

SANTANA MINERALS (SMI)

MET TEST WORK: HIGH RECOVERIES AND MASSIVE OVERCALL

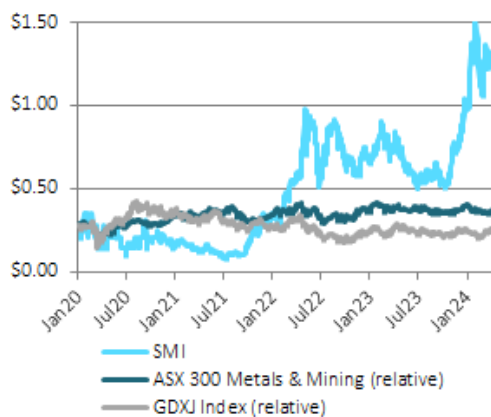
Analysts Carlos Crowley Vazquez

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Date 3 April 2024

SPEC BUY	SHARE PRICE	TARGET PRICE	IMPLIED RETURN
	\$1.32	\$2.65	101%

SHARE PRICE CHART



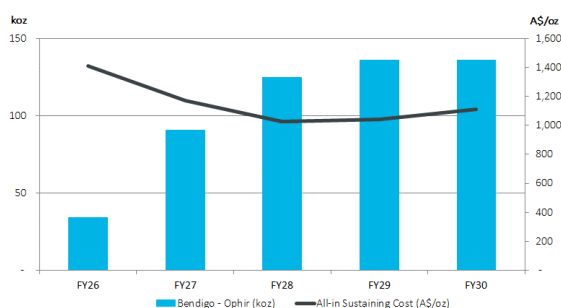
COMPANY DATA & RATIOS

Share Price (\$ per share)	\$1.32
Target Price (\$ per share)	\$2.65
Implied Return (%)	101%
Enterprise Value (\$m)	276
Diluted MCap (\$m)	287
Diluted Shares (m)	217
Avg Daily Value (\$m)	0.29
Free Float (%)	91%
GICS	Materials
Commodity	Gold

MAJOR SHAREHOLDERS

Regal Partners	7.9%
Kim Bunting	7.6%
Board & Management	8.6%

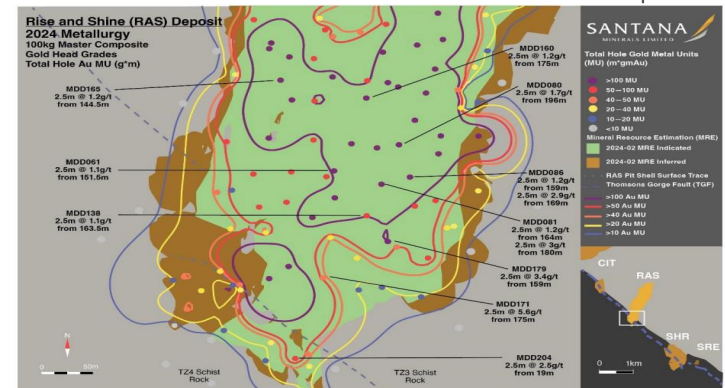
RISE AND SHINE INDICATIVE PROFILE



RAS WILL BE A SIMPLE, VERY PROFITABLE MINE!

SMI completed met test work on a master composite sample (and ten variability composite samples) representative of the initial run of mine ore during the open pit operation at RAS as illustrated below. The results point to a very simple flow sheet with high recoveries (conventional gravity recoveries of 62.5% [300 µm] and a medium size grind [optimum at 106µm] is all is needed for high leach extraction [94.9% recoveries after 8-hour residence time] with low reagent consumption and no need for flotation) underpinning a capital efficient and low-cost operation.

Location of drill hole intervals that formed the master composite



Source: Company

BUT... WHERE DID ALL THAT EXTRA GOLD COME FROM?

Beyond confirmation of a low capex and low-cost operation with higher-than-expected recoveries, we note a massive overcall on the gold recovered (nearly 4g/t) vs the head grade of the gold assayed (sample had average original field assayed of 2.56g/t and independently assayed prior to test work of 2.76g/t). The most likely explanation is the presence of coarse gold which is not being picked up by standard fire assays. While we don't expect to see a consistent overcall of such massive magnitude (circa 50%) during mining operations, the presence of coarse gold (and high recoveries) also points to a potential level of overcall likely to provide upside vs the resource model.

MAINTAIN RATING, TARGET PRICE INCREASED TO \$2.65

We have updated our financial model to reflect the higher-than-expected recoveries (94% vs 90%). We maintain our SPEC BUY recommendation and have increased our target price (prev. \$2.50) to \$2.65 reflecting a potential return of 101%.

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SUMMARY OF RAS METALLURGICAL TEST WORK

Representative composite sample

Testing was carried out on a representative master composite sample and 10 variability composite samples of half diamond drill core taken from the deposit.

The sample was selected to represent a run-of-mine likely ore-feed in the initial years of open pit mining at RAS.

The results point to a simple and conventional gold processing flowsheet (low capex) with moderate to low operating costs and strong gold recoveries.

Comminution test work:

- Average Crusher Work Index (CWI) of 5.15 kWh/tonne
- A Bond Ball Work index of 19.0 kWh/tonne
- SAG Circuit Specific Energy averaging 9.18 kWh/tonne (range 8.52 to 10.75kWh/tonne)

Leach/Grind test work:

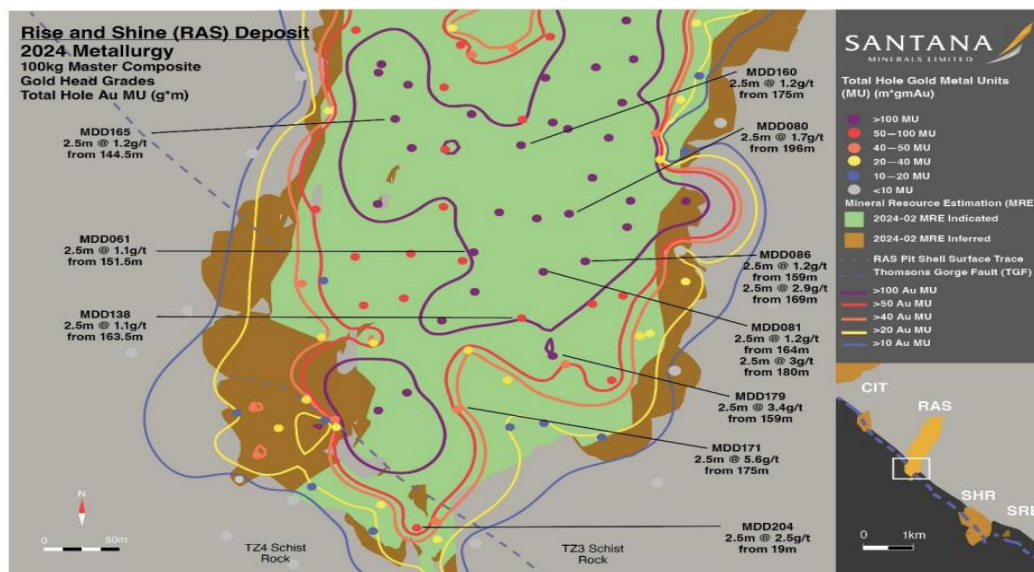
- An optimal grind size of 106 micron (μm) was determined with a peak leach recovery of 94.9% after 8 hours and reducing to 93.6% after 24 hours. Reagent consumption was 0.49kg/t of CN and 0.11 kg/t of lime
- A total gravity recoverable (laboratory scale) estimate at 300 micron (μm) was 62.5% gold (range 57.0% and 64.7%)

Flotation test work:

- Gold recoveries from standard pyrite flotation tests were sub-optimal eliminating any concept of flotation in the circuit

The test work was completed by expert consultants, Independent Metallurgical Operations Pty Ltd in Perth and overseen by metallurgical engineers and plant builders, MACA-Interquip, also in Perth, Western Australia.

FIGURE 1: LOCATION OF DRILL HOLE INTERVALS THAT FORMED THE MASTER COMPOSITE



Source: Company.

Key Outcomes

The table below illustrates total recoveries are optimised at 106µm grind and 8-hour residence time in the CIL circuit.

TABLE 1: TEST RESULTS ON MASTER COMPOSITE – GRIND SIZE AND LEACH RECOVERY

Composite	Round #	Master Composite					
		Round 1 - Grind Opt			Round 2 - Reagent Opt		Round 3 - CIL
Leach Test	#	LT1	LT2	LT3	LT4	LT5	LT6
Grind Size P ₈₀	µm	150µm	106µm	75µm	150µm	150µm	150µm
CN Conc Initial/Maintained	ppm	500/300	500/300	500/300	300/150	500/300	500/300
DO Conc	ppm	8-10	8-10	8-10	8-10	15-20	8-10
Calculated Ore Head Grade	g/t	3.82	3.95	4.12	4.34	4.14	3.71
Assay Ore Head Grade	g/t	2.76	2.76	2.76	2.76	2.76	2.76
Gravity Recovery	%	64.7%	62.5%	60.6%	57.0%	59.8%	66.4%
2 Hour Leach Recovery	%	82.3%	83.6%	83.3%	76.0%	81.1%	
4 Hour Leach Recovery	%	87.7%	90.4%	90.0%	82.3%	86.3%	
8 Hour Leach Recovery	%	92.8%	94.9%	93.8%	89.4%	92.9%	
24 Hour Leach Recovery	%	92.6%	93.6%	93.7%	94.9%	90.3%	
30 Hour Leach Recovery	%	94.1%	93.5%	93.7%	89.8%	90.9%	
48 Hour Leach Recovery	%	90.9%	91.3%	91.8%	89.3%	89.5%	93.7%
Leach Residue Grade	g/t	0.35	0.34	0.34	0.47	0.44	0.23
Gravity Gold Recovery	g/t	2.47	2.47	2.49	2.47	2.47	2.46
Leach Gold Recovery	g/t	1.00	1.14	1.29	1.40	1.23	1.01
Overall Gold Recovery	g/t	3.47	3.61	3.78	3.88	3.70	3.48
48 Hour Cyanide Cons	kg/t	0.51	0.49	0.51	0.42	0.60	1.00
48 Hour Lime Cons	kg/t	0.14	0.11	0.14	0.16	0.08	0.09
Final Liquor As	mg/l	23.027	27.154	35.221			18.214
Final Liquor Fe-Sol	mg/l	9.3	12.9	16.9			8.4

Source: Company.

Prior to this announcement, we expected average recoveries of 90% across an average grade of 2.5 g/t Au for the open pit operation. However, the results illustrate higher recoveries (up to 94.9%) and 3.75 g/t Au recovered reflecting a 50% overcall over the initial estimate!

We believe that the resource model is conservative and standard sampling for fire assays (50g per charge) may not be picking up all the coarse gold. The presence of coarse gold, most of it recoverable via gravity, will likely provide upside to RAS.

FIGURE 2: RAS CORE ILLUSTRATING VISIBLE COARSE GOLD



Source: Blue Ocean Equities

MODEL UPDATE

Material Changes

We have updated our model to reflect higher recoveries of 94%, in line with the optimum grind size (106µm) and residence time in the CIL circuit (between 8 and 24 hours) vs previously expected recoveries of 90%.

We have not assumed any level of overcall in our model, however the table below illustrates sensitivities to our target price at different levels of overcall.

TABLE 2: TP Sensitivity to Overcall

TP	Overcall					
	0%	10%	20%	30%	40%	50%
A\$/share	2.65	2.95	3.24	3.53	3.83	4.12
Upside to TP	0%	11%	22%	33%	45%	55%

Source: Blue Ocean Estimates.

MODEL SUMMARY: FINANCIALS & NAV



Santana Minerals

Code: SMI

Stock Details

Recommendation:	SPEC BUY			
Target	\$2.65	Share Price	\$1.32	
NAV	\$2.66	52 Week High	\$1.57	
Implied Return	101%	52 Week Low	\$0.49	

Enterprise Value	\$276m
Diluted MCap	\$287m
Diluted Shares	217m
Free Float	91%
Avg Daily Value	\$0.29m

Macro Assumptions	FY23	FY24E	FY25E	FY26E	FY27
Exchange Rate (A\$/US\$)	0.68	0.70	0.70	0.70	0.70
Gold Price (US\$/oz)	1,915	2,075	2,163	2,225	2,325
Gold Price Realised (A\$/oz)	2,826	2,964	3,089	3,179	3,321

Profit & Loss (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Revenue	-	-	-	109	302
Operating Costs	-	-	-	(45)	(100)
Operating Profit	-	-	-	64	202
Corporate & Other	(1)	(2)	(2)	(3)	(4)
Exploration Expense / Impt	(6)	-	-	-	-
EBITDA	(7)	(2)	(2)	61	198
D&A	-	-	-	(6)	(15)
EBIT	(7)	(2)	(2)	56	183
Net Interest Expense	0	0	0	(3)	(6)
Pre-Tax Profit	(7)	(2)	(2)	53	177
Tax Expense	-	-	-	(15)	(50)
Underlying Profit	(7)	(2)	(2)	38	128
Significant Items (post tax)	-	-	-	-	-
Reported Profit	(7)	(2)	(2)	38	128

Cash Flow (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Operating Cashflow	(1)	(2)	(2)	61	198
Tax	-	-	-	-	(31)
Net Interest	0	0	0	(3)	(6)
Net Operating Cash Flow	(1)	(2)	(2)	58	161
Exploration	(9)	(11)	(11)	(5)	(2)
Capex	(0)	-	(100)	(53)	(6)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(9)	(11)	(111)	(58)	(8)
Equity Issue	27	-	77	2	1
Borrowing / Repayments	-	-	105	-	(35)
Dividends	-	-	-	-	-
Other	(2)	-	-	-	-
Net Financing Cash Flow	25	-	182	2	(34)
Change in Cash Position	15	(12)	69	3	119
FX Adjustments	-	-	-	-	-
Cash Balance	17	5	74	77	196

Balance Sheet (A\$m)	FY23	FY24E	FY25E	FY26E	FY27
Cash	17	5	74	77	196
Other Current Assets	1	1	1	1	1
PP&E	0	0	100	148	139
Exploration & Development	22	32	43	48	50
Other Non Current Assets	0	0	0	0	0
Total Assets	40	38	219	273	386
Debt	-	-	105	105	70
Other Liabilities	1	1	1	16	35
Net Assets	39	37	113	152	281

Ratio Analysis		FY23	FY24E	FY25E	FY26E	FY27
Diluted Shares	m	217	217	279	282	283
EPS - Diluted	Ac	(3.4)	(0.7)	(0.8)	13.4	45.1
P/E	x	n.m.	n.m.	n.m.	9.8x	2.9x
CFPS - Diluted	Ac	(0.6)	(0.7)	(0.8)	20.8	57.0
P/CF	x	n.m.	n.m.	n.m.	6.4x	2.3x
FCF - Diluted	Ac	(0.6)	(0.7)	(36.5)	3.0	56.9
P/FCF	x	n.m.	n.m.	n.m.	44.3x	2.3x

Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-

Enterprise Value	A\$m	269	282	400	400	247
EV/EBITDA	x	(39.3x)	(178.7x)	(199.8x)	6.5x	1.3x
ROE	%	(18%)	(4%)	(2%)	25%	45%
ROA	%	(17%)	(4%)	(1%)	14%	33%

Net Debt / (Cash)		(17)	(5)	31	28	(126)
Gearing (ND/(ND+E))	%	n.m.	n.m.	n.m.	16%	(81%)
Gearing (ND/E)	%	n.m.	n.m.	n.m.	18%	(45%)

Resource

RAS	Mt	g/t	koz	EV/oz
Indicated	17.10	2.4	1,293	125
Inferred	13.7	2.1	923	
Total RAS	30.8	2.2	2,216	112
CIM, SHR & SRE	6.2	1.2	244	
Global Resource	37	2.1	2,460	

Earnings Sensitivity		FY26E	FY27E	FY26E	FY27E
		A\$m	A\$m	%	%
Gold Price	US\$/oz +10%	5	15	14%	16%
Exchange Rate	A\$/US\$ -10%	8	19	25%	21%

Valuation	Discount	Stake	A\$m	A\$/sh
Bendigo-Ophir (unrisked)	-	100%	1,134	4.03
Bendigo-Ophir (risk-adjusted)	40%	100%	680	2.42
Exploration			50	0.18
Corporate & Other			(34)	(0.12)
Debt			-	-
Cash			10	0.04
Option Strikes			42	0.15
Risk adjusted NAV			749	2.66
				P/NAV 0.50

Source: Blue Ocean Equities

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Blue Ocean Equities Pty Limited acted as Co-Manager for the Santana Minerals Placement in May 2023.

The Analyst of this report owns shares in Santana Minerals.

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