Firefinch Limited

(FFX $0.25) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Michael Scantlebury	10th February 2021	$0.37/sh ▲ from $0.30/sh

Lithium to demerge & Morila Resource surprises on the upside

Investment case

FFX owns two Company making assets in the Morila gold project and the Goulamina lithium project, which we believe are both being undervalued by the market in its current ownership structure. We are therefore pleased with the Company's plan to demerge the lithium asset in CY21 and believe that this should lead to a re-rate in value. The Company continues to progress its Morila gold project, recently announcing a larger than expected resource upgrade to 1.86Moz at 1.50g/t. On our updated numbers we model FFX producing ~160koz pa once the mine/mill is fully ramped up on Morilla ore post CY22 (~4.5Mtpa, ~1.25g/t, ~90% recovery) with ~128koz being attributable (80% ownership). We have increased our Valuation and Price Target to 37cps (~A$330m) from 30cps, largely due to an increase in our Morila head grade assumption and the increased value for the Goulamina lithium asset. We have diluted for an assumed capital raise of A$20m at 20cps in our Valuation and Price Target. We reiterate our Speculative Buy recommendation.

Key points

- FFX has announced its intention to demerge the Goulamina lithium asset into a separate ASX listed entity:
  - The Company plans to demerge the asset within CY21 subject to shareholder and other approvals.
  - An Investment Bank will be appointed to advise Firefinch and Lithium Co on funding, partnership opportunities, offtake and the de-merger process.
  - Firefinch shareholders are expected to receive a pro rata allocation of shares in Lithium Co with further details to be provided in due course.
  - The Company also noted that there have been unsolicited expressions of interest in Goulamina in terms of partnering and offtake opportunities, which is not surprising given its significant strategic value in our view. The Company stated that preliminary discussions will be progressed in parallel with the proposed merger.
- FFX has also provided the material assumptions used in its production target of 150-200kozpa from its Morila gold project (80% owned), Mali.
  - The production target was derived using 4.5Mtpa throughput, at a head grade of 1.3-1.5g/t and a 90% recovery rate.
  - The Company stated that only Measured and Indicated resources were used in the production target, and that no Inferred resources were used or needed to be mined to access the Indicated resources.

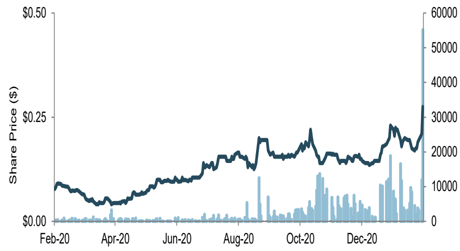
Firefinch Limited		Year End 30 June
Share Price	0.25	A$/sh
Price Target	0.37	A$/sh
Valuation	0.37	A$/sh
Shares on issue	813	m, diluted *
Market Capitalisation	195	A$m
Enterprise Value	175	A$m
Debt	0	A$m
Cash	30	A$m
Largest Shareholder Board and Mgt		2.5%

Production F/Cast	2020F	2021F	2022F
Attrib. Prod'n (kt)	8	79	138
Cash Cost (A$/oz)	1670	2503	1392
Total Cost (A$/oz)	2921	1782	1508

Assumptions	2020F	2021F	2022F
Gold Price US$/oz	1770	1800	1725
AUDUSD	0.69	0.73	0.74

Key Financials	2020F	2021F	2022F
Revenue (A$m)	16	270	306
EBITDA (A$m)	7	104	119
NPAT (A$m)	5	64	73
Cashflow (A$m)	4	75	88
CFPS (Ac)	0	4	6
P/CFPS (x)	na	7	4
EPS (Ac)	1	8	9
EPS growth (%)	-1	3	0
PER (x)	43	3	3
EV:EBITDA (x)	25.6	1.3	0.6
EV:EBIT (x)	25.8	1.5	0.6
DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%
ND:Net Debt+Equity (%)	1235%	-180%	-349%
Interest Cover (x)	na	na	na

Share Price Chart



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Euroz Hartleys Securities declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to Firefinch Limited during the last year. Euroz Hartleys Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Firefinch Limited.

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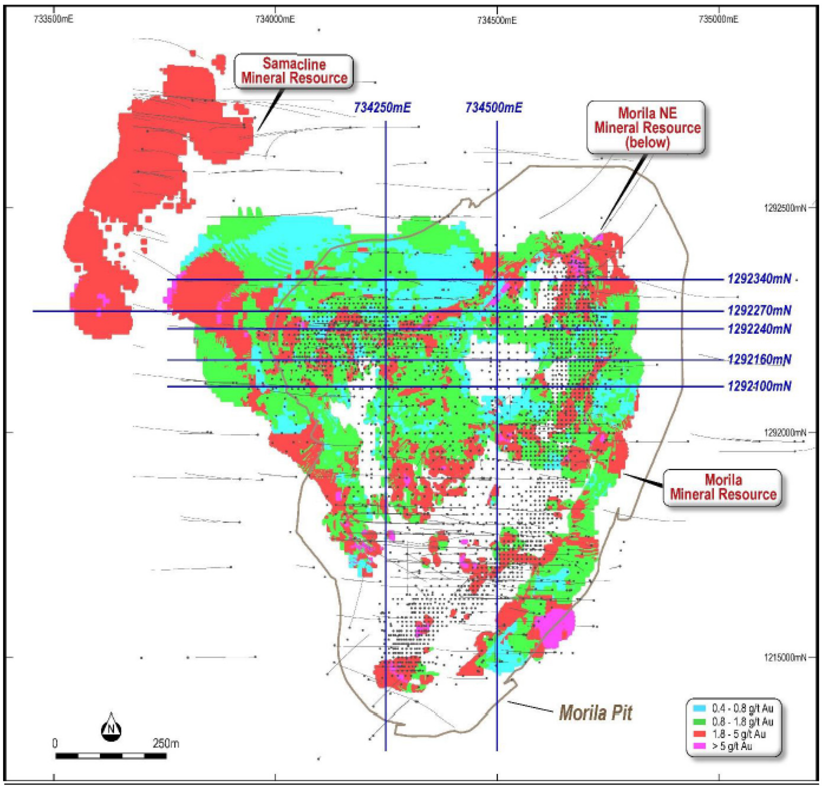
- Some capital costs estimates were also released to the market which included:
  - US$5-6m (US$1-2 already spent) for plant refurbishment.
  - US$15-20m for 2km haul road and pre-strip of Satellite pits, prior to first ore.
  - US$30-40m for Morila pit cutback and dewatering (mine schedules should enable early ore meaning that a portion of this capital cost would be allocated to operating costs).
  - US$5m for the establishment of TSF.
- FFX has stated that it intends source debt financing for the project although we do note that this would likely involve a form of equity financing. We have diluted for an assumed capital raise of A$20m at 20cps



- The updated resource for Morila pit now contains 1.86Moz at a grade of 1.50g/t (previously 1.3Moz at 1.26g/t), with the updated resource constrained within a US$1,800/oz pit shell.
- Encouragingly there is 1.1Moz at 1.60g/t in the Indicated category which bodes well for the potential conversion to Ore Reserves.

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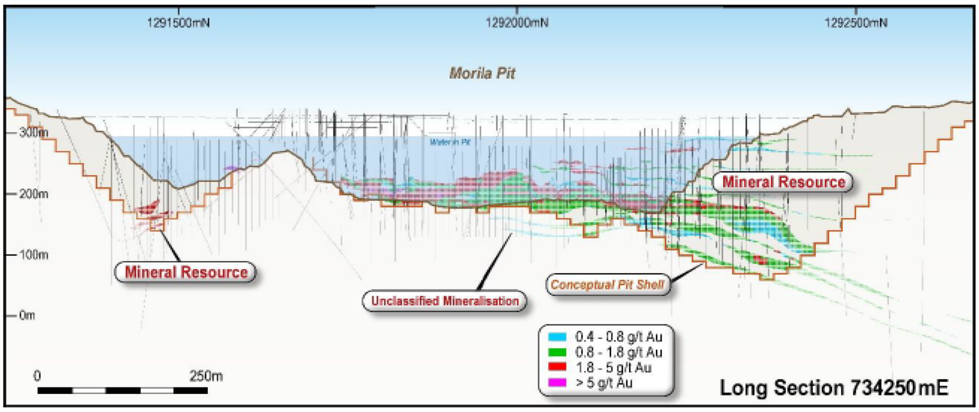
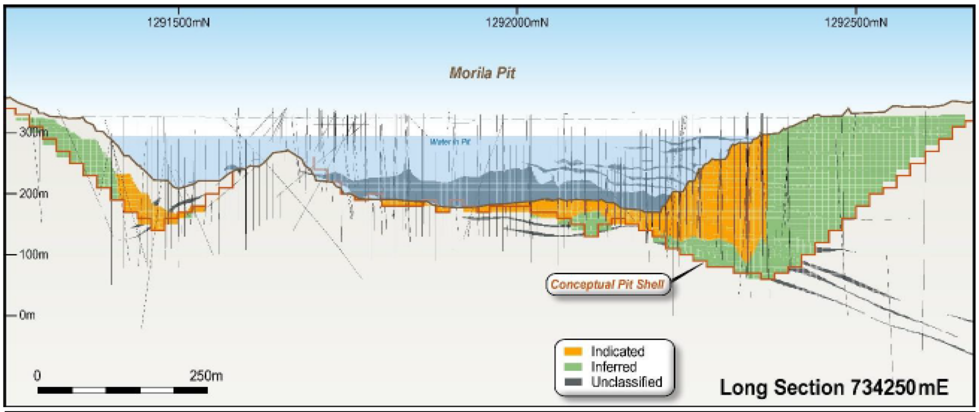
Deposit	Indicated			Inferred			Total		
	Tonnes (millions)	Grade (g/t)	Ounces ('000)	Tonnes (millions)	Grade (g/t)	Ounces ('000)	Tonnes (millions)	Grade (g/t)	Ounces ('000)
Morila Pit	21.2	1.60	1,090	17.5	1.37	770	**38.6**	**1.50**	**1,860**
Morila NE [1]				0.21	3.07	21	**0.21**	**3.07**	**21**
Samacline [1]				3.74	2.56	308	**3.74**	**2.56**	**308**
Tailings [2]							**3.15**	**0.50**	**51**
N'Tiola	0.75	1.35	33	0.38	1.06	13	**1.13**	**1.25**	**45**
Viper	0.67	1.31	28	0.29	1.59	15	**0.96**	**1.39**	**43**
Domba	0.20	1.75	11	0.25	1.61	13	**0.46**	**1.67**	**25**
Total	**22.80**	**1.59**	**1,163**	**22.32**	**1.58**	**1,136**	**48.27**	**1.52**	**2,350**

- Both the size and grade of the Morila resource were higher than we expected, which was driven by new geological modelling, inclusion of drill data previously excluded and a lowering in the cut of grade.





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Spodumene Peer Comparison

		Firefinch	AVZ Minerals	Liontown	Piedmont Lithium	CXO Lithium
ASX Code		**FFX**	**AVZ**	**LTR**	**PLL**	**CXO**
Price	$/sh	0.255	0.19	0.405	0.76	0.29
Mkt Cap	$m	199	549	741	1039	336
Cash	$m	27	8	16	71	44
Debt	$m	7	0	0	0	0
Enterprise Value	$m	179	541	725	968	292
Project		Goulamina	Manono	Kathleen Valley	Piedmont	Finniss
Location		Mali	DRC	WA	North Carolina, USA	NT
% Ownership		80% (Gov free 20%)	60% (up to75%)	100%	100%	100%
Status		DFS complete	DFS complete	DFS underway	Integrated DFS underway	Revised DFS underway
Total Resource		109Mt at 1.45% Li2O	400Mt at 1.65% Li2O	156Mt at 1.4% Li2O	28Mt at 1.11% Li2O	15Mt at 1.32% Li2O
Reserve		52Mt at 1.51% Li2O	93Mt at 1.58% Li2O	71Mt at 1.4% Li2O	NA	6Mt at 1.3% Li2O
Mining method		Open pits	Open pits	Mostly U/G	Open pits	Open pits
Capex		US$194m	US$546m	US$234	US$168m	US$52m
Strip Ratio		3.3x	0.5x	8.4X + UG	10.4x	13x
Throughput		2.3Mtpa	4.5Mtpa	2.0Mtpa	1.15Mtpa	1.0Mtpa
Recoveries		77%	60%	76%	85%	72%
Spod Conc.		436Ktpa	700Ktpa	350Ktpa	160Ktpa	160Ktpa
Product Spec.		6% Li2O	6% Li2O	6% Li2O	6% Li2O	5.5-6% Li2O
Distance to port		~1000Km	~2,500-3200Km	~800Km	NA	~88Km
Mine life		23Yrs	20Yrs	40Yrs	25Yrs	3.5Yrs
AISC (ex credits)		US$313/t	US$371/t	US$423/t	US$310/t	US$350/t

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Analysis/Valuation update

- We view the intention to demerge the Goulamina lithium asset as a positive move by FFX and we look forward to further news flow from the asset. We note the large valuation gap compared to its lithium peers, even when including the Morila asset.
- We have increased our Goulamina asset valuation in our sum of part to 10cps or A$90m (from A$60m) given the decision to demerge and likely re-rate of the asset once in a separate entity. The added interest in the lithium sector along with peer valuations assisted our decision.
- We have **increased our production estimates from ~140kozpa to ~160kozpa (100% basis) post CY22 ramp up** (6 year LOM), due to the Morila resource grade increasing from 1.26g/t to 1.50g/t allowing our head grade assumption to increase to 1.25g/t (assumes ~17% mining dilution) previously 1.10g/t.
- Assuming a head grade of 1.3-1.5g/t leads to the Company production target of 150-200kozpa.
- The increase in our production estimates has subsequentially reduced our AISC assumption from ~A$1650/oz to ~A$1,470/oz, once the mill is fully ramped up on the Morila ore.
- FFX plans to transition the current tailings mining operation to include the Satellite ore feed by May/June and commence Morila pre-strip in MarQ CY22 with first ore available Jun-SepQ CY22. We have assumed a production scheduled in line with the Company's comments.
- We have slightly increased our capex assumption in CY21 from A$45m to A$50m to be conservative and will look to adjust once further details on the timing and quantum of the capex spend are released along with the mine design and Ore Reserves studies.
- We continue to assume that the Company will be able to secure a A$30m debt facility and have diluted for a capital raise of A$20m at 20cps in our Valuation and Price Target.
- The Company finished the DecQ with A$27m in cash/gold and debt of A$7m, slightly weaker than we expected due to an unexpected ~US$3m overdraft position inherited from the previous owners.
- We have increased our Valuation and Price Target to 35cps (~A$275m) from 30cps, largely due to an increase in our Morila head grade assumption and the increase value for the Goulamina lithium asset.

ASSET VALUATION	A$m	A$/sh
(+) Morila (risk adj 80%)	191	0.22
(-) Corporate	(27)	(0.03)
(+/-) Heding	-	-
(+) Exploration	32	0.04
(+) Unpaid Capital (new equity)	20	0.02
(+) Goulamina Lithium	90	0.10
(+) Cash	27	0.03
(-) Debt (overdraft facility)	(7)	(0.01)
Total	327	0.37

- Although our Valuation and Price Target have increased we maintained our risk adjusted discount of 80% on the Morilla NPV12, this is to account for potential further equity dilution and the tax liability claim by the Mali Government. We reiterate our Speculative Buy recommendation.
- We reiterate our Speculative Buy recommendation.

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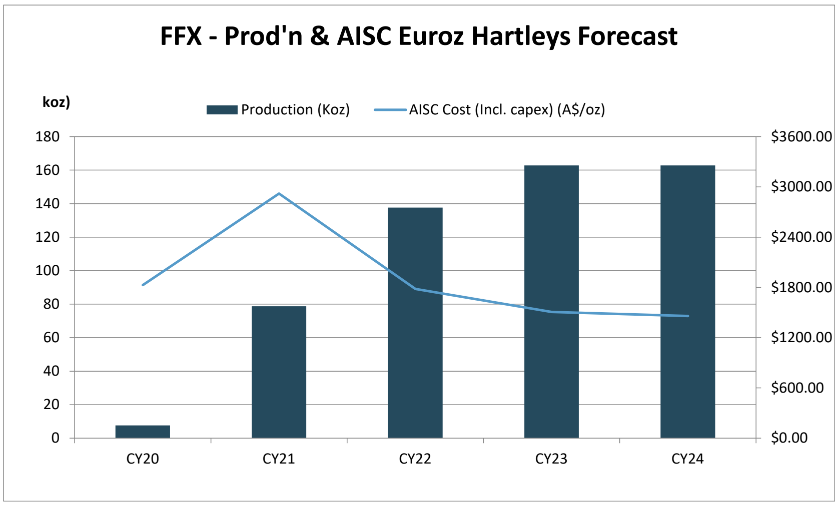
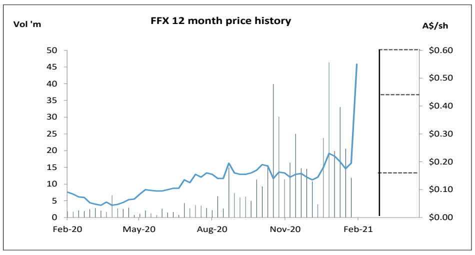
Key Variables

Val/ Sh	Gold $								
$0.37	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD 15%	$0.081	$0.119	$0.157	$0.195	$0.233	$0.271	$0.309	$0.346	$0.384
10%	$0.098	$0.137	$0.177	$0.217	$0.256	$0.296	$0.335	$0.375	$0.415
5%	$0.116	$0.157	$0.199	$0.240	$0.282	$0.323	$0.365	$0.406	$0.448
0%	$0.136	$0.179	$0.223	$0.266	$0.310	$0.354	$0.397	$0.441	$0.484
-5%	$0.158	$0.203	$0.249	$0.295	$0.341	$0.387	$0.433	$0.479	$0.525
-10%	$0.182	$0.230	$0.279	$0.327	$0.376	$0.424	$0.473	$0.521	$0.570
-15%	$0.209	$0.261	$0.312	$0.363	$0.415	$0.466	$0.517	$0.568	$0.620

Euroz Forecast	FY'2020	FY'2021	FY'2022	FY'2023
Gold (US$/lb)	$1,770.35	$1,925.00	$1,800.00	$1,725.00
AUDUSD	$0.69	$0.73	$0.73	$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Price Target $0.37/sh

Valuation $0.37/sh

Bull Scenario $0.70/sh
FFX finds additional ore at a higher grade than the Morila pit allowing production to exceed our forecast long term production average of ~160kozpa. The gold price tracks above our LT price assumption of of A$2,650/oz. The Company is able to sell the Goulima for +A$150m in cash to fast track development at Morila whilst strengthening the balance sheet.

Base Scenario $0.37/sh
The Company is able to restart open pit mining in-line with our estimates and ramp up production to ~160kozpa (100% basis) post CY22. FFX successfully executes to become a mid cap gold producer.

Bear Scenario $0.05/sh
Gold price falls. Refurbishment and mining costs exceed our estimates and further equity dilution is required. The Company is unable to monetise the Goulima lithium project.

Company Summary

Firefinch Limited (FFX) owns an 80% interest in the Morila gold mine in Mali, with the Company planning to transition the 4.5mtpa plant from its current tailings ore feed to treat open pit ore from satellite and ultimately the Morila pit. . The Company continues to progress its Morila gold project, recently announcing a larger than expected resource upgrade to 1.86Moz at 1.50g/t. On our numbers we believe FFX has the potential to become a ~160koz pa producer once the mine/mill is full ramped up. We also note that Company has a quality lithium asset in Goulamina also located in Mali, which it intends to demerge within CY21.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics			Year End 30 June	
Share Price	**0.250**	**A$/sh**	**Directors**	
Issued Capital			A.Cowden	Exec. Chair
Fully Paid Ord	781.9	m	M.Hepburn	NE Dir
Options (var. prices)	31.1	m	B.Borg	NE Dir
Total Dil.	**813.0**	**m**	B.Fraser	NE Dir
			E.Lee	Sec
Market Capitalisation	**$195**	**m**	**Shareholders**	
Enterprise Value	$175	m	Board and Mgt	2.5%
Cash	$27	m		
Debt	$7	m		

Asset Valuation	A$m	A$/sh
(+) Morila (risk adj 80%)	191	0.22
(-) Corporate	(27)	(0.03)
(+/-) Heding	-	-
(+) Exploration	32	0.04
(+) Unpaid Capital (new equity)	20	0.02
(+) Goulamina Lithium	90	0.10
(+) Cash	27	0.03
(-) Debt (overdraft facility)	(7)	(0.01)
Total	**327**	**0.37**

F/Cast Production	(A$m)	2020F	2021F	2022F	2023F
Morila (100%)					
Throughput	Mtpa	0.9	3.9	4.0	4.5
Head grade	g/t	0.45	0.78	1.19	1.25
Recovery	%	52%	78%	90%	90%
Gold Production	Koz	8	79	138	163
Cash Costs (C1)	**A$/oz**	**1,670**	**2,503**	**1,392**	**1,318**
AISC (incl capex)	A$/oz	1,828	2,921	1,782	1,508
AISC (incl capex)	US$/oz	1,263	2,133	1,301	1,108
Assumptions					
Spot Gold Price	US$/oz	1,770	1,925	1,800	1,725
FX Rate ass'd	A$/US$	0.69	0.73	0.73	0.74

Ratio Analysis (A$m)	2020F	2021F	2022F	2023F
Cashflow	4	21	75	88
Cashflow Per Share	-0	0	4	6
Cashflow Ratio	na	58	7	4
Earnings	5	16	64	73
Earnings Per Share	1	2	8	9
EPS Growth	-1	2	3	0
P/e Ratio	43	13	3	3
Enterprise Value	174	181	138	66
EV/EBITDA	26	6	1	1
EV/EBIT	26	7	1	1
Net Debt/(Net Debt + Equity)	12	-1	-2	-3
Interest Cover	na	na	na	na
EBIT Margin	0	0	0	0
Return on Equity	0	0	1	0
Return on Assets	0	0	1	0
Dividend per Share	0	0	0	0
Dividend Payout Ratio	0	0	0	0
Dividend Yield	0	0	0	0
Dividend Franking	na	na	na	na

Profit and Loss (A$m)	2020F	2021F	2022F	2023F
(+) Gold revenue	16	164	270	306
(+/-) Hedging Revenue	-	-	-	-
(+) Interest Income	-	-	-	-
(+) Other Revenue	-	-	-	-
Total Revenue	**16**	**164**	**270**	**306**
(-) Operating Costs	(9)	(134)	(166)	(186)
(-) Dep/Armort	(0)	(5)	(11)	(15)
(-) Writeoff (expl'n)	-	-	-	-
(-) O/H + News Bus Dev.	-	-	-	-
(-) Provisions	-	-	-	-
EBITDA	**7**	**30**	**104**	**119**
EBIT	**7**	**25**	**93**	**105**
(-) Interest Expense	-	(2)	(2)	(0)
NPBT	7	23	91	104
(-) Tax	(2)	(7)	(27)	(31)
(-) Minority Interest	-	-	-	-
Net Profit	**5**	**16**	**64**	**73**
(+/-) Net abnormal	-	-	-	-
Net profit After Abnormal	5	16	64	73

Cash Flow (A$m)	2020F	2021F	2022F	2023F
Net Profit	5	16	64	73
(+) WC adj.	(1)	-	-	-
(+) Dep/Amort	0	5	11	15
(+) Provisions & W/O	-	-	-	-
(+) Tax Expense	2	7	27	31
(-) Deferred Revenue	-	-	-	-
(-) Tax Paid	(2)	(7)	(27)	(31)
Operating Cashflow	**4**	**21**	**75**	**88**
(-) Capex + Dev.	(2)	(40)	(24)	(8)
(-) Exploration	(8)	(8)	(8)	(8)
(-) Asset Purchased	(40)	-	-	-
(+) Asset Sale	-	-	-	-
(+/-) Other	-	-	-	-
Investing Cashflow	**(50)**	**(48)**	**(32)**	**(16)**
(+) Equity Issues (rts,plc,opts)	71	20	-	-
(+) Loan Drawdown/receivable	-	30	-	-
(+) Loans from(to) other entities	-	-	-	-
(-) Loan Repayment	-	-	(20)	(10)
(-) Dividends	-	-	-	-
Financing Cashflow	**71**	**50**	**(20)**	**(10)**
Net Cashflows	25	23	23	62
(+/-) FX Adj.	0	-	-	-
EoP Cash Balance	**29**	**52**	**75**	**136**

Balance Sheet (A$m)	2020F	2021F	2022F	2023F
Assets				
Cash	29	52	75	136
Current Receivables	-	-	-	-
Other Current Assets	-	-	-	-
Non-Current Assets	-	35	48	41
Total Assets	**29**	**87**	**123**	**178**
Balance Sheet				
Borrowing(s)	-	30	10	-
Current Accounts payable	2	2	2	2
Other Liabilites	0	0	0	0
Total Liabilties	**2**	**32**	**22**	**2**
Net Assets	**27**	**55**	**100**	**175**

Reserves and Resources

	Reserves			Resources		
	ore mt	grade g/t	metal Koz	ore mt	grade g/t	metal Koz
Morila				42.6	1.6	2,190
Tailings				3.2	0.5	51
Satellites				2.6	1.38	113
Total contained Gold			0		1.52	2,350
EV/oz			0			83

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Contact Details

Euroz Hartleys Securities Limited **+61 8 9488 1400**

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Associate Research Analyst	+61 8 9488 1414