Early Drilling Presents More Options and Shows the Huge Potential of Manuka

Manuka Resources (MKR) has started a substantial drilling campaign on several fronts. Results to date have shown the huge potential of the Mt Boppy Gold and Wonawinta Silver Projects and present additional options to add value to an already strong asset base. MKR has a comprehensive 3-stage operations plan: Mt Boppy Gold production (FY2021 and Q1FY2022); Wonawinta Silver stockpiles processing and exploration (Q1 FY2022 to Q4 FY2022); mining of Wonawinta silver oxide (FY2023 onwards).

Mt Boppy Exploration – More Gold, Higher Grade

A dual drilling program at Mt Boppy Gold has led to a material increase in the overall grade of the project and ~58% increase in resources. Additional drill results await analysis and a further increase to resources can be expected. The expanded resource and strong exploration results present MKR with a further cash-generating option.

Wonawinta Oxide – Working Towards a Reserve

MKR's drilling of the Wonawinta oxide silver resource has been extensive. Infill drilling has been completed in order to define a higher-grade reserve, with final sample analysis and updating of the resource model to be finalised. Additional mineralisation has been intersected from outside the current defined resource, indicating potential for this shallow, easily mineable ore resource to be further expanded.

Wonawinta Sulphide 'Deeps' – An Exciting Beginning – Additional Upside Potential

The potential for a Cobar-style silver/base metals sulphide deposit exists below the current Wonawinta resource, where there has been minimal drilling below a depth of 60m. MKR is half-way through the program and has completed 10 holes of a 20-hole diamond drill exploration program to explore this potential. While MKR awaits independent laboratory assays on all holes, preliminary on-site analysis of the first hole has shown exceptional results. Significant sulphide mineralisation has the potential to be transformational for MKR adding a potential long mine life extension beyond the current 5-year plan.

Mt Boppy Production – Extreme Unseasonal Weather Hurt First Half, Increased Grade to Boost Second Half

The first two quarters of Mt Boppy production were affected by weather and some lower-than-expected grades. A significant grade control drilling program has established a higher grade in the remaining pit resource. This should lead to substantially higher 2H production.

Wonawinta Silver Stockpiles – Above Original Expectations

The original 6-month high-margin stockpile campaign is now expected to be extended to 10–12 months from July / August 2021 as additional stockpiles from outside the ROM area have been identified at the project.

Valuation: A$0.99 per Share on Risked Sum-of-the-Parts

We have valued MKR using a sum-of-the-parts methodology, valuing Mt Boppy and Wonawinta Silver on a risked NPV basis. Our valuation has increased by A$0.05, driven by higher forecast grades at a Mt Boppy extension and increased confidence in a Wonawinta sulphide project. Key risks are further delays to Mt. Boppy production and disappointing drilling at Wonawinta.

MANUKA RESOURCES

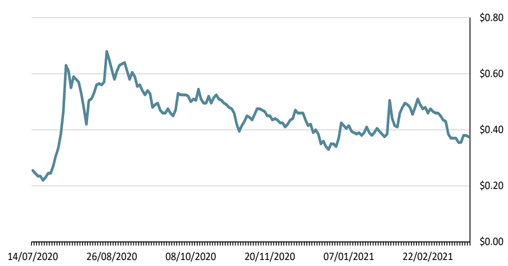
Manuka Resources owns 100% of two fully permitted gold and silver assets located in NSW's Cobar Basin.

Both the Mt Boppy Gold Project and the Wonawinta Silver Project add near-term cash flow potential. Manuka'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.

Stock	MKR.ASX
Price	A$0.375
Market cap	A$101m
Valuation (per share)	A$0.99

Next steps	
Q1 2021	Wonawinta reserve/resource
Q2 2021	Wonawinta Deeps Drill Results drilling

MKR share price (A$) – since listing (14/7/2020)



Source: FactSet.

Michael Bentley
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Financials

MKR raised A$7min equity during in December 2020.

MKR also made 3 repayments on its debt:

- December 2020 US$1.0m
- January 2021 US$1.5m
- March 2021 $US1.5m

Per the Half Yearly Accounts, MKR will pay the following off the debt.

- March 2021 US$0.5m
- April 2021 US$2.5
- May 2021 US$2.5
- June 2021US$2.25m

The balance of the debt as of writing is $US10m.

Cash as of 31 December was A$7.2m

MKR is negotiating with several parties on the refinancing of current debt.

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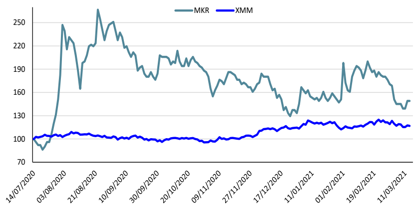
Exhibit 1 – Company summary (year-end 30 June)

Manuka Resources Limited — **MKR.AX**

Year end 30 June

MARKET DATA		
Price	**$**	**0.38**
52 week high / low	$	0.68 - 0.22
Valuation (diluted)	**$**	**0.99**
Market Capitalisation	**$m**	**101.0**
Enterprise Value	**$m**	**125.2**
Shares on issue (basic)	m	269.4
Options / Performance shares	m	21.25
Other equity	m	7.2
Potential shares on issue (diluted)	m	297.8

Relative performance since first listing versus S&P/ASX Metals and Mining



INVESTMENT FUNDAMENTALS		FY19A	FY20A	FY21E	FY22E	FY23E
Reported NPAT	$m	(5.4)	(4.6)	12.7	32.5	23.2
Underlying NPAT	$m	**(5.4)**	**(4.6)**	**12.7**	**32.5**	**23.2**
EPS Reported (undiluted)	¢	(2.0)	(1.7)	4.7	12.0	8.6
EPS Underlying (undiluted)	**¢**	**(2.0)**	**(1.7)**	**4.7**	**12.0**	**8.6**
Underlying EPS growth	%		16.1%	379.7%	154.8%	-28.4%
P/E Reported (undiluted)	x	nm	nm	7.9	3.1	4.3
P/E Underlying (undiluted)	**x**	nm	nm	9.9	24.2	(132.1)
Dividend	**¢**	**-**	**-**	**-**	**-**	**3.5**
Payout ratio	%	0%	0%	0%	0%	40%
Yield (Y/E/ Spot)	**%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**9.2%**
Franking	%	100%	100%	100%	100%	100%
Gross Yield (Y/E/ Spot)	**%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**13.1%**
Operating cash flow / share	¢	-2.41	10.42	78.37	138.69	130.23
Price to operating cash flow	**x**	**nm**	**3.6**	**0.5**	**0.3**	**0.3**
Free cash flow	**$m**	**(0.6)**	**(12.0)**	**14.1**	**23.9**	**(24.1)**
Free cash flow per share	¢	(0.2)	(4.3)	10.1	8.9	(9.0)
Price to free cash flow	**x**	nm	nm	3.7	4.2	nm
Free cash flow yield	**%**	**nm**	**nm**	**26.9%**	**23.7%**	**nm**
Book value / share	¢	(4.8)	(0.9)	8.7	20.7	25.9
Price to book (NAV)	**x**	**nm**	**nm**	**4.3**	**1.8**	**1.4**
NTA / share	¢	(4.8)	(0.9)	8.7	20.7	25.9
Price to NTA	**x**	**nm**	**nm**	**4.3**	**1.8**	**1.4**
Year end shares	m	269	269	269	269	269
Market cap (Spot)	**$m**	**101.0**	**101.0**	**101.0**	**101.0**	**101.0**
Net debt /(cash)	$m	17.2	24.2	(1.2)	(25.1)	(37.4)
Enterprise value	**$m**	**118**	**125**	**100**	**76**	**64**
EV/Sales	x	-	13,518.4	1.8	1.0	0.7
EV/EBITDA	**x**	**nm**	**nm**	**5.2**	**1.6**	**1.4**
EV/EBIT	x	nm	nm	6.8	1.8	1.7
Net debt / Enterprise Value	x	0.1	0.2	(0.0)	(0.3)	(0.6)

PRODUCTON AND PRICING	FY19A	FY20A	FY21E	FY22E	FY23E
Gold production (koz)	-	-	23	-	-
Silver production (koz)	-	-	-	2,038	2,508
Gold US$	1800	1800	1800	1800	1800
Silver US$	25	25	25	25	25

Mt Boppy Gold	Tonnes	Grade g/t Au	Contained ounces
Probable Reserves	**270,000**	**3.00**	**26,000**

Resource Category	Tonnes	Grade g/t Au	Contained ounces
Measured	207,230	4.89	32,570
Indicated	144,200	4.15	19,300
Inferred	11,000	6.70	2,000
Total	**362,430**	**4.62**	**53,870**

Wonawinta	Tonnes m	Grade g/t d	Silver moz
Resources			
Measured	0.89	45.00	1.30
Indicated	8.50	48.50	13.24
Inferred	29.40	40.00	37.84
Total	**38.80**	**42.00**	**52.40**

PROFIT AND LOSS $A'000	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	**-**	**9**	**56,804**	**79,906**	**89,573**
COGS	-	(7,265)	(35,623)	(29,901)	(42,368)
Gross profiit	**-**	**(7,255)**	**21,181**	**50,005**	**47,205**
Gross margin	-	-	**37.3%**	**62.6%**	**52.7%**
Other income	(62)	-	-	-	-
Other operating costs	(2,081)	(2,122)	(2,165)	(2,208)	(2,252)
EBITDA	**(3,172)**	**(1,025)**	**19,100**	**47,882**	**45,040**
Depreciation & amortisation	-	-	(4,500)	(4,900)	(7,586)
EBIT	**(3,172)**	**(1,025)**	**14,600**	**42,982**	**37,454**
Net interest	(2,256)	(3,528)	(1,864)	-	(4,250)
Impairments / Associates					
Pretax Profit	**(5,428)**	**(4,553)**	**12,737**	**42,982**	**33,204**
Tax expense	-	-	-	10,525	9,961
Minorities					
NPAT	**-5,428**	**-4,553**	**12,737**	**32,457**	**23,243**
Adjustments & Significant items					
Underlying NPAT	**-5,428**	**-4,553**	**12,737**	**32,457**	**23,243**

BALANCE SHEET $A'000	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	-	1,509	6,032	25,087	37,398
Receivables	13	7,654	7,654	7,654	7,654
Inventory	-	2,008	-	-	-
Other	-	351	351	351	351
Current assets	**13**	**11,522**	**14,037**	**33,092**	**45,403**
PPE, Development and Exploration	5,509	18,255	20,755	29,284	80,919
Other	6,253	6,651	6,651	6,651	6,651
Non current assets	**11,762**	**24,906**	**27,406**	**35,935**	**87,570**
Total Assets	**11,775**	**36,427**	**41,443**	**69,027**	**132,973**
Accounts Payable	2,246	7,671	7,671	7,671	7,671
Borrowings	17,235	25,705	4,872	0	0
Other	18	318	318	318	318
Current liabilities	**19,499**	**33,693**	**12,860**	**7,988**	**7,988**
Borrowings	-	73	50,073	83,406	50,073
Provisions	5,340	5,108	5,108	5,108	5,108
Non current liabilities	**5,340**	**5,181**	**5,181**	**5,181**	**55,181**
Total Liabilities	**24,838**	**38,874**	**18,041**	**13,169**	**63,169**
Share Capital	0	5,112	18,224	18,224	18,224
Other contributed equity	296	8,867	8,867	8,867	8,867
Accumulated Profits / (Losses)	-13,359	-16,426	-3,690	28,767	42,713
Total Equity	**-13,063**	**-2,447**	**23,402**	**55,859**	**69,804**

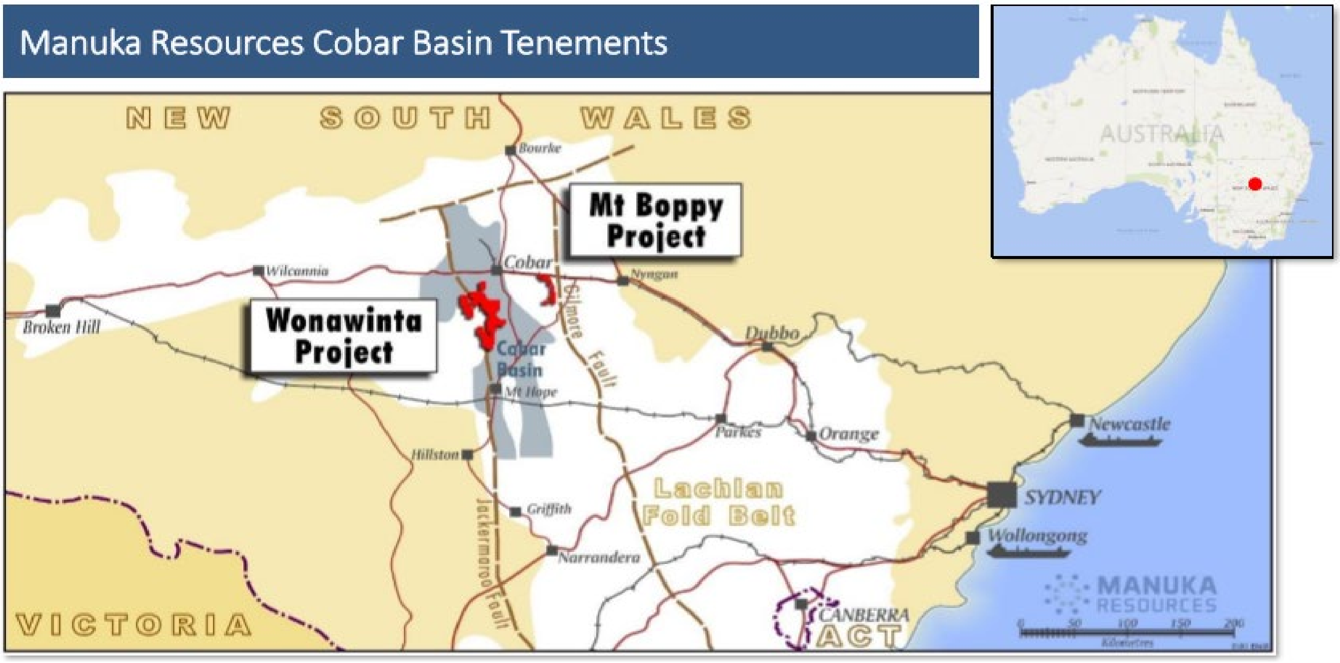
CASH FLOW $A'000	FY19A	FY20A	FY21E	FY22E	FY23E
Receipts from customers	-	9,029	56,804	79,906	89,573
Payments to suppliers and employees	(649)	(6,223)	(37,704)	(32,024)	(44,533)
Tax Paid	-	-	-	(10,525)	(9,961)
Operating cash flow	**(649)**	**2,805**	**21,108**	**37,357**	**35,079**
PPE and Exploration	-	(14,744)	(7,000)	(13,430)	(59,221)
Investing cash flow	**0**	**(14,835)**	**(7,000)**	**(13,430)**	**(59,221)**
Debt Raised / (Repaid)	635	14,075	(20,833)	(4,872)	50,000
Proceeds from issue of shares	-	500	13,112	-	-
Finance costs	-	(1,037)	(1,864)	-	(4,250)
Dividends Paid	-	-	-	-	(9,297)
Financing cash flow	**635**	**13,538**	**(9,585)**	**(4,872)**	**36,453**
Net Increase/Decrease	(13)	1,509	4,523	19,055	12,311
Cash at Beginning of Year	13	-	1,509	6,032	25,087
Year end cash	**-**	**1,509**	**6,032**	**25,087**	**37,398**

Source: MKR, MST Access.

MKR's Drilling Program – Excellent Results All Round

MKR's drilling programs, covering reserve and resource definition, exploration and grade control, have delivered excellent results. The programs have demonstrated the huge potential of both the Mt Boppy gold and the Wonawinta silver projects (see Exhibit 2), as well as presenting further cash-generating options.

Exhibit 2 – Locations of Mt Boppy and Wonawinta in central NSW's Cobar Basin (highlighted in red)



Source: MKR.

Mt Boppy Gold – Grade and Resource Increases – More to Come

Increased resource defined

Mt Boppy drilling has consisted of two streams:

- **grade control drilling** was completed to ensure that the grade within the pit lined up with what existed within the current reserve/resource. This campaign was driven by some grade issues experienced in the first quarters of production.
- **exploration below the current pit** tested the high-grade mineralisation beneath the Mt Boppy pit.

The drilling resulted in a substantial increase to the grade of Mt Boppy and a subsequent increased resource (see Exhibit 3).

Exhibit 3 – Changes to the resource for Mt Boppy post drilling program

	tonnes	g/t	oz of gold
Resource Before drilling (30 June 2020)	371,000	3.23	38,763
Adjusted for two quarters of production			-7,730
Net Resource Prior to Drilling			31,033
Resource Post drilling	362,430	4.62	53,870
Net Increase in Resource			**22,837**

Source: MKR.

Further potential upside to Mt Boppy

Further upside identified by drilling program

Importantly, the current pit has 29,320 oz of **resource** (with a grade of 4.19g/t), compared to the **reserve** on 30 June 2020 of 26,000oz (with a grade of 3.0g/t) prior to the depletion of the last two quarters.

The resource has further upside potential as with intercepts of 22m @ 11.78g/t Au and a further 17m @ 4.33g/t Au from the most recent drilling. There is further drilling planned for Mt Boppy later in March and a resource update will likely follow in early April.

Although the resource is not a reserve at this stage, MKR has applied current cost information and operational experience to the resource. The company has concluded that it has reasonable prospects for economic extraction, which now include the cost benefits from a pit cutback, should this option be pursued.

The Mt Boppy drilling program has increased ounces, significantly increased grade and provided potential further upside. The increased grade is particularly important as production to date at Mt Boppy has been below reserve grade. Production volumes going forward will be larger and lower cost than they have been so far.

Underground mining at Mt Boppy and option with open-pit cutback now a possibility

The increased resource also presents MKR with a decision to make about further development of the mine at Mt Boppy after the current pit is completed (MKR estimating decision to be made by June 2021). Underground mining is one option, while the recent drilling success has made the prospects of a cutback of the pit a distinct possibility.

MKR's preferred option is expected to be to remove all mining equipment from the pit once completed and finish off further drilling without having to accommodate drill and blast and mining. MKR will then decide on the optimal mining solution.

Wonawinta Oxide – Working Towards a Reserve

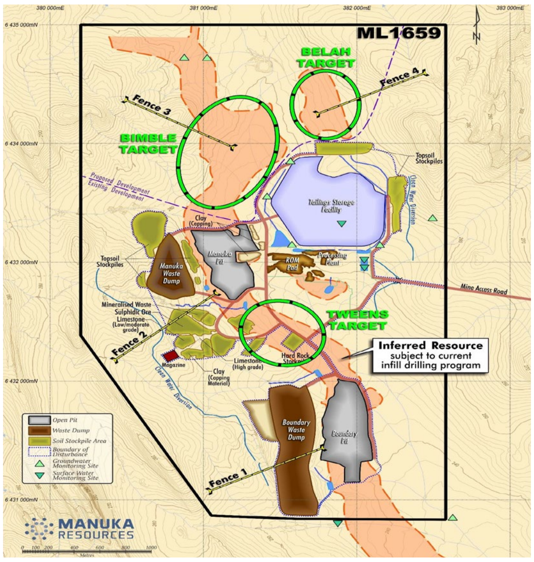
The Wonawinta in-fill drilling program to upgrade the existing JORC Mineral Resource has been a priority for MKR, with 9,000m of drilling in the original plan. Step-outs and extensions to the original program have added a further 3,500m of drilling (total of 12,500m) as the original oxide mineralised zones have been open in multiple directions and MKR continues to find additional areas of mineralisation within the existing mining lease. The aim is to close off the mineralisation in order to define an expanded resource.

A recalculated resource update and upgrade for the shallow silver oxide mineralised resource remains on track for Q1CY21, and a maiden reserve will follow.

The drilling program has been on schedule up until now; however, there are currently significant delays with assay laboratories across the country, which is slowing turnaround times on assay results.

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

Exhibit 4 – Wonawinta Silver Oxide Project



Source: MKR.

Wonawinta Sulphide 'Deeps' – Initial Results Impressive

Testing the concept of a sulphide resource under Wonawinta Oxide

The Wonawinta Deeps drilling program proposed to drill 16-20 deeper diamond drill holes in total along 4 different lines across Wonawinta. MKR is half-way through the program and has completed 10 holes of a 20-hole diamond drill exploration program to explore this potential. The drilling is beneath the current Wonawinta silver oxide resource and intended to test the concept of a Cobar-type sulphide deposit (silver/base metals). There has been minimal previous drilling below a depth of 40m at Wonawinta.

It's only the first look … but what a start!

The first hole drilled in the Wonawinta Deeps program reached a total depth of 154m. On-site readings were taken by a portable XRF (X-ray fluorescence) which measures elemental composition and is used on location for immediate results. The readings are preliminary and do not indicate grade or thickness; however, the ranges of mineralisation are at the extreme level (see Exhibit 5).

Significant sulphide mineralisation has the potential to be transformational for the company, and potentially add significant mine life to that currently planned.

Exhibit 5 – Wonawinta Deeps on-site readings for first hole drilled (and comparison to nearby Elura mine)

Depth	Zn (zinc)	Pb (lead)	Ag (silver)
101.2m	43.10%	12.80%	4270g/t
104.7m	30.20%	21.60%	1870g/t
124.1m	32.10%	22.30%	444g/t
139.9m	32.50%	1.50%	45g/t
Elura mine average:	8.70%	4.90%	69g/t

Source: MKR.

Mt Boppy Production – Increased Grade to Drive Better Second Half

First Half Production Affected by Poor Weather and Lower Grade

Mt Boppy's production for 1HFY21 was below expectations. The main drivers of the disappointing production were poor weather and lower grades.

Unseasonable weather events

Mt Boppy was hit by two unseasonable weather events in 1HFY21:

- The Cobar district experienced unusually wet weather from late autumn with almost twice the average rainfall during the period. This caused a loss of 10 days of mining and 10 full and 9 partial days of haulage.
- December saw a localised storm event that caused some $1m of damage to the plant and halted processing for about 4 days.

Lower-than-expected production grade, but grade control drilling shows higher-than-reserve grade remains in pit

Prior to embarking on a grade control drilling program, the known reserve grade for the Mt Boppy mine was 3g/t Au.

During 1QFY21, the average grade mined was 2.75g/t Au. In 2QFY21, it was 2.34g/t Au. Some higher-than-expected dilution (waste material not separated from ore and diluting grade) was encountered but better mining controls are now in place to reduce this risk in 2HFY21. Mt Boppy's total gold production for 1HFY21 was 7,728oz.

The lower grades in the first two quarters led MKR to embark on the grade control drilling program to ensure the mine grades are consistent with the reserve. The result of the drilling was an increase in reserve grade from 3.0g/t Au to 4.19g/t Au and a revised in-pit resource of 29,320oz Au, compared to the reserve on 30 June 2020 of 26,000oz Au (prior to depletion of the first 2 quarters).

Significantly Higher Grade to Drive Better 2HFY21

The first half production for Mt Boppy was hampered by a number of weather events and lower grades than expected.

Due the grade control programme and improved mining controls we expect higher grades and improved production from Mt Boppy in the second half.

We expect that MKR can hit their original targets of around 2,500oz-3,000oz per month in the second half. As a result, we have forecast production of 23,228oz for the year for Mt Boppy. We forecast that the entire reserve of 26,000oz will be mined from Mt Boppy, meaning a 2,772oz will be processed in FY2022.

Wet weather has been an issue across NSW recently. The Cobar region has received some 100mm of rain over the last few days. We assume from that there may have been some short disruptions to MKR's operations which are outside of their control and have taken that into consideration in our forecasts above.

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

The Progress – An Update on MKR's Operations Strategy

Exhibit 6 – Plans and progress on the three-stage cash flow generation strategy

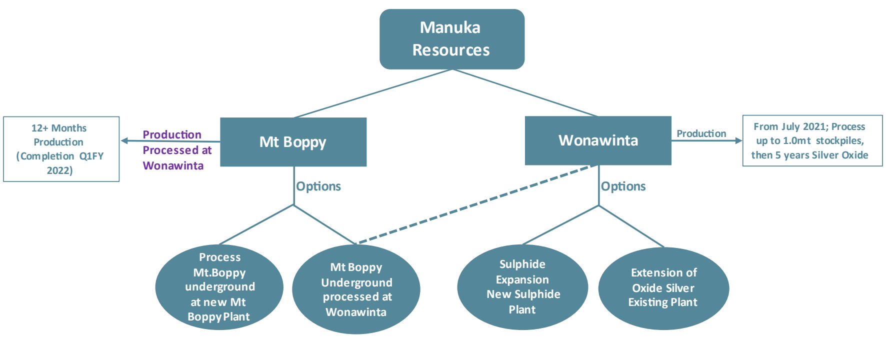
FY2021	FY2022	FY2023-FY2027
STAGE 1, FY2021 MT BOPPY GOLD PRODUCTION AND WONAWINTA IN-FILL DRILLING	STAGE 2, FY2022 WONAWINTA SILVER STOCKPILES AND EXPLORATION	STAGE 3, FY2023-FY2027 WONAWINTA FIVE-YEAR PRODUCTION PLAN
Plan: Exploration program at Mt Boppy using funds from capital raising **Progress**: Grade control and exploration drilling completed and increased resource at higher grades **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 to boost production however one month of production of Mt Boppy Gold anticpated to be processed in July, falling into FY2022. **Plan**: Commence exploration program at Wonawinta on high-conviction targets combined with in-fill drilling to bring silver resources to reserves status **Progress**: 12,500m of drilling completed on Wonawinta Oxide; further areas of mineralisation defined. Final resource and maiden reserve expected shortly	**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**: Further stockpiles defined by MKR, enabling stockpile processing to be extended by 6 months to 4QFY2022. Processing stockpiles is high margin due to no mining/transport costs **Plan:** Focus on key Wonawinta exploration targets **Progress:** Drilling on Wonawinta deeps commenced with immediate intersection of mineralisation	**Plan:** Continue to process silver stockpiles **Progress:** Wonawinta stockpile processing extended by 6 months possibly to early FY2023 **Plan:** Progress to mine, and process silver reserves (currently 52M oz Ag; resource update pending in 3/2021) **Progress**: 12,500 m of drilling completed on Wonawinta Oxide, further areas of mineralisation defined. Final resource and maiden reserve expected shortly **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 shortly

Source: MKR MST Access

The Potential – Options Arise from Exploration Success

The exploration targets within the Mt Boppy and Wonawinta projects have the potential to present MKR with several options as to the extension of mine life and/or expansion of production (see Exhibit 7).

Exhibit 7 – Mt Boppy and Wonawinta – exploration success drives multiple growth options



Source: MKR.

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

Methodology: Sum-of-the-Parts with Risked NPV: A$0.99 (vs. A$0.94 at Initiation)

We value MKR at **A$0.99** per share using a sum-of-the-parts methodology, valuing Mt Boppy and Wonawinta Silver on a risked NPV basis (see Exhibit 8).

Exhibit 8 – Valuation summary (using risk weighted NPV)

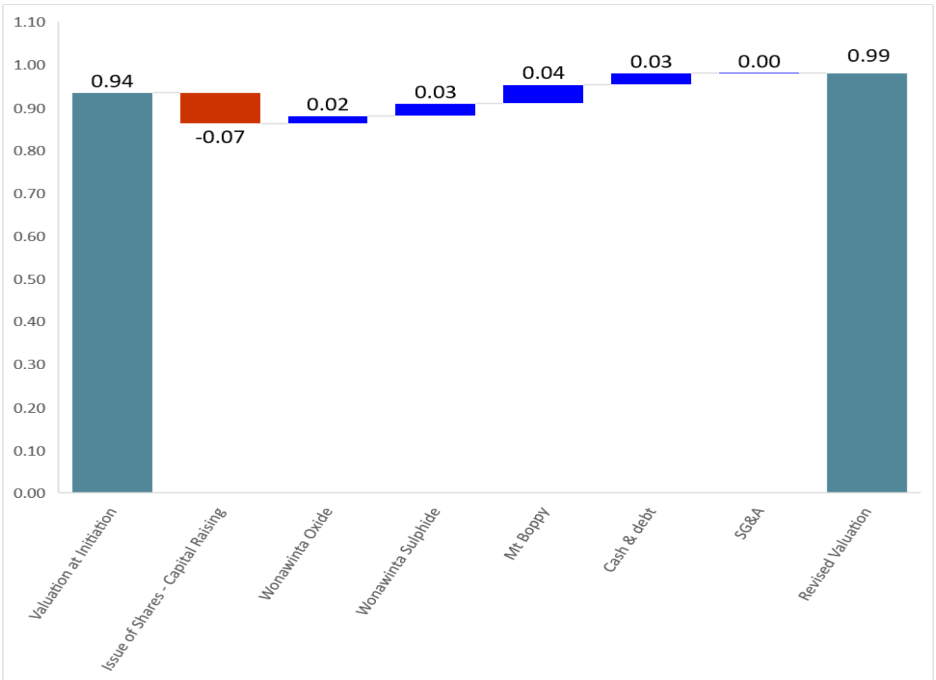
NPV OF PROJECTS	RISKED VALUATION A$M	UNRISKED EQUITY VALUE A$/SHARE FULLY DILUTED	RISKED EQUITY VALUE A$/SHARE FULLY DILUTED	RISKED EQUITY VALUE A$ INITIATION	Probability / Risk Factor
Equity Value Mt Boppy	60.5	0.25	0.21	0.17	Open Pit 100%, Expansion75%
Equity Value Wonawinta Oxide	212.3	0.73	0.73	0.76	100%
Equity Value Wonawinta Sulphide	42.3	0.32	0.15	0.13	50%
ENTERPRISE NPV	315.1	1.30	1.09	1.06	
Add: Cash as at 31/12/2020	7.19	0.02	0.02	0.01	
Less: Debt As at 31/12/2020	- 19.8	-0.07	-0.07	-0.09	
EQUITY VALUE PRE SG&A	302.5	1.27	1.04	0.99	
SG&A	- 13.8	-0.05	-0.05	-0.05	
EQUITY VALUE	288.7	1.22	0.99	0.94	

Source: MST estimates.

Our valuation has increased by A$0.05 since initiation (see Exhibit 9). Key changes to the valuation:

- decrease to overall valuation due to increased issued share base from the December 2020 issue of 20m shares, which raised $7m
- net increase in valuation of Mt Boppy gold project, due to:
    - forecast grade increase from mine life extension, offset by
    - lower cash flow forecast than at initiation from Mt Boppy due to higher costs and lower A$ gold price received
- increase in valuation of Wonawinta oxide project due to extension of low-cost processing of stockpiles out to 10-12 months from 6 months. We have not changed the mine life at the oxide project as yet, as we are awaiting results from the current drilling programme.
- increase in valuation of Wonawinta sulphide project due to an increase in our probability factor by 10% (reducing risk). This is driven by early drill results.

Exhibit 9 – Change in valuation since initiation – A$/share



Source: MST estimates.

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. The increased grades from the exploration program shows 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 to silver production from the mine (with lead and zinc potential as well), extending the life of the mine.

The Mt Boppy project generates near-term cash flow which will allow MKR to pay down its debt and release the restrictions of its current loan arrangements (in particular, the limits of how much can be spent on exploration).

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

Exhibit 10 - Core modelling assumptions

Price and Currency	
AUD/ USD (from FY2022)	0.70
Silver Price US$/oz	25
Gold Price US$/oz (from FY2022)	1,800
Cost and Financing	
Discount Rate Silver Project %	10
Discount Rate Gold Project %	10
Inflation %	2.5
Interest on Cash %	1
Interest on Borrowings %	8
Modelling	
Depreciation	LOM
Depreciation Rate %	10
Mt Boppy Extension Depn %	20
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 the first 6 months of FY2021 Mt Boppy gold production. For 2HFY21, we have assumed a gold price of US$1795/oz and an A$/US$ exchange rate of 0.76. Our long-term assumptions are unchanged since initiation.

Key Sensitivities: Silver Prices, Gold Prices and USD

Exhibit 11 – Valuation sensitivity to change in US$/oz silver price

$15	$20	$25	$30	$35
0.28	0.63	0.99	1.35	1.71

Source: MST estimates.

Exhibit 12 – Valuation sensitivity to change in US$/oz gold price

$1,600	$1,700	$1,800	$1,900	$2,000
0.94	0.97	0.99	1.02	1.05

Source: MST estimates.

Exhibit 13 – Valuation sensitivity to change in A$/US$ exchange rate (A$)

$0.60	$0.65	$0.70	$0.75	$0.80
1.22	1.10	0.99	0.90	0.82

Source: MST estimates.

Positive Catalysts for the Share Price

Key drivers of share price upside

Short-term cash flow generation and debt reduction

An improved second half for Mt Boppy would be positive for the stock price. The difficult first half at Mt Boppy reduced the market's confidence in the project. However, a substantial grade control drilling program and re-modelling of the resource should see a substantial improvement in production and lower unit costs in the second half. The key to near-term cash flow generation can be applied to the remaining US$10m in debt, which would unlock the restrictions placed on MKR as far as exploration is concerned. Repayment of the debt would be a positive catalyst for the stock.

Wonawinta oxide silver

The Wonawinta Project has the potential for significant silver exploration success. The current resource is only drilled to 60m, and there are potential high-grade silver sulphide resources below it, with the potential to increase both grade and mine life. MKR continues to find additional areas of mineralisation within the existing mining lease. The aim is to close off the mineralisation in order to define an expanded resource. The extended resource and maiden reserve for the Wonawinta oxide silver deposit are 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 drilling program is proposed to drill 16-20 deeper diamond drill holes beneath the current Wonawinta silver oxide resource and is intended to test the concept of a Cobar-type sulphide deposit (silver/base metals). There has been minimal previous drilling below a depth of 60m at Wonawinta. Early results have been very encouraging. Successful drilling in the sulphides could lead to significant mine life extension.

Mt Boppy gold exploration

Manuka has drilled a significant program below the pit shell of Mt Boppy, hitting high-grade intersections. Further drilling is in process, 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. Exploration success at these targets accelerates the potential to develop those projects and add to 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

Second-half recovery in production from Mt Boppy is key to the cash flow generation for MKR and the reduction in debt. The disappointing first half of production has weighed on the share price. If this second-half recovery does not eventuate, we believe the valuation would suffer.

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 the ability of MKR 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: Weather Hurts H1, Increased Grade to Boost H2

1HFY21 Results: Production and Unit Costs Hit by Weather Events and Lower Grade

MKR has released its first-half results for FY2021. The net loss for 1HFY21 was A$0.895m. EBITDA was a loss of A$1.1m.

The Mt Boppy gold mine is the sole source of revenue for MKR for FY2021. Planned production is to mine the reserve of around 26,000oz.

The major drivers of the result were:

- **First-half production was lower than expected** from Mt Boppy. This was driven by a number of issues:
    - Mt Boppy was hit by two unseasonable weather events in the half: (1) Unusually wet weather from late autumn saw almost twice the average rainfall during the period. This caused the loss of 10 days of mining and 10 full and 9 partial days of haulage. (2) A localised storm event caused some $1m of damage to the plant and stopped processing for about 4 days.
    - The reserve grade for the Mt. Boppy mine is 3g/t Au. During the first quarter the average grade mined was 2.75g/t Au and in the second quarter it was 2.34g/t Au. Higher-than-expected dilution was encountered but better mining controls are now in place to reduce this risk in 2HFY21.
- **Higher unit costs:** The weather events, lower grade and higher-than-expected dilution and lower-than-expected production have contributed to significantly higher unit costs than were forecast. We had forecast unit costs of A$1263/oz, we estimate first half costs were around $A2,360/oz
- **Weighted average gold price** for the half was strong at A$2613/oz, (we had forecast A$2571/oz)

FY2021 and FY2022 Forecasts

We have reviewed our forecasts for FY2021 and FY2022 (see Exhibit 14).

Earnings estimates down for FY2021 – Higher Costs / Lower Production from First Half the Key Driver

For FY2021, we are reducing our underlying earnings estimates, driven by lower revenue from a lower achieved gold price than we forecast in our initiation and higher operating costs predominantly due to the weather events and lower grades in the first half. We expect significantly higher production in 2HFY2.

We expect second half production to be higher and have forecast production to be 23,228oz for the full year. We have based this on the assumption that Mt Boppy can achieve some 2,500oz to 3,000oz of production a month as forecast by MKR.

We have forecast for the full 26,000oz of the Mt Boppy reserve to be processed and have carried the additional 2,772oz into FY2022.

We have forecast an average price received for gold for the year at A$2483 versus $A2571 at initiation. We have forecast spot gold and $A/$USD rates for the second half.

We had forecast full year operating costs at A$1275/oz at initiation, however due to the lower first half of productions we have increased this to A$1435/oz for the full year.

Earnings estimates up for FY2022 – Additional Stockpile Processing Lower Costs

We have increased our underlying FY2022 earnings estimates, driven by the extension of the processing of Wonawinta stockpiles from 6 months to a full year. The costs of processing stockpiles are lower than mining the ore as there are no mining costs.

Exhibit 14 – Earnings estimates revisions, FY2021 and FY2022

PROFIT AND LOSS STATEMENT A$M	FY2021 Old	FY2021 New	Change	% Change	FY2022 Old	FY2022 New	Change	%change
Revenue	64.8	56.8	(8.0)	(12%)	78.4	79.9	1.5	2%
Total Revenue	64.8	56.8	(8.0)	(12%)	78.4	79.9	1.5	2%
Operating Costs	(30.4)	(35.6)	(5.2)	17%	(31.4)	(29.9)	1.4	(5%)
Corporate and Other Costs	(2.1)	(2.1)	0.0	0%	(2.1)	(2.1)	0.0	0%
Total EBITDA	**32.3**	**19.1**	**(13.2)**	(41%)	**43.0**	**47.9**	**4.9**	11%
Depreciation and amortisation expense	(1.8)	(4.5)	(2.8)	157%	(3.1)	(4.9)	(1.8)	57%
EBIT	**30.5**	**14.6**	**(15.9)**	(52%)	**41.8**	**43.0**	**1.2**	3%
Finance costs	(1.9)	(1.9)	0.0	0%	0.0	0.0	0.0	0%
Profit/Loss Before Tax	**28.7**	**12.7**	**(15.9)**	(56%)	**41.8**	**43.0**	**1.2**	3%
Tax Expense	2.6	0.0	(2.6)	(100%)	12.5	10.5	(2.0)	(16%)
Reported NPAT	**26.1**	**12.7**	**(13.4)**	(51%)	**29.2**	**32.5**	**3.2**	11%

Source: MST estimates.

Funding and cash flow

Capital raising – December 2020

MKR raised A$7m in December 2020. The weather issues around Cobar had affected short-term cash flow. The raising injected sufficient capital into the company to continue the significant drilling program at Mt Boppy and Wonawinta.

Cash flow from Mt Boppy has improved since, with higher grades from the mine as well as minimal interruption to production.

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

MKR has set its first stage of its strategy to process Mt Boppy ores to generate cash that will enable the repayment of the debt. The debt as of March 2021 stood at US$10m. MKR has made the following repayments in FY2021:

- December 2020 $US1.0m
- January 2021 $US1.5m
- March 2021 $US1.5m

Further payments to be made per the half yearly accounts are:

- March 2021 US$0.5m
- April 2021 US$2.5
- May 2021 US$2.5
- June 2021US$2.25m

The current US$ facility places restrictions on the use of cash for exploration, and in the immediate term, exploration is being funded via IPO funds and funds from the December 2020 capital raising. On repayment (or refinancing) of the US$14m facility (US$10m ooststanding), MKR will not have any restrictions on its exploration spend. The coupon on the current facility is 14% and was negotiated prior to Mt Boppy production commencing. MKR is considering refinancing the facility and is of the view that it could be done at a much lower coupon and without exploration restrictions.

Wonawinta cash flow generation

FY2022 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 development of Mt Boppy and Wonawinta projects beyond that time for expansion of the processing facility can 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.

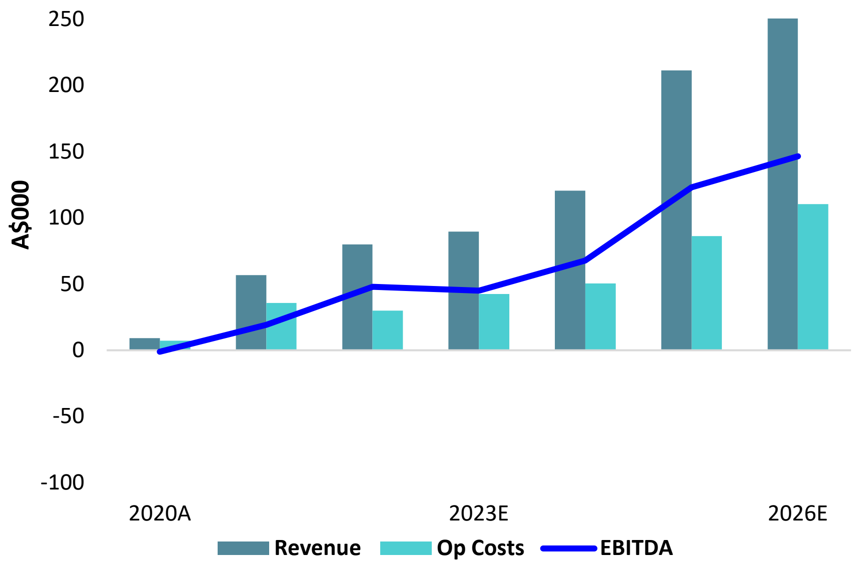
Accumulated tax losses

As of 30 June 2020, MKR has accumulated tax losses of A$6.01m. We have assumed that these tax losses will be applied against the FY2021 taxable income and fully absorbed.

Dividends

With immediate strong cash flow generation and repayment of debt, we have assumed that the payment of dividends will be implemented in FY2023. We have assumed that a payout ratio of 40% of after-tax profits will be paid and that the dividends will be fully franked. We consider the cash flow generation from the projects going forward is sufficient to allow the payment of dividends and to fund growth from cash and debt.

Exhibit 15 – Project revenue, operating costs and EBITDA (2020–2026E)



Source: MKR, MST estimates.

Appendix:
Gold and Silver Markets – Bond Rates Pressuring Gold; Silver Strong

A Quick Look at the Gold Market and the Gold Price

The price of gold is determined by a number of factors, each of which have a varying level of influence depending on the stage of the economic cycle. The key factors influencing the gold price are:

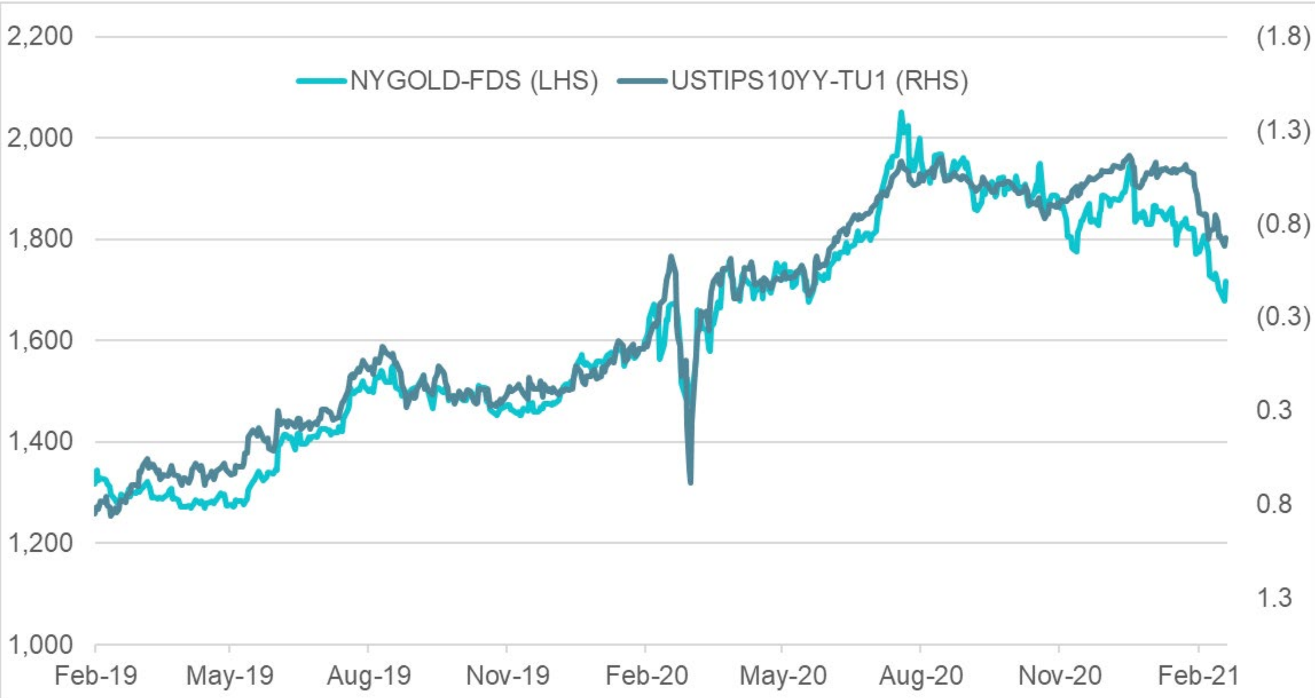
- **gold demand (short-term impact on price)** – India and China have the most influence on the physical demand for gold. This demand tends to be quite short term and cyclical.
- **derivatives markets** – gold options and the speculative market for gold can influence the price.
- **macro factors (significant influence on price)** – these include:
    - global economic conditions and geopolitical issues
    - global interest rates and bond yields
    - asset market volatility
    - the US dollar
    - inflation
    - risk tolerance.

The past two years have seen the US dollar gold price in a range of around US$1275–US$2050. The current gold spot rate is around US$1700.

The major influence on the gold price over the last two years has been real interest rates (the bond rate minus inflation) (see Exhibit 16).

There has been a short-term increase in real interest rates as markets have built in expectations of increased inflation as well as an increase in bond supply due to the US stimulus. This has negatively affected the performance of gold in recent times; however, at over US$1700oz, gold remains at relatively high levels.

Exhibit 16 – Gold price (NYGOLD-FDS) vs 10-year US real interest rate (USTIPS10YY-TU1) from 2019 to 2021 ytd



Source: Factset.

The Silver Market – Some Fundamentals Like Gold, but a Little More Volatile

Silver market overview

Silver, like gold, has been considered a reliable store of wealth and value for centuries. The physical silver market is much smaller than the market for gold, with silver valued at approximately 1/70 of the price of gold per ounce. In comparison to the total investment in physical gold that equates to approximately US$40 billion a year, only about US$4 billion a year is invested in silver. Australia has the largest share of the world's economic silver resources.

Like most commodities, the price of silver is driven by investment and supply and demand. The silver price is volatile compared to the gold price because of the smaller market, lower market liquidity and demand fluctuations between industrial and store of value uses. The main causes of volatility in the silver market are:

- Large traders or investors: The silver market is much smaller in value than the gold market. With physical demand estimated at US$15.2 billion per year, it may be possible for a large trader or investor to influence the silver price either positively or negatively. Moreover, the central banks do not trade in silver like they do gold, which can not only move the price of gold but do so in a more orderly fashion. Thus, the reliance on investors to determine the value of silver tends to make the silver market more unreliable and unstable than the gold market.
- Short selling – Industrial, commercial, and consumer demand: The volatility of the silver market makes it more vulnerable to fluctuations in demand due to investor and trader sentiment.

The volatility of the silver market tends to deter long-term silver investors, who prefer lower volatility and steadier price accumulation. However, for those who seek shorter-term returns, the added volatility of silver can also be viewed as a benefit.

Silver's performance versus gold

Silver's smaller market size and relatively lower liquidity can also contribute to its outperformance of gold during a major upward price move of both commodities. There are several reasons why silver often lags gold in starting a major upward price move, but then rises faster in percentage terms, with one of the most important factors being the comparatively small size of the market. The smaller size of the market essentially increases volatility, which while supportive of outperformance compared to gold when prices are rising also adds risk to the performance of silver as a stand-alone asset and to any portfolio in which precious metals are included. In addition, the lack of liquidity within the silver market also contributes to sharper moves in silver relative to gold.

The same factors – smaller market size and relatively lower liquidity – that help silver outperform gold on the upside, however, also make silver a high-risk, high-return asset. While there is some benefit to adding silver to a portfolio as a strategic asset, given the higher level of risk associated with the metal, silver is probably better for trading in and out of than for strategic allocation in a portfolio.

In addition, indications are that after years of underperformance relative to gold (reflected in the sharp increase in the gold: silver ratio), the silver price is now playing 'catch up' with gold. The ratio has slipped lower but is still at historically elevated levels.

Exhibit 17 – Gold to silver ratio – recent sharp moves – more normalised range now

Source: Factset.

Impact of pandemic on the silver market

The negative economic fallout caused by the COVID-19 pandemic is expected to have a lasting negative impact on commercial real estate values, air travel and jobs. Governments and central banks around the world have rushed to provide support to the economy from this shock, injecting liquidity into the markets that are looking for yield.

The increased liquidity in the market has pushed rates into negative territory, making non-interest-bearing assets like gold and silver appealing to investors.

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