

Company Research

19th February 2021

Kaiser Reef Limited (ASX:KAU)

Sector: Gold

Investment in shares of KAU should be considered speculative. Investors should seek appropriate advice before making a decision to invest in KAU (see Disclaimer page 15)



PELTON
CAPITAL

RECOMMENDATION

Initiating Coverage

Buy : Price Target \$0.90

COMPANY STATISTICS

Share Price	\$0.38
12 Month Range	\$0.31 - \$0.485
Market Cap (fully diluted)	\$44.2m
Enterprise Value	\$34.2m
Issued Shares	116.4m
Options (various)	11.84m
Cash Balance (est)	\$10.0m
Debt	Nil

MAJOR SHAREHOLDERS (Feb 2020)

Regal Funds Management	9.9%
Bath Resources Pty Ltd	5.8%
Jonathan Downes	2.6%
Adrian Byass	2.6%

DIRECTORS & MANAGEMENT

Mr. Adrian Byass	Chairman
Mr. Jonathan Downes	Executive Director
Mr Stewart Howe	Executive Director
Mr. David Palumbo	Non Executive Director & Company Secretary

*SHARE PRICE PERFORMANCE



*Source: ASX

Financial Forecasts \$ Valuation Metrics					
Y/e June		2021F	2022F	2023F	2024F
Throughput	Mt	0.08	0.12	0.12	0.12
Grade	gpt	6.0	6.0	6.0	6.0
Au Recovery	%	91	91	91	91
Au Production Koz's	oz	13,034	20,854	20,854	20,854
Total Operating Costs	\$m	10.30	16.80	17.14	17.48
Revenue (net)	\$m	23.07	36.91	36.91	36.91
EBITDA	\$m	6.87	11.75	11.29	10.83
NPAT	\$m	4.54	7.77	7.27	6.76
EPS	cps	0.04	0.07	0.06	0.05

Source: Peloton Capitals estimates

“Producer” Status Following Successful Completion of Victorian Gold Mine Portfolio

Investment Summary: Kaiser Reef Limited has recently completed the acquisition of an exciting portfolio of gold assets in central Victoria. Centre stage to the acquisition is the high grade operating **A1 Gold Mine** and **Maldon gold processing plant**.

We believe the portfolio to be highly prospective instantly elevating the Company's status from “Explorer” to “Producer”.

A1 Gold Mine is a well known, high grade, operating gold mine, located in the Walhalla – Woods Point Goldfield, 120km west of Melbourne, which has operated for >100 of its 159 years existence with >620,000oz gold produced to date. With the last 2 years of operation under the direction of an administrator, the mine has still consistently and profitably produced circa 10,000oz per annum on a substantially reduced production basis, with ore processed through the Porcupine Flat mill located 320km away at Maldon at a head grade of ~11gpt.

Complimenting A1 and the Maldon mill, the portfolio comes with 50km² of highly prospective ground including 3 key mining leases and an ELA within the Maldon Goldfield and notably two more gold mines **Union Hill** (on care & Maintenance) and **Nuggety** which have the strong potential to provide additional ore feed for the adjacent plant within 2 years.

The acquisition was a very rare opportunity for a company like KAU and we have viewed the near “perfect fit” very favourably with substantial upside potential.

With a current, EV of \$34m, underpinned with modest, but consistent high grade production, with real near term potential to see a substantial increase in ounces produced from A1 initially, then Maldon, we anticipate the Company is poised to start releasing a strong flow of good news this year, as it beds down the Victorian portfolio acquisition, and starts to look for additional efficiency improvements to ramp up production as well as starting to undertake its own in-mine and brownfields exploration. At this time we have strong confidence to rate the Company's shares as a **BUY** with a Target Price of 90 cps.

- **New Victorian gold portfolio acquisition provides an exciting mix of production, near term production, brownfields & greenfields drill ready targets promising significant upside**
- **Instant cashflow from gold production from A1 Gold Mine & Maldon processing facility:** Production on acquisition of circa 1,000 oz per month from A1 Gold mine (at 20% capacity) expected to increase to 2–3,000oz per month in the coming 6 to 12 months
- **Union Hill & Nuggety Mines: adjacent to Maldon mill provide real potential for near term additional production**
- **Experienced management team with substantial gold exploration and mining experience:** Key board members have strong experience in the discovery & development of Australian gold projects. A1 & Maldon Mill come with highly experienced gold mining management & workforce recently bolstered with new appointments
- **Our initial Target Price is a conservative 90cps which only partially takes into consideration the opportunities open to the Company over the next 12 months to define resources and increase production from current levels which is nothing short of a stand out**

Peloton Capital Pty Ltd

Level 8, 2 Bligh Street, Sydney NSW 200

T 02 8651 7800

www.pelotoncapital.com.au ABN 22 149 540 018



Company Overview

Acquisition of the Victorian gold mining portfolio has instantly transformed KAU from "Explorer" to "Producer"

Upward share price re-rating justified

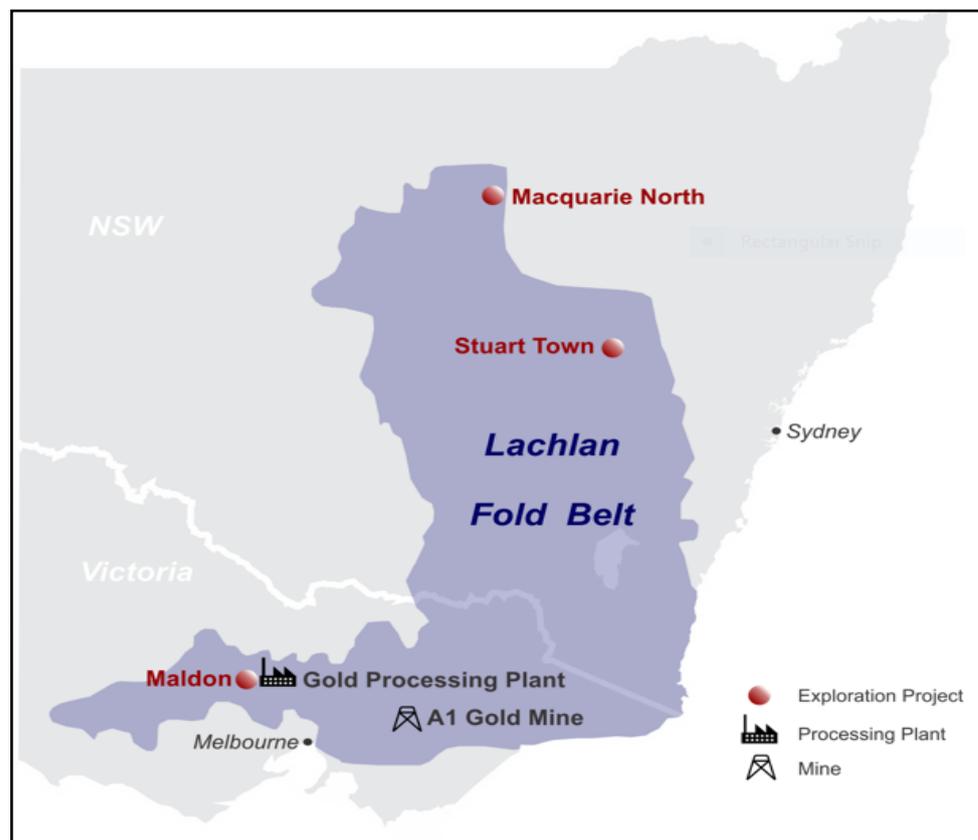
Acquisition was a near perfect fit

Key asset A1 Gold Mine with significant production record

Kaiser Reef Limited ("KAU" or "the Company") is a listed Australian junior resources company focussed on gold exploration and now production in the Lachlan Fold Belt of Victoria and NSW. KAU has recently recommenced trading after a 4 month suspension whilst the Company acquired a strategic Victorian Gold mining portfolio. The acquisition has instantly transformed the Company from a junior explorer to gold producer with a solid cashflow and standout potential further upside from increased production and exploration success. We strongly believe the Company justifies an upward share price re-rating.

KAU was established in 2018 to focus on gold exploration in the Lachlan Fold Belt on its New South Wales Stuart Town and North Macquarie projects. In mid 2020 the opportunity to acquire the Victorian portfolio of Centennial Mining Limited (in administration) presented itself and instantly recognising Centennial's projects as a *perfect fit* in terms of geographical location, commodity and advanced production status, moved swiftly to acquire them.

The key lead asset to the acquisition is the operating high grade **A1 Gold Mine** located 120km west of Melbourne .



Assets since 2018 were held under the control of an administrator

Despite strict reduced operating parameters, A1 has continued to profitably produce circa 10,000oz pa over the last 2 years

Portfolio also contains other key gold mines including Union Hill and Nuggety Mines which have real potential to provide additional feed & ultimately oz

For the past 2 years the Victorian assets have been under the control of an administrator following Centennial's decision to enter into voluntary administration in 2018. A1 has however continued production, be it on a massively reduced tonnage basis and has consistently and profitably produced circa 10,000oz per annum with ore processed through the Porcupine Flat mill located 320km away at Maldon at a high head grade of circa 11gpt.

Whilst gold production from A1 has justifiably stolen the limelight, we have not overlooked the outstanding exploration potential of the Maldon part of the portfolio This comes with 50km² of highly prospective ground and two more gold mines **Union Hill** (on care & Maintenance) and **Nuggety** which have very real potential to provide additional near term production for the adjacent mill currently processing A1 ore.



A1 Gold Mine

Location & Tenure

KAU's wholly owned A1 Goldmine is centred on a single gold mining licence located approximately 8km northwest of Woods Point in the Shire of Mansfield, 120km west of Melbourne, Victoria. The mining lease covers 107Ha which forms part of the Gaffney Creek goldfield.

Commencing production in 1862, A1 has had a long history of production. Of the mine's 159 year existence the mine has operated for >100 years with publicly published figures indicating production to be >620,000oz. However, we note evidence of government and other sources indicating the mine has most likely produced in excess of 1Moz over its life.

Infrastructure

Infrastructure within and surrounding the mine can arguably be said to be second to none. The mine is located on well maintained bitumen roads with access all year round enjoying power, water, mobile and conventional communications as well as a good supply of mining specific skilled labour in an established mining supportive district which recognises the importance of primary industry. Located only 60km from the Latrobe Valley coal mining district, the mine is also well positioned for mining service industries.

Geological Setting & Mineralisation

Regionally, A1 lies in the Walhalla-Woods Point Synclinorium which is part of the Early Devonian Age Walhalla Group of sandy turbidites bounded by the Enochs Point and Howes Creek Faults. These faults are believed to have been important acting as conduits to the flow of gold bearing fluids.

Locally, A1 sits in the Woods Point Gaffneys Creek corridor in a structurally controlled quartz vein shear zone hosted by diorite dykes.

Gold Mineralisation at A1 is hosted in steeply dipping diorite which forms part of the Woods Point Diorite Swarm. Mineralisation is generally recognised in four different forms:

- Classic Reef Mineralisation: typically east west dipping brecciated quartz rich shear zones 10cm to several metres in width, 30 to 150m in strike length and 30 to 70m in dip extent
- Brecciated Diorite: Quartz rich with carbonate, sulphide and sericite alteration and shallow stringer veins branching off the breccias
- Hydrothermally Altered Dyke: (wide carbonate sericite altered dyke with minor quartz often 30m thick, extending 100m along strike and 170m vertically)
- Wide zones of strongly carbonate altered (hydrothermally) and sericitised hornblende rich dyke with disseminated pyrite and arsenopyrite.

Nuggety coarse (visible) gold is commonly found within quartz filled dilations within the breccias and branching quartz veins or in laminated quartz infill within NE-SW striking shear zones. Some fine grained gold is also commonly found within sulphides.

Whilst the mineralisation certainly has a very significant component recognised as classic Victorian structurally controlled quartz reef style mineralisation, we recognise the importance of the mines diorite host units. We note the big stories and successes in Victoria most recently such as Fosterville are now gold deposits recognised as being hosted in diorite or similar units that in turn are able to host bulk targets and not the classic saddle-reef gold targets which have historically dominated the Victorian Goldfields in the likes of Bendigo and Ballarat.

This line of thinking can also be applied to the Company's Maldon Goldfield.

A1 located in the well endowed Walhalla-Woods Point Goldfield

Government records provide production evidence of circa 1Moz.

In reality production was likely significantly higher than that

Location to exiting infrastructure and a skilled labour pool including mining service industries is excellent

Classic Victorian structurally controlled quartz reef and breccia style mineralisation common with nuggety coarse gold

BUT ALSO VERY IMPORTANTLY

The presence of substantial amounts of mineralisation hosted in diorite which can be bulk mined



A1 Mine - Current Resources Small but the Potential to Quickly Grow is Substantial

Nuggety nature, structural complexity and narrow widths in places often precipitates into small reserves and resources

And yet.....

operations can quite often produce large amounts of gold for decades

A substantial amount of gold mineralisation at A1 has widths amenable to mechanised longhole stoping.

This observation from our first hand experience mining narrow vein shear hosted deposits by airleg and longhole stoping methods provides us strong confidence the mine is capable of producing significant tonnages of high grade ore

Excellent immediate exploration potential with mineralisation known to extend at least 200 metres below the deepest workings

Two pronged approach to firstly identify immediately accessible areas close to workings in which development drilling can define mining reserves for the next 12 months and

Secondly identify prospective areas (still –in mine) that will allow KAU to build the resource and reserve base

Drilling (exploration and development) is currently focussed on the high grade Queens lode which has potential to provide substantial tonnes and ounces near term

A1 is quite typical of most gold projects in the Victorian goldfields. A combination of the very nuggety nature, structural complexity and narrow width of the deposits often precipitates into mining operations never really having much more than a couple of years of mineable reserves. However, operations can often mine and produce significantly large amounts of gold for literally decades. A1 in our view is no exception to this. In fact it is a very good example.

In our view A1 is also comparable to WA's Norseman Gold Mine, to give another example of a highly successful high grade operation that, until relatively recently, never had very much in reserves and resources defined at any one time.

That's not to say that a sizeable resource base could not be defined at A1. From first hand experience mining underground narrow vein shear hosted deposits, we note a surprisingly significant portion of the mineralisation at A1 has sizeable widths and strike extents which is amenable to mechanised longhole stoping (as opposed to small tonnage manual airleg stoping) discussed later, which is able to provide significant tonnages. This observation is highly encouraging to us in that it indicates that the mine has a strong potential capability of producing a sizable increased volume of ore beyond what is currently being produced.

Although we don't at this stage place a great deal of valuation on the current resource base, we have included it in this report for completeness.

Project	Resource Class	Au Cut-Off	Tonnes	Au ppm	Au Oz
A1 Mine	Indicated	>2.5 ppm Au	156,025	5.14	25,760
	Inferred		321,285	4.55	46,953
	Total Resources	>2.5 ppm Au	477,310	4.74	72,713

Above: Current Resources for A1 Mine. Source Mining One Consultants Independent technical report.

We strongly believe the exploration potential of A1 to be excellent and observe the known mineralisation extending to at least 200 metres below the deepest current workings and the currently reported mineral resource boundary. We are mindful that the previous owner Centennial was starved of capital and the last 2 years of operation have been under the control of the administrator who focussed on immediate production only, the net effect has been a very significant depletion of delineated reserves and resources. KAU management are only too aware of this and integral part of the incoming company's business plan is to undertake a two pronged approach. Firstly to assess and identify immediately accessible areas of the mine in which development drilling can, in the immediate term, delineate mining reserves to allow production to continue at least at the current rate, but most likely at an increased rate within 6 to 12 months.

The second pronged approach is to identify and rank prospective areas of the mine which are most likely to provide solid in-mine exploration results to allow the mine to start building on its current reserve and resource base. Of immediate interest are areas close to existing workings and following areas and known shoots of high grade mineralisation down plunge.

Drilling from underground is currently concentrating on defining high level confidence resources and mining reserves in the *Queens Lode* area of the mine. Historical drilling intercepts returned from the *Queens Lode* include **11.9m grading 16.3gpt Au and 25.0m grading 7.3gpt Au**. The outstandingly high grade tenure and thickness of *Queens Lode* will allow the mineralisation to be exploited by longhole stoping providing high grade bulk tonnage to the Maldon Mill in the not too distant future.



Immediate exploration targets identified

Substantial exploration upside very likely beyond immediate targets following down plunge and along strike of known lodes as well as new discoveries

The combination of mechanised longhole stoping and manual airleg stoping off the main decline provides excellent flexibility for mining development depending on grade and width

A1 Exploration Targets

KAU's Independent Geologist, pre-acquisition, undertook a review of the mines immediate exploration potential within the vicinity of existing workings. Dividing the mine into two parts the geologist identified immediate target areas as follows:

A1 Upper Mine Area (>1400mRL) 300 - 400,000t grading between 4 and 7gpt Au, and

Deep Mine Area (<1200mRL) 500 - 700,000t grading between 4 and 7gpt Au.

This exploration target exercise, based on mining records and historical drilling is preliminary in nature, but is a firm start. It is believed in addition to these targets located within the vicinity of current workings targets, substantial exploration upside beyond following projected mineralisation down plunge and along strike of known lodes is significant. Furthermore, this does not take into consideration the likely discovery of new mineralised areas.

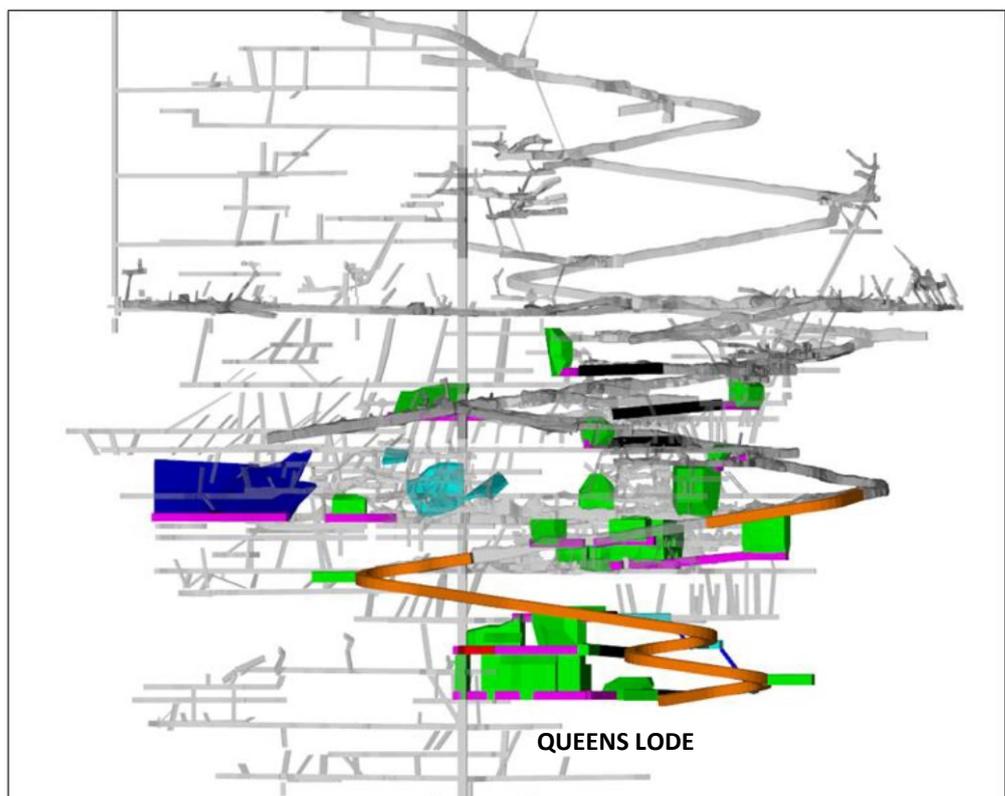
Current Mining Operations

The A1 Mine was originally accessed by a shaft but later the development of a decline took over eventually phasing out the use of the shaft. Now all development is undertaken off the decline.

Longhole stoping and Airleg Stopping are the two mining methods adopted by the mine to extract ore with the selection of each method dependant on structural complexity stope geometry (largely mineralisation width) and access development.

Mechanised Longhole stoping is adopted when the mineralisation allows for larger bulked out ore zones where single veins or a series of veinlets exist together in close vicinity.

Manual Airleg stoping is adopted when narrow high grade vein structures are present where selective mining of high grade material is practical.



Above : Diagrammatic cross section through the A1 Gold Mine highlighting the location of the Queens Lode which is the immediate focus of the Company's drilling effort to delineate mining reserves for near term increased production. The blocked out green areas represent areas currently defined as being amenable to mechanised longhole stoping. Blocked out dark blue and light blue zones are areas currently identified as being amenable to manual airleg stoping.



Maldon: Porcupine Flat Processing Plant of Strategic Importance to Current and Future Production

All of A1's mined ore is transported to and processed through KAU's wholly owned Porcupine Flat Gold Processing Facility located adjacent to the township of Maldon, 140 km northwest of Melbourne, Victoria. The Porcupine Flat facility was an integral part of the recent Victorian asset acquisition.

The 150,000tpa CIP plant was originally constructed and commissioned in 1989 to treat oxide material from the nearby Union Hill open cut. Since that time the plant has been configured several times to treat a number of largely underground sulphide ore mining campaigns from other nearby Maldon deposits including: Eaglehawk & Linscott's reefs (1996 & 1997) and Alliance south Shoot (2014). In 2015 the plant was purchased to treat primary ore from A1 which it has been doing ever since on a semi continuous basis, which is not due to plant reliance but due to availability of feed stock over time.

With KAU now the overwhelmingly dominant tenement holder in the Maldon Goldfield the mill is not only strategic to the Company but also being the only licenced operating facility in the area, places it very strategically for several other companies in the area who have delineated resources on their ground but do not have any treatment facilities of their own.

Porcupine Flat: A well maintained reliable 150ktpa CIP plant

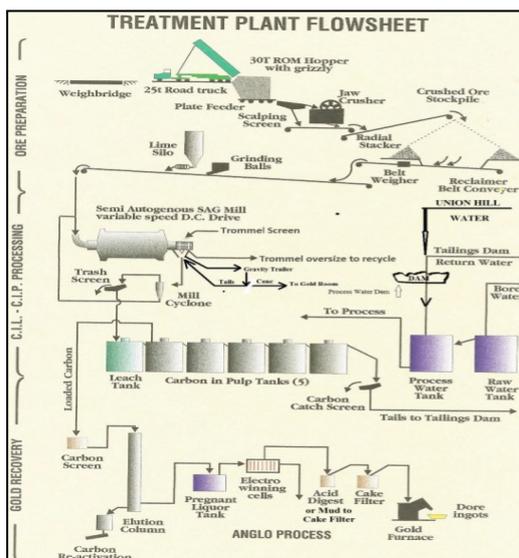
The plant's strategic location, being the only operating plant in the district bodes well for not just KAU's future production from A1 & the Malden Goldfield but also for potential toll treatment opportunities as they present themselves

With immense difficulties now placed on mining companies when trying to attain a cyanide treatment licence, we place not only value on the physical assets of the plant but substantial intangible value on the licenced piece of ground

Perfectly placed to receive planned new production form adjacent Union Hill and Nuggety Mines

Estimated replacement value of the mill alone is more than the entire Victorian portfolio's acquisition cost

With little to no modification the plant currently running at <80ktpa has been proven in the near past that it will comfortably do 180ktpa and possibly even more



Noting the now immense difficulties mining companies now face when trying to attain permits to construct new cyanide treatment plants we place a considerable amount of value on a strategically located operating plant like Porcupine Flat and note the Company is in a very strong position to consider approaches from third parties for toll treatment of their ore, or even approaching those companies to potentially acquire those companies "stranded" resources.

Furthermore, the plants location situated effectively adjacent to Union Hill and Nuggety Mines places it in a very strategic location to receive any ore mined from these operations in the near to medium term which forms a key part of KAU's future business plan.

Taking into consideration a likely 7 year planning application time, the intangible value of a cyanide treatment licence, purchasing the land and the milling facility as well as construction of the mill and tailings facility and commissioning, we estimate the replacement cost of the facility to be circa \$20 million. When considering the acquisition cost for the entire Victorian portfolio was only \$17m inclusive of costs, we simply point out the outstanding value the transaction was for KAU.

Plant Throughput can be Substantially Expanded

Porcupine Flat has an official nameplate throughput capacity of 150,000tpa. However, current throughput from A1 stands at <80,000tpa with circa 6,000tpm planned by August. It is therefore very obvious that if any additional ore to treat becomes available through A1 production increases or toll treatment opportunities, the facility will comfortably be able to accommodate this for negligible cost.

Importantly we also note that historically, for some prolonged periods of time, the plant has comfortably operated at an increased throughput of up to 180,000tpa. We are therefore confident that assuming A1 will deliver ore on a increased production basis, there sill remains significant potential capacity for some additional supplementary ore feed from Union Hill or Nuggety mines in the medium term.



Maldon Goldfield: Outstanding Exploration & Production Potential, Multiple Targets Identified Within Metres of Modern Underground Workings

KAU now controls the majority of the most prospective parts of the Maldon goldfield

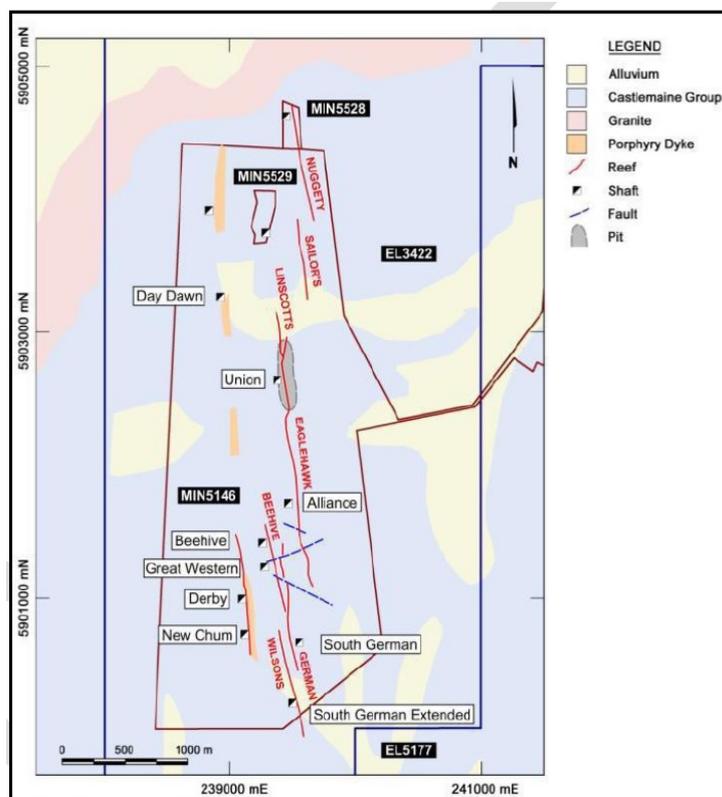
Goldfield located immediately adjacent to Porcupine flat mill

Historical Production (1.7Moz) produced at 28gpt is comparable to the production grades being achieved at the Fosterville Gold Mine

Most production occurred in the mid 1800's

Forming an integral part of the Victorian portfolio acquisition KAU now holds what we believe to be a very prospective package of tenements covering the most significant portion of the Maldon Goldfield located only 1km to the west of the Porcupine Flat processing plant.

The package consists of three current mining licences and a single ELA covering approximately 50km² which host the goldfields six major reef lines, Nuggety (301,000oz historical production), Eaglehawk (494,000oz), Beehive (250,000oz), German (277,000oz), Victoria (150,000oz) and North British (242,000oz). Collectively, historical production across the six reefs has to date totalled in excess of 1.7Moz at an impressive grade of 28gpt. We note that this average production grade, just short of an ounce per tonne of gold, is comparable to grades achieved at the Fosterville Mine in the adjacent Bendigo goldfield.



Astonishingly, despite the presence of multiple reefs mined at very high grades, producing significant ounces, the majority of mining in the field took place between 1854 to 1864. It wasn't until the 1980's and into the 1990's that a modest, but successful, resurgence in mining activity occurred which in the 1990's resulted in the production of 55koz from Union Hill pit before the cutting of the Union Hill Decline commencing in 1997 with the aim to access Eaglehawk and Linscott's reefs down plunge extensions. However, despite the declines development this did not occur in any volume.

Why is the Maldon Goldfield and The Union Hill Decline So Strategically Important to KAU?

Simple. The Maldon Goldfield which is situated only 1km west of the Porcupine Flat processing plant has nothing short of standout potential to provide additional ore feed to the mill in the short to medium term.

The modern 5m by 5m diameter Union Hill decline extending from the Union Hill Open pit was largely developed in the late 1990's with the main aim of accessing the believed down dip extensions of the Eaglehawk-Linscott's Reef System. However, despite substantial capital being deployed to develop the decline, the decline was largely used for exploration drilling only. The drilling, whilst limited, was however very successful, with the discovery of Alliance South shoot, interpreted as being part of the Eaglehawk reef system.

Modern 5m by 5m Union Hill Decline is an outstanding opportunity for KAU to access identified mining targets in the near term



Alliance South Shoot a recent discovery is only partially mined and provides an immediate "walkup" mining target

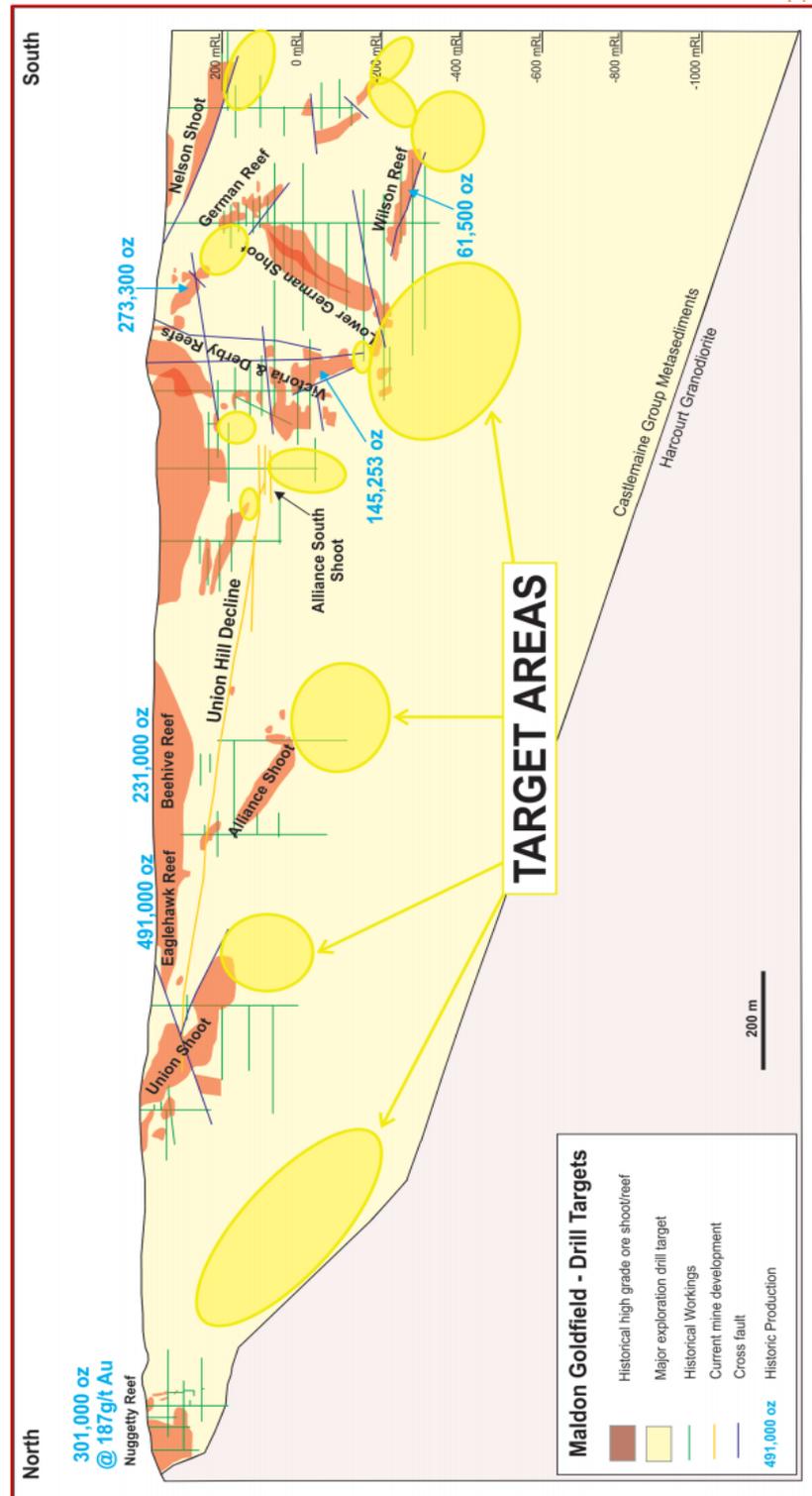
Only partially mined, Alliance South is a vertically dipping high grade shoot which has been defined over a strike length 330m. Having a down dip extension of 280m and with horizontal widths up to 10m, it is the most recent reef mined at Maldon with mining ceasing the day Centennial Mining entered administration.

We note in 2017 pre-development work to deepen the decline was undertaken to access known extensions to the Alliance South shoot. Which to date remain unmined. This provides KAU with an immediate walk up mining development target after re-establishment of ventilation. The late discovery of Alliance Shoot is an excellent example of the continued standout prospectivity of the Union Hill Mine within immediate proximity of the decline.

No shortage of exploration targets across the Maldon Goldfield.

And key to us are several accessible off the main Union Hill decline

The Maldon Goldfield – Numerous Exploration Opportunities

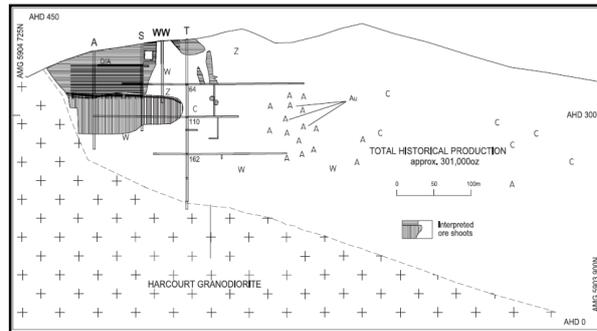




Maldon: Nuggety Gold Mine - Australia's Highest Grade Gold Mine?

Nuggety Gold Mine provides KAU with another accessible near term mining target

The historical Nuggety Reef Gold Mine (KAU 100%) located 2km west of the processing plant is also a very exciting additional exploration target worthy of mention. Discovered in 1856 and worked along a 200m strike length down dip to 120m, the mine produced 301,000 ounces at an extremely high grade of six ounces per tonne (186gpt) from a 50,000 tonne parcel of ore, claiming the unofficial title as Australia's highest grade gold mine.



The bulk of the reef is reportedly associated with a fold hinge and west limb of what is known as the Nuggety syncline. The ore shoots which are associated with subtle flexures in the reef remain open and untested at depth. Adit sampling in 2012 and 2017 resulted in the estimation of a modest resource (below) :

Nuggety remains open at depth below 120m providing an excellent exploration target

The presence of two diamond drill intersections located down dip and along strike of the currently defined resource provide immediate evidence of the mine's exploration potential beyond the currently defined modest resource. The drillholes which intersect mineralisation between 50 and 100 metres below the existing workings include 0.44m grading 204gpt gold) and 1.4m grading 5.78gpt gold. The Company has recently applied for an ELA covering surrounding ground which is needed to allow step out drilling testing depth potential.

Resource Category	Domain	Cut-Off	Tonnage	Au (ppm)	Au (Oz)
<i>Indicated</i>	<i>Nuggety Adit</i>	<i>>2.4 ppm</i>	2,218	6.14	438
<i>Inferred</i>			4,536	5.32	776

Above: Nuggety Reef Gold Mine current resource estimate

Concluding Remarks: Maldon Goldfield

If there was one quote that we have seen that we believe highlights the still outstanding prospectivity of the Maldon Goldfield we think KAU's Independent Geologist summed it up very well by saying, ***“Modern Exploration concepts which have resulted in significant discoveries of high grade/tonnage gold in the Victorian Goldfields such as Fosterville* have not yet been applied to the Maldon Goldfield”***

***Fosterville Gold Mine (Kirkland Lake) located in the adjacent Bendigo Goldfield in 2020 produced 640,467oz at a head grade of 33.9gpt**

No Shortage of Immediate Targets

No shortage of exploration targets which can be drilled from advantageous positions off the Union Hill Decline

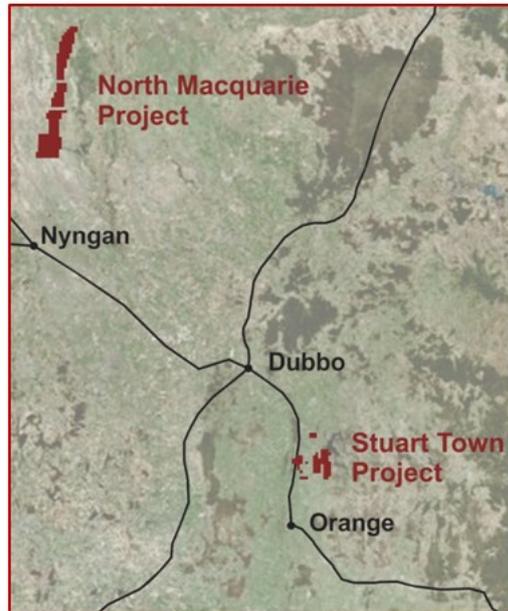
The 4.5km strike length of the Maldon Shear zone hosting the bulk of the Maldon Goldfield contains many identified targets requiring drill testing. Advantageously for KAU many of these targets can be drilled from highly accessible drilling positions within the existing underground workings, particularly off the Union Hill Decline and at Nuggety.

Centennial identified a total of seven key exploration targets for potential mine development with the current decline being located within 500m meters of these targets (Company's independent geologist) . Modern drilling should be able to drill off the decline to test new and existing along strike and down dip extensions of known reefs and ore shoots that were missed by historical mining. KAU is permitted to commence drilling at Maldon anytime but plans to only do so once the current planned drilling programs at A1 are complete and A1 production has ramped to a level satisfactory for KAU to release the drilling rig for Maldon.



New South Wales Lachlan Fold Belt Projects : Now Taking a Back Seat to Gold Production in Victoria But Still Highly Prospective and Strategically Ring-Fenced By the Majors

KAU's New South Wales Projects may have taken a back seat for the time being with the acquisition of the Victorian mining assets, but their high prospectivity in a district proving to be a hotspot of activity remains high.



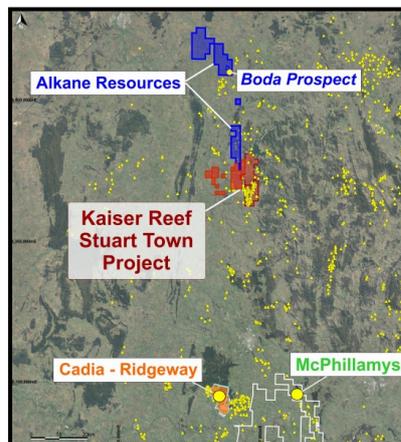
KAU prior to the Victorian portfolio acquisition was solely focussed on exploring on its two New South Wales Lachlan Fold Belt projects namely Stuart Town and Macquarie North. With the Company's focus now justifiably shifted to Victorian gold production, KAU's two NSW projects have somewhat taken a back seat for the time being. However, they should not be forgotten.

Now effectively *ring fenced* by major and mid tier mining houses including Newcrest, Newmont and Alkane, the ground is currently very much an exploration *hot spot* and the strategic location provides a strong indication of the projects prospectivity for future discoveries.

Stuart Town (100% KAU):

Prospective For Large Scale Intrusion Related Gold Systems Similar to Cadia and Alkane's Recent Boda Discovery 40km North

KAU's Stuart Town project covers the majority of the historical Stuart Town Goldfield.



Located on the same trend as Cadia Ridgeway and Alkane's recent Boda copper-gold porphyry discovery 40km to the north

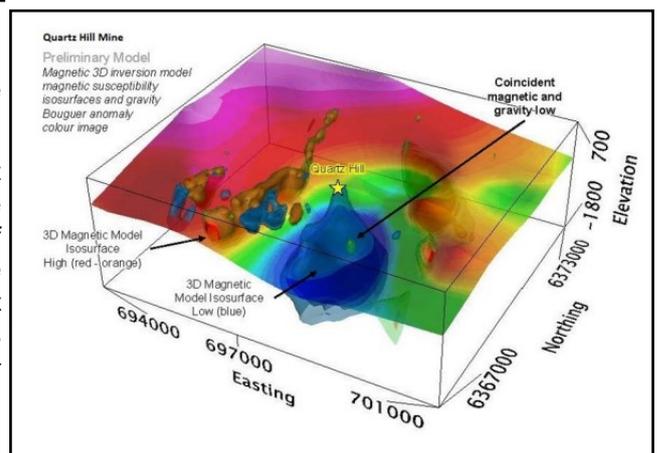
KAU holds the vast majority of the ground hosting the historic Stuart Town Goldfield. Stuart Town is located on the same trend between Cadia—Ridgeway and Alkanes recent Boda copper-gold porphyry discovery located only 40km to the north.

Historical records document over 80 gold occurrences within the prospect coincident with very large high grade soil anomalism. Whilst this is very interesting the significance of the prospect is massively highlighted by the presence of a large scale geophysical target (coincident magnetic and gravity anomalism) modelled

Standout coincident geochemical and geophysical anomaly situated directly over the historical Stuart Town workings provides for a very exciting deeper drilling target

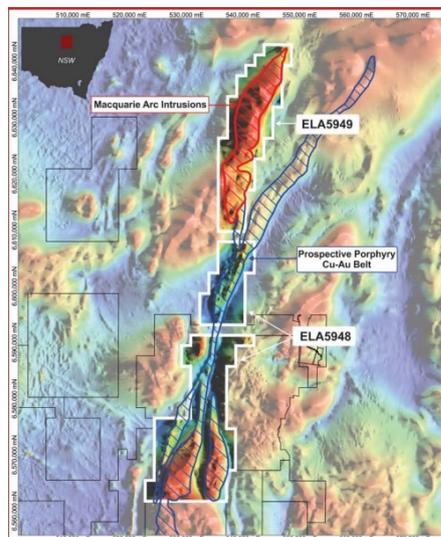
at shallow depth which remains untested by drilling beneath the gold workings.

The size and quality of the target located on this highly prospective trend should, in our view, be of interest to a major mining house and we speculate an offer of a joint venture or a farm in to drill test this large target could potentially occur in the coming weeks.





Macquarie North (100% KAU)



Situated at the northern end of the Macquarie Arc geological domain (still part of the Lachlan Fold Belt) KAU holds an 80km long strike of tenements considered highly prospective for copper-gold porphyry and other intrusion related deposits. The tenement package covered by shallow to medium overburden has been the subject of government regional modelling with several large scale geophysical targets identified which require drill testing for the first time. The Company plans to undertake a new modern geophysical surveys over these anomalous areas to refine targeting prior to drill testing. Alternatively, should an approach by a suitably qualified company be forthcoming in the meantime we anticipate the Company would consider a joint venture of farm-in to expediate exploration on the project.

Peer Comparison

Was the Victorian Asset Transaction a Low Cost Opportunity for KAU?.....We Very Much Believe So

On 1 October 2020, Kaiser Reef Limited (ASX KAU) announced that it had entered into an agreement with private company Golden River Resources Pty Limited to acquire the Victorian Asset portfolio.

The transaction saw KAU issue 53,333,333 shares at a price of \$0.30 (\$16 million) plus an additional 2,700,000 broker shares at a price of \$0.30 (\$0.81 million) and 1,921,143 Corporate Advisor Success Fee shares at \$0.35 (\$0.67million) equating to a **total all in consideration of \$17.48 million.**

Finding comparable currently producing assets and recent transactions in the market to compare acquisition consideration is often difficult, but especially compounded further for Victorian gold mining assets. This is largely due to the nature of the assets being nuggety, often variable but very high grade. This in turn can precipitate to projects never having at any one time a sizeable reserve and resources base that one can easily establish a valuation. Yet there are numerous examples of projects in these areas that can commercially and profitably sustain mining for many years on small reserves.

Despite the enormity of the task to find a recent listed comparable, we believe Aurelia Metals Limited's (ASX:AMI) recent acquisition of the Dargues Gold Mine in NSW is the closest listed comparison and compellingly demonstrates KAU's transaction to be low cost and very good value.

It is important to note that whilst most of the focus for attaining a valuation is justifiably centred on the currently operating A1 Mine, we are very aware of the potential of the Union Hill and Nuggety mines to be able to be quickly brought into production. In particular we are not underestimating the Union Reef Decline which currently has real potential to provide near term supplementary ore to the adjacent Porcupine Flat processing plant.

To add additional comfort to the transactions value, we estimate that the replacement cost of the Porcupine processing plant to be circa \$20 million, which, we note, is very close to the total transaction figure KAU has paid for the entire portfolio.

Our estimated replacement cost of the Porcupine Flat mill alone is higher than the total transaction cost



Transaction Peer Comparison: Aurelia Metals Limited v's Kaiser Reef Limited

Provides Compelling Evidence of How Low the Cost of The Victorian Asset Portfolio Acquisition Was

COMPANY	AURELIA METALS LIMITED	KAISER REEF LIMITED
	ASX: AMI	ASX: KAU
ASSET TRANSACTION LARGELY BASED ON	DARGUES GOLD MINE 60Km SE Canberra	A1 GOLD MINE 210km NE of Melbourne
OTHER ASSETS ASSOCIATED WITH THE TRANSACTION	Regional exploration tenement package totalling 346km ²	4 granted mining leases 3 in Bendigo block The Maldon Goldfield INCLUDING Union Hill & Nuggety Reef Mines Porcupine Flat gold plant
TRANSACTION DETAILS	\$176 million in cash 24 million in shares @43cps (\$10.32 million) <u>Total Consideration \$186.32 million</u>	\$50k in cash (option price) 53.33 million shares @30cps (16.0 million) consideration 2.7m shares @30cps (0.81 million) Broker shares 1.9m shares @35cps (0.67 million) Corporate Advisor Shares. <u>Total consideration \$17.48m</u>
MINING METHOD	Longhole Open Stoping with cemented hydraulic fill	Longhole open stoping of wide areas and Airleg stoping, mining narrow high grade veins
RESERVES/RESOURCES	Resources: 1.59Mt grading 6.8gpt for 348koz Reserves : 1.11Mt grading 5.7gpt for 202koz	Resources 0.48Mt grading 4.74gpt for 72.7koz (Source IGR) Reserves: TBA -Drill out of Queens load underway
ACQUISITION COST PER RESOURCE OZ	\$535 PER OZ	\$186 PER OZ
ORE MILLED	300 to 320ktpa	120 to 180ktpa
HEAD GRADE	4.9 to 5.5 gpt	Last 18 months 11.4gpt. Immediate Future Production will likely be 6-7gpt
ANTICIPATED ANNUAL GOLD PRODUCTION	45 TO 55 Koz	20 to 40 Koz
PLANT TYPE & CAPACITY	355ktpa Flotation to produce conc.	150ktpa CIL. Scope to increase to 180ktpa at little cost
ESTIMATED PLANT REPLACEMENT COST	\$90 million including crushing grinding & floatation circuits, HV lines, tailings storage & road infrastructure	\$20 million. Mill located near town, infrastructure well established. Replacement cost close to total transaction amount
CURRENT MINE LIFE	5 Years -Strong likelihood of extension	5 Years– Strong likelihood of extension
REFRACTORY	YES - Sulphide rich exported through Port Kembla to overseas roasting plants for gold recovery	Not Refractory, Some sulphides present but recoveries 91.5% for grade <7gpt and 95% >7gpt



So What Price Target Valuation Can We Place on KAU at This Very Early Stage Post Transaction ?

Placing a Valuation on KAU currently is very difficult

Modelling based on a production scenario simulated and projected out from historical production rates from A1

Important Cautionary Background Notes

An initial valuation has been prepared on KAU post transaction. The modelling undertaken centres solely on production from A1 Gold Mine processing ore through the Maldon plant. A nominal figure of \$10m has been assigned for the Maldon exploration assets including the Nuggety and Union Hill mines and a replacement cost of \$20m assigned as a value to the mill.

Because the A1 mine is quite typical of many Victorian gold projects i.e. being very high grade, nuggety and structurally complex it is not easy to generate a sizeable resource base. This issue then precipitates in difficulties in being able to model production moving forward for valuation purposes. In the light of this and in the absence of any new JORC compliant resource estimation figures at this moment in time, we have had to make a production assumption based on previous historical production and not on current resources. This model therefore makes the broad assumption that current in-mine exploration and resource development continues on its trajectory to deliver mining reserve ounces to support the modelled production profile.

Assumptions & Parameters of the Model:

- Production of ore from A1 of 6,250 tpm for year 1 ramping to 10,000 tpm year 2 onwards
- Processing 6,250 tpm for the first year ramping to 10,000 tpm year 2 onwards
- Head grade 6gpt (Company anticipating 6.5gpt)
- Circa 13koz produced first year increasing to circa 20.8Koz pa year 2 onwards
- Recovery 91% (Currently 92%. Company believes 92% will continue)
- Gold price USD 1770
- FOREX USD-AUD 77c
- Sustaining Capex AUD3.9m first year (substantially higher than company is predicting) but we have allowed for ongoing new decline and drive development, ventilation & services, underground drilling and stope development
- Mining stope dilution 10%
- U/G Mining Costs USD60per tonne escalating at 2% per annum (\$90pt for airleg and \$30pt for longhole stoping)
- Mill processing Costs USD20 per tonne, Transport to mill \$56 per tonne
- Corporate & Overheads 1.0m per annum

Financial Forecasts \$ Valuation Metrics					
Y/e June		2021F	2022F	2023F	2024F
Throughput	Mt	0.08	0.12	0.12	0.12
Grade	gpt	6.0	6.0	6.0	6.0
Au Recovery	%	91	91	91	91
Au Production Koz's	oz	13,034	20,854	20,854	20,854
Total Operating Costs	\$m	10.30	16.80	17.14	17.48
Revenue (net)	\$m	23.07	36.91	36.91	36.91
EBITDA	\$m	6.87	11.75	11.29	10.83
NPAT	\$m	4.54	7.77	7.27	6.76
EPS	cps	0.04	0.07	0.06	0.05

Source: Peloton Capitals estimates

NB) With the Company having just acquired the asset, it is still 'bedding down' what its actual costs are and what the assets production potential is into the near future. This is further complicated by the fact that the administrator *high-graded* the asset for the last 2 years without replenishing reserves and resources. Therefore, it is important to note that this preliminary model is subject to change (particularly around the throughput, opex and cash costs).

In conclusion, following the finalisation of the transaction, we very strongly believe the Company is now currently significantly undervalued and a share price re-rating is justified. Based on the above parameters and broad assumptions which we believe to be reasonably conservative and achievable, we arrive at an undiluted valuation of \$1.05 per share, placing an initial Price Target on KAU of 0.90 cents per share. This equates to still a modest undiluted market capitalisation of \$104.7m (EV 94.8M), or 115.4m fully diluted.



Board & Management

Adrian Byass – Non Executive Chairman

Mr Byass is a resource and economic geologist with over 20 years' experience in the mining industry with extensive experience as a Board member of ASX and AIM listed companies. Adrian's experience in both listed and unlisted entities around the world has principally been gained through the evaluation and development of mining products for a range of base, precious and specialty metals and bulk commodities. In addition to his Chair role at Kaiser Reef, Mr Byass currently serves as Chair for the boards of ASX listed Kingwest Resources Limited, Infinity Lithium Limited, and Galena Mining Limited as well as holding a Non executive directorship with TSX-V listed Sarama Resources Limited.

Jonathan Downes– Executive Director

Mr Downes has more than 25 years' experience in the mining industry and has worked in various geological and corporate capacities. Mr Downes has experience with nickel, gold and base metals and has also been intimately involved with numerous private and public capital raisings. Mr Downes was a founding director of Hibernia Gold (now Molly Mines Ltd) and Siberia Mining Corporation Ltd and a former director of Ironbark Zinc Limited. He is currently a director of Galena Mining Limited, and is a non-executive director of Corazon Mining Limited and Kingwest Resources Limited.

Stewart Howe – Executive Director (Appointment still subject to shareholder approval)

Mr Howe is an experienced engineer and mining financier. He is currently a director of ASX listed Galena Mining Limited and chair to mining services company Whittle Mining. Prior to his appointment, Stewart was instrumental in working with the KAU board on the recent Victorian transaction. Mr. Howe also provides advisory roles to boards, private equity and financiers related to the restructuring and acquisition of mining assets and it is this expertise the board will leverage off as it maps out its growth plans for the Company.

David Palumbo – Non Executive Director & Company Secretary

Mr Palumbo is a Chartered Accountant and graduate of the Australian Institute of Company Directors with over fourteen years' experience across company secretarial, corporate advisory and financial management and reporting of ASX listed companies. David currently works for Mining Corporate Pty Ltd, as Corporate Compliance & Accounting Manager where he has been actively involved in numerous corporate transactions. He also currently serves on the Board of Krakatoa Resources Limited.

Corporate & Finance

As at the completion of the Company's recent transaction acquiring the Victorian assets, conjunct capital raising and subsequent re-listing on 15 January 2021, KAU had no debt and cash reserves of ~\$10.0 million (est.).

With activities associated with drilling and assaying to allow the establishment of near term future mining reserves and the development of longhole stoping initially in the Queens Lode area at A1 and working capital costs associated with mining at A1 and processing at Porcupine Flat, we estimate the Company's cash burn rate to be around \$1 million per month. This should however be comfortably offset from gold produced, which we anticipate should be circa 2,000oz per month within 6 months.

Whilst KAU remains well funded at the moment we only see the need for a capital raising in 2021 if capital works are required for decline and development drive development at A1 or refurbishment and upgrade to expand processing capacity at the Porcupine Flat mill, or the company embarks upon what would be a justified aggressive campaign of exploration to increase its reserves and resources base.



Risks Associated with Investing in Kaiser Reef Limited

Potential investors need to be aware that investment in Kaiser Reef Limited, like all investments in junior resource companies, is of a highly speculative nature. Normal share market risk conditions apply including commodity prices, currency fluctuations, sentiment, supply and demand and general economic outlook. Normal exploration, development and production risks also apply as well as operating, environmental, native title risks.

Disclaimer & Disclosure

Disclaimer & Disclosure of Interests: This report is provided by Peloton Capital Pty Ltd (Peloton) (ABN 22 149 540 018, AFSL 406040) and is general in nature. It is intended solely for the use of wholesale clients, within the meaning of the Australian *Corporations Act 2001*. This report must not be copied or reproduced, or distributed to any person, unless otherwise expressly agreed by Peloton. This document contains only general securities information or general financial product advice. The information contained in this report has been obtained from sources that were accurate at the time of issue, including the company's ASX releases which have been relied upon for factual accuracy. The information has not been independently verified. Peloton does not warrant the accuracy or reliability of the information in this report. The report is current as of the date it has been published.

In preparing the report, Peloton did not take into account the specific investment objectives, financial situation or particular needs of any specific recipient. The report is published only for informational purposes and is not intended to be personal financial product advice. This report is not a solicitation or an offer to buy or sell any financial product. Peloton is not aware whether a recipient intends to rely on this report and is not aware of how it will be used by the recipient. Before acting on this general financial product advice, you should consider the appropriateness of the advice having regard to your personal situation, investment objectives or needs. Recipients should not regard the report as a substitute for the exercise of their own judgment.

Peloton may assign ratings as 'speculative buy', 'buy' and 'sell' to securities from time to time. Securities not assigned are deemed to be 'neutral'. Being assigned a 'speculative buy', 'buy' or 'sell' is determined by a security total return potential, with the total return potential being aligned to the upside or downside differential between the current share price and the targeted price within a specified time horizon, if deemed appropriate.

The views expressed in this report are those of the analyst/author named on the cover page. No part of the compensation of the analyst is directly related to inclusion of specific recommendations or views in this report. The analyst/author receives compensation partly based on Peloton revenues as well as performance measures such as accuracy and efficacy of both recommendations and research reports.

Peloton believes that the information contained in this document is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of its compilation in an honest and fair manner that is not compromised. However, no representation is made as to the accuracy, completeness or reliability of any estimates, opinions, conclusions or recommendations (which may change without notice) or other information contained in this report. To the maximum extent permitted by law, Peloton disclaims all liability and responsibility for any direct or indirect loss that may be suffered by any recipient through relying on anything contained in or omitted from this report. Peloton is under no obligation to update or keep current the information contained in this report and has no obligation to tell you when opinions or information in this report change.

Peloton does and seeks to do business with companies covered in research. As a result, investors should be aware that the firm may have a conflict of interest which it seeks to manage and disclose.

Peloton and its directors, officers and employees or clients may have or had interests in the financial products referred to in this report and may make purchases or sales in those the financial products as principal or agent at any time and may affect transactions which may not be consistent with the opinions, conclusions or recommendations set out in this report. Peloton and its Associates may earn brokerage, fees or other benefits from financial products referred to in this report. Furthermore, Peloton may have or have had a relationship with or may provide or has provided, capital markets and/or other financial services to the relevant issuer or holder of those financial products.

Specific Disclosure: At the time of release of this report the analyst does not hold any securities in KAU.

Specific Disclosure: The report has been reviewed by KAU for factual accuracy.

Specific Disclosure: As of 19th February 2021, Peloton Capital or its employees held 3,761,665 shares in KAU. This position may change at any time and without notice, including on the day that this report has been released. Peloton and its employees may from time to time own shares in KAU, and trade them in ways different from those discussed in research. Peloton Capital may arrange the buying and selling of securities on behalf of clients.

Copyright: Peloton Capital Pty Ltd, 2021. All rights reserved.