

Carbine Resources Ltd

INITIATION REPORT

Unlocking the value at Mount Morgan

Overview

Carbine Resources is re-developing the historical Mount Morgan gold and copper tailings project in Queensland, and if the Scoping Study results are confirmed in upcoming studies (PFS), Mount Morgan could once again become one of Australia's cheapest gold operations.

Carbine released a positive Scoping Study in late 2014 that forecasted production of 36,000oz pa over an initial 8 year mine life. However the most attractive aspect of the project are the low **AISC that are forecasted to be less than US\$400/oz Au**, mainly due to by-product credits.

The historical Mount Morgan operation, was one of Australia most profitable mines as it produced over 8Moz of gold and 400,000t of copper. A successful tailings operation also ran during the 1980's for 10 years, however closed due to a falling gold price and high operating costs due to metallurgical issues.

Since the closure of the tailings operation, metallurgical technology has advanced and Carbine believes they have unlocked the significant value that still exists at Mount Morgan, through a **commonly used technology called Ion Exchange** – which is used on numerous mining operations throughout the world today, including Rio Tinto and Barrick Gold operations.

A misconception many investors have regarding Mount Morgan is related to the ownership of the **historical environmental legacy**, with many believing it is the responsibility of the Mining Lease holder. However this legacy is 100% owned by the Queensland Government through the Department of Natural Resources and Mines. The proposed development of Mount Morgan will actually assist the Queensland government in the rehabilitation process as the tailings which is a major part of the environmental burden will be reprocessed and correctly disposed of.

Catalysts

Key share price catalysts over the next 12 months include:

- Pre-Feasibility Study - Mid-2015;
- Further information regarding a potential offtake agreement for the Pyrite concentrate – on-going;
- Project Finance – 2H15 / early 16;
- Bankable Feasibility Study – late 15 / early 16; and
- Decision to mine - 1H16.

Investment View

We have determined a base case valuation of \$0.17 per share. However, we believe there is significant upside potential in our valuation as we believe there is scope for an increase in the resource (confidence level, size & grade), as well as a reduction in capital and operating costs.

This could see our valuation increase up to \$0.46 per share.

Mining - Development

February 2015

Share Price	A\$0.04
Intrinsic Value per share	A\$0.17
Implied Return	325%

Company Information

ASX Code	CRB
Ord Shares	140.0M
Options	28.0M
Market Cap	A\$5.6M
Cash (Dec 14)	A\$4.2M
Total Debt (Dec 14)	A\$0.0M

Board & Management

Patrick Walta	ED
Evan Cranston	NED
Tom Bahen	NED
Rod Smith	Consult.

Substantial Shareholders

Kingslane Pty Ltd	9.0%
Blu Bone Pty Ltd	4.3%
MJ & MP Bahen	4.3%
Ablett Pty Ltd	3.0%

Share Price

52 week High	A\$0.051
52 week Low	A\$0.025
3m avg dail vol	50k
3m avg daily value	A\$3k

Initiation Video



Carbine Resources

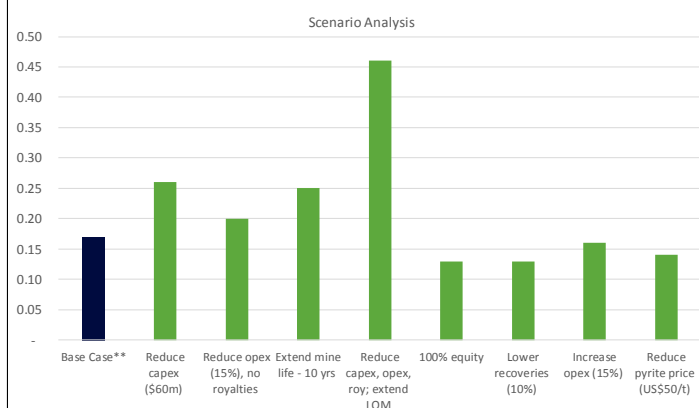
Company Ticker	CRB.ASX	Cash - TSI Estimate (A\$)	4.2
Shares on issue - current (m)	140.0	Debt (A\$)	0.0
Share Price (A\$)	0.040	EV (A\$m)	1.4
Market Cap (A\$m)	5.6	Valuation/share (A\$)	0.17
Industry	Mining - Gold	Intrinsic Value - TSI (A\$m)	119.6
Stage of Development	Scoping Study	Implied Return (%)	325%
Project Location	QLD, Australia	P/NAV (x)	0.24

Year end: 31 December

Valuation	Disc' rate	Ownership	Valuation (A\$m)	Val/share (A\$)*	Price Assumptions	2017	2018	2019	2020
Mt Morgan - Base Case**	10%	100%	\$73.4	\$0.10	Gold (A\$ / oz)	\$1,635	\$1,656	\$1,678	\$1,700
Unpaid cap. & new equity			\$42.0	\$0.06	Copper - (A\$/ t)	\$7,066	\$7,158	\$7,252	\$7,349
Current Cash			\$4.2	\$0.01	Pyrite - (A\$/ t)	\$103	\$104	\$105	\$107
Total NAV			\$119.6	\$0.17	FX (A\$:USD\$)	\$0.78	\$0.77	\$0.76	\$0.75

* Fully diluted for options & project development 709.2 M shares

**Inclusive of tax & corporate costs



Production Profile	2017	2018	2019	2020
Tonnes Processed (Mt pa)	0.85	1.00	1.00	1.00
Grade - Au (g/t)	1.64	1.70	1.60	1.40
Gold Produced (oz)	34,983	42,632	40,124	35,109
Grade - Cu (%)	0.13%	0.13%	0.13%	0.13%
Copper Produced (t)	619	728	728	728
Pyrite Produced (t)	204,000	240,000	240,000	240,000

Cash costs (A\$) / Au oz	2017	2018	2019	2020
C1 Cash costs	\$760	\$733	\$779	\$891
Other Costs	\$417	\$352	\$345	\$356
By Product Credit	(\$723)	(\$707)	(\$761)	(\$882)
Total Operating Cost /oz	\$454	\$379	\$364	\$366

Resource	Tonnes	Gold (g/t)	Contained Gold (oz)	As at (date):
Indicated	2,487,000	1.6	127,135	31 - Dec - 14
Inferred	5,861,000	1.1	201,626	31 - Dec - 14
Total	8,348,000	1.2	328,760	31 - Dec - 14

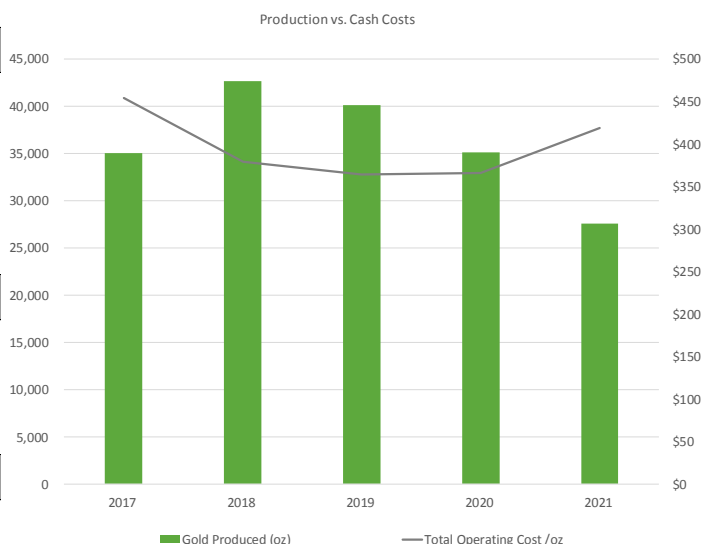
Ratios	2017	2018	2019	2020
EPS (A\$)	\$0.04	\$0.04	\$0.04	\$0.04
FCFPS (A\$)	\$0.05	\$0.06	\$0.06	\$0.06
P/E ratio (x)	0.9	0.9	0.9	1.1
P/FCF (x)	0.7	0.7	0.7	0.7
Shares on issue (m)	709.2	709.2	709.2	709.2

Resource	Tonnes	Copper %	Copper Content (kt)	As at (date):
Indicated	2,487,000	0.16%	3,979	31 - Dec - 14
Inferred	5,861,000	0.14%	8,205	31 - Dec - 14
Total	8,348,000	0.15%	12,185	31 - Dec - 14

Earnings (A\$ m)	2017	2018	2019	2020
Revenue & other Inc.	\$82.9	\$102.0	\$99.9	\$93.4
Operating Costs	\$30.2	\$35.7	\$35.5	\$35.1
Other Expenses	\$4.0	\$4.0	\$4.0	\$4.0
Exp & Eval	\$0.0	\$0.0	\$0.0	\$0.0
EBITDA	\$48.7	\$62.4	\$60.3	\$54.2
Depreciation	\$12.3	\$15.3	\$16.3	\$17.6
Interest Expense	\$3.0	\$2.6	\$1.6	\$0.6
Tax	\$2.8	\$13.0	\$12.1	\$10.0
Profit (loss) after tax	\$30.6	\$31.5	\$30.3	\$26.0

Balance Sheet (A\$ m)	2017	2018	2019	2020
Assets				
Cash	\$44.0	\$73.5	\$102.8	\$129.0
PPE & Exp. & Dev.	\$73.6	\$62.4	\$50.1	\$36.4
Total Assets	\$117.8	\$136.0	\$152.9	\$165.6
Liabilities				
Senior Debt Facility	\$40.0	\$26.7	\$13.3	\$0.0

Cash flow Generation	2017	2018	2019	2020
Cash flow generated	\$39.0	\$29.5	\$29.3	\$26.3
Equity Placement	\$0.0	\$0.0	\$0.0	\$0.0
Capital Expenditure	\$4.0	\$4.0	\$4.0	\$4.0



Source: Company Data, TSI Assumptions

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