is open at depth in many areas. Highlights include 45 intersections between 50-100 AuEq metre-grams (g/t x width in m) and 30 of >100 AuEq (2m @ 1g/t Au lower cut-off). As a rule of thumb, underground mineralization grading >20m-g AuEq might be considered economic. We expect an initial resource estimate in late 2024 or early 2025.

Drilling at Sunday Creek totals 110 holes for 44082.5m. The project has delivered some wide and high-grade intercepts – we expect this strong newsflow to continue throughout 2024.

Exploration

In Jan’24, SXG announced an initial exploration target of 4.4 - 5.1 million tonnes (Mt) grading at 7.2 g/t AuEq to 9.7 g/t AuEq, for a contained 1.0Moz AuEq to 1.6Moz AuEq (see Figure 7). The target is well-founded, in our view. We expect SXG to deliver an initial resource in late 2024 or early 2025 (that’s our timeline, not the company’s). **We also think the target has been conservatively set and that SXG could deliver more than 1.6Moz – we can certainly see potential for 3Moz AuEq over time as drilling continues.**

Figure 6: Exploration drilling results from SXG’s Jan’24 presentation

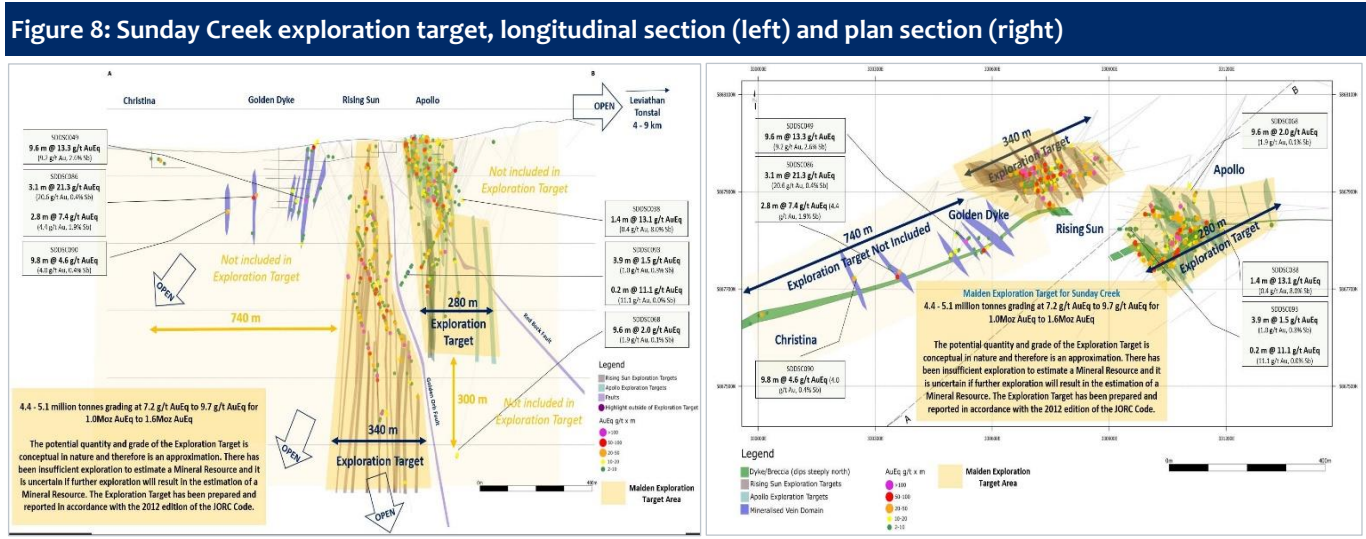
Date	Hole	Zone	Length (m)	From (m)	Au (g/t)	Sb (%)	AuEq (g/t)	Gram-metres
5-Sep-23	SDDSC077	Rising Sun	3.6	737.1	391.9	0.8	393.2	1416
9-Nov-23	SDDSC091	Rising Sun	20.0	430.0	62.7	0.5	63.6	1272
14-Dec-23	SDDSC092	Rising Sun	3.3	681.6	267.8	1.8	270.6	893
23-Oct-23	SDDSC082	Rising Sun	1.6	417.4	500.3	0.1	500.5	801
23-Oct-23	SDDSC082	Rising Sun	1.7	413.6	230.6	9.9	246.2	419
4-Oct-22	SDDSC046	Rising Sun	14.3	187.5	20.5	2.6	24.6	352
23-Oct-23	SDDSC082	Rising Sun	4.3	588.0	71.5	0.4	72.2	310
1-Jun-23	SDDSC066	Apollo	1.7	543.5	147.1	13.7	168.7	287
23-Oct-23	SDDSC082	Rising Sun	9.0	565.8	25.8	1.0	27.4	247
30-May-22	SDDSC033	Apollo	16.8	180.6	10.7	2.3	14.3	240

Source: Company reports

Figure 7: Exploration target ranges

Range	Tonnes (Mt)	AuEq g/t*	Au g/t	Sb %	Au Eq (Moz)	Au (Moz)	Sb (kt)
Lower case	4.4	7.2	5.3	1.2	1.0	0.74	53.5
Upper case	5.1	9.7	7.8	1.2	1.6	1.28	62.8

Source: Company report. Note: AuEq g/t* assumptions by SXG: gold US\$1700/oz, antimony US\$8500/t, recoveries Au 93% and Sb 95%



Source: Company reports

This target covers about 620m or 50% of the known strike at the main drill area at Rising Sun (340m) and Apollo (280m). It includes 49 veins shapes. There is upside risk from drilling additional structures down dip and along strike.

Figure 9: LM90 Boart Longyear DC rig at Rising Sun, Nov'23

SXG generously organised a site visit to Sunday creek for GBA Capital and our clients, in Nov'23, where we observed diamond-core drilling in action, along with abundant visible gold in core (see Figure 11).



Source: GBA Capital

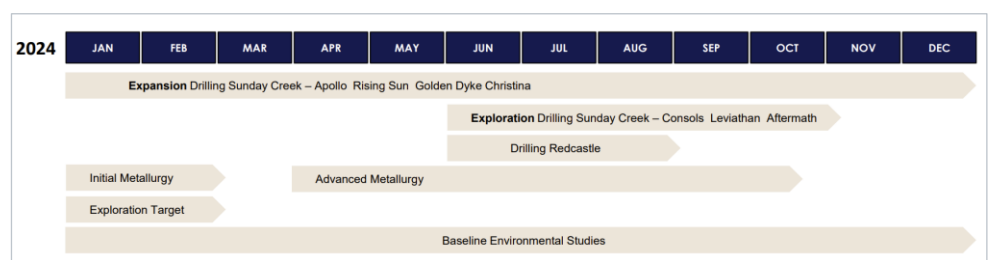
At the time of our site visit in Nov'23, SXG had drilled 24,555m in the year to date, and is planning another 19,000m by April 2024. Drilling is with 4-6 diamond core rigs on weekday day-shift, averaging 30m/day per rig but achieving up to 80m. Drilling costs were A\$170/m, or \$200/m with assays. Total costs add up to A\$1m/mth with up to 80% of that going into the ground in various forms.

Drilling is perpendicular to the vein sets to get the most representative intersections. A 25m horizontal spacing between 70-degree dipping holes equates to c.70-75m between pierce points in the vertical plane, **so a total of c.40km drilling on 25 x 50m spacing is required to fill in the Exploration Target.** Over time, the project could benefit from the development of an exploration decline or tunnel to allow drilling shorter holes at more favourable angles – the expense of this development could be more than offset by lower drilling costs and de-risking of the resource.

Exploration at this stage is focused on boots-on ground geology and drilling, but regional geophysics is being employed, including IP and lidar (radar) to locate historic workings along the 11km mineralised trend between Cristina and Tonstal.

SXG’s exploration timeline for 2024 is focused on drilling, metallurgical and environmental studies at Sunday Creek. The Redcastle JV also gets some attention.

Figure 10: Exploration project timeline for 2024



Source: Company report

Looking ahead

Resources and Reserves

Resources and Reserves are yet to be established. A JORC 2012- qualifying Resource is expected to result from the exploration target in late 2024 or early 2025. SXG prefers the North American style of targeting an initial multi-million ounce resource base rather than starting small and adding to it piecemeal. SRK Consulting is preparing the Resource.

Mining

Mine planning is yet to be conducted and will form part of Feasibility Studies on the project in 2025. A likely method is Long Hole Open Stoping (LHOS), which is appropriate for underground mining of relatively narrow structures. The default modern underground mining width is 5m (e.g. 5mx5.5m for declines and development) but mechanised widths down to 1.8m are common if grades are high enough to warrant it.

The key parameter here will be continuity of grade, in terms of ounces per vertical and horizontal metre. Given the location of the mine in a semi-rural area near a capital city, it’s unlikely the mine will be able to produce at ore tonnages more than (say) 1.2Mtpa, which is close to the theoretical output of a single decline. Ore throughput will be dictated by technical parameters such as stope numbers and cycle times, as well as ESG aspects of planning such as tailings storage and restrictions of material movements. We note that the

geologically similar Costerfield Mine (Au-As, Mandalay Resources, TSE.MND) operates at 150ktpa Using cemented rock or paste fill in the underground would help increase mining recoveries and reduce surface waste. The project may not receive a permit for a large open pit or pits but a smaller one could be possible, to chase high-grade at Apollo. The deposit could lend itself to sub-level or block caving, although this would have surface impacts.

Processing and economics

The plan is likely to be crush, grind, gravity separation of free gold and then flotation to two sulphide concentrates, one containing the majority of stibnite (antimony sulphide mineral) and the other containing iron sulphides such as pyrite and arsenopyrite. Early metallurgical work (Jan'24) showed gold recoveries of 93.3-97.6% through this process.

There should be a ready market for the antimony concentrate, which is low to moderate in arsenic (32-52% Sb, 0.4-2.58% As). Some gold will report to the higher arsenic concentrate (5.7-12.1% As in these tests) – such material can be sold to copper smelters, which blend it with low-As material to recover the gold. Anecdotally, cons grading >6.5% As can be difficult to export and market.

Again, it's very early days with metallurgical testing. Aside from flotation and export of concentrates, other methods such as on-site bio-oxidation (BIOX) to crack sulphides might be considered. It's too early to consider operating costs and capex. We can mention that Costerfield produces c.60kozpa AuEq at similar grades to Sunday Creek's expected Reserves, at a rate of c.150ktpa, for a cost of US\$1000/oz (AISC including sustaining capex). It's certainly way too early to talk about project economics, other than to say that at current prices a conceptual revenue split would be 80% gold and 20% antimony.

GBA staff have visited many dozens of mines and exploration projects but we've seldom seen so much visible gold in the one deposit.

The mineral stibnite, which hosts antimony, can readily be separated by flotation, as can other sulphide such as arsenopyrite.

Figure 11: Sunday Creek boasts abundant visible gold, and antimony as stibnite (brown/grey mineral in vein core)



Source: GBA Capital

ESG and non-technical matters

In our view, SXG has made a good early start on the ESG aspects of Sunday Creek, which can sometimes be overlooked by exploration companies.

A policy of transparency and regular communication with stakeholders – whether they are local people, government departments or investors - is critical when establishing a successful mining project.

SXG's other projects have less focus than Sunday Creek but non have been flagged as non-core at this stage.

It's perhaps unfair to be looking at a mid-stage exploration project through the lens of **ESG (Environmental, Social and Governance)** criteria – all that's happening for the next year or two will be relatively low impact drilling – but it can't hurt to look ahead. Here are a few things to consider.

Part of the project area is bordered by **State Forest**. It's relatively simple to receive permission to work in such forests. **Baseline environmental studies** are critical when proposing a mining project – these will be a focus in 2024.

Converting the Sunday Creek Exploration target to JORC Resources and Reserves requires **Native Title Heritage Surveys and Cultural Heritage Clearances from the local Taungurung People**. The Taungurung have approved the core 1km drilling area.

Most of the Exploration Target is within granted Retention Licence RL6040 and surrounded by granted EL6163. No further Exploration Licences are required to be granted to test the Exploration Target. The target is contained within a small Crown land allotment, surrounded by 133ha owned by SXG. Approvals are in place to drill on the EL except within 200m of the historic Christina area – this approval is pending.

The mineral assemblage contains arsenopyrite, especially below 700m depth, so SXG will have to be careful not to exceed maximum allowable concentrations of arsenic in gold-in-sulphide concentrate for any exports to likely processors. On-site leaching of free gold is a more likely route to address this.

The location and scale of **tailings storage facilities (TSF)** will be important in terms of environmental footprint and their relationship to waterways. Similarly, reagents or chemicals used on site will be carefully scrutinized, as they are for all mining projects in Australia.

As mentioned previously, SXG may not be allowed an open pit mine or bulk underground operation (e.g. sub-level caving) due to their potential surface impacts.

On our site trip we were interested to learn that the company's MD, **Michael Hudson, is a sixth generation local from the Sunday Creek district**, so he has strong connections in the area that could help with community outreach.

Other assets – focus on Victorian gold

SXG has held these assets since its spin-out from Mawson Gold. Redcastle and Whroo are of interest, given their proximity and geological similarity to Sunday Creek. Redcastle, the #2 project, is part of the 2024 exploration program. To us, Mt Isa looks to be non-core given the focus on Victorian gold.

Redcastle (SXG 70%, JV Nagambie Resources, ASX: NAG)

Located 120km north of Melbourne, Redcastle is an historic gold field with approximately 40,000 workings on 17km of mineralized veins. It is situated 2km along strike from Mandalay Resource's Costerfield operation and 24km east of Agnico Eagles' Fosterville Mine. SXG plans to drill this project in 2HFY24.

Whroo (SXG earning 70%, JV Nagambie Resources, ASX.NAG)

The Whroo goldfield, located 130km north of Melbourne, extends over 14 km. It is one of the largest historic epizonal goldfields in Victoria and remains largely untested to depth. SXG is planning further geophysical testing and target definition prior to drilling.

Mt Isa (SXG 100%)

SXG has staked seven exploration prospecting licenses covering 458 km² in the Cloncurry district of Mt Isa. These licenses span a combined 60km of strike prospective for IOGC and Broken Hill type base and precious metal deposits.

Corporate

Directors

The Board comprises the **Non-Executive Chairman and veteran geophysicist and explorer, Tom Eadie**; the **Managing Director, explorationist and Sunday Creek local Michael Hudson**; and **Non-Executive Directors Georgina Carnegie and David Henstridge**. Day-to-day managers are Mike Hudson and the **General Manager and geologist Lisa Gibbons**, while **Corporate Development and Investor Relations are handled by former private equity executive Nick Mead**. Overall, a very experienced team, who have employed a small but skilled and enthusiastic group of geoscientists to develop SXG’s projects.

Shareholders

Substantial shareholders: Board and Management (non-look through), 1.6%; Corporates including Mawson Gold (TSX.MAW), 50.9%; Institutions including Franklin Templeton and Firelight Investments, 11.6%. Mawson is the parent company – its shares are escrowed until 16 May 2024, with in specie distribution to shareholders expected in June 2024.

Capital structure and cash

Shares on Issue 184m; various Options 23.6m (prices A\$0.30-1.20, expiries to Nov’26).

Cash (30 Nov 23): \$7.5m. Estimated outflows are about A\$1m/mth during drilling.

Our estimates on Page 1 are based on this conceptual expenditure. It’s likely that SXG will need to raise further capital to drill and conduct studies in 2024, we assume A\$30m.

Figure 12: SXG corporate structure



Source: Company report

Risks of investment

SXG's activities are subject to the usual **operational, financing and jurisdictional risks** of mineral exploration and development in Australia. On the downside, these may or may not include – and are not limited to – difficult or remote terrain, inconvenient weather, problems with land access, local anti-mining sentiment, problems in sourcing staff and equipment, slow assay turnaround, funding challenges, and the possibilities that future permits may not be granted.

SXG is in mid-stage exploration at Sunday Creek, being post discovery but pre resource, so there are risks associated with **resource definition** and the potential findings of ongoing **scientific and economic studies**. All mineral projects are exposed to **commodity price and exchange rate variations and the state of the global financial markets**, which can affect project valuations, liquidity and the ability **fund** development and working capital.

Appendix 1 – Comparable companies

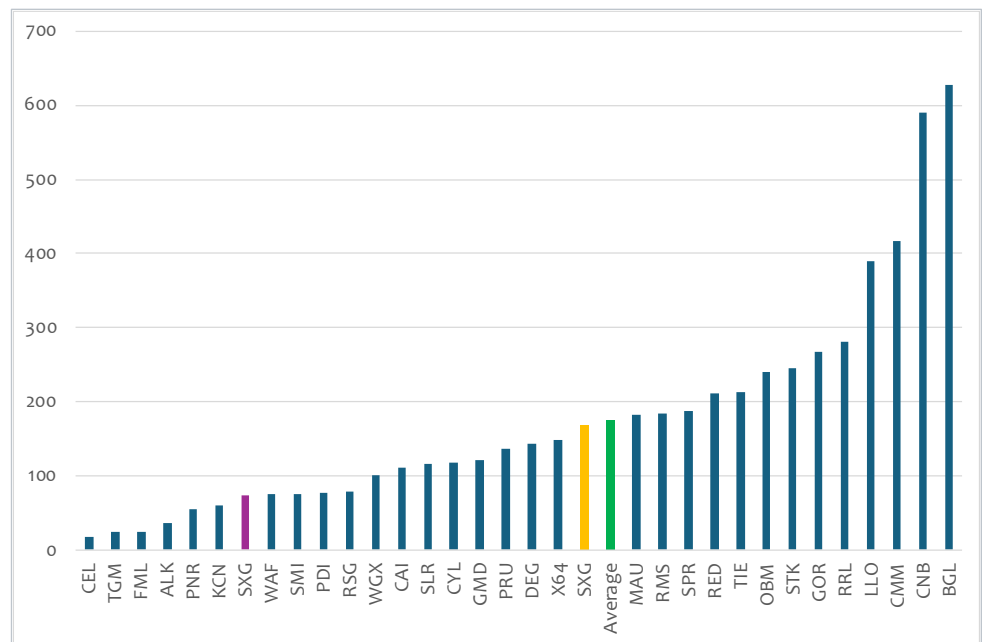
Figure 13 shows a chart of EV/resource (enterprise value to resource, A\$m/Au Oz) values for ASX-listed gold companies. Criteria for selection: companies with EV of A\$100m to A\$2.5bn and more than 100koz Au in resource, at the time of publication. Other metrics such as EV/reserve might be applicable when SXG’s Sunday Creek Project is more advanced.

- The average EV/resource multiple of A\$179/oz is shown in **green**.
- The theoretical multiple for SXG of A\$168/oz assuming mineralisation of 1.3Moz Au, which is the mid-range of the Exploration Target, is shown in **yellow**.
- If we assume SXG can reach a resource of 3Moz over the next few years, the multiple is A\$73/oz, which is shown in **purple**.

Our valuation of SXG as an equity (see Valuation section) adopts a slightly broader approach of valuing the lower Exploration Target of 1Moz at A\$100/oz and the higher target of 1.6Moz at A\$350/oz, allowing a valuation premium for scale, and then averaging the two.

Figure 13: EV/resource values for ASX golds; SXG estimates are conceptual

Currently, SXG’s share price is discounting an EV/resource multiple close to the market average, based on a theoretical resource of 1.3Moz AuEq. However, assuming 3Moz AuEq, the company looks significantly undervalued compared to peers.



Source: Gold Nerds, GBA Capital

Appendix 2 – Commodity outlook

Gold

Gold had a remarkable performance in 2023, outperforming other commodities, bonds, and most stock markets. It reached a record high price of approximately \$2,060 per ounce and achieved a 13% annual rise, making it the best year for gold since 2020. The since then, gold has set a higher record of IS\$2087/oz. The current price is US\$2082/oz or A\$3192/oz.

Outlook for 2024

Three likely scenarios for the global economy:

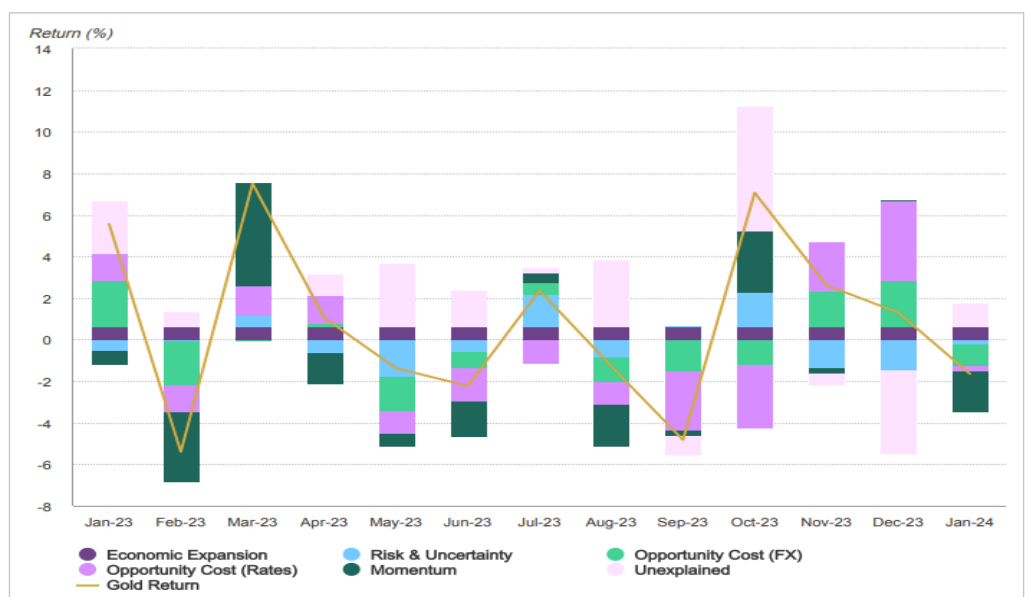
- “Soft landing” in the US (historically not attractive for gold, resulting in flat to slightly negative returns).
- Global recession.
- Heightened geopolitical tensions (especially in a key election year for major economies).

Factors supporting gold in 2024

- Geopolitical tensions: Combined with continued central bank buying.
- Uncertain US Federal Reserve policy: The likelihood of successfully steering the economy to a safe landing with interest rates above five percent is uncertain.
- Global recession risk: Still a possibility.
- Investors may consider gold as an effective hedge in their portfolios.

Overall, we expect the gold price to remain within a broad range of US\$1950-\$2150/oz for the next 12 months.

Figure 14: Key drivers of gold’s return by month



Source: World Gold Council

Antimony

What is it?

Antimony (symbol Sb, from Latin stibium) is a chemical element with atomic number 51. It is found naturally in a variety of geological setting, including mineral systems where it occurs as the sulphide mineral stibnite (Sb₂S₃).

What's it used for?

Historically, antimony was used to **harden munitions** but that has grown – **the metal's global status as a critical commodity is also due to higher-tech applications**. For example it is used to make flame retardants, optical equipment, glass (solar panels, 17% of use), chemicals and electronics. The demand for antimony in flame retardants is expected to remain dominant, driven by the increasing need for fire safety in various end-user industries. **The automotive industry** is also a significant consumer of antimony, particularly in lead-acid batteries. With the growing demand for electric vehicles, the **demand for antimony in battery applications is expected to increase**. Antimony is also used in the production of **semiconductors** and as a catalyst in the chemical industry.

Who uses it?

Geographically, Asia-Pacific, particularly China, is the largest producer and consumer of antimony. **China accounts for a significant share of global antimony output (c.50%) and controls most of the downstream processing capacity**. For this reason, antimony has been added to almost **every critical mineral lists globally, including in the US**.

What's the outlook?

The current price of high-purity antimony metal is US\$909/kg, while stibnite concentrate is US\$9776/t (ex- China VAT, Sb >=55%). Source: SMM. The outlook for antimony suggests growth in the coming years, with the global market is expected to reach a value of US\$2.9-3.6bn by 2032, that's a compound annual growth rate (CAGR) of c. 4%.

Figure 15: Antimony market size



(Sources: Imarc, Mordor Intelligence, Future Market Insights, GBA)

Recommendation structure

Buy: Expected to outperform the overall market on a 12 month view.

Hold: Expected to perform in line with the overall market on a 12 month view.

Sell: Expected to underperform the market on a 12 month view.

Not Rated: GBA has a factual view of the company with no recommendation.

High Risk: A qualitative rating, based on our assessment of significantly higher-than market risk of share price volatility.

Medium Risk: A qualitative rating, based on our assessment of market-average risk of share price volatility.

Low Risk: A qualitative rating, based on our assessment of lower-than-market risk of share price volatility.

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