EDISON

Abcourt Mines

Moving towards an even keel

Q127 results

Metals and mining

27 November 2026

Abcourt Mines is ramping up its Sleeping Giant mine in the Abitibi region of Quebec. Until the summer, the ramp-up had been focused on room-and-pillar stopes. However, the company commissioned its first long-hole stope in April, after which the pace of ramp-up has begun to accelerate towards its target throughput rate of 127.7ktpa (in line with its June 2023 PEA) and target production rate of c 30koz gold per year. Q127 financial results were better than our expectations. Although revenue was C$1.2m lower, the cost of goods sold was also C$5.0m lower, demonstrating an acute management focus on costs. Consequently, our forecast for Abcourt's net loss in FY27 has narrowed from C$11.1m to C$7.0m. However, we are still projecting that the company will achieve profitability and positive cash flow in Q327.

Year end	Revenue (C $m)	PBT (C$m)	EPS (C$)	DPS (C$)	P/E (x)	Yield (%)
6/25	0.0	(15.2)	(0.02)	0.00	N/A	N/A
6/26	16.6	(31.8)	(0.02)	0.00	N/A	N/A
6/27e	78.6	(5.0)	(0.01)	0.00	N/A	N/A
6/28e	125.1	59.6	0.03	0.00	1.3	N/A

Note: PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Heading towards steady state in July 2027

Management has put in place five policies to mitigate mining dilution at Sleeping Giant. These began to bear fruit in Q127, with a 151.5% increase in grade in September relative to July and a 42.3% increase in tonnage, resulting in a quadrupling in gold produced. Tonnes and grade both fell back in October owing to a scheduled maintenance shutdown. However, continuing on this trajectory should see the mine achieve steady state operations early in FY28.

Interest rate increases not baked in

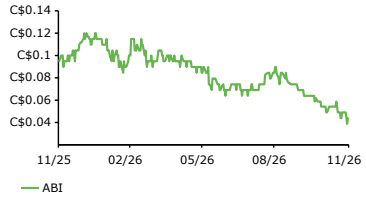
While nominal Treasury yields at tenors of less than a year have continued to rise in recent weeks, for tenors over a year, they have been declining, leading to a flattening of the yield curve – traditionally associated with expectations of slower economic growth, lower future inflation and/or a pause in interest rate hikes.

Valuation: Potentially still approaching C$1.00/share

At a long-term gold price of US$3,600/oz we derive a value for Abcourt of at least 13.0c/share (see Exhibit 7) at our customary 10% discount rate. This increases by c 3.6c/share for every US$500/oz by which the gold price increases. Adding 4.5 years to Sleeping Giant's life (management's immediate, short-term target) approximately doubles our valuation. Adding 10 years to its life (which could be supported by resources, subject to confirmation drilling) approximately trebles it to 33.9c/share. It then increases by a further 15.9%, to 39.3c/share, if we assume long-term cash flow per share growth of 4.1% post-FY31 (the same as the real-terms compound annual average increase in the gold price from 1967 to 2025). Under these circumstances, an investor purchasing Abcourt's shares at C$0.045 could expect to earn an internal rate of return (IRR) of 41.7% on their investment in Canadian dollar terms over the next 15 years.

Price	**C$0.05**
Market cap	**C$63m**
	C$1.4330/US$
Net cash/(debt) as at end-September	C$(47.7)m
Shares in issue	1,257.7m
Free float	69.0%
Code	ABI
Primary exchange	TSXV
Secondary exchange	OTCQB

Share price performance



%	1m	3m	12m
Abs	(16.7)	(37.5)	(23.1)
52-week high/low		C$0.1	C$0.0

Business description

Abcourt Mines is an emerging gold producer and Canadian exploration company with strategically located mining properties in the prolific Abitibi region of Quebec in Canada.

Next events

Sleeping Giant gravimetric survey	CY26
Q227 results	February 2027
Sleeping Giant scoping study	Early CY27
Q327 results	May 2027

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Edison profile page

Abcourt Mines is a research client of Edison Investment Research Limited

Background

Abcourt Mines is a Canadian junior gold mining company with properties located in north-western Quebec. Its flagship asset is the Sleeping Giant (Géant Dormant) mine and mill, which comprises four mining leases, covering an area of over 458ha and 69 mining claims. Between 1988 and 2014, the complex produced 1.1Moz gold at an average grade of 10.24g/t and Abcourt is now in the process of returning Sleeping Giant to production. It also owns the Flordin and Barvue properties, where it is actively pursuing exploration, as well as the Elder mine and the Pershing-Manitou, Vendome, Aldermac and Jonpol properties.

Geology and mining

Spatially, the Sleeping Giant orebody may be conceived of as being in the shape of a rose, with the petals representing the stacked, mineralised lenses within the host rock and with the greatest concentration of mineralisation to be found in the centre of the structure. Often described as 'complex', the overall structure might be better described as 'intricate'. Anecdotally, an observer may be reasonably certain that many stacked lenses exist. However, they are not regular by geometrical standards and so their precise locations may only be determined by close-spaced definition drilling. To this end, Abcourt has an internal target of drilling 3,000m per month (which it first achieved in March and comfortably exceeded in October) with the goal of delineating 300koz of economically mineralised material to mine at a rate of 30koz per year from the indicated category of resources over 10 years.

The current depth of the mine is 1,200m, although Abcourt's focus is on levels above c 400m while lower levels are being rehabilitated. However, exploration drilling has intersected mineralisation above and below trend and below the shaft bottom. One of the reasons for the mine's name is the supposition that a large, conventional volcanogenic massive sulphide system underlies the currently defined geology.

In due course, Abcourt intends to produce mined material at a rate of c 350tpd (c 10,600tpm), which will fill the mill to approximately 50% capacity. In general, the mining method is optimised to the deposit geometry, with steeper geometries (>40°) being mined by long-hole open stoping methods and shallower ones being mined using conventional room-and-pillar techniques.

Initially, output was exclusively from room-and-pillar stopes. However, Abcourt's priority is now the development of much more productive long-hole stopes (the first of which was commissioned in April) with a target of reaching steady-state production of c 10,600tpm as rapidly as possible.

Processing

Ore is currently processed using two stages of crushing, rod mill grinding and ball mill grinding. Consistent with past practice, ore processing is via the carbon-in-pulp method (CIP), which is typical for the Abitibi region of Quebec. The capacity of the processing plant is c 800tpd (c 292,200tpa) and is approximately twice the currently expected rate of mined tonnage of 350tpd, based on a 12-hour daily shift pattern. On the basis of a model that was developed from mill performances when processing, metallurgical recovery is expected to stabilise at c 96.7%.

Ramp-up

Abcourt's preliminary economic assessment (PEA), prepared by InnovExplo, assumed that production at Sleeping Giant would ramp up rapidly over the space of around three months (plus a further three months before commercial production was declared). Initially, Edison assumed that it would ramp up over c 17 months, from August 2025 until December 2026, driven by the observation that output at Sleeping Giant is primarily constrained by the size of the workforce and the number of long-hole stopes that Abcourt is able to bring into production. Since the re-start of mining in August 2025, production was initially from room-and-pillar stopes and the rate of ramp up was relatively slow. Since then, however, the development of the drifts leading to the long-hole stopes has been a priority, with the first long-hole stope commissioned underground in April and brought into production in the middle of the year.

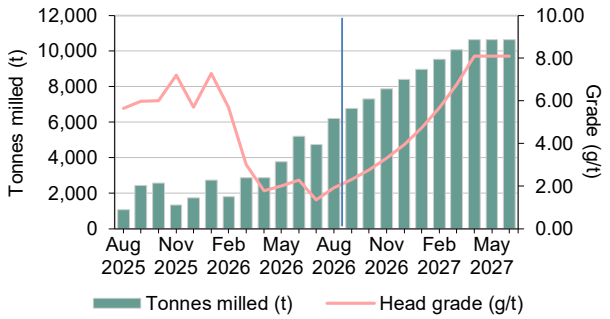
Whereas production tonnes have largely ramped up in line with Edison's initial expectations (Edison's April forecast for tonnes milled in August was 6,642t compared to an actual outcome of 6,209t, ie only a 6.5% shortfall), there has been a noticeable decline in head grade. While some of this decline could be attributed to mine sequencing and the processing of lower-grade material from development zones (typical of a transitional expansion phase in underground workings), some has also been attributed to the blasting practices of a relatively inexperienced workforce. In mitigation of

the decline in grade:

- Senior management has effectively relocated to the mine in order to drive the twin imperatives of expediting ramp-up at the same time as maintaining acceptable grade control.
- Abcourt instigated a training partnership with Technica, whereby two trainers are currently supervising 10 apprentice miners, with the objective of developing an internal pool of qualified workers.
- It has concluded an official strategic partnership, such that it is now able to rapidly induct trainees from the Centre de formation professionnelle de la Baie-James (CFPBJ). The current cohort of 10 students from the CFPBJ on the ore extraction programme completed their training on 24 November, after which six of the 10 will be hired as apprentice miners and a new cohort of 12 students will be enrolled.
- It has recruited a second shift team at the mill, thereby enabling day and night mill operations on a 4–3 schedule. This team optimisation will be fully operational this quarter and will allow for a processing rate of up to 800tpd.

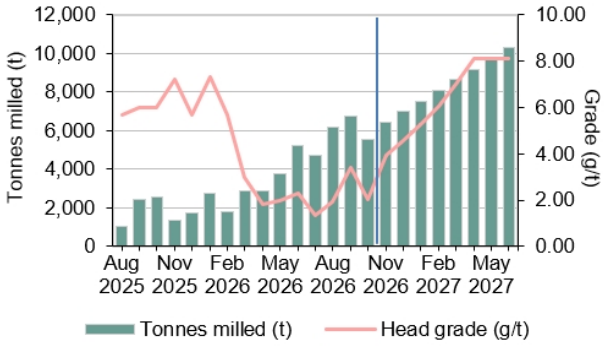
In response, Sleeping Giant's head grade increased by 42.6% month-on-month in August relative to July and then by 76.3% in September relative to August. In conjunction with continued increases in tonnage, this led to a quadrupling of gold production in September relative to July (Exhibit 3) and improvements continued to accrue into the second half of September. Tonnes and grade both fell back in October as a consequence of a slowdown owing to a scheduled maintenance shutdown at the month end. However, 4,070t was reported to have been mined up to 19 November, which implies pro rata mined tonnage of 6,426t for the full month. While no corresponding grade was provided for November, in its monthly production update, Abcourt management reported that the remaining stope tonnage estimated in the 2023 PEA in Area 235-Zone 20 (that currently being mined) was 9,487t at a grade of 5.66g/t, potentially implying upside relative to Edison's updated near-term forecasts, shown in Exhibit 2, below:

Exhibit 1: Edison's Sleeping Giant ramp-up assumption, grade (g/t) and tonnes (t) at time of 6 October report



Source: Abcourt Mines (historical data to August 2026), Edison Investment Research estimates (September 2026 to June 2027). Note: Vertical line denotes the boundary between past and future at the time the forecasts were made.

Exhibit 2: Edison updated Sleeping Giant ramp-up assumption, grade (g/t) and tonnes (t)

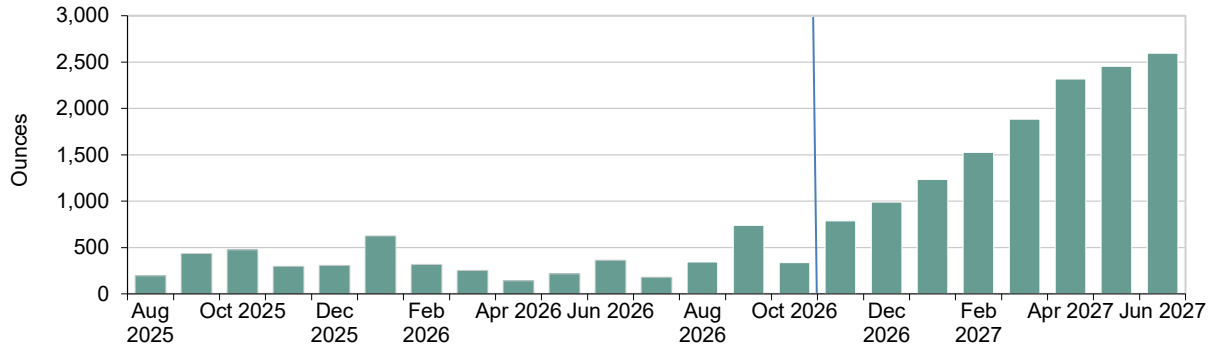


Source: Abcourt Mines (historical data to October 2026), Edison Investment Research estimates (November 2026 to June 2027). Note: Vertical line denotes the boundary between past and future at the time the forecasts were made.

The planned production period for Area 235-Zone 20 is September 2026 to January 2027, after which production will transfer to Zone 785N (915 Level), which has the ability to exploit two economic veins, the potential of which was estimated at 20,203t at a grade of 8.46g/t in the 2023 PEA.

Coupled with a metallurgical recovery of 96.7%, in the near term, these profiles translate into gold production rising from 336oz in October to 2,680oz in July 2027, at which point output will stabilise at a rate of c 30koz per year from FY28 onwards (see Exhibit 3).

Exhibit 3: Edison updated estimate of Sleeping Giant gold production during ramp-up (oz)



Source: Abcourt Mines (historical data to September 2026), Edison Investment Research estimates (October 2026 to June 2027).

Over the same time frame, we expect unit costs to decline from an estimated C$923.77/t in Q127 (see below) to C $337.57/t in Q427 in an approximately straight line as tonnes milled increase and as mining efficiencies are achieved with an ever-more productive workforce.

In the meantime, on 16 November, a new three-year collective agreement was signed with employees of the mine, which has been ratified by 100% of employees, providing a stable and predictable labour relations framework for the next 36 months.

Q127 financial results

From individual monthly data, we know that Abcourt milled 17,684t in Q127 (a 48.7% increase cf Q426) at a head grade that was 11.0% higher and a metallurgical recovery that was 0.6pp higher to result in gold production that was 66.7% higher. The average gold price during the period was US$4,262/oz, implying that c 1,174oz of gold was sold during the period to generate revenue of C$7.0m (US$5.0m). Costs of goods sold of C$16.3m (excluding tax credits) were 12.3% better than our forecast at the time of our last note of C$18.6m and equated to a unit cost of C$923.77/t processed, which remains higher than the target rate of c C$320/t in FY28, but reflects a relatively high fixed cost base (typical of underground mines) superimposed onto a tonnage profile that is still at ramp-up stage.

A summary of Abcourt's Q127 financial results within the context of recent quarters is provided in the exhibit below, in conjunction with our updated forecasts for the remainder of the year, reflecting both changes in the gold price and our ramp-up assumptions (Exhibit 2).

Exhibit 4: Abcourt income statement, historical and forecast, quarterly (C$*)

Year to end-June								
C$	Q126	Q226	Q326	Q426	Q127	Q227	Q327	Q427
Revenue	0	4,889,149	7,877,554	3,869,969	7,002,299	10,806,324	23,486,773	37,284,399
Cost of good sold	5,009,786	4,410,911	11,510,753	15,023,507	13,592,010	13,830,084	12,933,070	9,875,000
Gross profit	(5,009,786)	478,238	(3,633,199)	(11,153,538)	(6,589,711)	(3,023,761)	10,553,703	27,409,399
Depreciation	2,562	2,025	238,291	184,079	497,157	498,255	499,353	500,451
Expenses								
Administration	1,414,296	758,846	1,467,485	725,357	974,186	974,186	974,186	974,186
Care and maintenance expenses	29,288	221,626	70,402	31,822	64,475			
Exploration and evaluation expenses 1	250,068	101,678	1,190,798	1,047,468	531,104	531,104	531,104	531,104
Gain on disposal of property and assets	(382,769)	0	0	(20)	0			
Operating profit/(loss)	(6,323,231)	(605,937)	(6,600,175)	(13,142,244)	(8,656,633)	(5,027,306)	8,549,060	25,403,658
Finance costs and income								
Finance income	44,396	57,865	96,600	130,945	46,100			
Finance costs	(967,143)	(1,271,116)	(1,370,989)	(2,246,994)	(4,720,085)			
Net finance income/(costs)	(922,747)	(1,213,251)	(1,274,389)	(2,116,049)	(4,673,985)	(6,236,292)	(7,262,176)	(7,081,834)
Change in fair value of investments	(273,627)	208,007	3,817	104,349	17,063			
Profit/(loss) before income and mining taxes	(7,519,605)	(1,611,181)	(7,870,747)	(15,153,944)	(13,313,555)	(11,263,598)	1,286,884	18,321,824
Deferred income and mining taxes	0	(470,833)	(160,008)	(3,421,369)	(118,765)	(2,984,853)	341,024	4,855,283
Effective tax rate (%)	0.0	29.2	2.0	22.6	0.9	26.5	26.5	26.5
Net loss and comprehensive loss	(7,519,605)	(1,140,348)	(7,710,739)	(11,732,575)	(13,194,790)	(8,278,744)	945,860	13,466,541
Dividend	0	0						
Retained income	(7,519,605)	(1,140,348)	(7,710,739)	(11,732,575)	(13,194,790)	(8,278,744)	945,860	13,466,541
Weighted no. of shares in issue (thousands)	1,011,968	1,083,850	1,173,560	1,193,499	1,226,882	1,261,334	1,261,334	1,261,334
Derivatives (thousands)	0	0	0	784,021	0	0	760,476	760,476
Diluted no. shares in issue (thousands)	1,011,968	1,083,850	1,173,560	1,977,520	1,226,882	1,261,334	2,021,810	2,021,810
EPS (C$)	(0.007)	(0.001)	(0.007)	(0.010)	(0.011)	(0.007)	0.001	0.011
Diluted EPS (C$)	(0.007)	(0.001)	(0.007)	(0.006)	(0.011)	(0.007)	0.000	0.007
DPS (C$)	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000

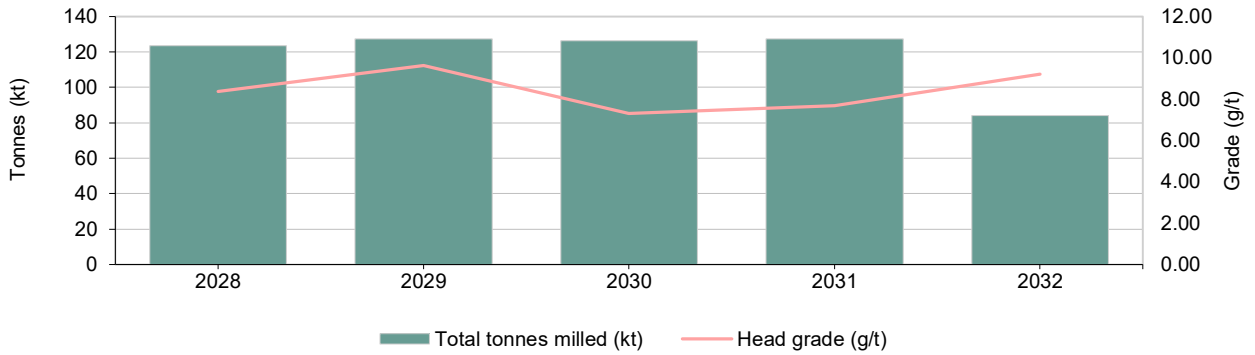
Source: Abcourt Mines, Edison Investment Research. Note: *Unless otherwise indicated.

Longer-term assumptions

Sleeping Giant ramp-up and subsequent mining schedule

In the first instance, our operational assumptions regarding Abcourt's mining of the Sleeping Giant mine are derived from its June 2023 PEA, prepared by consultant InnovExplo (NB Abcourt intends to provide the market with an updated scoping study on the project early in CY27). This entails mining 720.2kt of material over seven years at an average rate of 126.5kt per (full) year, an average grade of 8.1g/t and an average metallurgical recovery rate of 96.7% to produce 181.4koz gold (c 30koz per year) at an initial capital cost of C$60.7m (plus C$31.8m in sustaining capex and closure costs) and opex of C$302.83/t. However, whereas the PEA assumed that ramp-up would occur rapidly over the space of around three months (plus a further three months before commercial production was declared), Edison's updated ramp-up profile now assumes that this will occur over about 23 months, from August 2025 until June 2027 (Exhibit 2). After June 2027, we assume that the mining schedule at Sleeping Giant will revert to that set out in InnovExplo's June 2023 PEA and shown below:

Exhibit 5: Sleeping Giant mining schedule, FY28–32



Source: Edison Investment Research, Abcourt Mines, InnovExplo. Note: Financial years shown (to June).

We assume that the gold price will remain at current levels until December 2027 (cf June 2027 previously), before reverting to our long-term price forecasts shown in the table below:

Exhibit 6: Edison forecast gold price, real and nominal (US$/oz)

Calendar year	2028	2029	*2030
Real price (US$/oz)	1,938	1,796	1,941
Nominal price (US$/oz)	2,098	2,023	2,274

Source: Edison Investment Research. Note: *Long-term price. Real US dollars expressed in H226 terms.

Ongoing exploration expenditure was cut by almost half in Q127 relative to Q426, and we expect it to remain at lower levels for the remainder of the year. We also assume that all the expansion capex detailed in InnovExplo's 2023 PEA will be deferred from FY27 into later years.

Valuations and sensitivities

Edison's valuation of single-asset mining companies at pre-production stage is typically based on the value of dividends that a shareholder could expect to earn from their investment if they were to hold their shares from the moment of purchase until the end of the life of the mine, discounted to present value. Discretionary exploration investment is ordinarily excluded from our financial forecasts when this method is used, as it is presumed to be at least value adding.

Compared with the alternative discounted cash flow (DCF) method of analysis, the discounted dividend approach more purely reflects the returns that an equity shareholder may expect to receive. Hence, it is possible to calculate an IRR pertaining to an investment in a company's equity at any particular share price and any particular point in time, rather than calculating an IRR for a project as a whole (which typically aggregates debt and equity returns and is therefore independent of a company's share price). Being based on only one unit of measurement (forecast future dividends), it is also relatively simple to estimate a value (and hence share price) for a company at some point in the future in comparison with a DCF valuation, which typically requires three inputs (namely, forecast future cash flows, net debt/cash and minority ownership). However, in the case of Abcourt, we have decided to present both discounted dividend and DCF valuations (both at our customary discount rate of 10%) in order to benefit from the latter's ability to generate a terminal cash flow multiple to accommodate potential mine life extensions.

As noted previously, Edison's valuations are initially conducted at an extremely conservative gold price of less than US $2,000/oz, a price that, while possible, we believe is becoming ever-less likely in the absence of major policy changes in the US (see: A note on the gold price, below). Of much greater importance is our valuation of Abcourt at something close to prevailing market conditions. As a result, in formulating our valuations of Abcourt, we have manipulated three parameters, namely:

- The gold price.
- The life of operations; this is performed by choosing FY31 (the final year of full-scale operations) as the 'terminal' year and then calculating the net present value (NPV) of cash flows (at Edison's customary 10% discount rate), assuming Abcourt's cash flow per share in FY31 is extended for an additional number of years. Note that, at a processing rate of 127.7ktpa, economic mineralised material is capable of supporting production for 5.6 years, but

resources are capable of supporting production for 12.8 years. Abcourt's short-term goal is to increase the mine life to a visible 10 years, which would require an additional 4.5-year extension relative to our 'base case'.

- The real-terms increase in the price of gold after FY31; in our initial consideration of mine life extensions (see Exhibit 7, below), it is assumed that there is zero real-terms increase in the gold price in the additional years and that FY31's cash flow per share extends unchanged into those years as well. In the alternative case, we have used 4.1% as a compound average annual growth rate, which is the long-term, real appreciation in the gold price from 1967 to 2025 (Exhibit 10) and is used as a proxy for cash flow per share growth after FY31 (note that this implicitly assumes growth in unit costs also of 4.1% per year).

Exhibit 7 shows Edison's Abcourt valuation with respect to all of these parameters. It is immediately obvious, within the context of this analysis, that our valuation is most sensitive to the gold price, with each US$500/oz increase in the long-term price adding c 5.7c to the 'base case' valuation. Whatever the gold price scenario, adding 10 years to Sleeping Giant's life roughly trebles the valuation, while adding 4.5 years roughly doubles it. However, adding to the rate of cash flow per share growth rate post-FY31 has only an incremental effect on the valuation:

Exhibit 7: Abcourt Mines' valuation sensitivity to 1) the gold price, 2) mine life extensions and 3) long-term cash flow per share growth rates (Canadian cents per share)

Valuation method	Discounted dividend valuation*	DCF*	DCF	DCF	DCF	DCF	DCF*
Mine life addition (years)	0	0	+4.5yrs	+4.5yrs	+10yrs	+10yrs	0
Long-term cash flow growth rate** (%)	N/A	0.0	0.0	4.1	0.0	4.1	4.1
Gold price scenario (US$/oz)							
Edison	3.1	1.1	3.9	4.4	6.8	8.5	1.1
2,000	3.8	1.8	5.1	5.7	8.4	10.2	1.8
2,500	7.6	5.3	11.2	12.1	16.4	19.4	5.4
3,000	11.4	8.8	17.2	18.5	24.4	28.4	8.8
3,500	15.2	12.3	23.2	24.9	32.3	37.5	12.3
4,000	18.9	15.7	29.2	31.3	40.3	46.6	15.8
4,500	22.7	19.2	35.3	37.6	48.3	55.6	19.3
5,000	26.5	22.7	41.3	44.0	56.2	64.7	22.8
5,500	30.3	26.2	47.3	50.4	64.2	73.8	26.2
6,000	34.1	29.6	53.3	56.8	72.2	82.8	29.7

Source: Edison Investment Research. Note: *Excludes discretionary exploration expenditure. **4.1% equals the rate of gold price appreciation in real terms from 1967 to 2025.

At the current gold price of US$3,600/oz, we estimate a discounted dividend valuation of Abcourt's shares of 15.9c and a DCF valuation of 13.0c (both excluding discretionary exploration expenditure).

A note on the gold price

The average gold price in CY25 was US$3,445/oz (source: Bloomberg) and the average price in CY26 (notwithstanding the recent declines) looks likely to be in the order of US$4,366/oz. Consistent with our general policy, our gold price forecast for the remainder of CY26 and CY27 now assumes that the current spot price of US$3,600/oz will prevail until December 2027 (cf June 2027 previously), before reverting to our long-term levels as follows:

Exhibit 8: Edison forecast gold price, real and nominal (US$/oz)

Calendar year	2028	2029	*2030
Real price (US$/oz)	1,938	1,796	1,941
Nominal price (US$/oz)	2,098	2,023	2,274

Source: Edison Investment Research. Note: *Long-term price. Real US dollars are expressed in late CY25 terms.

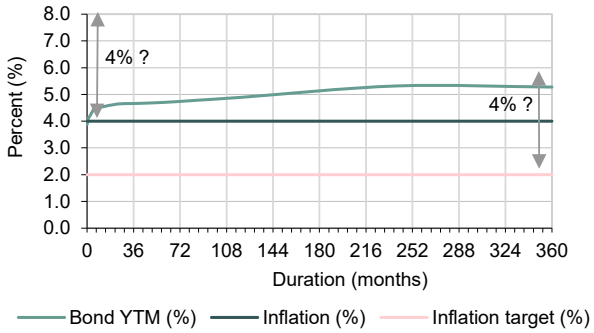
The gold prices in Exhibit 8 are derived with respect to historical precedent. However, almost the only modern precedent to today's market is that of 1970–81 when gold rose from its post-war currency peg of US$35/oz to a peak of US$850/oz in January 1980 before falling by more than 60% in the following two years. The analysis above implicitly assumes a repeat of the same pattern, with 2026 being an analogue to 1980 and 2027 being an analogue to 1981 etc. However, there are material differences between the two periods of time. The most significant is that, in 1980 the US was still the world's largest creditor nation, and what suddenly reversed gold's fortunes was the policy adopted by the then-new Federal Reserve chairman, Paul Volcker, to 'defend the value of the US dollar'. That entailed sharply raising real interest rates from near zero to around 4% (among other things, causing a sharp recession in the US and most other western countries in the early 1980s), where they remained for most of the next two decades. However, now the US is the world's largest debtor nation and neither the US administration nor the Federal Reserve is talking about defence of the dollar. In fact, quite the opposite: what is being talked about is allowing the dollar to find a level at which US exports can compete on world markets and stimulating the domestic economy with real interest rates as low as possible. Hence, all the forces

that have pushed gold to its recent peak of over US$5,000/oz continue to prevail.

President Trump's nomination of Kevin Warsh as chairman of the Federal Reserve appeared to be the catalyst for the start of gold's sell-off from its recent record highs since March. He is reported to be in alignment with Trump in wanting to shrink the Fed's balance sheet at the same time as cutting rates dramatically, thus effectively steepening the yield curve. In themselves, neither a steepening of the yield curve nor cuts to the Fed's balance sheet are traditionally positive harbingers for gold. However, lower short-term rates (and lower short-term real rates, in particular) are potentially positive. In order to make bank reserves currently deposited with the Federal Reserve available for investment in Treasuries, Mr Warsh is assumed to be contemplating redefining inflation in such a manner as to obviate the traditional interest-rate response, with a focus on trend rates, rather than the specific rate at any particular point in time. Notwithstanding the recent quarter point increase in the Fed funds rate and short-term market expectations, in the medium to longer term, this should allow him to reduce (or maintain at lower levels) short-term interest rates even in circumstances in which inflation appears (temporarily) elevated, as long as the longer-term trend rate remains consistent with the target rate at some point in the future. In theory, this could stimulate a reallocation of bank reserves into longer-dated Treasuries. At the same time, management of the long end by means of a relaxation of the supplementary leverage ratio could limit the degree of steepening (and thereby rein in the cost of borrowing for the federal government).

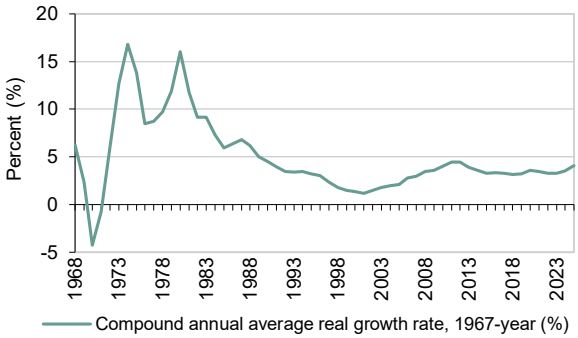
However, it remains to be seen whether cuts to short-term interest rates under a new Treasury-Fed accord can be achieved without reigniting inflation and whether the markets can be convinced that any apparent increase in prices is transient, rather than embedded. Either way, it appears likely that a period of heightened inflation beckons and much will depend on whether investors believe that the Federal Reserve will want to be seen to react hawkishly or to accept the risk of Mr Warsh's new, but relatively untested, theory. Currently, the market seems to be assuming that a hawkish response is inevitable, and, hence, increases in inflation appear to correlate to increased interest-rate expectations and a lower gold price. However, this knee-jerk reaction may abate. In recent testimony, Mr Warsh vowed to deliver price stability at the same time as saying that he had 'no preferred inflation measure'. As such, the Fed may ultimately come to be seen as a dove in hawk's plumage. In the meantime, neither short-term real interest rates of minus 0.125% (a Fed Funds rate of 3.75–4.00% minus inflation of c 4.0%) nor long-term real interest rates of 1.276% are attractive relative to gold's (real) compound average annual growth rate of 4.1% since 1967 (see Exhibits 9 and 10). If nothing else, this will continue to encourage holders of dollars (especially the world's central banks) to convert them into gold – a trend that appears to have reasserted itself after a brief, liquidity-driven interruption in March, at the start of the Iran war. Investors should also note that, in recent weeks, while nominal yields have been rising at tenors of less than a year, for tenors over a year, they have been declining, leading to a flattening of the yield curve – traditionally associated with expectations of slower economic growth, lower future inflation and/or a pause in interest rate hikes.

Exhibit 9: US yield curve versus US CPI inflation rate (%)



Source: Bloomberg, US Department of Labor, Bureau of Labor Statistics, Edison Investment Research

Exhibit 10: Gold price compound annual average growth rate, 1967–year (%)



Source: Edison Investment Research (underlying data: Bloomberg, South African Chamber of Mines, US Department of Labor, Bureau of Labor Statistics)

While it is tempting to look at recent graphs of the gold price and attempt to call a 'top', investors should beware, as many of the forces that drive it are often self-reinforcing, especially the fact that above-ground stocks of gold of c 216,000 tonnes dwarf newly mined supply of c 3,700 tonnes per year. Hence, traditional supply and demand analysis often fails in the case of gold, where price discovery tends to occur among existing holders, rather than new buyers and sellers. This means, while the price has appreciated substantially (eg from below US$1,300/oz in May 2019), in the absence of a fundamental shift in macroeconomic policy, there is no reason to suppose that it cannot continue much higher. The following demonstrates the extent to which this is possible:

- The gold price required to cover the total US monetary base is US$20,837/oz (based on September's number). This is analogous to the classical gold standard, according to which the Federal Reserve was required to hold enough gold to redeem all of its liabilities (ie US dollars) that could be in circulation. Although President Nixon formally closed this dollar window in August 1971, in the era of a floating gold price, US gold reserves were nevertheless still able to cover the US total monetary base as recently as 1980.
- The US net international investment position (the difference between its external financial assets and its external liabilities and historically conceived of as being the sum of past current account deficits) was reported as US $22.42tn in Q226 (c 71% of GDP). Excluding monetary gold, it is US$23.47tr. As a result, the gold price required to cover the balance of the US net international investment position is US$89,758/oz – ie this is the price that would theoretically be required to enable the US to cover all of its accumulated external deficits since c 1979 with its gold reserve.
- The gold price required to cover both the US net international investment position and its monetary base is thus US $110,592/oz.

While gold would need to increase c 31 times to get from its level now to US$110,592/oz, it is perhaps worth noting that it has already gone up by 103 times to get from its level of US$35/oz in 1967 to its current price and by over 14 times since as recently as 2001. Inevitably, few guarantees can be made regarding the future evolution of the world economy. However, the following conjectural sequence of events may demonstrate a mechanism by which these price levels could be achieved:

- First, the gold price reaches a level of US$20,837/oz, which fully covers the total US monetary base and is therefore comparable to the levels that it reached in 1980. At the current forex rate of CNY6.6614/US$ this would equate to a renminbi price of gold of CNY138,814/oz.
- At the current time, US GDP per capita is US$94,430 according to the International Monetary Fund, while China's is CNY95,749 per capita, which equates to c US$14,374 per capita at the current exchange rate.
- The Chinese renminbi then appreciates from CNY6.6614/US$ to near parity in the ensuing years (see paragraph below for sterling-dollar precedent). In this case, the renminbi price of gold needs only to be maintained at a flat CNY138,814/oz in order for the US dollar price of gold to reach US$138,814/oz (NB to reach US$110,592/oz the renminbi would only need to appreciate to CNY1.2552/ US$).
- At this point in time, not only would the US dollar gold price have reached the levels required to balance its negative net international investment position (as above), but Chinese GDP per capita would have increased to approximately match that of the US. At some point in time, therefore, we think that it is likely that the People's Bank of China will abandon its managed currency peg to preserve its citizens' wealth as well as to oversee the transition of China's workers from global producers to global consumers, albeit at the cost of accepting a much more competitive US dollar in world markets.

As a precedent to the above, we would point to the fact that the UK was the world's largest creditor nation prior to 1914 (akin to the US in 1980). At that time, the price of gold was £4.4s.11½d per ounce (effectively £4.25/oz in decimalised currency) and US$20.67 per ounce, such that the sterling-dollar (cable) rate was US$4.86/£. After sterling came off the gold standard in 1931 and the US devalued, this rate peaked at just over US$5.00/£ in 1934 during a rush to safety into the world's reserve currency (ie sterling). By 1945, the UK had become the world's largest debtor nation (c 15–25% of GDP), and, in just 40 years, sterling would test parity against the dollar in February/March 1985 (and then again in September 2022). The US, by contrast, became the world's largest debtor nation in 1990, in which case a similar 40-year gap would suggest that it could test parity with the renminbi as early as 2030. A further 37-year gap could see this extended to 2067.

Official financial agencies do not publish a single country's share of the US net international investment position, as complex corporate structures often make it difficult to determine the ultimate beneficial owners of diverse financial instruments. However, analysing the primary, tangible data components tracked by the US Department of the Treasury and the Bureau of Economic Analysis, China may be estimated to own c 3–6% (c US$3tn) of total foreign-owned assets in the US, while the US may be estimated to own c US$1tn in assets in China, to give the US a net international investment liability of US$2tn at current forex rates. To balance this position would therefore only require the renminbi to move from its current rate of CNY6.6614/US$ to CNY2.2205/US$ (in which case, the gold price would reach a level of US$62,518/oz in the framework outlined above).

As stated previously, few guarantees can be made regarding the future evolution of the world economy. Agreements similar to the 1985 Plaza Accord may attempt to manage global foreign exchange rates in an orderly fashion. However, the numbers calculated demonstrate the extent to which the world has financialised since 1971 to the detriment of real

assets. At the same time, this analysis demonstrates that, in the absence of a major policy change from either China or the US, in particular, the bull market for gold may be very far from over.

Exhibit 11: Financial summary

C$'000s	2024	2025	2026	2027e	2028e	2029e	2030e	2031e
Year end 30 June	UK GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	**265**	**0**	**16,637**	**78,580**	**125,085**	**99,962**	**75,656**	**83,415**
Cost of Sales	0	0	(35,955)	(50,230)	(39,500)	(39,300)	(39,600)	(40,300)
Gross Profit	265	0	(19,318)	28,350	85,585	60,662	36,056	43,115
EBITDA	**(10,716)**	**(15,138)**	**(25,862)**	**22,264**	**77,194**	**52,271**	**27,665**	**34,724**
Operating Profit (before amort. and except.)	**(10,882)**	**(15,330)**	**(26,289)**	**20,269**	**65,216**	**39,709**	**14,503**	**20,912**
Intangible Amortisation	0	0	0	0	0	0	0	0
Exceptionals	0	(855)	(340)	17	0	0	0	0
Other	0	0	0	0	0	0	0	0
Operating Profit	**(10,882)**	**(16,186)**	**(26,629)**	**20,286**	**65,216**	**39,709**	**14,503**	**20,912**
Net Interest	(525)	153	(5,526)	(25,254)	(5,591)	(6,980)	(2,884)	(451)
Profit Before Tax (norm)	**(11,407)**	**(15,178)**	**(31,815)**	**(4,986)**	**59,625**	**32,729**	**11,618**	**20,461**
Profit Before Tax (FRS 3)	**(11,407)**	**(16,033)**	**(32,155)**	**(4,968)**	**59,625**	**32,729**	**11,618**	**20,461**
Tax	(178)	1,612	4,052	(2,093)	(15,800)	(8,673)	(3,079)	(5,422)
Profit After Tax (norm)	**(11,586)**	**(13,566)**	**(27,763)**	**(7,078)**	**43,824**	**24,056**	**8,540**	**15,039**
Profit After Tax (FRS 3)	**(11,586)**	**(14,421)**	**(28,103)**	**(7,061)**	**43,824**	**24,056**	**8,540**	**15,039**
Average Number of Shares Outstanding (m)	492.3	793.9	1,115.2	1,252.7	1,261.3	1,261.3	1,261.3	1,261.3
EPS - normalised (c)	(2.4)	(1.7)	(2.5)	(0.6)	3.5	1.9	0.7	1.2
EPS - normalised and fully diluted (c)	(2.4)	(1.7)	(2.5)	(0.4)	2.2	1.2	0.4	0.7
EPS - (IFRS) (c)	(2.4)	(1.8)	(2.5)	(0.6)	3.5	1.9	0.7	1.2
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.6
Gross Margin (%)	100.0	#DIV/0!	(116.1)	36.1	68.4	60.7	47.7	51.7
EBITDA Margin (%)	(4,042.1)	#DIV/0!	(155.5)	28.3	61.7	52.3	36.6	41.6
Operating Margin (before GW and except.) (%)	(4,104.6)	#DIV/0!	(158.0)	25.8	52.1	39.7	19.2	25.1
BALANCE SHEET								
Fixed Assets	**10,925**	**10,624**	**26,487**	**24,756**	**72,677**	**63,615**	**54,053**	**44,141**
Intangible Assets	2,236	2,236	6,667	6,667	6,667	6,667	6,667	6,667
Tangible Assets	8,688	8,387	19,820	18,088	66,010	56,948	47,386	37,474
Investments	0	0	0	0	0	0	0	0
Current Assets	**3,139**	**10,785**	**25,740**	**14,604**	**9,625**	**42,726**	**60,852**	**66,228**
Stocks	1,212	733	6,879	6,459	10,281	8,216	6,218	6,856
Debtors	349	439	2,094	6,459	10,281	8,216	6,218	6,856
Cash	758	2,579	1,583	(13,497)	(26,122)	11,110	33,231	37,332
Other	820	7,034	15,185	15,185	15,185	15,185	15,185	15,185
Current Liabilities	**(8,087)**	**(7,832)**	**(18,228)**	**(9,346)**	**(8,464)**	**(8,448)**	**(8,473)**	**(8,530)**
Creditors	(6,953)	(7,814)	(13,573)	(4,692)	(3,810)	(3,794)	(3,818)	(3,876)
Short-term borrowings	(1,134)	(18)	(4,654)	(4,654)	(4,654)	(4,654)	(4,654)	(4,654)
Long-Term Liabilities	**(12,261)**	**(14,176)**	**(47,928)**	**(47,928)**	**(47,928)**	**(47,928)**	**(47,928)**	**(47,928)**
Long-term borrowings	(181)	(2,264)	(32,677)	(32,677)	(32,677)	(32,677)	(32,677)	(32,677)
Other long-term liabilities	(12,080)	(11,912)	(15,251)	(15,251)	(15,251)	(15,251)	(15,251)	(15,251)
Net Assets	**(6,284)**	**(600)**	**(13,928)**	**(17,914)**	**25,910**	**49,965**	**58,505**	**53,911**
CASH FLOW								
Operating Cash Flow	**(9,454)**	**(19,297)**	**(35,626)**	**9,455**	**68,668**	**56,384**	**31,685**	**33,506**
Net Interest	(525)	153	(5,526)	(25,254)	(5,591)	(6,980)	(2,884)	(451)
Tax	(178)	1,612	4,052	(2,093)	(15,800)	(8,673)	(3,079)	(5,422)
Capex	3,642	233	(14,628)	(264)	(59,900)	(3,500)	(3,600)	(3,900)
Acquisitions/disposals	0	0	0	0	0	0	0	0
Financing	6,903	17,407	10,724	3,075	0	0	0	0
Dividends	0	0	0	0	0	0	0	(19,633)
Net Cash Flow	387	107	(41,004)	(15,080)	(12,624)	37,231	22,122	4,100
Opening net debt/(cash)	**945**	**558**	**(297)**	**35,749**	**50,829**	**63,453**	**26,222**	**4,100**
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	0	747	4,959	0	0	0	0	0
Closing net debt/(cash)	**558**	**(297)**	**35,749**	**50,829**	**63,453**	**26,222**	**4,100**	**0**

Source: Edison Investment Research, company sources.

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