

Mining Flash Note

GoldStone Resources*

GRL LN

BUY
TP 15p

11th April 2022

Stock Data

| | |
|--------------|--------|
| Ticker | GRL LN |
| Share Price: | 9.25p |
| Market Cap: | £42m |

Price Chart



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Ramping up at Homase

GoldStone Resources has successfully commissioned the Homase Mine in the Ashanti region of Southwest Ghana. The mine and plant have been built below budget and for under \$15m – testament to the hard work and determination of this experienced management team. The Homase Mine is to be made up of four proposed shallow, open pits on the highly prospective Birimian Greenstone belt, home to a number of world-class operations including the Obuasi Mine- just 15km to the South-west and along strike from Homase with a c.70Moz of historic and current gold resource. The Homase mine poured first gold in Nov/21 and is in the middle of a phased ramp up plan targeting a 2ktpd run rate concurrent with improving recoveries from the plant.

Ramp up in dry stacking and improved recoveries show typical teething problems are being rectified

- GoldStone has just completed its first full quarter of mining at Homase, with the initial operation experiencing ‘teething problems’ commonly associated with heap leach mining – in this case agglomeration issues on the cell.
- Test work carried out by the company to further understand the leach kinetics and therefore optimise recovery indicated a clay content higher than expected, along with greater than expected silt.
- The board has made strong progress in rectifying these issues, with recoveries increasing to over 65% from 20% in just a couple of months, expected to gradually increase to 82% by Q4 22.
- We expect GoldStone to scale up production most aggressively in the second quarter of 2022, reflected by the company overcoming common issues and optimising efficiencies while in production.
- In addition to improving recoveries, GoldStone is currently ramping up its stacking operations concurrent with the completion of cell three of the Heap Leach. GoldStone expect to construct a total of seven cells as part of the heap leach operation at Homase.
- The company has just scaled up to stacking at 2,000 tonne per day (tpd) from an initial 1,000tpd in February, and expects to scale up further to ~2,500tpd towards the end of the year.

Homase License expected to sustain at least five-year operating mine life down to 80 meters

- Goldstone is currently mining the first of its four proposed pits along the Homase Trend, where 5km to the southeast, an 8km trend has produced 35Moz of gold to date.
- The current mineable resource for the first two pits within the Homase Mine is estimated by management to be 304,000t @ 1.7g/t for **16,600oz** contained gold and 640,000t @ 1.25g/t for **25,700oz** contained gold, respectively.
- If both pits are extended down to the intended 80m level, the gold endowment is forecast to increase a further 586,000t @ 1.7g/t for **32,000oz** contained gold and 1.26mt @ 1.1g/t for **44,600oz** gold, respectively.
- We expect that GoldStone’s decision to extend mining to a depth of 80m, along with an extensive proving up campaign in the immediate license area should extend the mine life beyond the initial five years.

Valuation: GoldStone are ramping up their operation at Homase, following the identification and rectifying of mining and processing bottlenecks, with run rates planned to accelerate to 2ktpd. We forecast a gradual improvement in the recovery reflecting the strong progress made by management rectifying agglomeration issues as well as improving leach kinetics as time progresses which is typical in operations such as this.

The valuation of Homase bears reference to GoldStone's internal production schedule for the calendar years 2023 and 2024. Beyond this, we expect GoldStone's open pit operations producing 25,000oz of gold per annum for an additional three years. These forecasts were derived from conversations between SP Angel & GoldStone Resources management.

We view the mine life assumption as conservative given the size of GoldStone's license area on the Homase trend and the intention to mine to a depth of 80m from an initial 30m. We expect additional ounces to be mined from the five pits spanning 4.4km along the strike of the current JORC resource which sits within the 8km mineralized Homase Trend. Given the current resource only accounts for roughly half of the total mineralized trend, we expect GoldStone's upcoming exploration programme to add ounces as fast as they are depleted as a result of the existing mining operation.

We estimate Homase to generate ~\$22.9m in Free Cash Flow this calendar year, enabling the company to make its modest debt repayments and embark on its CY22/23 exploration campaign. We have reduced our discount rate from 10% to 7.5% given the perceived risk-reduction in transitioning from a developer to a producer.

Our valuation does not include any upside from the historic Akrokeri mine, which previously operated from 1904 to 1909 and produced 75,000oz at a recovered average grade of approximately 24g/t.

We maintain our BUY recommendation with an updated 15p NAVPS reflecting the latest gold price/production/costs estimates and current LOM, while highlighting the significant scope for rerating as the company delivers on its LOM extension plan and ramps up production from current defined assets.

Production projections

| <i>Quarterly</i> | | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|-----------------------------|-------|--------|--------|--------|--------|--------|
| Gold price | \$/oz | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 |
| Throughput | kt | 90 | 200 | 225 | 240 | 240 |
| Grade | g/t | 1.70 | 1.30 | 1.20 | 1.20 | 1.10 |
| Recoveries | % | 65% | 68% | 75% | 82% | 82% |
| Production | koz | 3.2 | 5.7 | 6.5 | 7.6 | 7.0 |
| Gold Loan repayment | koz | 0.77 | 0.77 | 0.51 | - | - |
| Gold Sales (post gold loan) | koz | 2.4 | 4.9 | 6.0 | 7.6 | 7.0 |

Production and earnings projections

| | | 2022E | 2023E | 2024E | 2025E | 2026E |
|---------------|-------|-------|-------|-------|-------|-------|
| Gold price | \$/oz | 1,900 | 1,900 | 1,900 | 1,900 | 1,900 |
| Throughput | kt | 755 | 960 | 677 | 677 | 677 |
| Grade | g/t | 1.29 | 1.10 | 1.40 | 1.40 | 1.40 |
| Gold Sales | koz | 23.0 | 27.8 | 25.0 | 25.0 | 25.0 |
| C1 Cash Costs | \$/oz | 592 | 590 | 553 | 553 | 553 |
| TCC | \$/oz | 693 | 691 | 654 | 654 | 654 |
| AISC | \$/oz | 789 | 770 | 742 | 742 | 742 |
| Net Revenue | \$m | 37.6 | 50.3 | 45.1 | 45.1 | 45.1 |
| EBITDA | \$m | 23.9 | 33.7 | 31.1 | 31.1 | 31.1 |
| FCF | \$m | 22.9 | 26.3 | 19.2 | 19.2 | 19.2 |

Source: SP Angel, Company

Exploration at Homase to target resource expansion as well as several areas previously untested

GoldStone have the potential to add a significant amount of ounces to the mineable resource at Homase, with the company's proposed pits only covering 4.4km of the 8km known mineralised Homase trend. Several highly prospective gold in soil anomalies that the company expect to test imminently is the Pampaso Target and Betinsin Target, which currently sit **outside** of the 8km anomaly.

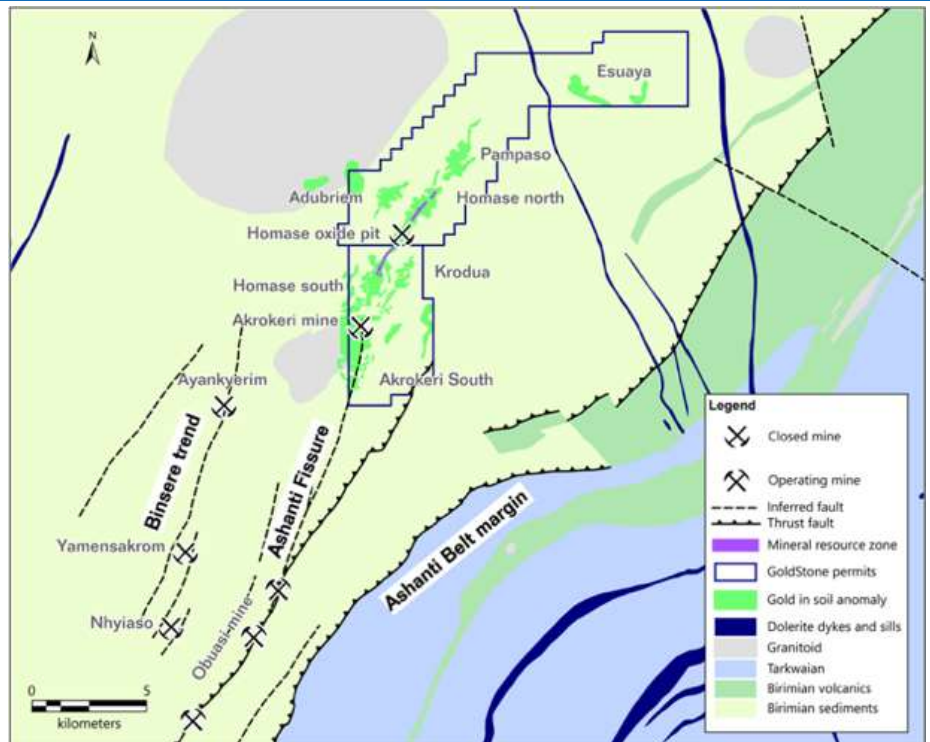
Given the cash-generative nature of GoldStone’s now-producing assets, we expect the company to drill extensively over the next two years to define resources capable of extending the projects current mine life over the initial five years. Exploratory drilling has already commenced at Adubriem, where two diamond drill holes are currently being logged and assayed.

Drilling underway at Adubriem to add shallow resource ounces



Source: SP Angel, Company

License area gives the opportunity to add ounces and increase mine life



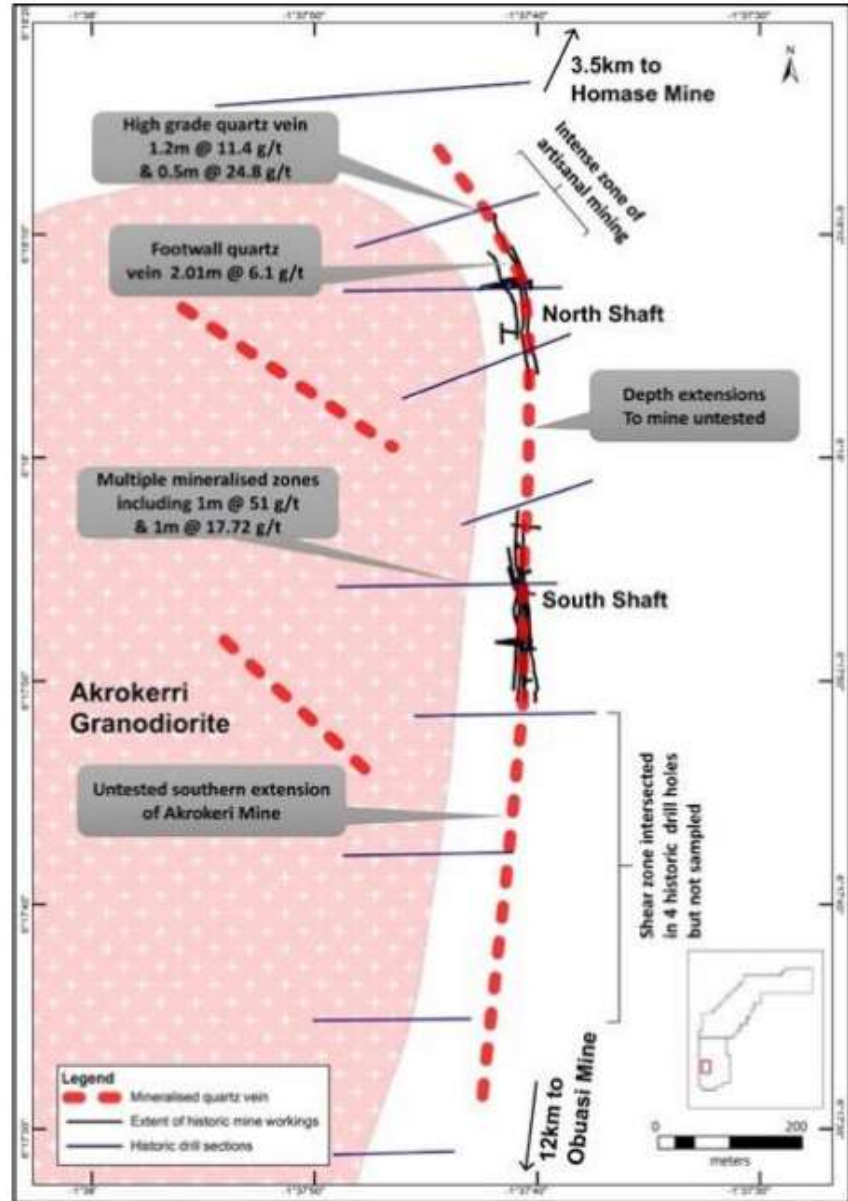
Source: SP Angel, Company

Akrokeri – Investors await exploration campaign with great optimism due to very high historic grades

The Akrokeri Mine lies 12km Northeast from AngloGold Ashanti’s 70Moz Obuasi Mine. The underground mine is close to the town of Akrokeri and was closed in 1909 after six years of production due to an inrush of water.

Due to the close proximity to the Homase Pit, the underlying geology is similar at both projects, as highlighted above. However, the high-grade quartz veins, up to 1.5m wide and with grades of c.1oz/t are unique to Akrokeri. When the mine was in operation between 1904-1909, it produced 75,000oz at a recovered average grade of 24g/t, with drill results since showing even higher-grade mineralised intercepts including 1.0m at 51g/t Au.

Schematic diagram showing mineralisation and drill results at Akrokeri



Source: SP Angel, Company

Recent channel sampling undertaken at a former artisanal mining area in close proximity to Akrokeri includes highlights:

- **Sample 1** – 6m at 5.1g/t Au from 0m; including 0.5m at 12.2g/t Au from 1.8m
- **Sample 2** – 3m at 1.8g/t Au from 0m; including 0.4m at 4.6g/t Au from 2.0m
- **Sample 3** – 1m at 45.0g/t Au from 0m; including 0.2m at 53.8g/t Au from 0.6m.

GoldStone has also identified historic tailings from when the mine which was in operation, that are currently being tested for economic levels of gold and processing capabilities.

GoldStone has commenced drilling at the former Akrokeri Underground Mine and expects to update the market in due course on results. Exploration potential at

Akrokeri license remains significant since the current JORC mineral resource estimate is within the Homase Trend and limited to 250m from surface. This covers only half of the 8km long structure and does not include the Akrokeri underground mine. The company continue to assess the old workings in conjunction with the exploratory drill programme.

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