

SolGold

Increasing target price to 107p upon review of PEA & Annual Report; PFS due Q1'20

SolGold released its Annual Report for the year to June on 16th August. FY19 was one of momentous progress at the company's Cascabel project, culminating in the publication of a highly positive Preliminary Economic Assessment and filing of a full NI 43-101 compliant report on 28th June. The filing confirmed Alpala's very attractive economics, and provided details on the timing of capex, mine plans and production profiles in the four scenarios being considered in the PEA. The Annual Report revealed a year-end cash balance of ~US\$41m, and that SOLG is now targeting completion of a Pre-feasibility Study (PFS) at Cascabel by the end of Q1 CY'20. However, much of the exploration, metallurgical test work and technical studies will be completed by the end of this year, and we expect another Resource update to provide a positive catalyst during H2. With the development plan outlined in the PEA driving a ~US\$1.1bn increase in our DCF to ~US\$3.7bn, our target for SOLG increases by ~34% to 107p/share, ~298% above the current price.

Upfront capital intensity lower than expected

The four block cave scenarios presented in the PEA showed steady-state ore production of 40-60Mtpa, with mine lives of 49-66 years (2.4Mt total mineral inventory), for pre-production capex of US\$2.5-US\$2.8bn and post-production capex of US\$7.5-7.8bn over the life of mine. We have reviewed the document and updated our model in-line with the "50 Mtpa – fast ramp-up" scenario. However, total capital expenditures in each of the four scenarios presented was roughly the same, with the difference in steady-state output dictated by the speed and sequence in which new block caves are brought into the mine plan. Indeed, we note that in the 50Mtpa-fast scenario there is likely to be significant further capex required in the early years of the mine plan – we estimate ~\$2.3bn – to reach full 50Mtpa output within five years of initial start-up.

Mine plan focusing on high-grade core drives fast payback

The PEA outlined a mineral inventory of ~2.4bn tonnes of ore, to be mined via a series of vertically-extensive block caves arranged in two lifts. The first caves are planned to exploit the high-grade core, with head-grades of up to ~1.9% CuEq; these are followed by lower-grade caves with grades falling towards ~0.2% CuEq by the end of a ~55-year mine-life. Higher-grades in the early years drive strong free cash flow generation, even after accounting for relatively heavy ongoing capital expenditure to accelerate throughput to 50Mtpa. Our model suggests a payback period of less than four years from first production, with FCF in the first 10 years averaging ~\$1bn pa. However, FCF drops dramatically as the mine plan moves to lower-grade zones, averaging just ~US\$120m pa over the last 35 years of production. SOLG's ongoing exploration programme therefore has the potential to materially further boost the project's economics as it moves through the PFS and BFS phases through the discovery of new high-grade Resources on the Cascabel licence.

PT upped to 107p, implying 298% upside; prime candidate for consolidation

Given a global scarcity of large-scale copper projects, we believe SOLG is a prime candidate for consolidation as larger industry players look to replenish their growth pipelines. Indeed, SOLG has already attracted two major miners on to its register with Newcrest holding ~15% and BHP ~11%. Our analysis of recent M&A in copper suggests an average takeout multiple of ~US\$204/t of CuEq resource, implying a potential price tag of ~130p/sh for SOLG if applied to Cascabel. We take a more conservative approach to derive our target price, basing it on our revised Jun'20E DCF of US\$3.7bn for Cascabel and applying a risk-weighting of 0.8x to account for its early-stage. We then add US\$75m for SOLG's other Ecuadorian assets and adjust for the movement in net cash to give a Jun-20E target of 107p, nearly four times the current share price.

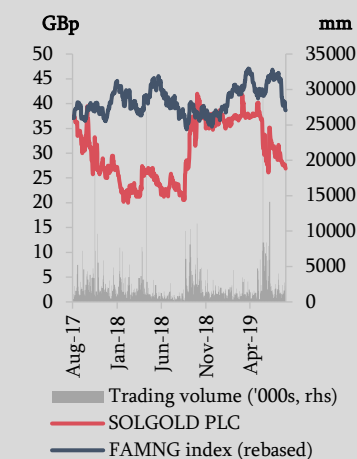
GICS Sector	Materials
Ticker	LN:SOLG
Market cap 16-Aug-19 (US\$m)	612
Share price 16-Aug-19 (GBP)	26.9
Target price 30-Jun-20 (GBP)	107.0

+292%

Upside from current share price to our 107p/sh target

~US\$3.7bn

Updated H&Pe DCF estimate for Cascabel Project



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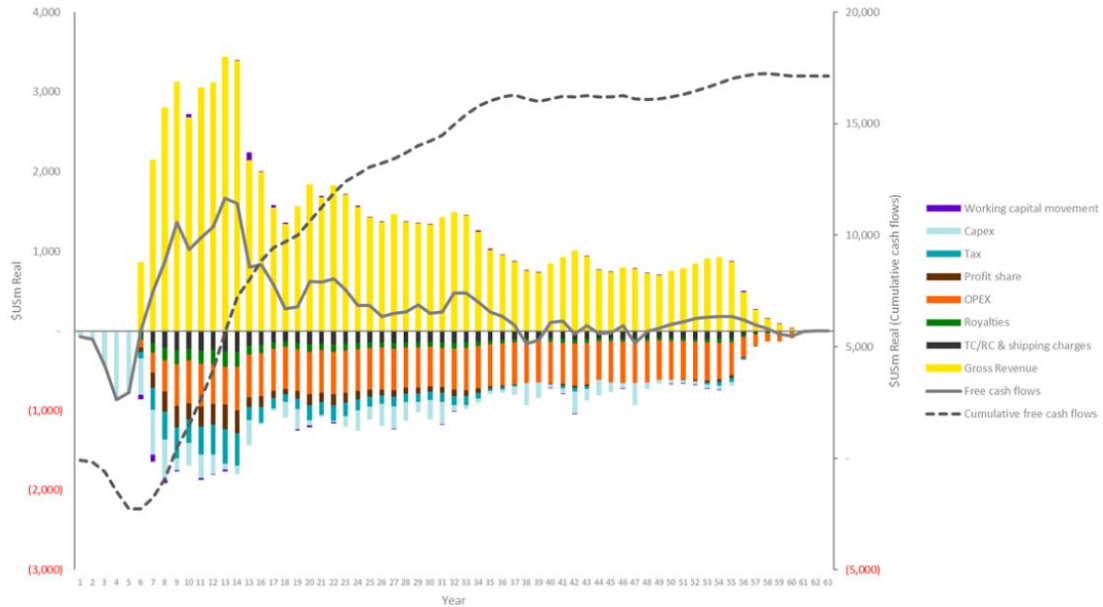
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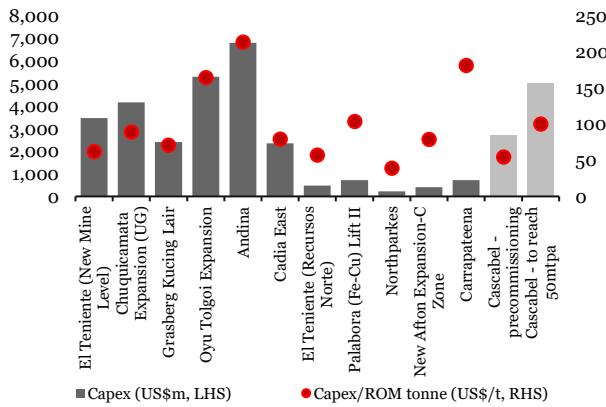
Key Charts

Cascabel PEA Cash Flow projections in 50Mtpa fast ramp up scenario



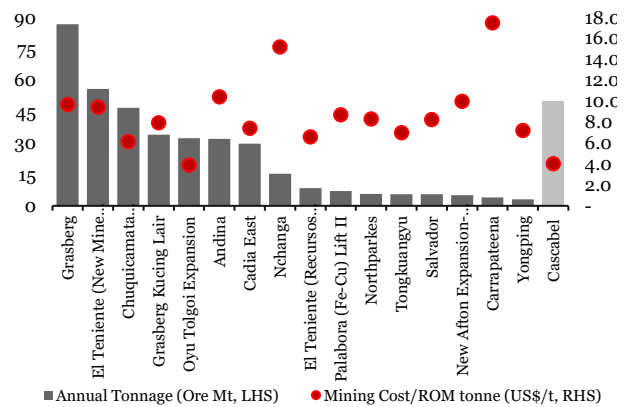
Source: Cascabel PEA Report

Typical block cave growth capex per tonne of annual output



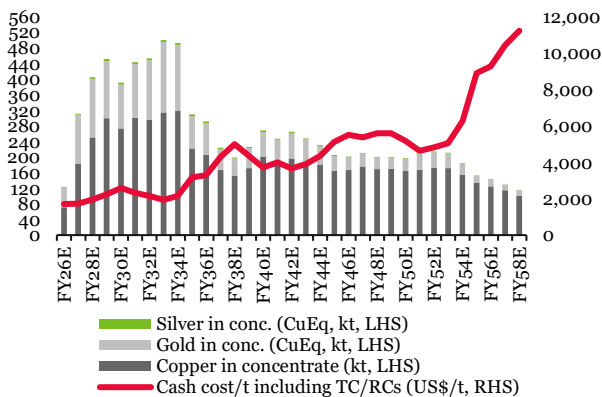
Source: MineSpans, SNL, Company reports, H&P estimates.

Global block cave capacity vs mining cost per tonne est.



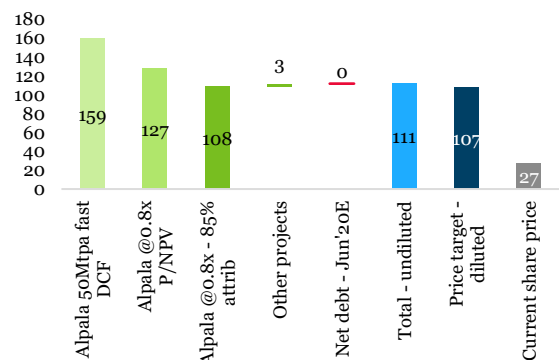
Source: MineSpans, SNL, Company reports, H&P estimates.

Cascabel production & cost profile in 50Mtpa fast scenario



Source: H&P estimates,

Price target derivation

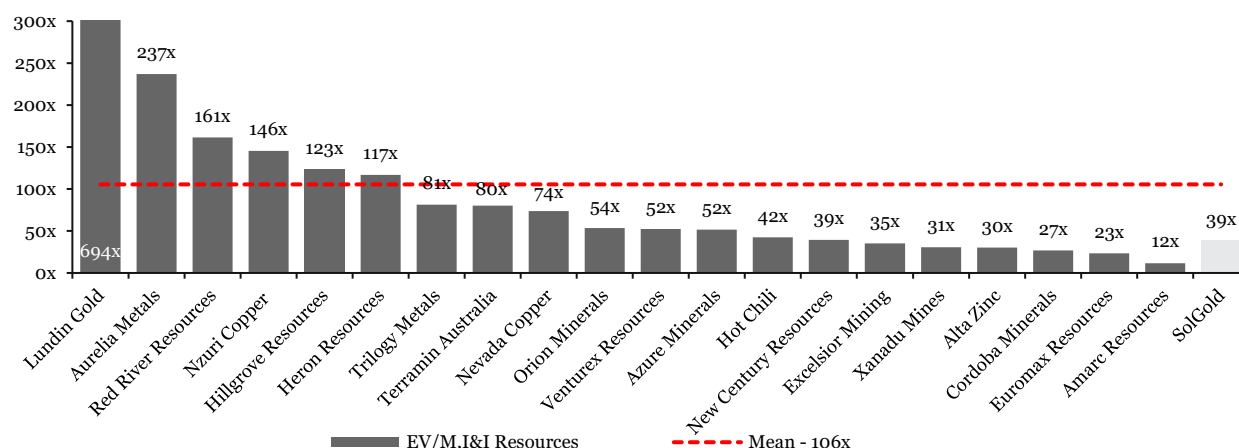


Source: H&P estimates.

Valuation remains cheap on several fronts

EV/Resource: along with many of its early-stage peers, SolGold's share price has been sliding in recent weeks, in-line with a broader sell-off in mining and other cyclical equities on macro-economic concerns. Despite the breadth of the weakness, at ~US\$39 per tonne of contained copper equivalent resource, the stock now trades at a ~63% discount to similar pre-production peers. A re-rating to the average peer group EV/Resource multiple of ~US\$106/t would imply a valuation of ~69p, implying over 150% upside to the current share price.

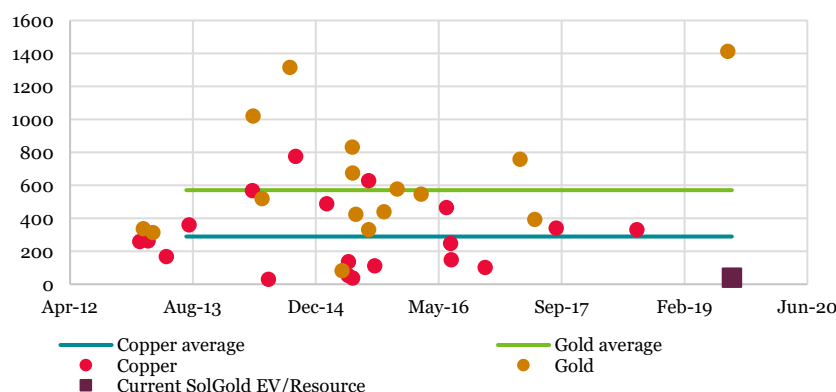
Current EV per tonne of copper equivalent M,I&I resources for copper and gold peers (US\$/t)



Source: H&P estimates; SNL

Take-out multiples: Our analysis of recent M&A in the copper and gold space suggests a median takeout multiple of ~US\$376 per tonne of copper equivalent resource, nearly 10 times SOLG's current level. Even stripping out gold transactions to only look at copper, and weighting the average by the size of the Resource acquired, we calculate an historic take-out multiple of ~US\$204/t of copper equivalent. This would imply a valuation for SOLG in a consolidation scenario of almost US\$3bn or ~130p per share, even before considering the potential for further Resource upside.

Historic EV/Resource multiples in copper & gold M&A transactions (US\$/t CuEq)

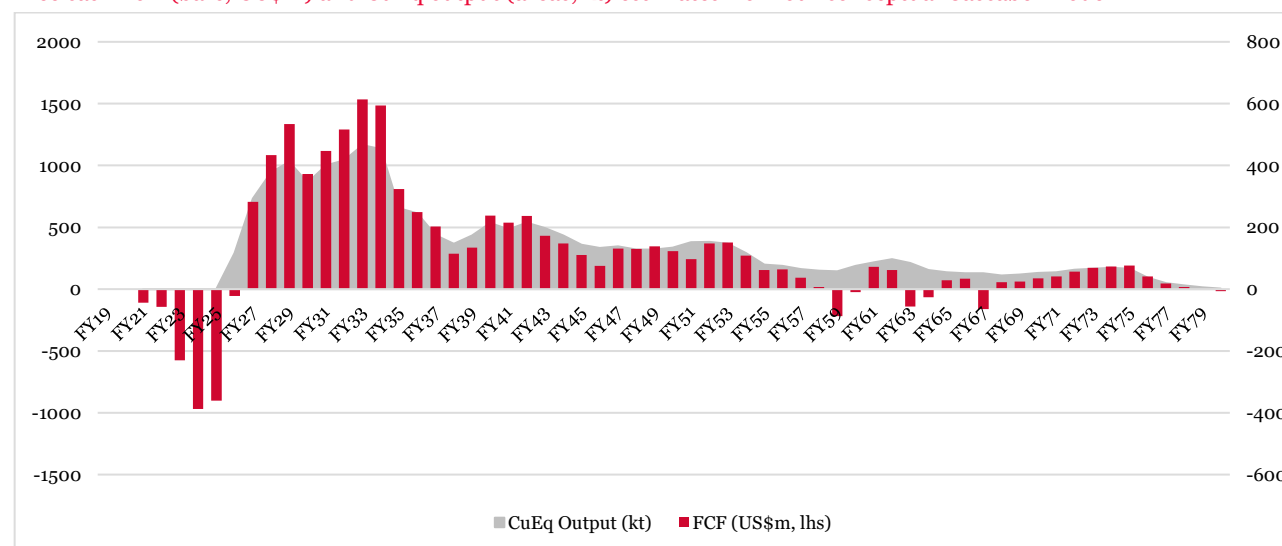


Source: H&P estimates; SNL; Bloomberg.

Discounted cash flow: Our Cascabel DCF is based on the company's published PEA mine plan using initial capex of ~US\$2.7bn, ahead of assumed first output in 2026E, with further growth capex of ~US\$8.5bn over the life of mine as a series of block caves are added to ramp up to full throughput of 50Mt pa by 2030E.

Focusing initially on the gold-rich high-grade core at Alcala pre-commissioning, we model first output from 2026E, ramping up to ~32.6Mtpa by 2030E and averaging ~308.7ktpa CuEq over the proceeding 6 years of the operation – with gold representing ~38% of production in copper equivalent terms. Over the remaining 50 years of mine-life we estimate average CuEq output of ~130.8ktpa as the initial higher-grade block caving operations are followed by a series of lower-grade caves.

Free cash flow (bars, US\$m) and CuEq output (areas, kt) estimates from our conceptual Cascabel model



Source: H&P estimates

107p target price implying almost 300% upside

Our 107p Jun'20E price target is built up from our provisional DCF valuation for Cascabel of US\$3.67bn and an imputed value of ~US\$75m for SOLG's other Ecuadorian assets. Despite Cascabel's relatively early stage, we believe a reasonably generous target P/NPV of 0.8x is warranted, given SOLG's status as a potential focus of corporate activity, the likelihood of further NPV upside and the project's criticality in fulfilling the world's future copper needs.

Estimated Net Present Value per share / Price Target derivation

	Value	Multiple	Target	
Alcala 50Mtpa fast - 100%*	US\$m	3672	0.8	2938
Alcala Project - 85% attrib. stake	US\$m	3121	0.8	2497
Other Projects in Ecuador	US\$m	75		75
Net cash/(debt) - Jun'20E	US\$m	-7	1.0	-7
Total (US\$m)	US\$m	3189		2565
Shares outstanding	m	1846		1846
NPV / Target Price per share (US cents)	US cents	172.7		138.9
USD/GBP FX	\$/£	1.25		1.25
Undiluted NPV (GBP)	GBP	138.2		111.1
Options/Warrants outstanding	m	160		160
Wtd ave strike on options/warrants	GBP	57.3		57.3
Diluted NPV / Target Price per share (GBP)**	GBP	131.7		107.0
Current share price	GBP	27.3		27.3
Up/(down)side v current price	%	390%		298%

Source: H&P estimates. *Note: for simplicity in our analysis we assume the minority shareholder, Cornertone Capital, contributes its 15% share of capex and therefore is not diluted to an NSR royalty.
**Applying GBP/USD FX of \$1.25/£ and rounding to nearest 5p.

Adding to high-grade core would have significant NPV impact

The 2019 Resource update for Alcala/Cascabel could be a further significant catalyst for SOLG shares. Given that the Alcala mine plan first targets the ~400Mt high-grade core at Alcala Central, it is perhaps unsurprising that the first 10 years of the operation account for ~65% of our total ~US\$3.67bn project DCF. As such, more than the absolute size of the expected Resource upgrade with the upcoming MRE update, the grade and location of those incremental tonnes is of critical importance to NPV.

Alcala Mineral Resource Estimate (as of December 2018)

	Resource Category	Tonnage (Mt)	Grade			Contained Metal		
			Cu (%)	Au (g/t)	CuEq (%)	Cu (Mt)	Au (Mt)	CuEq (Mt)
>1.1% CuEq	Indicated	200	1.13	1.36	1.99	2.2	8.7	3.9
	Inferred	10	0.76	0.70	1.20	0.1	0.1	0.1
0.9 - 1.1% CuEq	Indicated	200	0.67	0.50	0.99	1.4	3.2	2.0
	Inferred	10	0.68	0.34	0.90	0.1	0.3	0.1
0.2 - 0.9% CuEq	Indicated	1,650	0.29	0.13	0.38	4.8	7.5	6.3
	Inferred	880	0.26	0.12	0.33	2.3	3.4	3.0
Total >0.2% CuEq	Indicated	2,050	0.41	0.29	0.60	8.4	19.4	12.2
	Inferred	900	0.27	0.13	0.35	2.5	3.8	3.2

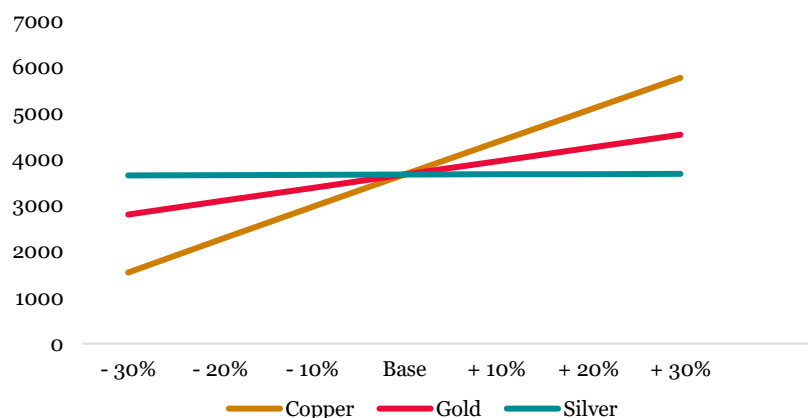
Source: Company reports.

Sensitivity analysis

Aside from high-grade Resource additions, the most important external factors driving valuation are the assumed copper and gold prices, as well as the real WACC applied, as summarised in the tables below.

Sensitivity of Jun '20E Alcala DCF to LME copper and gold prices (WACC fixed at 8%)

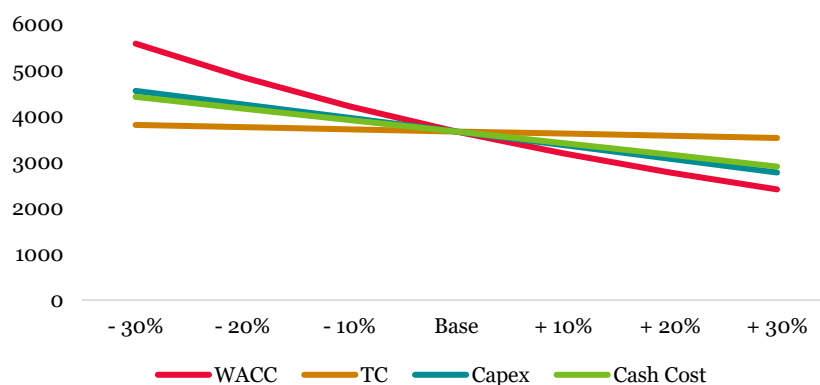
	-30%	-20%	-10%	0%	+10%	+20%	+30%
Copper	1545	2259	2968	3672	4374	5075	5775
Gold	2805	3094	3383	3672	3961	4250	4539
Silver	3655	3660	3666	3672	3678	3683	3689



Source: H&P estimates

Sensitivity of Jun '20E NPV to Capex, Cash Cost, TC/RC, and WACC

	-30%	-20%	-10%	0%	+10%	+20%	+30%
Capex	4555	4263	3968	3672	3376	3079	2778
Cash Cost	4425	4174	3923	3672	3419	3164	2907
TC/RC	3814	3767	3719	3672	3624	3577	3529
WACC	5585	4852	4220	3672	3194	2777	2411



Source: H&P estimates

Rejection of referendum petition sets positive precedent

On 21st June 2019, the constitutional court judgement rejected a petition for a local referendum on mining activity in the Carchi and Imbabura Provinces in Northern Ecuador, where SOLG's flagship Cascabel project is located. The judgement sets an important legal precedent that the mining industry is considered to be of national interest, making it significantly harder to win court approval for local referenda challenging future development. Although the petition was technically rejected on procedural grounds, it establishes that higher standards of legal robustness will be required in future if requests for local referenda to pass the procedural test, before the merits of such requests are even considered. This in turn implies that the future of mining in Ecuador will largely be decided by the Ecuadorean Federal Government, representatives of which have expressed strong support for the industry. The verdict prompted a recovery of SolGold's share price, and it is expected to have a long-lasting upside effect on mining companies' operation and performance.

Upcoming project catalysts

Preliminary Project Dates Activity	Nominal Date
Pre-feasibility study	Q1 2020
Definitive feasibility study	Dec-20
Procurement Tunnel & Shaft Sinking Equipment	Jan-21
Environmental License	Aug-21
Project Approval & Financing	Apr-21
Construction Permit	Jun-21
Detail Engineering	Jun-22
Construction Completed	Mar-25
Commissioning	Jun-25
Handover to Operations	Jul-25

Source: June 2019 PEA Report

Summary of PEA outcomes

In our [October 2018 initiation](#), with no published technical or economic studies to rely upon, we generated a provisional DCF valuation for Cascabel using capex, opex and production estimates derived by benchmarking against other block cave projects globally. In the pages below, we reproduce much of this analysis, this time benchmarking the peer projects against the outcomes of SolGold's June 2019 PEA. We conclude that many of our initial assumptions for Cascabel have proven to be conservative, with capital intensity and production capacity improving relative to our provisional model.

LOM Model Key assumptions and Outputs

H&P Conceptual Model (Input & Output)		New Model	Previous Model
Base Case Copper Price	US\$/t	7,000	7,000
Base Case Gold Price	US\$/oz	1,300	1,250
Base Case Silver Price	US\$/oz	16	N/A
Life of Mine	yrs	55	39
Average annual ore mined	t	44,164	30,829
Average Treatment Grade Cu	%	0.38	0.51
Average Treatment Grade Au	g/t	0.26	0.35
Average Treatment Grade Ag	g/t	1.08	N/A
Average Treatment Grade CuEq	%	0.55	0.71
Metallurgical Recovery Cu	%	89.6	90
Metallurgical Recovery Au	%	65.5	85
Metallurgical Recovery Ag	%	59.2	N/A
Average Annual Copper Production	kt	145	141
Average Annual Gold Production	koz	236	296
Average Annual Silver Production	koz	880	N/A
Average Annual Copper Equivalent Production	kt	191	188
LoM Copper Produced	Kt	8,270	4,925
LoM Gold Produced	koz	13,449	10,367
LOM Silver Produced	koz	50,132	N/A
LoM Average Copper TC/RC	US\$/t CuEq	334	201
LoM Average Annual EBITDA	US\$m	654	575
LoM Growth Capex	US\$m	9,334	7,192
LoM Sustaining Capex	US\$m	953	450
Payback Period	yrs	9	10
IRR	%	23	21
WACC	%	8	8
NPV	US\$m	3,673	2,230

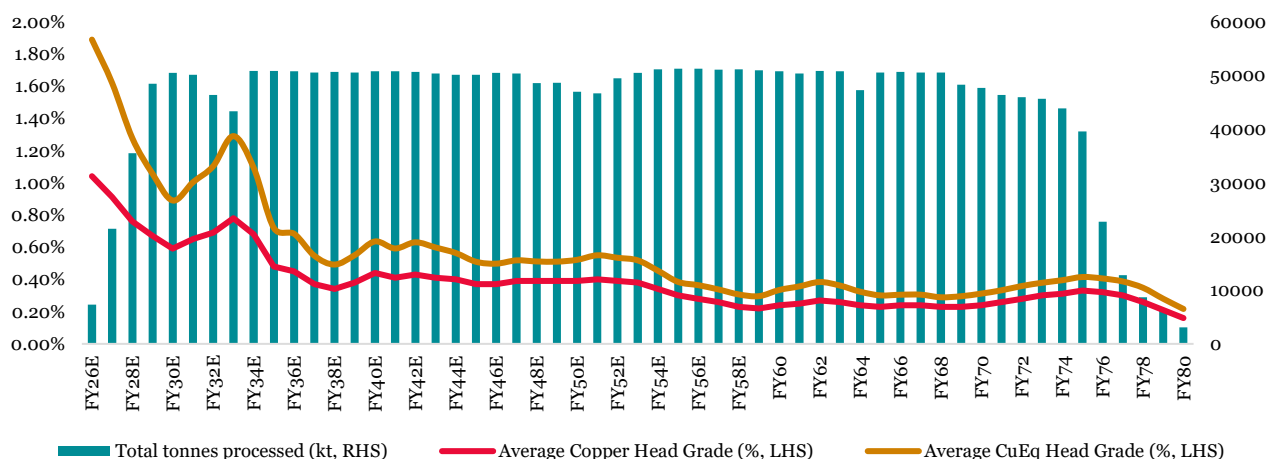
Source: H&P Estimates

Development plan

Further studies will be required to more accurately estimate dilution and mining recovery, and define a JORC-compliant reserve. However, the PEA outlined a mineral inventory of ~2.4bn tonnes of ore, to be mined via a series of vertically-extensive block caves arranged in two lifts. The first six cave footprints cover the high-grade core of the operation, with head-grades of up to ~1.9% CuEq. These are followed by five lower-grade footprints around and above the high-grade

zones, with grades falling towards the ~0.2% CuEq cut-off grade by the end of a 55-year mine-life, in the case of the 50Mtpa-fast scenario.

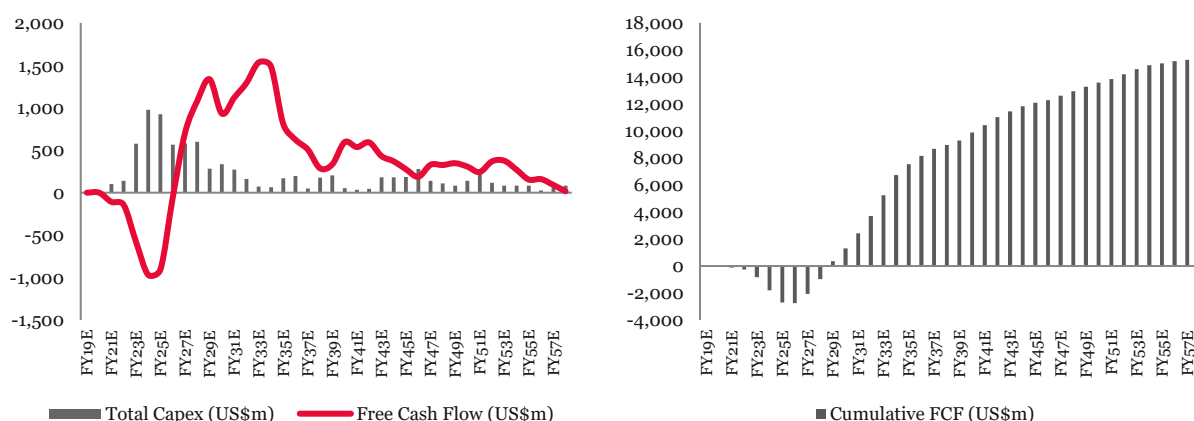
“50Mtpa – fast” scenario mine plan - ore tons processed vs. assumed head grade



Source: Company reports, H&P estimates.

Higher-grades in the early years drive strong free cash flow generation, even after accounting for relatively heavy ongoing capital expenditure to accelerate throughput to 50Mtpa. Our model suggests a payback period of less than four years from first production and less than nine years from commencement of construction. We estimate free cash flow in the first ten years of the mine’s life will average ~\$1bn pa, falling to ~\$450m pa in the subsequent ten years, and ~\$120m pa thereafter.

Free cash flows vs. capex, and cumulative free cash flows

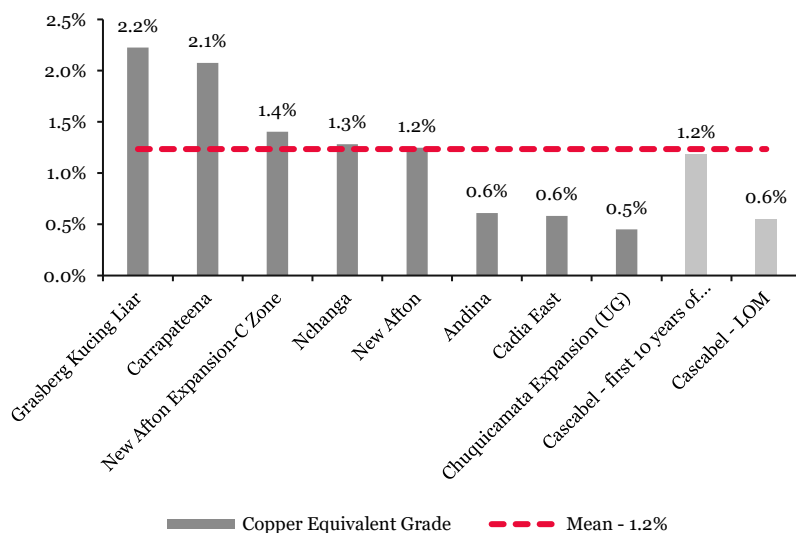


Source: Company reports, H&P estimates.

The Alpala Resource covers a horizontal extent of ~1km, but mineralisation extends vertically to depths of more than 2km from surface. While open pit mining could still be considered if new near-surface mineralisation is discovered on the Cascabel licence, the topography, environmental considerations and shape of the Alpala deposit lend themselves to a block caving approach, as outlined in the PEA highlights released in May. Comparing against other operations globally and in particular in Latin America, Cascabel’s grades appear more than adequate

to support an economically viable block cave mine, particularly in the early years of the mine-life.

Typical block cave Cu Eq grades vs estimated first 5 years of production grade and LOM grade

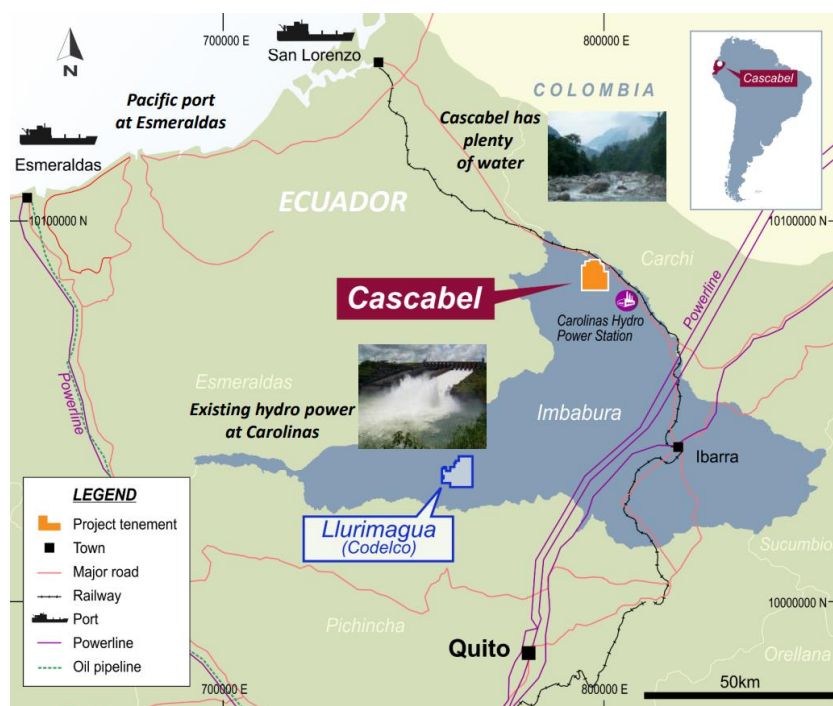


Source: Company reports, SNL, H&P estimates

Capex estimates - nearby infrastructure provides savings

In our initiation, we analysed the publicly announced capex budgets for global block cave mining operations and projects, and compared them to each mine's run of mine capacity as quoted by McKinsey MineSpans. Capex per annual tonne of ore mined has ranged from ~US\$40/t to ~US\$210/t, with a median of ~US\$71/t and average of ~US\$82/t.

Location of Cascabel concession in Northern Ecuador

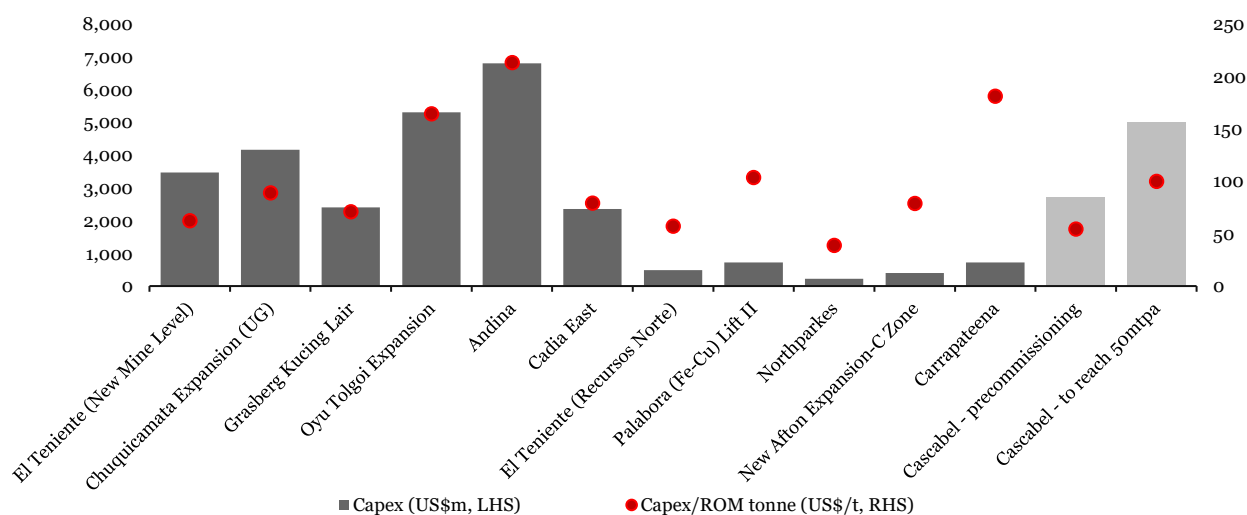


Source: Company presentation

Cascabel's greenfield status would, ordinarily, imply a higher capital intensity. However, the concession's relatively low elevation, and the proximity of roads, rail, ports and hydro-electric power all weigh in the project's favour. SolGold has estimated that these infrastructure advantages provide ~\$3bn in capex savings versus typical greenfield developments.

In light of this, the PEA estimate of ~US\$2.7bn capex for the initial production phase (implying ~US\$54 per tonne of annual ore mined) implies one of the lowest capital intensities per tonne of ore mined amongst comparable block cave projects. (But not so low that the PEA estimate would appear implausible). Including a further ~US\$2.3bn in capex to be spent over the first ~5 years of the operation to ramp up to the full 50Mtpa run rate, the overall capital intensity comes to ~US\$100/tonne, versus an average of ~US\$82/t for the other block cave projects in our sample, lending further credence to the PEA capex estimates.

Capex per tonne for Block Caves



Source: Company reports, H&P estimates, MineSpans

Block cave mining costs

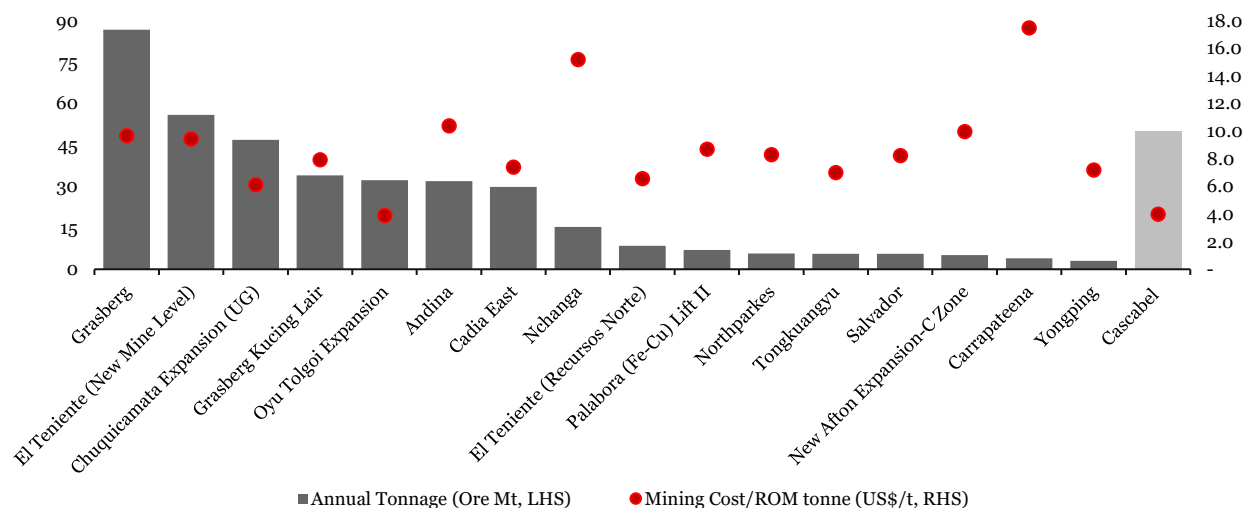
We have analysed the Cascabel project in context to peer mines. Prior to the Q4'18 Resource upgrade, one concern we have heard expressed in the market is that while Cascabel is large, the high-grade core at Alpala Central may not be large enough to build an economically viable block cave mine. However, as noted above the identified high grade resource tonnage now appears capable of supporting the first 8-10 years of operation. As noted above, this high grade core represents ~65% of our DCF for Cascabel and could become a significant lever on NPV if more high-grade tonnes can be added through the PFS and BFS phases.

As shown in the chart below, the block cave mining costs per tonne of ore extracted vary significantly amongst the 16 other projects we have analysed, from ~US\$4/t for Oyu Tolgoi to ~US\$17/t for Carapateena, with a mean cost of ~US\$9/t and median of ~US\$8.3/t.

It should of course be noted that projects with higher ore head grades, such as Nchanga at >2% Cu and Carapateena at ~1.7%, would naturally be able to operate profitably at higher mining costs per tonne ore hauled; stripping out these outliers gives an average of ~US\$7-8/t. The PEA estimate for Cascabel's mining cost of ~US\$4/t does, therefore, appear low in comparison to similar projects

globally. However, we see no evidence of a lack of conservatism in the PEA, but rather that further technical studies will be required to firm up this number.

Mining cost comparison with other block caves globally



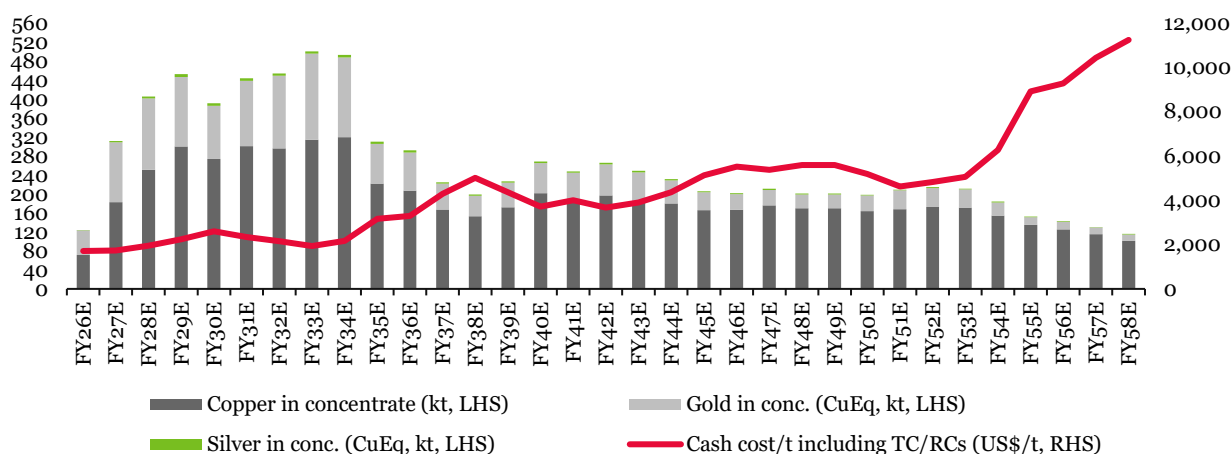
Source: Company reports, H&P estimates, MineSpans

Standard processing to produce copper concentrate

Locked-cycle metallurgical test work carried out by ALS Laboratories showed average recovery rates to a saleable copper, gold and silver sulphide concentrate of 89.6%, 65.5% and 59.2% respectively. The chart below shows the implied annual output of copper, gold and silver (in CuEq terms) in concentrate. After the initial ramp up we model average annual copper production of ~400ktpa over the first ~10 years, followed by ~150ktpa over the life-of-mine from 2037E onwards.

Note that as mining is expected to initially focus on the gold-rich, higher grade core at Alpala Central, the contribution of gold ounces to overall copper equivalent production and hence the revenue mix is expected to be greater in the first ~10 years of operation (~38% of copper equivalent production falling to ~19% by 2039E). Gold output over the life-of-mine averages ~300kozpa in our model, albeit with an average of ~550koz from 2027-32E.

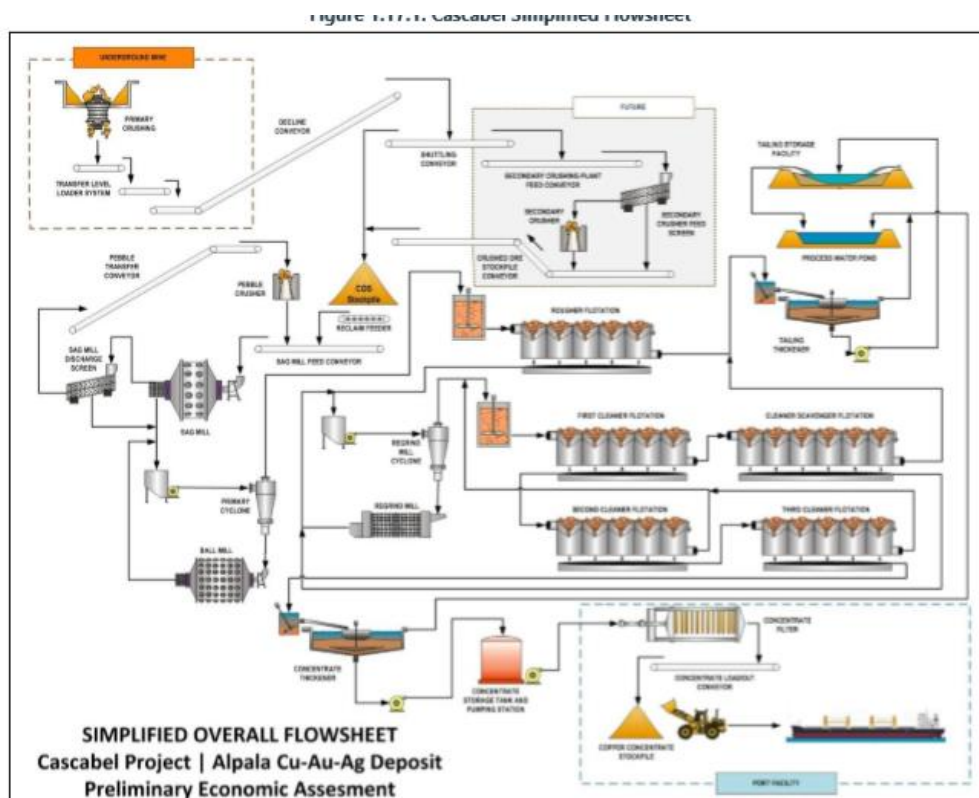
Copper, gold and silver in concentrate production vs. weighted average recovery rate



Source: Company reports, H&P estimates.

The flowsheet design outlined in the PEA is shown below. We note an area for improvement identified in the PEA was the potential addition of a pyrite circuit to boost copper and gold recoveries, which should further improve the economics of the project upon completion of the PFS in Q1'20.

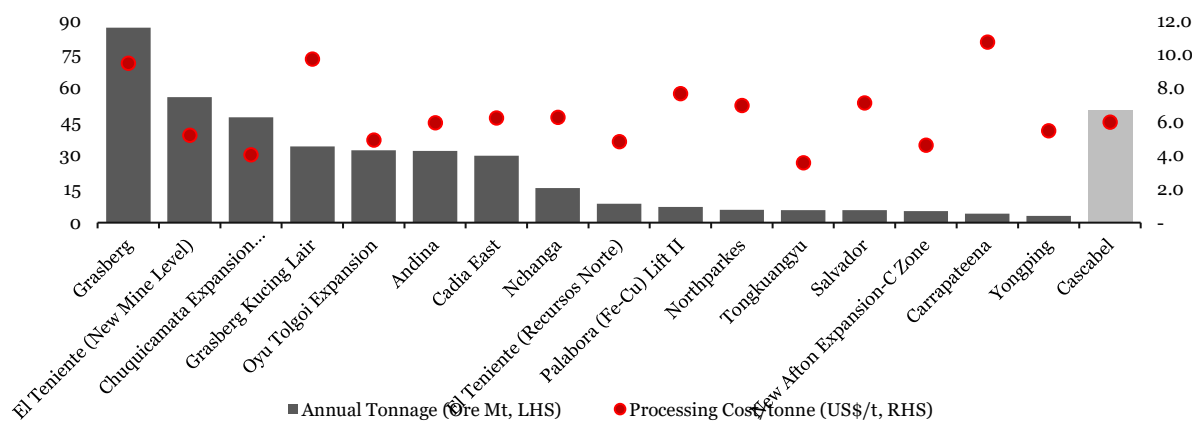
Cascabel Project Flow Sheet



Source: June 2019 PEA Report

The processing cost per tonne of ore as predicted by the PEA are shown below; again, at ~US\$6/t, this estimate appears to be in-line with similar operations around the globe, with further confirmatory test work to be carried out through the PFS and BFS phases.

Processing cost comparison with other block caves globally

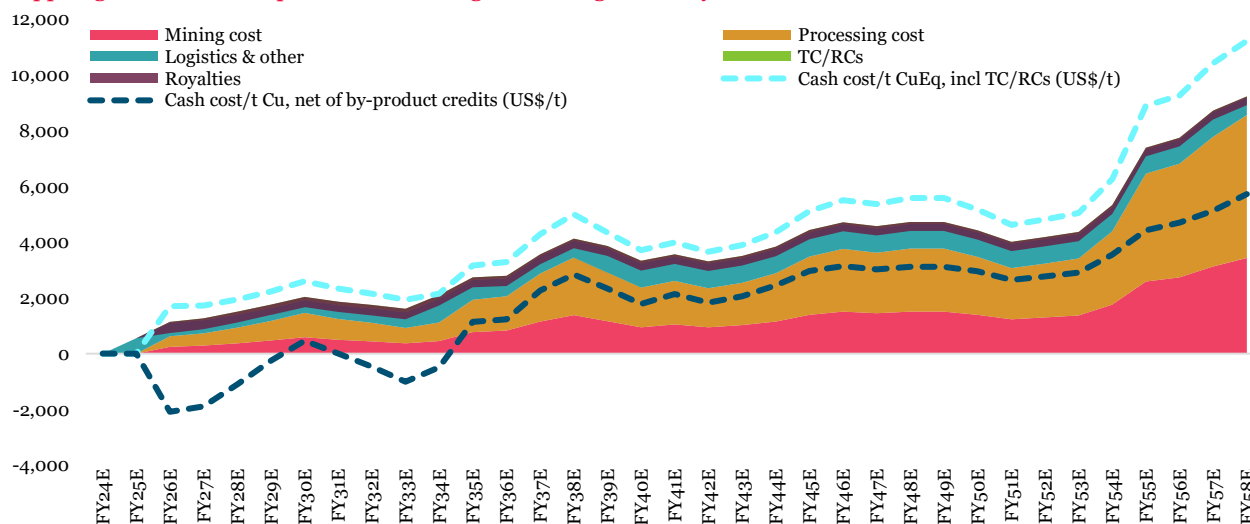


Source: Company reports, H&P estimates, MineSpans

Cash cost estimates

The chart below shows the breakdown of our annual unit cash cost estimates based on the PEA. The higher grades and significant gold by-product credits should drive excellent economics in the early years of the mine's life, with costs in the lowest quartile of the global cost curve.

Copper, gold concentrate production vs. weighted average recovery rate



Source: Company reports, H&P estimates.

Alpha Project DCF Summary

		Jun-20	Jun-21	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27	Jun-28	Jun-29	Jun-30	Jun-31	Jun-32	Jun-33	Jun-34	Jun-35	Jun-36	Avg. FY37E- 80E
		FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E	
Key assumptions																			
LME Copper	US\$/t	6,225	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000
Gold	US\$/oz	1,350	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Silver	US\$/oz	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	16	658
Production																			
Total tonnes mined	kt							7,300.0	21,400.0	35,500.0	48,400.0	50,400.0	50,100.0	46,300.0	43,300.0	50,800.0	50,800.0	50,700.0	44,863.6
Total tonnes processed	kt						7,300.0	21,400.0	35,500.0	48,400.0	50,400.0	50,100.0	46,300.0	43,300.0	50,800.0	50,800.0	50,700.0	50,700.0	44,863.6
Cu head grade	%							1.04%	0.91%	0.76%	0.67%	0.59%	0.65%	0.69%	0.78%	0.68%	0.48%	0.45%	0.31%
Au head grade	g/t							1.39	1.16	0.84	0.62	0.48	0.57	0.67	0.83	0.67	0.38	0.37	0.17
Ag head grade	g/t							2.37	2.01	1.86	1.94	1.72	1.67	1.66	1.78	1.66	1.56	1.61	0.96
Recovery rate - Cu	%							94%	94%	93%	92%	92%	92%	93%	93%	92%	91%	90%	88%
Recovery rate - Au	%							85%	85%	84%	82%	78%	81%	83%	84%	83%	73%	72%	47%
Recovery rate - Ag	%							85%	85%	84%	82%	78%	81%	83%	84%	83%	73%	72%	#REF!
Copper in concentrate production	kt						71.3	182.1	250.6	299.6	273.1	300.5	295.6	314.1	319.4	221.4	206.4	206.4	125.8
Gold in concentrate production	koz						278.7	680.3	807.4	787.7	604.7	739.6	822.8	972.3	902.8	451.3	434.6	434.6	135.6
Silver in concentrate production	koz						475.1	1178.8	1787.9	2464.8	2166.8	2166.9	2038.6	2085.3	2236.8	1852.6	1891.0	1891.0	677.0
Copper equivalent in conc. production	kt						124.1	311.2	404.7	451.5	390.3	442.8	453.0	499.4	492.2	309.5	291.4	291.4	152.6
Sales																			
Gross copper revenue	US\$m							482	1,230	1,693	2,024	1,845	2,030	1,997	2,121	2,157	1,496	1,394	846
Gross gold revenue	US\$m							344	840	997	973	747	913	1,016	1,201	1,115	557	537	161
Gross Silver revenue	US\$m							4	10	16	22	19	19	18	18	20	16	17	4
Gross sales revenue	US\$m							830	2,081	2,706	3,018	2,611	2,962	3,031	3,341	3,292	2,069	1,947	1,012
Total TC/RCs	US\$m							(30)	(78)	(106)	(126)	(115)	(126)	(125)	(133)	(135)	(95)	(89)	(56)
Net sales revenue	US\$m							800	2,003	2,600	2,892	2,495	2,836	2,906	3,208	3,157	1,975	1,858	955
Costs																			
Total variable costs/t	US\$/t							11	11	10	10	10	10	10	11	10	10	10	10
Total variable costs	US\$m							(78)	(227)	(372)	(505)	(523)	(522)	(484)	(455)	(530)	(524)	(522)	(458)
Fixed costs	US\$m							(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)
Admin expenses	US\$m		(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
Total cash costs	US\$m		(6)	(6)	(6)	(6)	(6)	(96)	(245)	(391)	(523)	(541)	(540)	(502)	(473)	(548)	(542)	(540)	(476)
Royalties	US\$m							(49)	(122)	(156)	(169)	(143)	(164)	(171)	(191)	(186)	(112)	(106)	(50)
Profit Shares	US\$m		1	2	4	13	28	(54)	(187)	(237)	(248)	(187)	(228)	(241)	(287)	(276)	(129)	(124)	(39)
Cash cost/t Cu equivalent, net of by-product credits	US\$/t							(2,086)	(1,893)	(1,100)	(248)	466	2	(462)	(1,008)	(491)	1,144	1,238	4,359
D&A	US\$m		-	(10)	(24)	(82)	(179)	(272)	(328)	(386)	(446)	(474)	(507)	(524)	(527)	(476)	(385)	(309)	(121)

Capex																		
Total growth capex	US\$m	(100)	(140)	(575)	(976)	(924)	(548)	(565)	(582)	(266)	(319)	(256)	(142)	(50)	(42)	(149)	(176)	(80)
Total sustaining capex	US\$m	-	-	-	-	-	(16)	(16)	(16)	(16)	(16)	(16)	(21)	(21)	(21)	(21)	(21)	(17)
Profit & Loss																		
EBITDA	US\$m	(6)	(6)	(6)	(6)	(6)	630	1,575	1,969	2,098	1,718	2,029	2,133	2,438	2,314	1,242	1,139	379
EBIT	US\$m	(6)	(16)	(30)	(87)	(185)	359	1,247	1,583	1,653	1,244	1,522	1,609	1,911	1,838	858	829	258
Notional tax expense	US\$m	1	3	6	19	39	(76)	(265)	(336)	(351)	(264)	(323)	(342)	(406)	(391)	(182)	(176)	(55)
NOPAT	US\$m	(4)	(10)	(19)	(56)	(118)	229	795	1,009	1,053	793	970	1,025	1,218	1,172	547	529	164
Minority interests	US\$m	1	2	3	8	18	(34)	(119)	(151)	(158)	(119)	(146)	(154)	(183)	(176)	(82)	(79)	(25)
FCF & DCF																		
EBITDA	US\$m	(6)	(6)	(6)	(6)	(6)	630	1,575	1,969	2,098	1,718	2,029	2,133	2,438	2,314	1,242	1,139	379
Royalties	US\$m	-	-	-	-	-	(49)	(122)	(156)	(169)	(143)	(164)	(171)	(191)	(186)	(112)	(106)	(50)
Profit Shares	US\$m	1	2	4	13	28	(54)	(187)	(237)	(248)	(187)	(228)	(241)	(287)	(276)	(129)	(124)	(39)
Capex	US\$m	(100)	(140)	(575)	(976)	(924)	(564)	(580)	(598)	(282)	(334)	(272)	(162)	(71)	(63)	(169)	(197)	(97)
Tax paid adjusting for carried forward losses	US\$m	-	-	-	-	-	-	-	-	(207)	(299)	(382)	(432)	(520)	(494)	(236)	(204)	(61)
FCF pre working capital movements	US\$m	(105)	(143)	(576)	(969)	(902)	13	808	1,134	1,362	898	1,147	1,297	1,561	1,482	708	613	182
Change in working capital	US\$m	(3)	-	-	-	-	(68)	(103)	(51)	(26)	34	(29)	(5)	(26)	4	100	10	3
Free Cash Flow	US\$m	(107)	(143)	(576)	(969)	(902)	(55)	705	1,083	1,336	931	1,118	1,292	1,534	1,486	809	623	185
Outputs																		
IRR	%	Jun-20 23%																
Discounted cash flow @8% WACC	US\$m	3,673																
Attributable DCF (85% stake)	US\$m	3,122																
WACC	8%																	

Source: H&P estimates.

Summary Financial Statements & Valuation

SolGold

Income statement								
Year end June		FY18A	FY19A	FY20E	FY21E	FY22E	FY23E	FY24E
Revenue	A\$m	-	-	-	-	-	-	-
Cost of Sales	A\$m	-	-	-	-	-	-	-
Depreciation	A\$m	-	-	-	-	(14.3)	(34.3)	(116.4)
Gross profit/(loss)	A\$m	-	-	-	-	(14.3)	(34.3)	(116.4)
Exploration & Evaluation	A\$m	(0.4)	(0.3)	-	-	-	-	-
S,G&A	A\$m	(7.4)	(13.2)	-	(8.2)	(8.2)	(8.2)	(8.2)
Royalties	A\$m	-	-	-	-	-	-	-
Operating profit/(loss)	A\$m	(15.9)	(47.5)	-	(7.0)	(19.1)	(36.1)	(105.9)
Net finance costs	A\$m	0.7	1.4	1.8	(0.6)	(12.9)	(26.0)	(76.9)
Profit/(Loss) before tax	A\$m	(15.3)	(46.2)	1.8	(7.6)	(32.0)	(62.1)	(182.9)
Tax credit/(expense)	A\$m	4.4	(0.9)	0.4	(1.7)	(4.8)	(9.0)	(26.5)
Minority interests	A\$m	0.2	0.2	-	0.8	2.2	4.1	11.9
Net profit/(loss)	A\$m	(19.5)	(45.1)	1.3	(5.0)	(25.1)	(49.0)	(144.5)
Wtd ave shares outstanding (diluted)	m	1,624	1,800	1,846	1,846	1,846	1,846	1,846
EPS	Ae/sh	(1.2)	(2.5)	0.1	(0.3)	(1.5)	(2.9)	(8.5)
EPS growth	%	nm	nm	nm	-54%	nm	nm	nm

Cash flow statement								
Year end June		FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Operating cash inflow/(outflow)	A\$m	(8.4)	(12.3)	-	(12.0)	(4.8)	(1.8)	10.5
Additions to PPE	A\$m	(2.6)	(8.0)	-	(142.9)	(200.0)	(821.4)	(1,394.3)
Other	A\$m	(76.9)	(105.4)	(68.2)	(50.6)	(12.9)	(26.0)	(76.9)
Net cash used in investing activities	A\$m	(79.4)	(113.4)	(68.2)	(193.5)	(212.9)	(847.4)	(1,471.2)
New equity issued	A\$m	79.0	98.4	-	-	-	-	-
Increase/(decrease) in borrowings	A\$m	-	-	9.9	205.5	217.8	849.3	1,460.7
Other	A\$m	(2.8)	(0.2)	-	-	-	-	-
Net cash from financing activities	A\$m	76.3	98.3	9.9	205.5	217.8	849.3	1,460.7
Net change in cash	A\$m	(11.6)	(27.4)	(58.4)	-	-	-	-
Beginning cash	A\$m	-	81.8	59.5	-	-	-	-
Ending cash/(additional funding reqd)	A\$m	81.8	59.5	(9.9)	(205.5)	(217.8)	(849.3)	(1,460.7)

Balance sheet								
Year end June		FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Cash	A\$m	81.8	58.4	-	-	-	-	-
Receivables	A\$m	4.2	4.0	4.0	-	-	-	-
Current Assets	A\$m	86.1	62.4	4.0	-	-	-	-
PPE	A\$m	4.3	12.4	12.4	155.2	340.9	1,128.1	2,405.9
Other	A\$m	149.5	267.3	337.3	387.3	387.3	387.3	387.3
Fixed Assets	A\$m	153.8	279.7	349.7	542.6	728.3	1,515.4	2,793.3
Payables	A\$m	9.4	9.1	9.1	-	-	-	-
Short Term Debt	A\$m	-	-	9.9	215.4	433.1	1,282.4	2,743.2
Current Liabilities	A\$m	9.4	9.1	19.0	215.4	433.1	1,282.4	2,743.2
Long term debt	A\$m	-	-	-	-	-	-	-
Non Current Liabilities	A\$m	-	-	0.4	(1.3)	(6.1)	(15.1)	(41.6)
Total Equity	A\$m	230.4	333.0	334.3	328.5	301.2	248.1	91.7

Casabel Project

Price & FX assumptions								
Year end June		FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
LME Copper	US\$/t	-	-	6,225	7,000	7,000	7,000	7,000
Gold	US\$/oz	-	-	1,350	1,300	1,300	1,300	1,300
Silver	US\$/oz	-	-	16	16	16	16	16
USD:AUD	x	0.78	0.72	0.70	0.70	0.70	0.70	0.70

Non-IFRS & other key items								
Year end June		FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Cash costs/t Cu equivalent - gross	US\$/t	-	-	-	-	-	-	2,401
Cash costs/t Zn equivalent - net of by-products	US\$/t	-	-	-	-	-	-	(322)
Alpala EBITDA	US\$m	-	-	-	(5.8)	(5.8)	(5.8)	(5.8)
EBITDA margin	%	-	-	nm	nm	nm	nm	nm
Alpala EBIT	US\$m	-	-	-	(5.8)	(15.8)	(29.8)	(87.3)
EBIT margin	%	-	-	nm	nm	nm	nm	nm
Alpala free cash flow	US\$m	2.6	(0.1)	-	(108.4)	(143.4)	(576.3)	(968.7)

Market cap, net debt & enterprise value								
Year end June		FY18A	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E
Market Cap	US\$m	510.3	750.8	750.8	750.8	750.8	750.8	750.8
Minority interests	US\$m	510.3	(0.4)	(0.4)	(1.0)	(2.5)	(5.3)	(13.7)
Net Debt/(Cash)	US\$m	(63.8)	(41.7)	6.9	150.8	303.2	897.7	1,920.2
Rolling EV	US\$m	956.8	708.6	757.3	900.6	1,051.5	1,643.1	2,657.3

Estimated Net Present Value per share / Price Target derivation				
		Value	Multiple	Target
Alpala Project - 100%	US\$m	3,672	0.8	2,938
Alpala Project - 85% stake*	US\$m	3,121	0.8	2,497
Other Projects in Ecuador	US\$m	75	-	75
Net cash/(debt) - Jun'19E	US\$m	(7)	1.0	(7)
Total	US\$m	3,189		2,565
Shares outstanding	m	1,846		1,846
NPV / Target Price per share	USc/sh	172.7		138.9
NPV / Target Price per share	GBP/sh	131.7		107.0
Current share price	GBP/sh	27.3		27.3
Prem/disc to NPV / Target Price	%	383%		292%

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