

Mt Boppy Hits its Straps – Opens Up Options

Mt Boppy Gold Project Setting Records

Manuka Resources' (MKR's) Mt Boppy gold mine has hit three consecutive record months of production, revenue and profitability. MKR has made significant process improvements on site at the Wonawinta Mill, markedly improving production and allowing MKR to build up substantial stockpiles. Gold mining will continue at Mt Boppy until November 2021, following which the gold ore stockpiles will be processed, with the first phase of Mt Boppy production, concluding in February / March 2022.

Mt Boppy Presents Options

Mt Boppy's strong operational performance, additional resource and exploration upside has opened further optionality for MKR. As MKR soon completes what it terms its first phase of processing for Mt Boppy and moves on to processing silver stockpiles, the company will continue to explore under the Mt Boppy pit and other prospective areas in order to increase gold resources and reserves. This could provide MKR with the option to process gold or silver through Wonawinta from CY2023, depending on which provides the higher return at the time. Mt Boppy may also present the option to construct a standalone mill.

Wonawinta Silver Stockpile Next Up

MKR is progressing with its plan to transition from its current Mt Boppy gold production to Wonawinta silver production. The company is set to become Australia's largest primary silver producer with a 10-month high-margin stockpile campaign commencing March / April 2022 and completing at the end of CY2022.

Wonawinta Oxide – Resource Quality Upgraded, Reserve Definition the Next Step

MKR's drilling of the Wonawinta Oxide silver resource has been extensive. 14,000m of infill drilling has been completed and an updated resource defined. The resource has been substantially upgraded with a 43% increase in tonnes of material in the measured and indicated categories. The classification upgrade allows MKR to proceed to form the foundation of mine plans to define a maiden reserve, which MKR expects to release around the end of CY2021.

Wonawinta Deeps Returns Series of High-Grade Intercepts – Promising Early Signs

Historically there has been little drilling below 60m depth at Wonawinta. The first drill program successfully tested for the presence of sulphides down-dip from existing Wonawinta open pits. Sample assays were very encouraging and support the existence of lead-zinc-silver sulphide mineralisation.

Exploration Program Steps Up

MKR commenced exploration drilling on its Exploration Licence (EL) portfolio in August 2021 and will extend to a range of targets on MKR's western Cobar Basin ELs over the following 6 months. The programs are exploring for 'Wonawinta-style' silver-lead-zinc mineralisation and for supergene gold and 'Cobar-style' polymetallic deposits.

Valuation: A\$0.97 per Share on Risked Sum-of-the-Parts

Our valuation at our previous update was A\$0.99. There has with a small increase to the value of Mt Boppy and decrease in Wonawinta due to timing of production. The fully diluted share base has increased by 10m shares due to issue of options. Key risks: further delays to silver production and disappointing Mt Boppy production.



Manuka Resources (MKR) owns 100% of two fully permitted gold and silver assets located in NSW's Cobar Basin.

Both the Mt Boppy Gold Project and the Wonawinta Silver Project add near-term cash flow. MKR's ownership of the only fully permitted and operating processing plant in the southern extent of the basin adds to the longer-term strategic value of the company.

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Stock	MKR.AX
Price	A\$0.37
Market cap	A\$98m
Valuation (per share)	A\$0.97

Next steps

Q4 2021	Wonawinta reserve
Q2 2022	Mt Boppy Phase 1 Prod'n Complete

MKR share price (A\$) – One Year



Source: FactSet.

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Exhibit 1 – Company summary (year-end 30 June)
MARKET DATA

Price	\$	0.37
52 week high / low	\$	0.68 - 0.22
Valuation (diluted)	\$	0.97
Market Capitalisation	\$m	98.3
Enterprise Value	\$m	122.5
Shares on issue (basic)	m	269.4
Options / Performance shares	m	31.25
Potential shares on issue (diluted)	m	300.6

INVESTMENT FUNDAMENTALS	FY20A	FY21A	FY22E	FY23E
Reported NPAT	\$m (4.6)	(2.9)	18.9	22.8
Underlying NPAT	\$m (4.6)	(2.9)	18.9	22.8
EPS Reported (undiluted)	¢ (1.7)	(1.1)	7.0	8.5
EPS Underlying (undiluted)	¢ (1.7)	(1.1)	7.0	8.5
Underlying EPS growth	% 16.1%	36.4%	-752.1%	21.0%
P/E Reported (undiluted)	x nm	nm	5.2	4.3
P/E Underlying (undiluted)	x nm	nm	(4.9)	173.8
Dividend	¢ -	-	-	-
Payout ratio	% 0%	0%	0%	0%
Yield (Y/E/ Spot)	% 0.0%	0.0%	0.0%	0.0%
Franking	% 100%	100%	100%	100%
Gross Yield (Y/E/ Spot)	% 0.0%	0.0%	0.0%	0.0%
Operating cash flow / share	¢ 10.42	16.41	92.14	126.74
Price to operating cash flow	x 3.5	2.2	0.4	0.3

Free cash flow	\$m	(12.0)	(3.6)	14.1	(24.3)
Free cash flow per share	¢	(4.3)	3.5	5.2	(9.0)
Price to free cash flow	x nm	10.3	7.0	nm	nm
Free cash flow yield	% nm	9.7%	14.3%	nm	nm

Book value / share	¢	(0.9)	0.8	7.8	16.3
Price to book (NAV)	x nm	45.0	4.7	2.2	2.2
NTA / share	¢	(0.9)	0.8	7.8	16.3
Price to NTA	x nm	45.0	4.7	2.2	2.2
Year end shares	m	269	269	269	269
Market cap (Spot)	\$m 98.3	98.3	98.3	98.3	98.3
Net debt / (cash)	\$m	24.2	(1.0)	2.5	(18.9)
Enterprise value	\$m 123	97	101	79	79
EV/Sales	x	13,227.6	2.2	1.6	1.1
EV/EBITDA	x nm	31.2	3.9	1.8	1.8
EV/EBIT	x nm	nm	4.8	2.2	2.2
Net debt / Enterprise Value	x	0.2	(0.0)	0.0	(0.2)

PRODUCTION AND PRICING	FY20A	FY21A	FY22E	FY23E
Gold production (koz)	-	18	20	0
Silver production (koz)	-	-	423	2,069
Gold US\$	1800	1800	1774	1800
Silver US\$	25	25	25	25

Mt Boppy Probable Ore Reserve 30 June 2021

Reserve	Tonnes	Grade g/t Au	Gold (oz)
Probable	146,080	3.35	15,713

Mt Boppy Gold Project 30 June 2021

Resource Category	Tonnes	Grade g/t Au	Gold (oz)
Measured	159,470	4.64	23,800
Indicated	175,700	4.44	25,100
Inferred	4,000	5.70	1,000
Total	339,170	4.58	49,900

Wonawinta	Grade g/t d Silver moz
Resources	
Measured	47.30 1.65
Indicated	45.50 18.04
Inferred	39.00 31.25
Total	41.30 50.94

Relative performance 1 Year versus S&P/ASX Metals and Mining


PROFIT AND LOSS \$A'000	FY20A	FY21A	FY22E	FY23E
Sales	9	43,753	63,164	73,898
COGS	(7,265)	(39,040)	(35,232)	(27,806)
Gross profit	(7,255)	4,713	27,933	46,092
Gross margin	-	10.8%	44.2%	62.4%
Other income	-	-	-	-
Other operating costs	(2,122)	(2,165)	(2,208)	(2,252)
EBITDA	(1,025)	3,118	25,810	43,927
Depreciation & amortisation	-	(4,273)	(4,900)	(7,043)
EBIT	(1,025)	(1,156)	20,910	36,885
Net interest	(3,528)	(1,740)	(1,039)	(4,250)
Impairments / Associates	-	-	-	-
Pretax Profit	(4,553)	(2,895)	19,871	32,635
Tax expense	-	-	991	9,790
Minorities	-	-	-	-
NPAT	-4,553	-2,895	18,880	22,844
Adjustments & Significant items	-	-	-	-
Underlying NPAT	-4,553	-2,895	18,880	22,844

BALANCE SHEET \$A'000	FY20A	FY21A	FY22E	FY23E
Cash	1,509	1,018	5,214	19,869
Receivables	7,654	694	694	694
Inventory	2,008	4,781	4,781	4,781
Other	351	569	569	569
Current assets	11,522	7,062	11,257	25,912
PPE, Development and Exploration	18,255	21,311	27,123	78,563
Other	6,651	6,873	6,873	6,873
Non current assets	24,906	28,183	33,996	85,435
Total Assets	36,427	35,245	45,253	111,348
Accounts Payable	7,671	9,979	9,979	9,979
Borrowings	25,705	0	7,749	1,000
Other	318	542	542	542
Current liabilities	33,693	10,521	18,270	11,521
Borrowings	73	50,001	83,334	50,001
Provisions	5,108	5,918	5,918	5,918
Non current liabilities	5,181	22,539	5,918	55,918
Total Liabilities	38,874	33,060	24,188	67,439
Share Capital	5,112	21,512	21,512	21,512
Other contributed equity	8,867	-6	-6	-6
Accumulated Profits / (Losses)	-16,426	-19,322	-442	22,403
Total Equity	-2,447	2,185	21,065	43,909

CASH FLOW \$A'000	FY20A	FY21A	FY22E	FY23E
Receipts from customers	9,029	44,500	63,164	73,898
Payments to suppliers and employees	(6,223)	(40,080)	(37,354)	(29,971)
Tax Paid	-	-	(991)	(9,790)
Operating cash flow	2,805	4,421	24,819	34,137
PPE and Exploration	(14,744)	(7,870)	(10,712)	(58,482)
Investing cash flow	(14,835)	(8,029)	(10,712)	(58,482)
Debt Raised / (Repaid)	14,075	(5,783)	(8,872)	43,251
Proceeds from issue of shares	500	13,113	-	-
Finance costs	(1,037)	(4,213)	(1,039)	(4,250)
Dividends Paid	-	-	-	-
Financing cash flow	13,538	3,117	(9,911)	39,001
Net Increase/Decrease	1,509	(491)	4,196	14,655
Cash at Beginning of Year	-	1,509	1,018	5,214
Year end cash	1,509	1,018	5,214	19,869

Source: MKR, MST Access.

Mt Boppy Hits Record Production Levels; Performance Provides Options

Production, Revenue and Profit – Three Consecutive Monthly Records at Mt Boppy

MKR has been processing Mt Boppy gold ore since April 2020. In September 2021, Mt Boppy set a third consecutive monthly record for production, revenue and profitability. Gold sales for September were 3,710oz (vs 3,196oz in August and 2,378oz in July), giving 9,284oz for the quarter. Quarterly production was 10,089oz of gold providing an annualised rate of production for the quarter of >40,000oz gold.

The main drivers of improved production levels are:

- higher grades
- process improvements, including increased trucking schedules from the Mt Boppy mine site to the Wonawinta mill and accumulation of stockpiles at Wonawinta
- a regrind circuit improving recoveries at the mill from a target of 72% to over 77% (yielding an additional 492oz of gold for the September quarter).

The improved processes have reduced the risks of downtime for Mt Boppy and shielded MKR from the harsh weather events.

Processing to continue until February / March 2022

Two major weather events in 2020 and mined grades of gold below reserve grade had a significant effect on production levels for Mt Boppy during FY2021.

In addition to the improved processes mentioned above, MKR completed a series of infill drilling programs at Mt Boppy and redesigned the mine plan, which increased the resource and reserve grade and total ounces at Mt Boppy.

As a result of these factors, mining will continue at Mt Boppy until November 2021 (previously July 2021), including further accumulation of ore stockpiles at the Wonawinta mill. In addition, Mt Boppy South, 500m south-east of the existing pit, has a JORC resource. MKR is considering a Mining Licence application and, if approved in time, this will be included in the current gold processing cycle (before stockpile processing).

The processing of the stockpiles will continue until February / March 2022 (previously December 2021).

IPO forecasts almost doubled – significant resource remains

As noted above, Mt Boppy produced 17,606oz gold in FY2021, and 10,089oz in Q1FY22. At the time of the IPO, MKR forecast that Mt Boppy would produce some 22,000–24,000 oz of gold. As at end-September 2021, Mt Boppy has produced 27,695oz in FY2021–FY2022 to date. As well as this, Mt Boppy produced 4,079oz prior to FY2021.

We forecast another 10,000oz to end-February 2022 (8,000oz in Q2FY22 and 2,000oz in Q3FY22), bringing Mt Boppy's total production forecast to the end of FY2022 to 41,774oz, almost double the original prospectus forecast.

Mt Boppy Reserve and Resource Update

Mt Boppy reserve

The Mt Boppy reserve has reduced to 15,713oz (30 June 2021) from 26,000oz (30 June 2020). During FY2021, 17,606oz were extracted, meaning that 7,319oz were added to the reserve through drilling and mine planning in FY2021.

Exhibit 2 – Mt Boppy reserves, 30 June 2021 and 30 June 2020

Reserve Reconciliation	Ounces
Opening Reserve 30 June 2020	26,000
Production FY 2021	(17,606)
Net addition to Reserve	7,319
Closing Reserve 30 June 2021	15,713

Source: MKR MST Est

Exhibit 3 – Mt Boppy reserves, 30 June 2021 (left) and 30 June 2020 (right)

Mt Boppy Probable Ore Reserve 30 June 2021

Reserve Category	Tonnes	Grade g/t Au	Gold (oz)
Probable	146,080	3.35	15,713

Mt Boppy Probable Ore Reserve 30 June 2020

Ore Type	Tonnes	Grade g/t Au	Gold (oz)
Oxide	10,000	3.1	1,000
Transitional	130,000	2.9	12,000
Fresh	20,000	3.3	2,000
Stope	100,000	3.3	11,000
Total	260,010	3.0	26,000

Source: MKR.

Mt Boppy resource

The Mt Boppy resource has increased to 49,900oz (30 June 2021) from 38,763oz (30 June 2020), with the average grade increasing from 3.23g/t to 4.58g/t. This increase in resource takes into account its depletion through mining. In FY2021, 17,606oz were extracted, meaning 28,743oz were added to the resource through drilling and mine planning.

Infill drilling campaign and exploration drilling underneath the pit has led to an increase in the resource base. The majority of the resource is measured and indicated. MKR believes there is a high chance it will be able to extract a significant portion of the resource commercially, given its accumulated knowledge of the resource and the mining methods it is using.

Exhibit 4 – Mt Boppy resource reconciliation FY2021

Resource Reconciliation	Ounces
Opening Resource 30 June 2020	38,763
Production FY 2021	(17,606)
Net addition to Resource	28,743
Closing Resource 30 June 2021	49,900

Source: MKR MST Est0

Exhibit 5 – Mt Boppy resources 30 June 2021 (left) and 30 June 2020 (right)

Mt Boppy Gold Project 30 June 2021

Resource Category	Tonnes	Grade g/t Au	Gold (oz)
Measured	159,470	4.64	23,800
Indicated	175,700	4.44	25,100
Inferred	4,000	5.70	1,000
Total	339,170	4.58	49,900

Mt Boppy Gold Project 30 June 2020

Resource Category	Tonnes	Grade g/t Au	Gold (oz)
Measured	40,500	3.43	4,473
Indicated	195,500	2.99	18,790
Inferred	24,000	3.33	1,000
Total	371,700	3.23	38,763

Source: MKR.

Significant resource to remain after completion of processing in February 2022

When mining and processing is completed in February 2022, we anticipate that the existing 30 June 2021 reserve will be depleted; however, a significant resource will remain.

We estimate that the remaining resource at February 2022 will be 29,811oz, an amount higher than the Mt Boppy reserve as at 30 June 2020.

Exhibit 6 – MST Estimate Remaining resources post Mt Boppy campaign completion

Resource Reconciliation	Ounces
Opening Resource 30 June 2021	49,900
MST Forecast Production for FY2022	(20,089)
Closing Resource Estimate 28 February 2022	29,811

Source: MST Access.

Mt Boppy's Performance and Upside Present Options

Mt Boppy's strong operational performance, additional resource and exploration upside have opened further optionality for MKR.

Further exploration – still much more to look at

As noted, MKR plans to complete mining at Mt Boppy in November 2021. On completion of mining, MKR will move a rig to Mt Boppy and commence an in-pit and near-pit exploration program where MKR believes there is substantial exploration upside. MKR will continue to search for other prospective areas for extensions and repetitions at Mt Boppy and within the broader EL neighbouring Mt Boppy, known internally as Canbelego Camp.

Resource plus exploration success – creates gold/silver option in CY2023

We estimate remaining resource at the completion of Mt Boppy phase 1 mining will be around 29,000oz.

MKR will continue to explore Mt Boppy and surrounds in CY2022 while the silver stockpiles are being processed through the Wonawinta mill and generating cashflow. Given the previous exploration success, we consider there is a strong probability that the resources and reserves will be increased for Mt Boppy in CY2023.

An upgraded reserve and resource at Mt Boppy, along with a maiden silver reserve at Wonawinta, opens up the option for MKR to produce either silver or gold from the beginning of CY2023, depending on which gives the higher return at the time.

New project with standalone processing facility potential

Mt Boppy’s initial drill results under and adjacent to the current pit give positive indications of a larger mineralised system. Given the history of Mt Boppy, there continues to be potential that MKR will define a resource for a standalone project. It is important to note that Mt Boppy was a significant gold producer between 1895 and 1925 and has produced >500,000oz gold at an average grade of 15g/t.

Mt Boppy has established infrastructure such as a camp, roads, power and water, saving significant capex and time for MKR.

A standalone Mt Boppy mill would give MKR capacity to produce both silver and gold simultaneously.

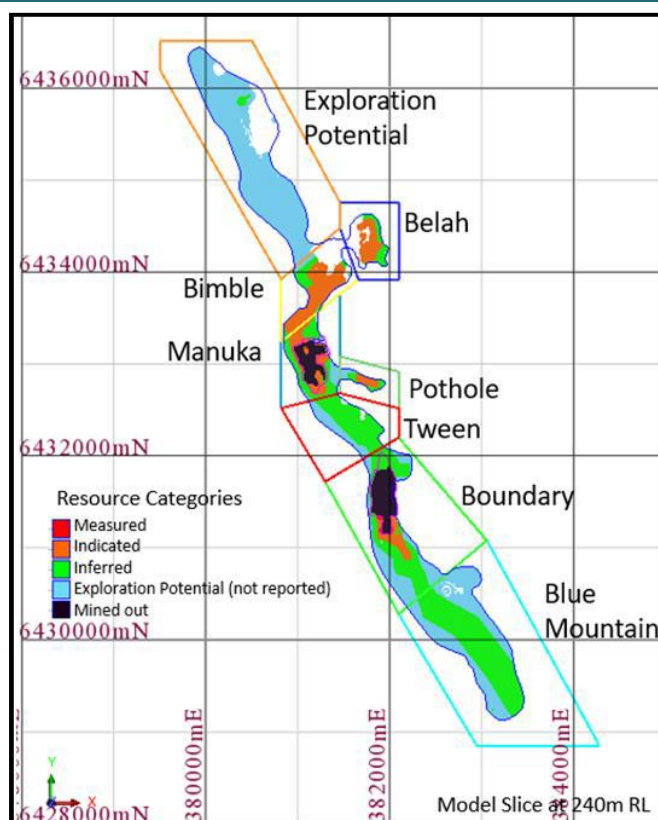
Wonawinta Silver Production in Plain Sight

MKR is set to become Australia’s largest primary silver producer, with a 10-month high-margin stockpile campaign commencing March / April 2022.

Depending on the success of Mt Boppy exploration and the establishment of a higher resource and upgraded reserve, MKR will determine the highest-return option from mining Mt Boppy gold resource / reserve or Wonawinta silver from the soon-to-be-announced reserve.

The first areas of mining from the Wonawinta reserve will be the Belah and Bimble pits (see Exhibit 7).

Exhibit 7 – Wonawinta mine – resource boundaries and mine location



Source: MKR.

Wonawinta Oxide – Upgraded Resource Provides Confidence Boost

Infill Drilling Upgrades Resource at Wonawinta Oxide

MKR's drilling of the Wonawinta Oxide silver resource has been extensive. 14,000m of infill drilling has been completed, and an updated resource defined. The resource has been substantially upgraded, with a 43% increase in tonnes of material in the measured and indicated categories.

Exhibit 8 – Wonawinta Oxide silver resource – significant increase in confidence; measured and indicated increases

Resource Category	Material (Mt)	Ag (g/t)	Pb (%)	Ag Moz	Pb Kt	Change in Oz vs 2016 Resource	% Change in Oz vs 2016 Resource
Measured	1.10	47.30	0.70	1.65	6.22	0.35	26.9%
Indicated	12.30	45.50	0.79	18.04	67.45	4.80	36.3%
Inferred	24.90	39.00	0.55	31.25	162.87	-6.59	-17.4%
Total	38.30	41.30	0.61	50.94	236.50	-1.46	-2.8%

Source: MKR.

How resource classification works

Resource classification is based on data quality, drill density, number of informing samples, average distance to informing samples and deposit consistency (geological continuity).

- Areas of tight grade control style drill patterns, where grade and geological continuity are confirmed, are classified as **measured**.
- Areas of sufficient drilling to assume geological and grade continuity are classified as **indicated**.
- Areas broadly drilled and sampled where geological and grade continuity can only be inferred are classified as **inferred**.

Continued exploration could bump up most of inferred resources to indicated category

MKR expects that most of the inferred mineral resources would be upgraded to indicated mineral resources with continued exploration.

Additional mineralisation has been intersected from outside the current defined resource, indicating potential for this shallow, easily mineable ore resource to be further expanded.

Next Step – Maiden Reserve

The upgrade of classification allows MKR to proceed to complete a mine plan and define a maiden reserve with greater certainty of the outcome.

Pit optimisation works are underway, which form the foundations for mine designs and planning. MKR are awaiting metallurgical testwork results on recovery of lead from oxides and shallow sulphides before finalising the Reserve.

MKR expects to announce its maiden ore reserve for the Wonawinta Silver project around the end of CY2021.

Wonawinta Deeps Drilling Returns High-Grade Intercepts

Drill Program Tests the Concept of a Sulphide Resource Under Wonawinta Oxide

A proof-of-concept drill program beneath the current Wonawinta silver oxide resource has tested the concept of a sulphide deposit (silver/base metals). There has been minimal previous drilling below a depth of 60m at Wonawinta.

The drill program successfully tested for the presence of carbonate-hosted sulphides down-dip from existing Wonawinta open pits. Sample assays from the initial 18-hole, 5,000m drilling program were very encouraging and support the existence of lead-zinc-silver sulphide mineralisation.

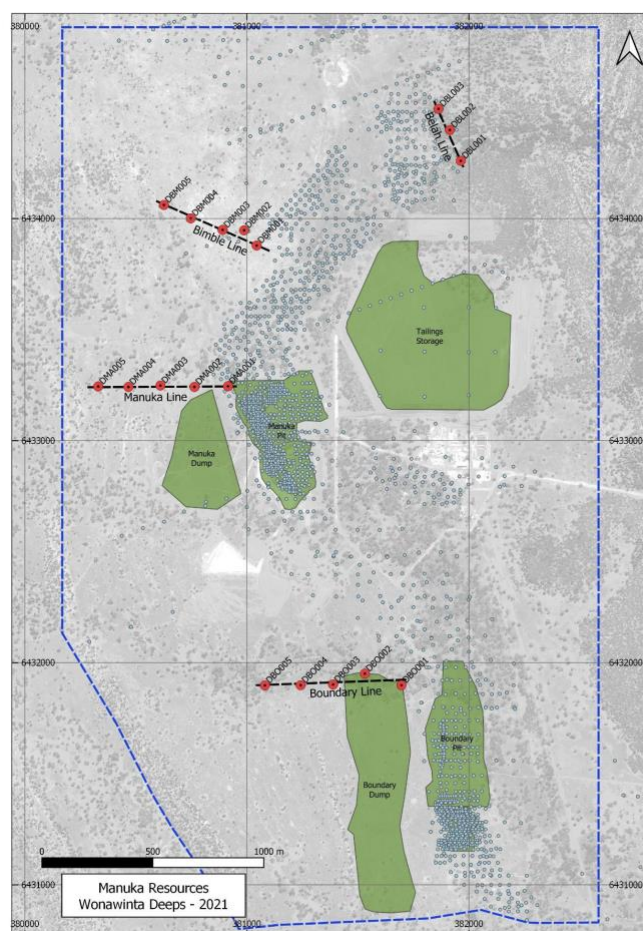
Following the drilling success, a targeted geophysics survey will be completed along the entire Wonawinta trend to determine the focus of the next drilling campaign.

The success of the initial Wonawinta Deeps program supports MKR's ambitions to add a production facility producing base metal concentrates from a flotation circuit at Wonawinta.

Key results include:

- 20m @1.98% lead (Pb) + zinc (Zn), 43g/t silver (Ag) = 110g/t silver equivalent (AgEq) (94m-114m)
- 11.4m @1.23% Pb + Zn, 83.5g/t Ag = 125.5g/t AgEq (130m-141m)
- 5m @2.25% Pb + Zn, 128g/t Ag = 201g/t AgEq (63m-68m).

Exhibit 9 – Locations of the Wonawinta Deeps 'proof-of-concept' drilling (red dots)



Source: MKR.

A Refresher on MKR’s 3-Stage Cash Flow Generation Strategy: Setting the Platform for Long-Term Growth – A Progress Report

Exhibit 10 – Plans and progress on the three-stage cash flow generation strategy

FY2021	FY2022	FY2023-FY2027
<p>STAGE 1, FY2021 MT BOPPY GOLD PRODUCTION AND WONAWINTA IN-FILL DRILLING</p> <p>Plan: Exploration program at Mt Boppy using funds from capital raising Progress: Grade control and exploration drilling completed and increased Resource at higher grades</p> <p>Plan: Achieve steady production ~2,500-3,000 oz Au/month at Wonawinta processing Mt Boppy gold ores; processing expected to complete mid-2021 Progress: 1H production hampered by weather + grade; significantly higher grade and enhanced mining controls in 2H showed a boost to production in March Quarter. June Quarter higher production. Improved grade, trucking schedules, stockpile and improved recovery led to record quarter in September. Production of Mt Boppy Gold will be continued through to February 2022 with expectation Reserve will be extracted and potential for additional ounces.</p> <p>Plan: Commence exploration program at Wonawinta on high-conviction targets combined with in-fill drilling to bring silver Resources to Reserves status Progress: 14,000m of drilling completed on Wonawinta Oxide; further areas of mineralisation defined. Final Resource defined and maiden Reserve expected shortly</p>	<p>STAGE 2, FY2022 WONAWINTA SILVER STOCKPILES AND EXPLORATION</p> <p>Plan: Process 500,000t silver stockpile on ROM pd at Wonawinta, producing around 1.0moz over 5 months due to 1 month of Mt Boppy Gold being in FY2022 Progress: Mt Boppy delayed, however further stockpiles defined by MKR, enabling stockpile processing to be extended to 10 months to end of CY2022. Processing stockpiles is high margin due to no mining/transport costs. Mt Boppy to be further explored to increase resource and reserve and look to create option to process either silver from Wonawinta reserve or gold from Mt Boppy, depending on which provides the higher return at the time.</p> <p>Plan: Focus on key Wonawinta exploration targets Progress: First stage of drilling on Wonawinta deeps completed with immediate intersection of significant mineralisation. Geophysics being run over area of mineralisation in order to target optimal drilling targets for second more intensive campaign. Geophysics delayed due to industry labour and logistics issues.</p>	<p>STAGE 3, FY2023-FY2027 WONAWINTA FIVE-YEAR PRODUCTION PLAN</p> <p>Plan: Continue to process silver stockpiles Progress: Wonawinta stockpile processing extended to 10 months to early CY2023</p> <p>Plan: Progress to mine, and process silver Reserves Progress: 14,000m of drilling completed on Wonawinta Oxide, further areas of mineralisation defined. Maiden reserve expected late 2021.</p> <p>Plan: Target 5 years silver production at over 2m oz per year at approximately 100g/t Ag grades Progress: Final Resource and maiden Reserve expected late 2021</p>

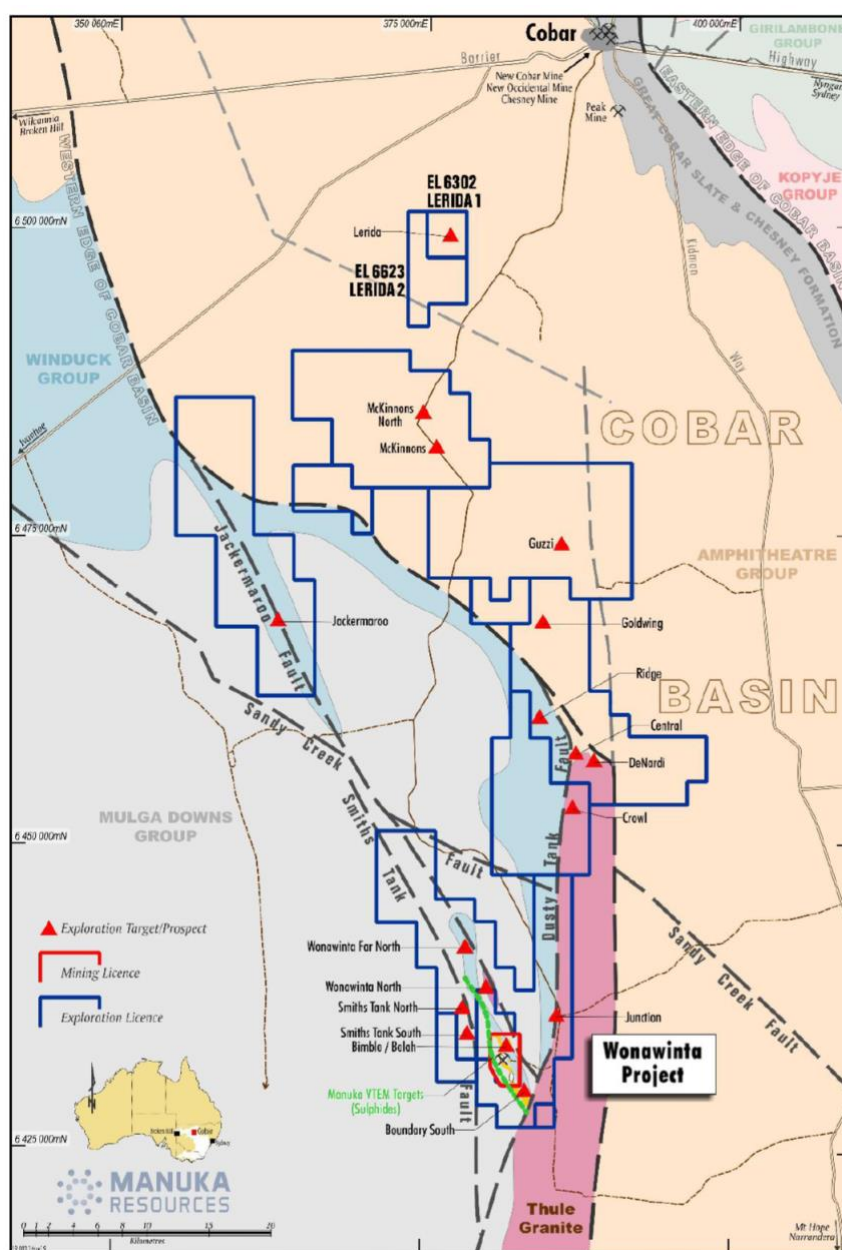
Source: MKR, MST Access.

Getting Out Amongst the Exploration Licences – Much More to Explore Outside Mt Boppy and Wonawinta

Exploration Drilling in Exploration Licence Portfolio Has Started

Given the recent strong performance of Mt Boppy and the associated cash generation, an intensified exploration program is now underway. MKR commenced exploration drilling on its Exploration Licences (EL) portfolio in August 2021. Initial drill targets will be on MKR’s western Cobar Basin ELs for the next 6 months (see Exhibit 11), with the drilling programs exploring for ‘Wonawinta-style’ silver-lead-zinc mineralisation at Wirlong, Smiths Tank and Gunderoo and for supergene gold and ‘Cobar-style’ polymetallic deposits at McKinnons, McKinnons North, Tango, 3-Mile, Guzzi, and Goldwing. The program proposes to drill 90 holes covering 17,000m at a cost of A\$2.25m.

Exhibit 11 – Locations of MKR Western Cobar ELs



Source: MKR.

A second program is commencing drilling in mid-October on MKR’s eastern Cobar Basin tenements (see Exhibit 12). Exploration will commence on the Mt Boppy Mining Licences (MLs) where both deep and lateral extensions to the Mount Boppy gold lode will be drill-tested. Exploration drilling on EL 5842 will commence at Hardwicks Prospect, an area of historic underground workings approximately 2km north-west of the Mt Boppy ML, and along the regional structural grain. Prospects adjacent to the Mt Boppy MLs and interpreted as having the same mineralising mechanism will be drill-tested.

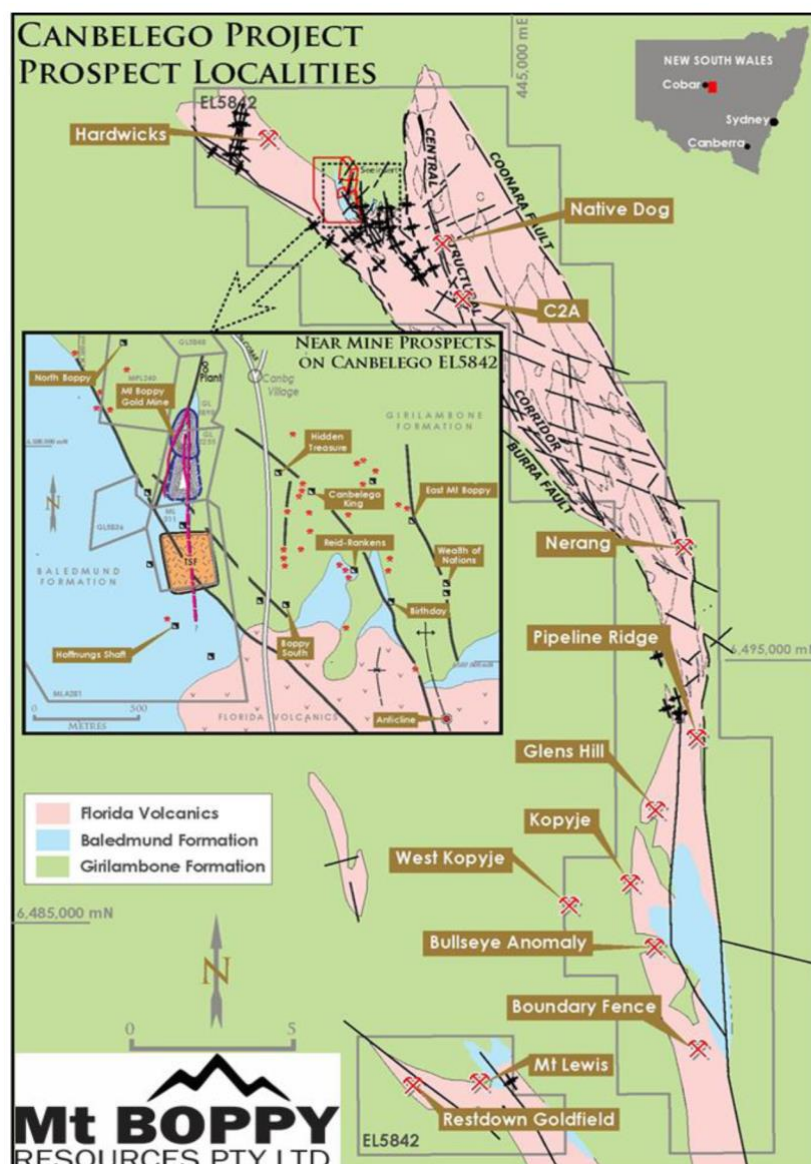
Mt Boppy South is located approximately 500m southeast and along trend from the Mt Boppy mine and has a small existing JORC Resource estimated by previous titleholders. MKR is assessing the economics of Mt Boppy South as it stands and plans to undertake drilling at depth and along strike of the existing resource.

The program is initially proposed to drill 60 holes covering 12,800m at a cost of A\$1.6m.

Exploration Update due November 2021

MKR expects to release an exploration update report in early November, which should include assays from the programs at Wirlong and Smiths Tank.

Exhibit 12 – Locations of MKR Eastern Cobar ELs



Source: MKR.

Valuation: Near-Term Cash Flow Generation, Upside from Exploration

Methodology: Sum-of-the-Parts with Risked NPV: A\$0.97 (vs. A\$0.99 at Prior Update)

We value MKR at A\$0.97 per share using a sum-of-the-parts methodology, valuing Mt Boppy and Wonawinta Silver on a risked NPV basis (see Exhibit 13).

Exhibit 13 – Valuation summary (using risk-weighted NPV)

NPV OF PROJECTS	RISKED VALUATION A\$M	UNRISKED EQUITY VALUE A\$/SHARE FULLY DILUTED	RISKED EQUITY VALUE A\$/SHARE FULLY DILUTED	RISKED EQUITY VALUE A\$ Prior Update	Valuation Methodology	Probability / Risk Factor	% OF ENTERPRISE VALUE
Equity Value Mt Boppy	66.2	0.30	0.22	0.21	Risked Project NPV	Open Pit 100%, Expansion 75%	21%
Equity Value Wonawinta Oxide	197.0	0.66	0.66	0.73	Risked Project NPV	100%	63%
Equity Value Wonawinta Sulphide	46.5	0.31	0.15	0.15	Risked Project NPV	50%	15%
ENTERPRISE NPV	309.7	1.27	1.03	1.09			100%
Add: Cash as at 30/9/2021	5.16	0.02	0.02	0.02	As at 30/9/2021		
Less: Debt As at 30/9/2021	-12.2	-0.04	-0.04	-0.07	As at 30/9/2021		
EQUITY VALUE PRE SG&A	302.7	1.26	1.01	1.04			
SG&A	-12.1	-0.04	-0.04	-0.05	NPV of Corporate Costs		
EQUITY VALUE	290.6	1.22	0.97	0.99			

Source: MST estimates.

Our valuation has decreased by A\$0.02 since our last update. The key changes to our valuation are:

- issue of 10m options for the restructure of the debt facility increasing the fully diluted share base.
- increase in Mt Boppy valuation due to processing extending to February 2022
- decrease in valuation of Wonawinta due to later start of low-cost processing of stockpiles to March 2022 and oxide mine production starting in January 2023 rather than July 2022.
- paydown of debt and increased cash balance

We see further potential upside to our valuation given the optionality in MKR's assets.

The presence of an existing fully refurbished plant at Wonawinta gives MKR the option to process both gold and silver as well as to pursue third-party processing deals.

The substantial exploration success from beneath the existing pit shell at Mt Boppy presents MKR with options to mine underground or pursue a cut-back and expansion of the current pit or underground. The increased grades from the exploration program show the large potential of the mine.

Drilling results from the current oxide resource at Wonawinta present extension of the current potential increase in resources and reserves and mine-life extension.

Core Assumptions: 3-Stage Early Cash Generation Plan Creates Substantial Value, Exploration Adds Upside

The key driver of our valuation is the Wonawinta Silver Project. The low-cost mining of the oxide ore and the benefits it brings in the early years in terms of processing drives value. In addition, the sulphide ores, which are beneath the current resource, could potentially lead to a substantial increase in silver production from the mine (with lead and zinc potential as well), extending the mine life.

We have assumed that all projects are funded by cash flow and debt.

See Exhibit 14 for our core assumptions.

Exhibit 14 – Core modelling assumptions

CORE ASSUMPTIONS	
Price and Currency	
AUD/ USD (from FY2023)	0.70
Silver Price US\$/oz	25
Gold Price US\$/oz (from FY2023)	1,800
Cost and Financing	
Discount Rate Silver Project %	10%
Discount Rate Gold Project %	10%
Inflation %	2.50%
Interest on Cash %	1%
Interest on Borrowings %	8%
Modelling	
Depreciation	LOM
Depreciation Rate %	20.00%
Mt Boppy Extension Depn %	20.00%
Taxation Rate %	30%

Source: MST estimates.

Silver price assumptions

We believe that the silver price will remain elevated due to continued high gold prices and loose monetary policy as well as increased demand from industrial and electrical uses. Our silver forecast is US\$25/oz.

Gold price assumptions

We have taken into account the actual A\$ gold price received for Mt Boppy gold production in the first three months of FY2022. For FY22, we have assumed a gold price of US\$1,770/oz and an A\$/US\$ exchange rate of 0.74. Our long-term assumptions are unchanged.

Key Sensitivities: Silver Prices, Gold Prices and USD

Exhibit 15 – Valuation sensitivity to change in US\$/oz silver price

\$15	\$20	\$25	\$30	\$35
0.31	0.64	0.97	1.30	1.63

Source: MST estimates.

Exhibit 16 – Valuation sensitivity to change in US\$/oz gold price

\$1,600	\$1,700	\$1,800	\$1,900	\$2,000
0.91	0.94	0.97	1.00	1.02

Source: MST estimates.

Exhibit 17 – Valuation sensitivity to change in A\$/US\$ exchange rate (A\$)

\$0.60	\$0.65	\$0.70	\$0.75	\$0.80
1.18	1.07	0.97	0.88	0.80

Source: MST estimates.

Positive Catalysts for the Share Price

Key drivers of share price upside

Short-term cash flow generation and debt reduction

Continued strong production for Mt Boppy would be positive for the stock price. The difficult first half of FY2021 at Mt Boppy reduced the market's confidence in the project. However, a substantial grade control drilling program and re-modelling of the resource has seen a substantial improvement in production and lower unit costs in the first quarter of FY2022.

Wonawinta oxide silver – maiden reserve

The maiden reserve for the Wonawinta oxide silver deposit is key to the delivery of MKR's comprehensive three-stage operations plan with the potential for 5 years of mine life.

Wonawinta sulphide

The Wonawinta Deeps 'proof-of-concept' drilling program has been successful. MKR will now commence a geophysics program to identify the primary targets for further exploration. Successful drilling in the sulphides could lead to significant mine life extension.

Mt Boppy gold exploration

MKR has drilled a significant program below the pit shell of Mt Boppy, hitting high-grade intersections. Further drilling is in progress, and a more comprehensive program will be undertaken once mining is complete at the Mt Boppy pit. Once mining equipment is removed from the pit, exploration rigs can be moved in, allowing a more comprehensive drilling program to be completed. Further success in the drilling program may lead to an increase in resources and a decision on the future mining plan for Mt Boppy.

Gold and silver prices

Mt Boppy is providing MKR with its near-term cash flow. An increase to the gold price would increase cash flow generation. Additionally, MKR's key asset is the Wonawinta Silver Project which underpins its valuation. Increases in the silver price directly increase the value of MKR.

Operational stability

The fully functioning Wonawinta processing plant provides MKR with a key operational advantage over the majority of junior miners. Demonstration of operational consistency and cost control will be key to MKR's share price performance.

Other potential share price catalysts

Exploration success from targets outside Mt Boppy and Wonawinta

MKR is leveraged to exploration success. MKR has significant exploration targets that sit outside of Wonawinta and Mt Boppy. We believe exploration success at these targets would accelerate the potential to develop those projects and add to the valuation.

Expansion of Wonawinta Processing Plant

The Wonawinta plant has a footprint that allows for easy expansion. Exploration success may lead to opportunities to expand the plant and process sulphide ores.

Risks to the Share Price and Valuation

Key risks to the share price

Disappointing Mt Boppy production

The remaining production from Mt Boppy is key to MKR's cash flow generation and debt reduction. Disappointing production from FY2021 has weighed on the share price. If future production is disappointing, it would be negative for the share price.

Disappointing Mt Boppy and/or Wonawinta exploration results

As the key to exploration success, any disappointing result in the Mt Boppy or Wonawinta exploration programs could lead to delays or no further development for these projects.

Gold and silver prices

Mt Boppy is providing MKR with its near-term cash flow. A decline in the gold price would reduce cash flow. Additionally, MKR's key asset is the Wonawinta Silver Project which underpins its valuation. Decreases in the silver price would directly decrease the value of MKR.

Operational stability issues

The operational stability of the processing plant is a key to MKR's strategy. Any issues with the plant would reduce market confidence in the project.

Operational cost issues

Any material increase in operational costs would have a detrimental effect on cash flow and valuation.

Other potential risks to share price and valuation

Lack of exploration success from targets outside Mt Boppy and Wonawinta

MKR is leveraged to exploration success. A lack of exploration success outside of Mt Boppy and Wonawinta would decrease MKR's ability to extend the mine life.

Appreciating A\$ vs US\$

An increasing A\$ against the US\$ would lead to decreased A\$ gold and silver prices, reducing cashflow and valuation.

COVID-19-related delays

As the COVID-19 pandemic continues, delays may be experienced in operations and exploration.

Financials: Some Adjustments to FY2022

We have reviewed our forecasts for FY2022 (see Exhibit 18) and have adjusted our assumptions regarding earnings and cash flow, including incorporating the terms of the extended debt facility.

Earnings for FY2021

For FY2021, MKR reported a loss of A\$2.9m versus our estimate of a profit of A\$1.8m. The result was driven primarily by higher operating costs from Mt Boppy as lower production from weather events meant a higher proportion of fixed costs.

We had forecast full-year AISC at A\$1,900/oz at our last update compared to actual costs of A\$2,400/oz, and had forecast production of 18,988oz vs actual of 17,961oz (not including pre-IPO production of 4,471oz).

Earnings Estimates for FY2022 and FY2023

We have revised our FY2022 earnings estimates down to A\$18.9m from A\$27.4m. Our previous forecasts were set in March 2021, and there has been a substantial change in the mix of revenue since then due to the extension of Mt Boppy production to February 2022 and the deferral of the start of silver production. The main driver of the decrease is the change in mix of production of silver and gold and the relative cost of processing.

Our previous forecast included 1 month of Mt Boppy production and 11 months of silver production, which included 2 months of production from the oxide mine (higher grade, therefore higher volume).

Our new forecasts include 9 months of Mt Boppy gold production and 1 month of stockpile processing with a conservative approach of a 2-month changeover period. Costs to process stockpiled silver are lower than processing gold (around A\$894/oz processing cost for silver on a gold equivalent basis compared to our FY2022 gold operating cost estimate of A\$1482/oz).

Our FY2022 forecasts are based on 10,000oz of gold production for the remainder of FY2022. Given the performance of the Mt Boppy mine and mill in Q1 FY2022 we believe there may be upside risk to these numbers.

Our FY2023 earnings have remained the same. Previously we had a full year of oxide silver processing, which is higher grade and produces higher ounces but have a higher cost. Our new forecasts with reflect the lower revenue from lower ounces from lower grade stockpile processing being offset by the lower cost of processing (as no mining costs).

Exhibit 18 – Earnings estimates revisions, FY2022 and FY2023

PROFIT AND LOSS STATEMENT A\$M	FY2022 Old	FY2022 New	Change	FY2023 Old	FY2023 New	Change
Revenue	68.7	63.2	(5.5)	89.6	73.9	(15.7)
Total Revenue	68.7	63.2	(5.5)	89.6	73.9	(15.7)
Operating Costs	(25.9)	(35.2)	(9.4)	(42.4)	(27.8)	14.6
Corporate and Other Costs	(2.1)	(2.1)	0.0	(2.2)	(2.1)	0.0
Total EBITDA	40.7	25.8	(14.9)	45.0	44.0	(1.1)
Depreciation and amortisation expense	(4.9)	(4.9)	0.0	(8.2)	(7.0)	1.1
EBIT	35.8	20.9	(14.9)	36.9	36.9	0.1
Finance costs	0.0	(1.0)	(1.0)	(4.3)	(4.3)	0.0
Net Finance Costs	0.0	(1.0)	(1.0)	(4.3)	(4.3)	0.0
Profit/Loss Before Tax	35.8	19.9	(16.0)	32.6	32.7	0.1
Tax Expense	8.4	1.0	7.4	(9.8)	(9.8)	(0.0)
Reported NPAT	27.4	18.9	(8.6)	22.8	22.9	0.1

Source: MST estimates.

Funding and Cash Flow

Debt repayment – cash flow from Mt Boppy to allow repayment of high-coupon debt

Debt as of September 2021 stood at US\$9m (reduced from the original US\$14m). MKR has extended the current facility by 12 months to 30 September 2022 and no repayment is required until then, although we note that MKR nonetheless repaid US\$1m in September 2021. **Given the cashflow being generated from Mt Boppy we see MKR having the capacity to further reduce the debt in coming months.**

The debt restructure reduces the cost of this loan and improves MKR’s financial flexibility. Key elements of the restructure include:

- a single bullet payment due 30 September 2022
- a 150-basis-point reduction in the interest rate payable down to 12.5%
- no early repayment penalties
- no hedging requirement
- the issue of 10m options expiring in July 2023 with a strike price based on a VWAP formula.

We have assumed that MKR uses the cash flow from Mt Boppy to pay down part of the debt in FY2022.

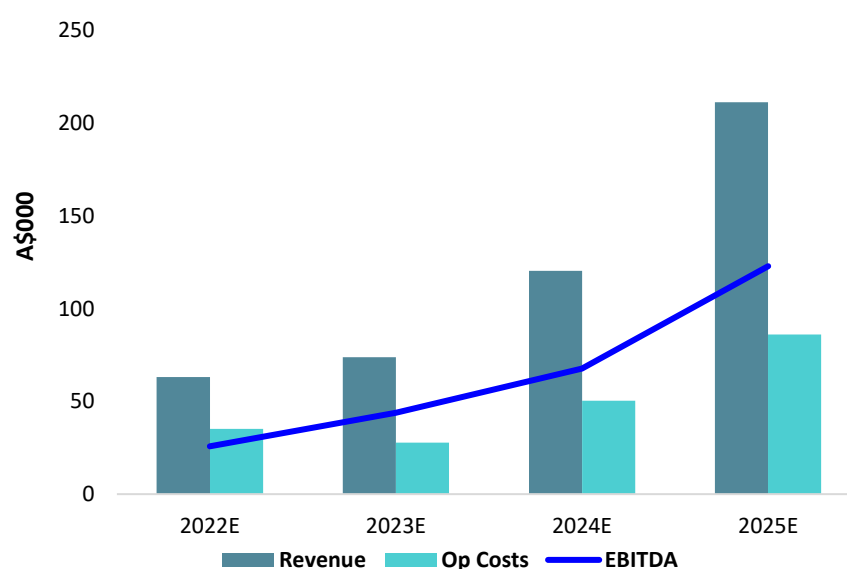
Wonawinta cash flow generation

FY2022/FY2023 will see the second stage of MKR’s cash generation plan with the processing of Wonawinta silver stockpiles and the commencement of processing Wonawinta oxide ores.

The processing of Wonawinta ores provides MKR with 5 years of cash flow generation in order to fund exploration at Wonawinta and Mt Boppy. Further expansion of Mt Boppy and Wonawinta projects beyond that is assumed to be funded by cash flow and debt.

Our cash flow forecasts do not take into consideration any expansion of MKR’s production from exploration success in targets outside the Mt Boppy and Wonawinta projects. The cash flow generation from Wonawinta gives MKR multiple options as to mine life extension, including from projects outside Mt Boppy and Wonawinta.

Exhibit 19 – Project revenue, operating costs and EBITDA (2022E–2025E)



Source: MKR, MST estimates.

Accumulated tax losses

As of 30 June 2021, MKR has accumulated tax losses of A\$4.97m. We assume that these tax losses will be applied against the FY2022 taxable income and fully absorbed.

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