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RESEARCH

Tectonic Gold

11th September 2020

High-grade focused Australian gold portfolio, with multi-million ounce potential projects to be joint ventured or sold to majors

Tectonic Gold Plc became AQEX listed in 2018 following the reverse takeover (RTO) of Australia based gold explorer, Signature Gold. This brought into the company impressive R&D, big data and exploration methodology which has been developed in Australia on other Intrusive Related Gold System (IRGS) regions around the world. Tectonic is focused on the huge global gold opportunities in large-scale high-grade IRGS projects, which investors are just beginning to wake up to.

Identified and proven gold bearing systems in a highly prolific area

Tectonic Gold is well positioned to provide the majors with replacement projects. The company has two large, advanced projects, one of which could be a Mt. Morgan (8Moz gold) lookalike, in a highly prolific gold belt. More than 3Moz is now being targeted at each of these two projects after gold bearing systems at each of these projects have been confirmed. Investors benefit from a past £7.5m spend, resulting in compelling discoveries and multiple drill ready targets.

JORC resource expected within 6 months following 3,500m of drilling

There are short-term plans for further drilling at the flagship Specimen Hill which seems to be shaping up to have impressive potential. Already, two principle mineral systems (epithermal and porphyry) consisting of Au/Ag and Cu/Au from multi-phase hydrothermal events have been confirmed.

Rio Tinto has pegged acreage next door to Tectonic's flagship project

At the large Biloela Project, Tectonic has given up some ground to focus more on the sweet spot found at Specimen Hill. Rio Tinto has also just taken 60% of the ground that was released. The majors are watching.

Peer comparisons suggests considerable upside potential

A highly-leveraged play on the price of gold. **We update coverage of Tectonic Gold with a target price of 5.54p and Conviction Buy stance.**

Table: Financial overview

Year to end June	2018A	2019A	2020E	2021E
Revenue (£'000)	199	32	48	360
PTP (£'000)	(3,534)	(1,151)	(526)	(578)
EPS (p)	(1.80)	(0.12)	(0.07)	(0.06)

Source: Company accounts & Align Research

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CONVICTION BUY

– Price Target 5.54p



Key data

EPIC	TTAU
Share price	0.35p
52 week high/low	0.40p – 0.22p
Listing	AQEX
Shares in issue	844.035m
Market Cap	£3.0m
Sector	Mining

12 month share price chart



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Business overview

Tectonic Gold Operations

Tectonic Gold is a mineral exploration and development company that is focusing upon the global opportunity that lies within large-scale, high-grade Intrusive Related Gold Systems (IRGS) in stable jurisdictions. **The company is seeking to apply its bespoke R&D, big data and exploration methodology which has been developed in Australia and other IRGS regions around the world.** Currently, the company has gold exploration and development interests in Australia, along with diamond and mineral sands interests in South Africa which the company is divesting out of to focus all its attention on its gold assets.

- **Australia – The company has an extensive exploration portfolio of >400km² of tenements in Queensland.** Eight gold bearing systems have been defined in current leases where Tectonic's research and exploration has defined the scope to ultimately hold a gold resource in excess of 3 million ounces in each system. Discoveries have been made and now Tectonic is seeking to define JORC compliant resources and embark on feasibility studies.

- **South Africa** – Tectonic has a non-diluting 10% equity interest in Deep Blue Minerals which has a producing diamond mine within the Alexkor diamond fields. Plus, it has an interest in a Heavy Mineral Sands project, also at Alexkor, where it has partnered with an experienced group to take over operational control of the asset into the future. Tectonic will again retain a non-diluting equity interest in this asset post divestment.

Intrusive Related Gold Systems

Intrusive Related Gold Systems (IRGS) represent a new frontier for the discovery of significant, large gold deposits. This is a relatively recent development as there was little comprehensive research into the actual genesis of gold deposits until the 1980s. Developments since then seem to have re-written the rule book, with a number of well-known big gold deposits and large gold mines now being reclassified as IRGS deposits.

During the 1990s, a series of very rich gold discoveries in some of the most rugged terrain in North America (Canada and Alaska) were made in an area which is now called the Tintina Gold Province (TGP). This led geologists to question the then current models. Within the TGP, other mineral deposits were known to exist, including copper, lead, zinc and silver, but these were volcanogenic massive sulphide (VMS) deposits.

The gold deposits in Tintina originated from volcanic activity and were caused by volcanic intrusions into the older rocks. The large placer gold deposits (alluvial gold deposits) found there have been created by the weathering of these rocks.

In fact, the TGP is actually an arc which spans 1,200 - 2,000 kilometres (various sources give different figures) and around 200 kilometres in width extending from northern British Columbia across the Yukon and through SW Alaska to the Pacific. Along the majority of this entire length the TGP lies between the Kaltag-Tintina fault systems in the North and the Farewell-Denali fault systems in the South.

Large IRGS deposits have since been shown to occur in certain tectonic belts on a worldwide basis. Very characteristically, the age of IRGS and the host rock are similar, and the metals are derived from a granite intrusion. Essentially, there are three types of settings which are hosted within the intrusion, hosted close to the intrusion or close by in the overlying sediments.



Location of IRGS deposits around the world. Source: Company

Besides the TGP, other well-known world-class IRGS deposits can be found in the North Kazakhstan Auriferous Province, Kazakhstan and the North China Craton. These seem to be important reference sites which provide a good example of not only the large scale, but also the high-grade potential of IRGS. China has been the world’s largest producer of gold since 2007 and it is thought that a quarter of this production actually comes from reserves that are hosted within IRGS in the North China Craton.

An important point to note is the real spread of IRGS around the so-called “Ring of Fire” in the Pacific which extends into Queensland, Australia. This is an extensive ring of volcanoes and other tectonically active processes that have been going on for millions and millions of years. Tectonic Gold’s tenements are located in the New England Oregon (NEO) area in Queensland, which is seen to possess the same sort of tectonic topography as in the TGP as well as in the North Kazakhstan Auriferous Province and the North China Craton. **This does serve to highlight the real possibility of what may yet be discovered at the IRGS gold deposits in eastern Queensland.**

As IRGS have only really started to be recognised as a major source of world gold production over the past couple of decades, it has led experts to only recently begin to look at existing gold deposits from a new angle. This work has led to some of the major gold discoveries in Queensland being reclassified as IRGS including Ravenswood (4.8Moz gold), Kidston (5Moz gold) and Mount Morgan (12Moz gold).

The team at Tectonic Gold have developed bespoke research & development which, used alongside big data and pioneering exploration techniques, can take advantage not only of the surface signatures of IRGS, but also the mineralisation styles which have been found to relate to deeper porphyry systems. This is in addition to mineralisation systems which in the past exploration have been previously wrongly identified. Tectonic’s unique skill set that has been honed in Australia can be exported to a host of IRGS systems around the world.

Background

The company joined AIM in 2004 as Interactive Prospect, one of the UK's leading online direct marketing companies. Since then the company has had a number of different guises, including Directex Realisations and Woodbourne Square AG.

In October 2011, a new board took over the management of Woodbourne Square AG and completed a major review of the strategic position and business model. In 2012, the company changed its name to StratMin Global Resources, an investing company focused on seeking out investment opportunities in the natural resource and extractive industries sector. The Directors identified graphite as one such strategic mineral and made an equity investment in Graphmada Equity Pte Ltd, a business which owned a graphite resource in Madagascar. The company initially acquired a 15% equity stake in Graphmada for US\$1.25 million and later on in 2012 went on to acquire the remaining 85% holding for £25.5 million in a largely equity-based deal.

Good progress was made at Graphmada but the plant needed further investment for expansion which at the time was not available in a tough market for raising equity funds. In September 2015, Bass Metals invested £2 million for a 25% stake in Graphmada Graphite and went on to acquire the entire company from Stratmin in April 2016. This move not only provided a full funding solution for the Madagascan operations but also allowed the directors to take advantage of more exciting opportunities that they had been exploring. Following this disposal, the company then became a cash shell under the AIM rules, looking to complete a value a reverse takeover (RTO) within the precious metals sector.

In February 2016, the company announced the acquisition of Signature Gold Limited, a specialist Australian gold exploration company focused on large-scale IRGS assets in Queensland, Australia. In the run up to becoming a cash shell, the board had spent a lot of time looking at opportunities across a number of industries and believed that Signature Gold was an attractive acquisition target which supported the company's strategy to pursue acquisitions of projects in gold exploration and/or mining. StratMin's shares were suspended from trading on AIM pending the RTO of Signature Gold. Delays in a proposed £5 million funding meant that the RTO was not able to be achieved by August 2017 and so under AIM rules, the listing was cancelled.

In May 2018, the company was able to announce the acquisition of Signature Gold, a successful placement and a re-listing on the AQUIS Stock Exchange (formerly NEX). A Scheme of Arrangement was published by which shareholders in Signature Gold would accept for the acquisition of their company the sum of £9 million, satisfied by the issue of 450 million shares at 2p each and the company's name was changed to Tectonic Gold, which better reflected the new corporate strategy. Following the acquisition, the company planned to raise £1 million in a placing at 2p and then become admitted to trading on the AQUIS Exchange at an initial market capitalisation of £13.6 million (at the placement price).

With market sentiment turning against junior exploration companies creating a difficulty environment to raise further exploration funds, the company looked to secure a production ready project to generate cash flows and avoid further diluting shareholders. An opportunity was identified to contract mine diamonds on the South African Government's Alexkor mine site on the west coast of South Africa. Here, AIM-listed Kazera Global has now taken over control and is funding the project into production, with Tectonic retaining a non-diluting 10% interest.

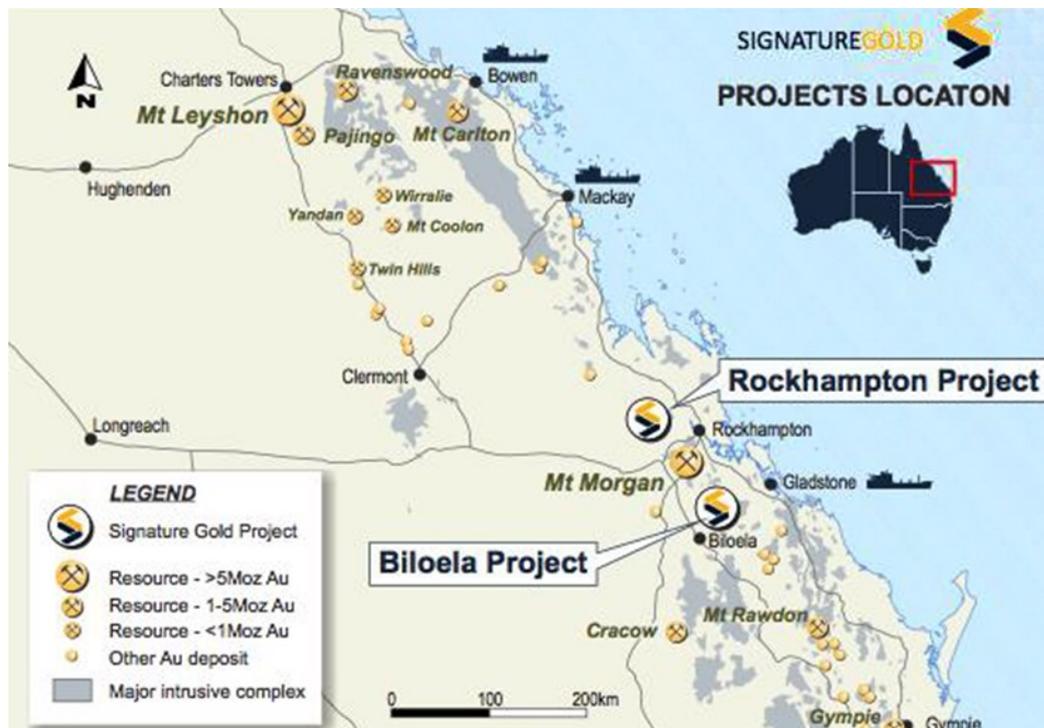
Operations

Tectonic Gold is a natural resources exploration and development company that is focusing on the global opportunity that lies within large-scale high-grade IRGS. In the early 2000s, IRGS was just a topic limited largely to discussion between academics in Australia. But by the mid-2000s it started to get mentioned in various mining publications. This was the spark that started the development of business that has become Signature Gold. Tectonic is looking to apply the bespoke R&D, big data and exploration methodology which has been brought into the company through the RTO, and which has been perfected in Australia along with other IRGS regions around the world.

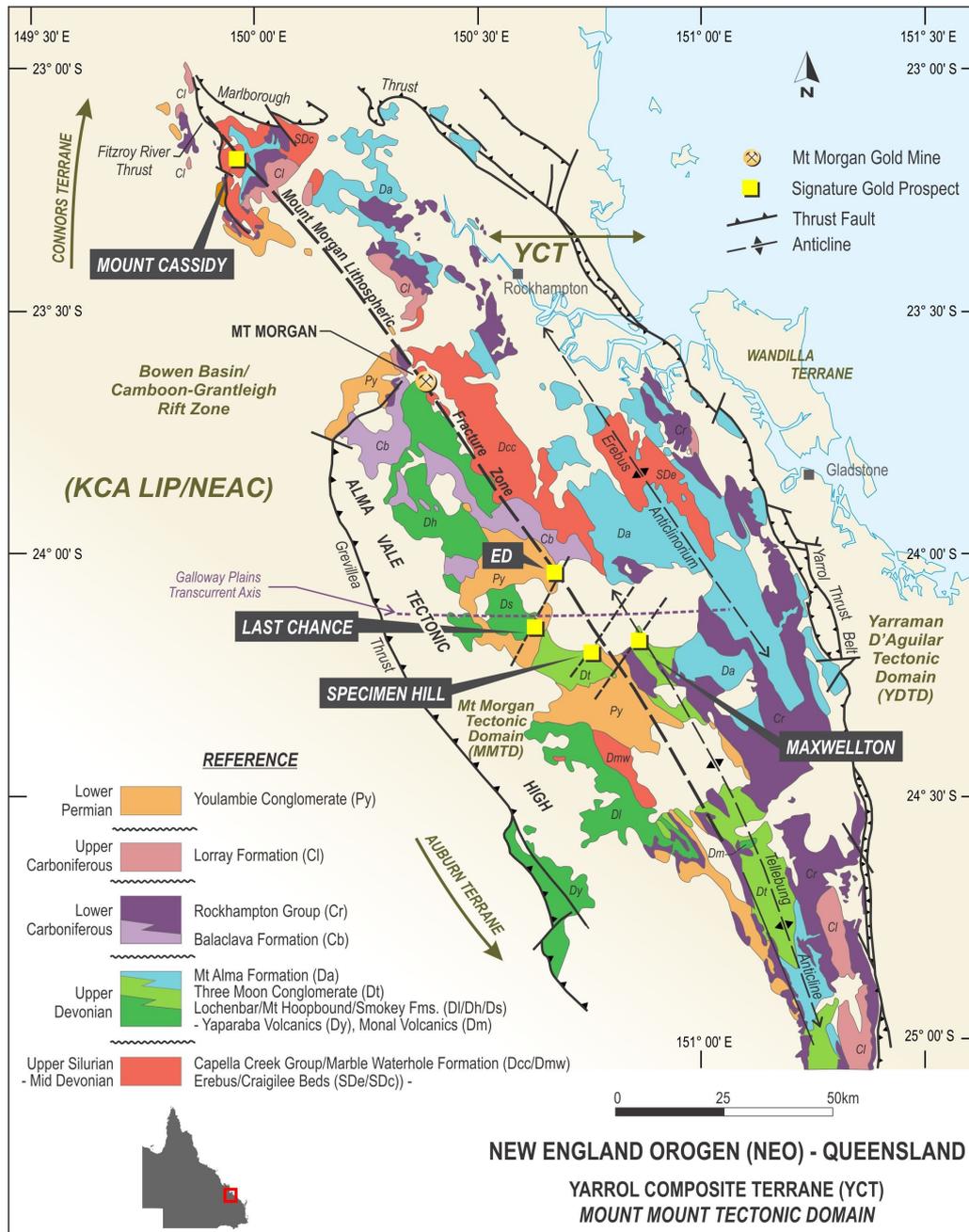
Australia

Tectonic has an Australian IRGS portfolio of projects which cover an area of >400km². These have been selected following detailed analysis of the areas of major intrusive complex in central Queensland.

Tectonic, within its portfolio of 5 100% owned tenements have identified eight gold mineralised systems, each with the potential for a +3 million ounce resources in a prolific gold belt where regional neighbours include major mining companies such as: Resolute, Newcrest, AngloGold, Evolution Mining and RioTinto.



Tectonic has identified a number of potential multi-million-ounce gold mineralised systems previously untested at depth, in tenements where the company has completed more than £7.5 million of exploration work. **Already, these targets have been independently verified as prospective and lie in a belt which contains some major historic gold deposits, such as Mount Morgan (8Moz gold), Kidston (5Moz gold), Ravenswood (4.8Moz gold), and Mount Rawdon (2.0Moz gold).** Importantly, these major gold mines have only recently been recognised to be IRGS and been reclassified as such.



Regional tectonic setting of the Biloela and Rockhampton Projects Source: Company.

Tectonic is searching for big targets in elephant country. The company has been focusing on a region which has remained unexplored due to its rugged terrain. Plus, there is a lot of alluvial material covering the primary rocks and so the geochemistry has been masked. Over the last two years, Tectonic has dropped the Clermont and Sarina projects, which were increasing seen as being non-core. This move has allowed the company to becoming completely focused on the two big potential deposits that the team has discovered at Specimen Hill (Biloela) and Mount Cassidy (Rockhampton). The company has enjoyed tremendous success in unlocking these projects

Proven gold bearing systems have been identified at both these leading projects and the team is now targeting the discovery of more than 3 million ounces (Moz) of gold at each project. In all, Tectonic has found more than 10 defined gold systems and seven of these are located at Biloela and Rockhampton where discoveries have been confirmed and there are multiple drill ready targets.

The discoveries are all the more impressive as they have been achieved with less than 10,000m of drilling, which does suggest that Tectonic might well be building **one of the lowest dollar per ounce gold exploration businesses**. In 2018/19, Tectonic completed a 2,700m drilling programme which confirmed the discovery of a large-scale gold system under cover, with gold intersected in every single hole and grades running as high as 35g/t gold. Extensive analytics, along with follow up field work during 2019/20, was completed to target the high-grade core of the gold system. The end result is not only that **discoveries have been confirmed** but also that walk up bull's eye porphyry drilling targets are in place. These represent targets in a prolific gold belt which is the home to Australia's largest gold companies.

It will be the powerful combination of location, scale and grade that Tectonic is hoping to use to either joint venture or sell these projects to the majors. The lead project is at Biloela where there is a total of four discoveries contained in the project package. These are: Specimen Hill, Last Chance, Maxwellton and E.D. Of these discoveries, the priority is Specimen Hill.

Reappraisal of the geology of Queensland

The team has been applying technology to this specific type of mineralised systems for many years, led by Alex Teluk, their former Chief Geologist. Alex has more than 45 years of experience and has been involved in a lot of gold projects in Queensland, looking more closely at the regional view in recent years. It was his belief that the current geological understanding was incomplete and he does not seem to have been alone in this view as to the north of Queensland, James Cook University had been remapping the geology and to the south, one of the world's largest gold mining companies Newcrest Mining had been doing similar work.

There was a gap in the middle of Queensland which seemed to have been largely ignored from this process of reappraising the geology with the benefit of modern models of mineralisation, probably because this area was more complex. Such work involved finding a mineralised system and tracing it back to a heat source. It had probably only really been done in the past in the time leading up to the recognition of the large Cadia-Ridgeway deposits in New South Wales (now developed into a series of large underground and open-pit gold and copper mines), which bare IRGS tell-tale signs. This seems to have caused a rethink about the geology of Queensland and the Tasman Belt in the late-1990s. It is the painstaking work by this team over many years dating back to the mid-2000s which has put Tectonic in a position to be able to take full advantage of its first mover advantage.

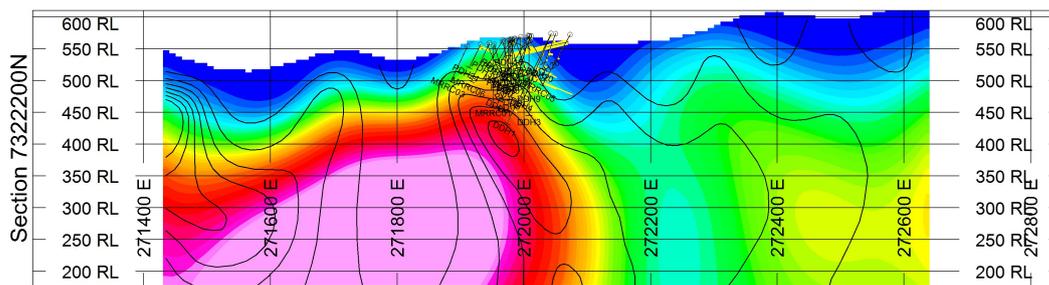
Specimen Hill

At the Biloela Project, Tectonic has pioneered the use of new technologies to discover high-grade gold/copper porphyry clusters in a major gold mining region and Specimen Hill represents the lead asset in this project. Specimen Hill is the top priority and this prospect is now drill ready for JORC resource definition. The prospect has a 6km² anomalous surface geochemical footprint and boasts what seems to be a porphyry cluster accompanied by multiple epithermal mineralised zones.

Specimen Hill was selected to be the focus of the current development plan as it has well-developed high-intermediate sulphidation epithermal gold-copper mineralised veins that have been identified in numerous locations across the project. In the past, historic mining at

Specimen Hill saw more than 8,000 ounces of gold mined at grades as high as 40g/t gold, so the system is known to contain significant gold. Sampling of some of these veins by Tectonic has assayed over 50g/t gold.

Before the 2018/19 drilling programme, a total of 55 historic drill holes covered 300 metres strike to a depth of only 125 metres. These holes were only drilled to such a relatively shallow depth as the previous exploration companies who held the ground before Tectonic were solely focusing on defining a resource that could be mined by quickly via open pit methods. This work was carried out in the days before the recognition of Queensland's IRGS potential and there were growing concerns about the size of mining footprints and highly selective underground operations began to be seen as important development options.



Magnetic model outputs along section 7322200N. Also shown is the Specimen Hill drilling and SAM MMC contours. Note the best gold intersections at that time appear to be located on the eastern margin of the magnetic body. Interestingly, the SAM MMC model output also shows a coincident high current channelling feature indicating an easterly dip of the source of the mineralisation that has been drilled at surface. Source: Company

2018/19 drilling programme

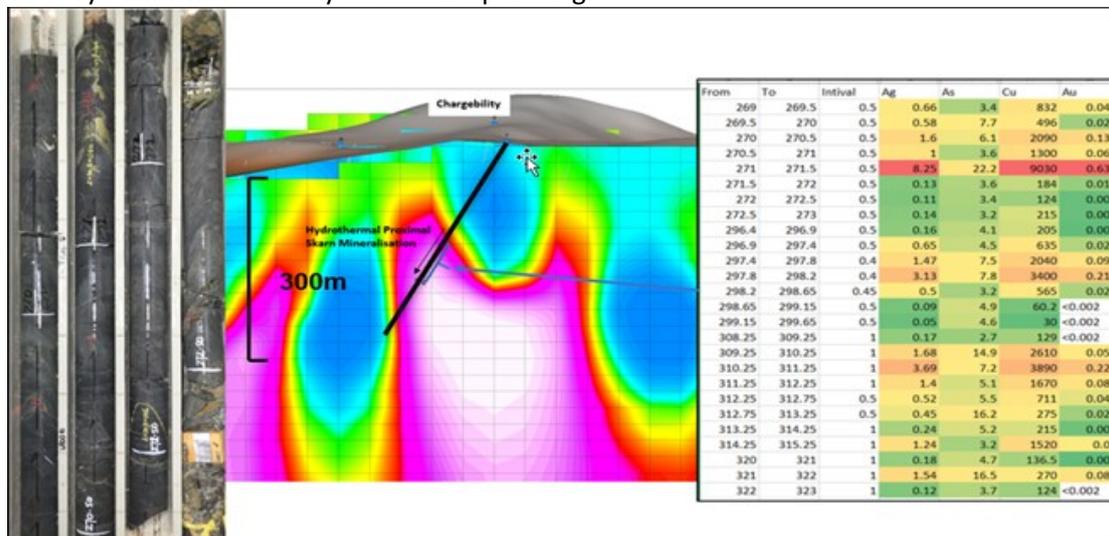
Tectonic has mapped 1,500 metres strike ahead of drill testing at depth, plus extension drilling. Specimen Hill represents a multi-phase epithermal (gold, silver and copper) and **has scope for multi-million-ounce gold potential**, with also multiple additional targets over an area of 6km². Gold had already been proven from the surface to a depth of 125 metres, and the October 2018 diamond drilling campaign at Specimen Hill (10 holes from the 2,700m) was designed to test two potential porphyry feeder targets as well as validating and extending the existing Main Lodes of known epithermal mineralisation to deeper levels.

Hole	From (m)	To (m)	Interval (m)	Gold (g/t)	Silver (g/t)	Tellurium (g/t)
SHDD09	14.0	14.8	0.8	1.23	151.00	153.50
SHDD11	6.3	7.2	0.9	2.15	0.31	9.79
	59.0	60.0	1.0	1.64	0.30	6.37
	80.2	81.2	1.0	8.25	1.37	19.95
	90.4	91.0	1.6	5.79	20.76	3.27
	Including 0.25m @ 35.2g/t gold, 37.2g/t silver and 15.15g/t tellurium from 90.4m					
	118.0	119.0	1.0	1.35	5.54	5.76

Significant intercepts greater than 1g/t gold from the Phase 1 diamond drilling programme at Specimen Hill beginning October 2018. Source: Company

The last drilling programme at the flagship Specimen Hill project site was **highly successful**, intersecting further mineralisation in each of the ten drill holes with **high grade gold intersected at gold grades up to 35.2g/t Au and silver grades of up to 37 g/t Ag**.

A total of +70 holes have intersected the gold mineralisation. High grades of gold, copper and silver combined with the surface strike length in excess of 1,500m along with a mineralised feeder being identified from a depth of 300m, which serves to highlight a large-scale system which is ready for follow up drilling.



Sample drill results and gold bearing core from the latest drilling (2019). Source: Company

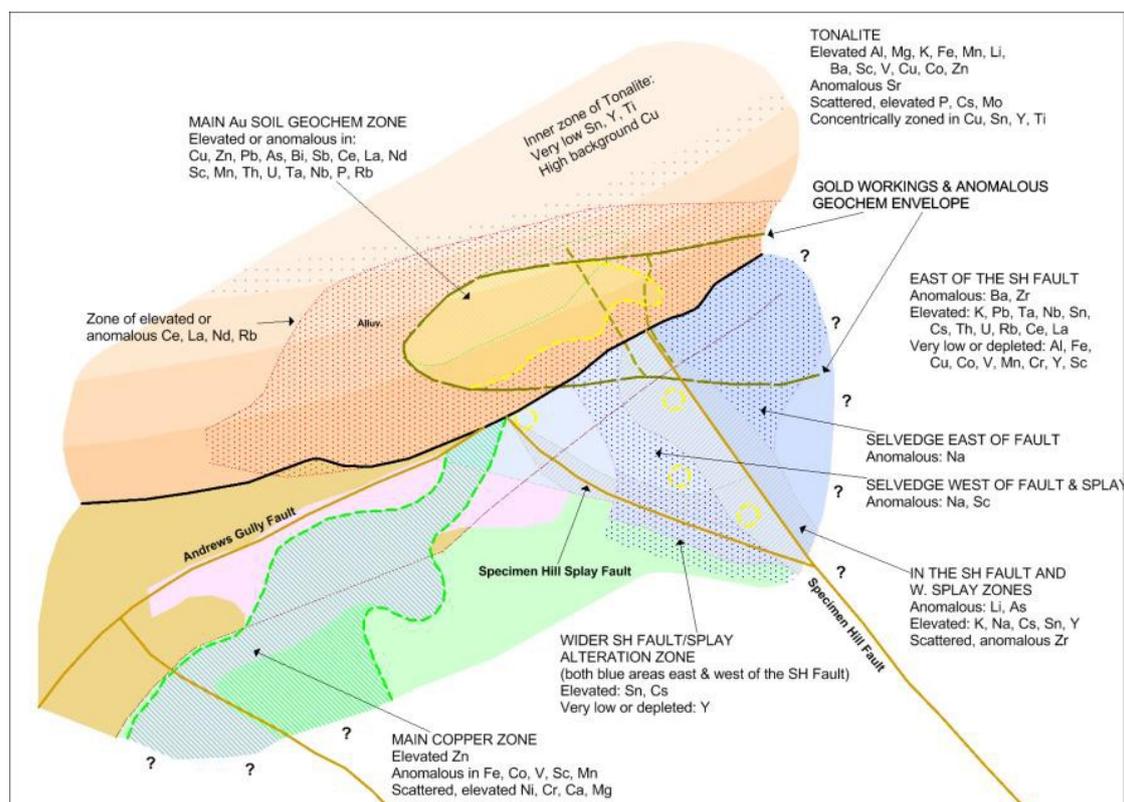
Targeting for the drilling campaign was undertaken using Australia’s first deployment of the DIAS 3DIP survey system that has been adapted from technology used in deep targeting in the oil and gas exploration industry. Drill core samples were subjected to extensive analysis including Laser Ablation Inductively Coupled Mass Spectrometry (LA-ICP-MS). This was used to confirm the genetic link of the known gold near the surface to the feeder system being tested at 500 meters and below.

The results of the campaign have served to confirm the presence of a large gold bearing system that was mineralised during the same time period as some of the major deposits in the region. By tracing the historic flow of mineralized fluids in the system from the drill cores, the team has been able to identify the intrusive feature that is the source of the segment and the potential high-grade core of the mineralisation, giving the company a high quality target for follow up drill testing.

There is no doubt that the fundamentals confirm the main mineralised lode system continues downwards to deeper levels, and albeit skinny follow up drilling is planned to see if these mineralised lodes broaden at depth. In addition, the work has uncovered that there were five different episodes of fluid enrichment and so a better understanding of the geological process has been gained ahead of further drilling.

2020 drilling programme

Detailed technical research work has been undertaken at the Centre for Ore Deposit and Earth Sciences (CODES) at the University of Tasmania. Over the years, CODES has grown substantially and is now widely seen to be a global leader in ore deposit research. The plan now is to get back to drilling later on this year based on the results of the work undertaken by CODES. Tectonic's team know that they have made important discoveries but needed independent technical experts to thoroughly test and validate the mineralisation models.



Highly compelling surface geochemistry at Specimen Hill. Source: Company

There are four primary targets at Specimen Hill which are planned to be drill tested in 2020 with 2,000m of drilling.

1. Firstly, The 'Wedge' where a 200m+ hole with collar is planned to be drilled targeting a copper anomaly that was intersected by drill hole SHDD10.
2. Secondly, 'SH Fault Valley' with a 200m+ hole with collar targeting high chargeability (a physical property related to conductivity) which is thought to be the source of copper and calc-silicate anomalism interested by drill hole SHDDH15 that was drilled in late 2018.
3. Thirdly, the 'Southern Copper Anomaly' is planned to be drilled by two 200m+ holes with collars targeting copper and gold geochemical anomalies in association with Calc-Silicate (CS) core geology in outcrop and targeting deeper copper indicated in magnetometric conductivity (MMC) results from sub-audio magnetic (SAM) survey work.
4. Lastly, 'Andrews Gully/Cameron's Lookout' with a 200m+ hole with collar targeting the high-grade sheet gold-Main Lodes extension core.

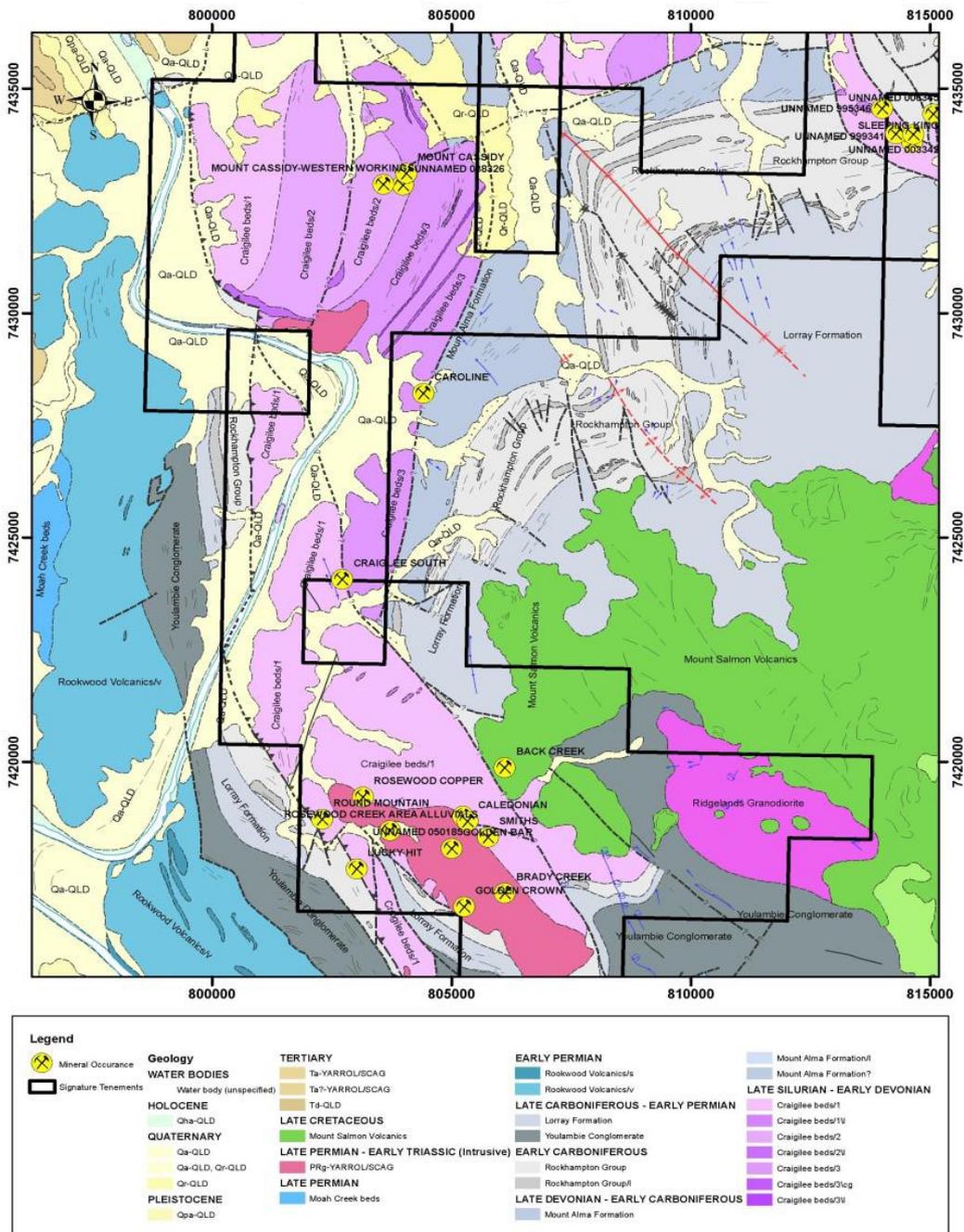
Essentially, the rediscovery of a prolific gold belt at Specimen Hill provides real confidence in the company's tenacity, perseverance and methodology. In the past, exploration companies misunderstood the mineralisation system and it has only been as a result of Tectonics' thorough reinterpretation and analysis that the team has been able to begin to reassess the true gold potential. **Specimen Hill provides an opportunity to potentially unlock multi-million-ounces of gold and so represents a potentially high-class asset in a much sought-after gold belt in a world class jurisdiction,** (see Fraser Institute analysis).

Specimen Hill – 2,000m	
	A\$
Drilling	220,000
Analysis	65,000
Supervision and Rehabilitation	135,000
Sub-Total	420,000
Mt. Cassidy – 1,500m	
Drilling	125,000
Analysis	50,000
Supervision and Rehabilitation	110,000
Sub-Total	285,000
TOTAL	A\$705,000

2020 drilling budget. Source: Company

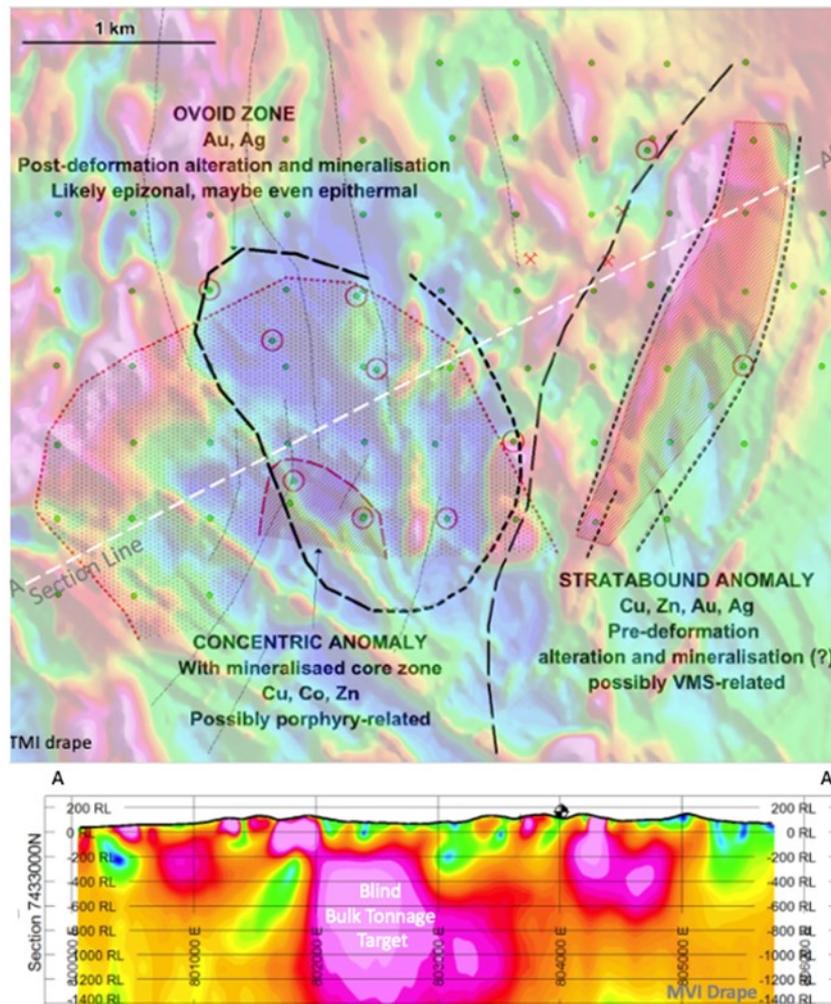
Mount Cassidy

The next round of drilling is expected to also be focusing on the Company's Mt. Cassidy tenure at the Rockhampton Project. As early as last year, CODES' research programme confirmed the IRGS nature of the magmatic hydrothermal system which is the source of the gold discovery at Mount Cassidy. This work highlighted that the shear system at Mount Cassidy was shown to host a dilatational gold enrichment with **gold grades in excess of 30g/t** confirmed from rock chip samples. At that stage, follow-up deep penetrating geophysical mapping was planned to provide final drill targeting on the system.



Regional geology at the Rockhampton Project. Source: Company

This location provides a highly attractive geological context for ore deposition for a number of reasons. Firstly, there is a thrust complex along the Rosewood Volcanics. Secondly, magnetite destruction which serves to highlight a buried intrusion. Thirdly, a chargeability anomalism along the dilation zones. Lastly, deep water calstic/volcaniclastics and turbidites are seen to be present in an older setting – deposits which are sometimes called volcanic-hosted massive sulphides (VHMS).



Blind bulk tonnage target identified at Mt Cassidy. Source: Company

This ground has been tightly held by Tectonic’s founders for twenty years, for good reason. There is no doubt that Mt. Cassidy has multi-phase porphyry and VHMS potential and clearly has all the making of being a Mt. Morgan (>8Moz historic and proximal gold mine) lookalike.

Not only is Mt. Cassidy along strike from Queensland’s most famous gold mine, Mt. Morgan, but it also importantly shares similar time and rock sequence. **Mt. Cassidy represents a large scale (4km²) copper, gold, silver and zinc system with previous small-scale mining averaging 15g/t gold which confirms high grades.**

Mt. Cassidy has limited surface expression and was discovered by the company using advanced geochemistry and geophysics analysis in conjunction with CODES, which took a good look at this and did all the thin section work as well as petrography (rock classification).

The company has employed advanced geochemical analysis and identified a “blind” IRGS system. However, it can be spotted by a tell-tale arsenic and molybdenum halo that often sit around these anomalies and high molybdenum grades here have confirmed the discovery of gold close to a major heat source **which indicates a large deposit**. Deep penetrating geophysics has identified the IRGS structure and drilling confirmed the large scale.

A hydrothermal event caused a dominant pattern which has been seen in the Sub-Audio Magnetics (SAM) geophysical results in the N-S central zone and the surrounding area. Analysis of soil geochemical data of the ‘C’ Horizon, bottom of hole lithology, alteration and SAM has led to the highlighting of the larger anomalous zones.

Now planned is the 1,500m of stage 1 drilling over 5 holes at Mt. Cassidy over the coming months. Two holes will be targeting gold mineralisation associated with stratabound VHMS body. Three holes will be targeting porphyry copper - SAM chargeability anomalies where high-grade gold has been identified at surface.

The structure of Mt. Cassidy is a bit of an enigma and is thought to be a structurally anomalous NS-trending mineralised corridor localised above a magmatic centre. Current thinking is that inside this corridor, fault blocks are bounded by dextral strike-slip fault-veins moved by what is termed a “bookshelf shearing process” which is synchronous with a strike-slip faulting in the steeply dipping vein system. Drilling is expected to determine where the fault is a positive flower or a negative flower structure along a regional north trending dextral strike-slip fault system. In addition, it is also thought that the gold anomalism and old workings are likely to be ‘D’ veins and potentially extensional to the IRGS deposit.

Australian government backing

Signature Gold became credited as an R&D entity by the Australian government following its work on redefining the regional geological and tectonic models, as well its close work with recognised Australian academics and University and State departments. This tax incentive scheme was established to encourage R&D in Australia. Usually, technology and pharma use this facility - mining companies are generally not included. However, the Directors were able to gain approval for the development of an exploration technology for the IRGS system. **The Australian government is backing Tectonic as the R&D being developed by the company could allow for a second wave of gold mining in Queensland, in an area where 50 million ounces have already been discovered and mined.**

The company has been benefiting from this tax incentive scheme for a number years, which serves to limit dilution for shareholders. Essentially, Tectonic gets 43.5% of all qualifying expenditure back as an R&D grant and most expenditure seems to qualify, including all the drilling.

Asset divestment in South Africa

Tectonic has a non-diluting 10% stake in Deep Blue Minerals (DBM) which has a producing diamond mine within the Alexkor diamond fields on the Northern Cape coast. Alexkor is a government-owned company that manages diamond-mining concessions in a joint venture with local indigenous landowners in the Richtersveld region. This is formally known as the Pooling and Sharing Joint Venture (PSJV) where Alexkor is the operating partner. The PSJV allocates mining concessions for alluvial diamonds on the coast (beach concessions) and in the water (marine concessions) between Port Nolloth and Alexander Bay. The company also formed Whale Head Minerals which lodged a mining permit over a dual diamond and heavy mineral sands (HMS) opportunity also within the Alexkor diamond fields on the Northern Cape coast.

Early 2019 brought news that Tectonic was farming into a producing diamond mine to provide cash flow to fund its existing gold operations. Over the last 18 months there have been some big changes in the ownership of these projects. Initially, the company entered into a 50:50 JV with VAST Mineral Sands Pty Ltd, a South African group that held the tenement over the mineral sands within the Alexkor diamond fields and then moved to gain a 100% interest.

Fast forward to early June 2020 and the company announced the sale of a majority interest in Tectonic South Africa to AIM-listed Kazera Global. As announced previously, in December 2019, Tectonic retained a non-diluting 10% interest in Tectonic SA (rebranded Deep Blue Minerals Pty Ltd) which protects them against any dilution from the 26% holding of incoming Black Economic Empowerment partners. Kazera will hold a 64% interest and raised £750,000 to fund the diamond mining project into production.

At that time, Tectonic also announced that it had incorporated a 100% owned South African subsidiary, Whale Head Minerals Pty Ltd, and submitted an application for a Mining Permit to mine HMS within the Alexkor/PSJV diamond mining area to mine ores with DBM for the dual commercialisation of diamonds and HMS from diamondiferous and mineralised alluvial beach sands. Kazera has committed to buying a majority interest in WHM also, with Tectonic retaining some economic interest, subject to the approval of the Mining Permit under application which is understood to be granted in the near future.

Now under the control of Kazera, diamond mining operations recommenced in early August 2020. Cash flow from diamond production is expected to deliver fairly constant monthly NPAT figures around US\$60,000 that to be distributed to partners.

A proprietary application is in process for HMS licence under Whale Head Minerals. Production is planned at a rate of 6,000 tonnes per month (tpm). A rapid scale up to this level of production is expected as the HMS will have been building up as a by-product of the marine diamond production. Further research will be presented on this in due course once all applications are approved.

Strategy for growth

Tectonics directors have a thorough understanding of what needs to be done to add substantial value in the short term. With the diamond and heavy mineral sands assets successfully divested, Tectonic seems to have a clear corporate strategy to develop its Australian gold assets.

Tectonic does not look at greenfield sites but prefers to concentrate its attention on areas that are highly prospective and have been the subject of past drilling, as well as historic gold production. In the past, many local gold deposits were not fully geologically understood and were incorrectly identified and they have since been determined to be IRGS deposits. So, the team is looking for such opportunities and examining for the tell-tale signatures of these potentially large and rich mineralisation systems.

The work in Queensland has been going on for many years and it has been a good mix of both a top down and bottom up study. Firstly, the area with the greatest potential is worked out by mapping the tectonics and so the work becomes increasingly more granular, looking at the individual projects in these “hot” areas. This has led to the analysis of more than 100 projects over a ten-year period which has now been slimmed down to two where all the attention is being focused.

The real advantage with IRGS is that being structurally controlled deposits, means that the gold actually lies in the structure and this factor really reduces the risk of drilling. The range of new deep penetrating geophysical tools that are available today allows the structure to be accurately mapped and IRGS to be discovered at a fraction of the cost of just pattern drilling deposits.

Since listing on the AQUIS Stock Exchange in mid-2018 and following a highly successful drilling programme, Tectonic has gone onto establish proof of concept and an understanding of structural orientation of shear hosted mineralisation at main lodes at its flagship Specimen Hill project. In fact, two principal mineralised systems (epithermal and porphyry) have been identified, with the bulk of mineralisation hosted in east-west trending calc-silicate units with shallow dipping veins splaying off from a calc-silicate-hydrothermal core. Mineralisation has been demonstrated to consist of a large Cu-Au mineralised IRGS system, with several potential deposits. **The message that is coming over loud and clear is that the system is big and has potential to extend to a depth of more than 400m.**

Investors should really start to get excited by the fact that in the Specimen Hill Area there is more than one deposit/style consisting of Au/Ag and Cu/Au systems resulting from multi-phase hydrothermal events. The team reckons that the architecture of Main Gold sheet system extension is similar to the Kupol mine (>2.5 mozs Au & 31.6 mozs Ag) in the Okhotsk-Chukotka volcanogenic belt, Russia, which is owned by Kinross Gold. With all that going on, the company’s attention seems to be focused on the following three aspects. Firstly, evaluation of geological (mineralisation) architecture and devolving hydrothermal system to locate economic mineral traps. Secondly, evaluating Main Lodes extensions to Cameron’s Look Out deposit (800m extension of veins to main lodes). Thirdly, infill drilling to confirm continuity of gold grade and geology so a resource shell can be defined around the high-grade gold veins.

Tectonic’s project pipeline has an extensive database of past exploration, production and drilling. This, combined with the current state-of-the-art technology, means that IRGS deposits can now be identified at low cost. Truth is that the team already discovered the

structure at Specimen Hill from high resolution magnetic surveys and 3D IP and, in combination with past drilling records and historic mining, they knew there was gold in the system before it was drilled, which is a nice situation to be in. Similarly, the drilling of the other projects in the portfolio will simply be used to determine the grade and widths and to provide the essential data to establish a JORC-compliant resource and reserves of gold. This will allow analysts to place an informed valuation on the company by peer comparisons. **This work will also provide the data to move into feasibility studies and be able to offer the projects to potential buyers more fully-formed with further value being added.**

Whilst the company moves into the feasibility study stage at Specimen Hill, work has been continuing at both Mt. Cassidy and other prospects like Last Chance to bring them up to also being walk up drill ready targets. All this does show a well-defined pathway to creating value and at its heart it relies on detailed research, project selection and investing in resource definition drilling. All of this is expected to result in projects being packaged by being taken through feasibility studies to make them attractive to be sold to majors or be further developed on a joint venture basis, with Tectonic retaining a decent percentage stake and receiving a cash payment.

The over-riding management consideration is that all of Tectonic's projects must have the prospectivity for 3 million ounces of gold, which is the necessary hurdle to attract the attention of a big partner. The company is not in the business of definitively proving up all 3 million ounces of gold in each of its projects, but plans to partner in this job with majors like Rio Tinto, Newcrest, Evolution or others and especially those with in-house IRGS experience. These are all active in the same belt and able to fund the probable A\$20 million required for detailed infill resource definition drilling of a large porphyry gold system. The company will be implementing this strategy over the coming months to conclude a project partnership deal at Specimen Hill with a brand name mining company, followed up by similar deals on Mt. Cassidy and Last Chance in due course.

Looking at some of the recent success stories where gold juniors have negotiated impressive deals with major to joint venture projects, an important lesson seems to be to open up your books to potential partners at an early stage. Already, the company has undertaken non-marketing roadshows so that the major potential joint venture partners are aware of the progress that Tectonic has been making in Queensland. Establishing such relationships early on serves to prepare the ground for further discussions when further drilling results from Specimen Hill become available. The majors are less anxious about a JORC-compliant resource but will want to see evidence of a large scale system and the identification of a large heat source. With Rio Tinto taking acreage next door at Bileola, there seems to be plenty of interest in the compelling project opportunities that Tectonic is beginning to generate.

Today, the leading major Australian gold mining companies are sitting on growing cash piles as they are benefiting from a A\$2,700 an ounce gold price. **Such companies are attempting to make the most of such market conditions by upping gold production, which has meant that there is a real need to replace their inventory of gold resources.** Nowadays, there is a whole universe of financial solutions available to take assets like Specimen Hill and Last Chance forward beyond exploration, including streaming companies and Private Equity funds. Streaming companies provide finance via a gold streaming deal with an upfront cash payment in return for a percentage of future gold production. **So, the definition of a JORC-compliant resource is important as it serves to widen the net of potential financing partners.**

The AQUIS Stock Exchange listing was always seen as an important stepping stone to an ASX-listing and/or a standard listing on the London Stock Exchange, which would see the stock thus becoming dual-listed. Either move would allow for a significantly larger fund raising exercise of say A\$5+ million (£2.8+ million) which would open the door to some large scale drilling at Last Chance and Mt. Cassidy.

We believe that such funds are likely to be raised at a substantially higher price that would come with having successfully negotiated or agreed a joint venture deal/sale of Specimen Hill with a major mining company following the expected announcement of a maiden JORC resource within the next six months. Such a move would validate the company's corporate strategy and bespoke R&D technology in IRGS for all to see and set the scene for Tectonic to become more active in IRGS projects internationally.

Financials & Current Trading

Losses that have been recorded over the last five years are mainly due to impairment of investments or the loss on disposal of subsidiaries, which reflects the big changes that have occurred at the company, along with administration expenses. Revenue earned in 2014 stemmed from the graphite operation in Mozambique and in the years 2018 and 2019 from diamond operations in South Africa.

Y/E 30 June £'000s	2014A ¹	2015A ¹	2016A ¹	2018A	2019A
Revenue	153	-	-	199	32
Pre-tax profit/loss	-2,380	-23,205	-7,405	-3,534	-1,151
Net profit/loss	-2,384	-23,205	-1,366	-3,336	-859

¹ year ending 31st December

Tectonic Gold five-year trading history. Source: Company accounts

2019 results

Financial results for the twelve months ended 30th June 2019 marked a year when the company completed the reverse takeover transaction with an Australian-based IRGS specialist explorer Signature Gold Limited and was admitted to trading on the AQUIS in London in June 2018. Revenue from continuing operations was £31,862 with a loss from continuing operations before tax of £1.151 million after expenses. There was a tax benefit of £0.326 million which resulted in a net loss for the period of £0.824 million. After £34,430 of losses on the translation of foreign exchange of foreign subsidiaries, the total comprehensive loss for the year came out at £0.858 million. The loss per share on a basic and diluted basis from continuing operations came out at 0.12p per share.

2020 interims

Unaudited results for the half year ended 31st December 2019 marked a period when management was focused on progressing the Southern Africa projects and finding a partner to commercialise the diamond mining contract. The company also investigated HMS coincident with the alluvial diamond ores and submitted an application for a mining tenement to extract and process HMS. Revenue from continuing operations in the period stood at £47,513 and there was a £128,594 loss from continuing operations before income tax after expenses. There was a tax benefit of £152,163 which resulted in a net profit for the period of £23,569. After £46,344 of losses on the translation of foreign exchange of foreign subsidiaries, the total comprehensive loss for the year came out at £22,775. Earnings per share on a basic and diluted basis from continuing operations equated to 0.003p per share.

Recent developments

In early June 2020, the company announced the sale of a majority interest in Tectonic South Africa to AIM-listed Kazera Global Plc. As announced previously in December 2019, Tectonic retained a non-diluting 10% interest in Tectonic SA (rebranded Deep Blue Minerals Pty Ltd - DBM) to protect against dilution from the 26% holding of an incoming Black Economic Empowerment partner (with Kazera ultimately have a 64% holding). Kazera raised £750,000 to fund the diamond mining project into production.

In this announcement, Tectonic also reported that it had incorporated a 100% owned South African subsidiary, Whale Head Minerals Pty Ltd, and submitted an application for a Mining Permit to mine HMS within the Alexkor/PSJV diamond mining area to mine ores with DBM for the dual commercialisation of diamonds and HMS from diamondiferous and mineralised alluvial beach sands. Kazera has committed to buying a majority interest in WHM, with Tectonic retaining an interest, subject to the approval of the Mining Permit under application.

Tectonic's immediate focus however is strongly on delineating JORC resources on its Queensland properties.

Risks

Geological risks

There are a series of technical risk factors concerning the amount of understanding of the geology of the project areas, the mineralisation style being targeted and the distribution and magnitude of the indicators that have been identified in exploration work.

Political risk

The mining industry is arguably the most susceptible sector of the market to political risk largely due to its importance to the host country's economy. Australia is recognised as one of the pre-eminent mining jurisdictions globally, (Fraser Institute).

Metal price risks

Metal prices are highly cyclical and changes in the prices of gold could have a negative or positive impact on the valuation of the company's projects and revenue from the sales of metals. Over the past twelve years, the price of gold has been highly volatile, trading between a low of US\$712 to a recent record high of over US\$2,000 per ounce.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from Australian dollars, US dollars and South African rand into sterling. Fluctuations in the value of the Australian dollar, US dollar and Rand against Sterling may well have an effect on the valuation Tectonic is awarded, by the market.

Future funds

The market for raising funds for small cap companies may have improved from the difficult conditions two years ago. Despite the rapidly improving environment for junior mining stocks, prompted by the buoyancy of the gold price, there is no guarantee that such market conditions will continue. Fundraisings in the sector might go back to seeing incoming investors demanding substantial discounts to provide the necessary capital.

Board of Directors

Bruce Fulton – Executive Chairman

Bruce is an experienced geologist and mining executive who previously led the geological effort at Porgera, which has particular relevance to the style of mineralisation being targeted by Tectonic. Following his operational career in mining with companies such as Dominion Mining, Placer Dome and Plutonic Resources, Bruce founded Ophir Partners, an executive search company specialising in the global resources industry. He has been a director of a number of Australian listed and private resources companies including EIDore Resources, Universal Resources, Southern Crown, Larus Energy and Alice Queen, another IRGS explorer. He is a member of the Australian Institute of Company Directors (MAICD); a Fellow of the Australasian Institute of Mining and Metallurgy (FAusIMM); a member of the Canadian Institute of Mining, Metallurgy and Petroleum (MCIM); and a member of the Society of Economic Geologists (MSEG). Bruce has an M.Sc(Hons). (Earth Sciences) from Waikato University and an MBA from Deakin University. He was appointed as a Director of the Company in 2018.

Brett Boynton – Chief Executive Officer

Brett is an experienced entrepreneur and corporate financier with expertise as an investment banker in capital markets, mergers, acquisitions and private equity, including positions at Credit Suisse, FBR Capital Markets and UBS. More recently, Brett has focused on project development in the resources industry, having founded and funded a number of Australian resource companies including DEI Ltd, Signature Gold Ltd, Chrysos Corporation Limited and Tellus Holdings Ltd. Brett currently heads up the joint venture partner of Agripower Australia Limited, a private equity backed industrial minerals company focused on silicon products. Agripower is one of Australia's largest industrial minerals companies, with an extensive R&D programme and global distribution network, and has a mining, processing and export operation in Queensland proximate to the Tectonic's projects. Brett holds an undergraduate degree in Economics and Accounting from the University of Cape Town, an MBA from Duke University and is a CFA charterholder. Brett has international finance experience as a senior investment banker with UBS and Credit Suisse in London, New York and Sydney. He was appointed a Director of the Company in 2015.

Sam Quinn – Executive Director and Company Secretary

Sam is a corporate lawyer with over 10 years' experience in the natural resources sector, in both legal counsel and executive management positions. Sam is currently the Director of Corporate Finance and Legal Counsel for the Dragon Group, a London-based natural resources venture capital firm, a Non-Executive Director of AIM-quoted Red Rock Resources plc, a natural resource development company, and a Non-Executive Director of LSE standard listed Emmerson plc. During time spent in these roles, he has gained significant experience in the administration, operation, financing and promotion of natural resource companies. Prior to working in the mining sector, Sam worked as a corporate lawyer for Jackson McDonald Barristers & Solicitors in Perth, Western Australia and for Nabarro LLP in London. He graduated from the University of Western Australia in 1999 with a Bachelor of Laws and Bachelor of Arts and is a qualified lawyer in Western Australia and in England & Wales. Sam was appointed as Company Secretary to the company in June 2015 and became a Director in June 2017.

Dennis Edmonds - Non-Executive Director

Dennis has a wealth of commercial and corporate experience in southern Africa, having practiced as a corporate solicitor in South Africa - and subsequently in the United Kingdom, specialising in structuring and executing corporate transactions. Dennis has also been employed at board level in the investment banking and venture capital industries. Over the past 15 years he has been a Director of public and private companies, including those operating within the mineral resources sectors in emerging markets. Most recently, Dennis was the Executive Chairman of AIM-quoted Alien Metals Limited, a company with a portfolio of mineral assets in South America and is currently Non-Executive Chairman of Pathfinder Minerals PLC as well as being a Non-Executive Director of Kazera Global Investments PLC. He was appointed a Director of the Company in 2020.

Senior Management

Peter Prentice – Director of Signature Gold Ltd

Peter has extensive management experience in developing resource projects in Australia and internationally, including gold, uranium, copper, tungsten, base metals and industrial minerals. He has also had international banking experience, based in London for one of the world's largest project financing banking groups. Peter was the founder and Managing Director of Hargraves Resources, a very successful gold mining business which was listed on the ASX and sold to a large international gold company. Following the sale of Hargraves Resources, he acquired the cornerstone asset of the Signature portfolio, Mt. Cassidy. Peter is Managing Director of the Agripower Australia Ltd group of companies, a private equity backed business that is involved in environmental science and agriculture. Peter has read in and completed studies in Mathematics and Engineering Science – Mining.

Jonathan Robbeson – General Manager of Signature Gold Ltd and Director of Whale Head Minerals Pty Ltd.

Jonathan is General Manager for Signature Gold. He has previously held senior technical roles in AngloGold Ashanti and Perilya Ltd. and brings with him extensive international exploration and mining operational and risk management experience. Jonathan holds a B.Sc. Honours (Geology) from Rhodes University; a Master's degree in Economic Geology from the University of Tasmania, and a Masters of Mining Engineering from the University of New South Wales and is reading an MBA through the Australian Graduate School of Management.

He is a member of AusIMM and the Australian Institute of Company Directors. Jonathan is a Competent Person as defined by the 2012 JORC Code for Mineral Resource and Ore Reserve Estimation for various precious, base metal and industrial mineral deposits.

Dr James Yaxley – Exploration Manager

Jim has exploration and project development experience starting in the Kalgoorlie gold fields in the 1990's and then progressing to project lead with Ivanhoe, BHP and Kagara in copper, gold and metals. He has been employed by Signature for the last two years.

Jim completed his PhD in Hydrochemistry at the Queensland University of Technology, an honour that will be conferred before year end.

Anne Adaley – Chief Financial Officer of the Group

Anne has extensive experience in the resources sector, having held senior management roles with a number of listed public Australian exploration and mining companies over the last 25 years. She has also spent more than a decade as Company Secretary for several listed public companies. Anne is a qualified accountant and principal of Australian Mining Corporate and Administrative Services Pty Ltd (AMCAS) which provides Chief Financial Officer and Company Secretarial function and support including accounting, financial management and administrative services on a consulting basis to public listed and private companies as well as unlisted and pre-IPO companies.

Alexander Teluk– Former Chief Geologist of Signature Gold Ltd

Alex Teluk is a professional geologist and member of the AIG (Australian Institute of Geoscientists) and CIM (Canadian Institute of Mining, Metallurgy and Petroleum), with more than 45 years of diversified experience in the exploration and mining, in corporate industry and government surveys. Alex currently consults to Signature Gold.

From 1966 to 1980, he has worked in senior and management capacities with several major Australian and international companies, including: Broken Hill South, Aberfoyle-Cominco, Chevron Exploration Corporation and Newmont Australia, respectively. A brief tenure was also spent with the Geological Survey of South Australia and the Australian Atomic Energy Commission during this period. Since 1980, through his company Geodyne Pty Limited, he has provided independent consulting services to numerous major and junior exploration and mining companies. As well, during this period, Alex co-founded and managed several private exploration companies.

Alex's exploration experience was acquired throughout Australia, and New Caledonia, and regions in Kalimantan, Philippines and New Zealand. Extensive assessments were also completed on several projects in Argentina. This experience covers a broad range of both metallic and non-metallic commodities, ore deposit types and geotectonic terranes. An extended association with RobSearch Australia (formerly Robertson Australia) has also resulted in extensive evaluations and preparation of IPO expert geological reports on numerous major mining and exploration projects.

Experience in underground mining geology was gained at Broken Hill South, CSA Cobar and Aberfoyle Cleveland mines; in the latter as Chief Mine Geologist. This expertise was subsequently applied in independent evaluations for client companies of several mining operations, including: RGC's Mt. Lyell mine, Newmont's Wiluna mine, Croesus's Binduli mines, and Murray Resources Second Fortune mine.

Specific areas of expertise cover a broad spectrum in exploration and mining, including property technical audits, generation of projects from inception, through to their management and field assessment. Contemporary state of the art technologies have been applied on all these projects, including some of the earliest applications of multispectral scanning (Geoscan), partial leach geochemistry (MMI) and leading edge ground geophysics (Sub-Audio Magnetics/Resistivity). Several in-depth research projects for various clients as well as in-house have also been completed for a number of commodities and their host environments, including gold, uranium, platinoids, base metals, nickel, tin, tantalum, phosphorite and lithium, leading to the development of original conceptual and empirical exploration models.

Alex's cumulative, diverse and continuous professional experience in mining and exploration over more than four decades, has provided his clients and employers with incisive, effective and trusted evaluation of their properties as well as forward strategic planning and selection of new areas for their ongoing activities.

Forecasts

We initiate coverage of Tectonic Gold with forecasts for the years ending 30th June 2020 and 2021. In 2020, revenue from diamond interests in South Africa is estimated at £48,000 with costs being contained in the “other expenses” line. Losses from continuing operations before tax are estimated at £0.526 million, with a total comprehensive loss for the year of £0.586 million. The loss per share is determined to be 0.07p.

Year End 30 June (000s '£)	FY 2018 ¹	FY2019	FY 2020e	FY 2021e
Revenue from continuing operations	199	32	48	360
Expenses from continuing operations:				
Accounting and audit fees	(125)	(89)	(90)	(90)
Administration and office costs	(49)	(27)	(25)	(30)
Corporate costs	(21)	(116)	(70)	(70)
Amortisation and depreciation	(2)	(1)	(1)	(1)
Employee benefits, management fees and on costs	(10)	(90)	(50)	(50)
Exploration and tenement costs	(53)	(36)	(36)	(40)
Insurance	(17)	(17)	(17)	(17)
Legal expenses	(320)	-	-	-
Options fee and associated costs	(200)	-	-	-
Impairment of exploration costs	(182)	(704)	(200)	(400)
Business Development costs	-	-	(15)	-
Bad debt expense	(93)	(64)	-	-
Fair value of warrants issued and vested	(69)	-	-	-
Share based payment recognized on reverse acquisition	(2,583)	-	-	-
Other expenses	(10)	(39)	(70)	(240)
(Loss) from continuing operations before income tax	(3,534)	(1,151)	(526)	(578)
Income tax benefit	257	326	-	-
Net (loss) for the reporting period	(3,278)	(825)	(526)	(578)
Foreign exchange on translation of foreign subsidiaries	(58)	(34)	(60)	-
Total comprehensive (loss for the year)	(3,336)	(859)	(586)	(578)
Earnings per share attributable to owners of the company:				
Basic and diluted (pence per share)				
From continuing operations	(1.80)	(0.12)	(0.07)	(0.06)
Weighted average number of shares	181,614,122	688,357,267	806,453,650	990,507,739
Total shares plus warrants and options	687,562,746	697,562,746	1,044,906,905	1,044,906,905

Source: Company/Align Research

In the year ending 30th June 2021, following the sale of a majority interest in Tectonic South Africa to Kazera Global in the last few weeks of the previous financial year, Tectonic has emerged retaining a non-diluting 10% interest in DBM. In this analysis we have assumed that Tectonic also ends up with a similar interest in WHM which is planning to begin mining HMS within the Alexkor/PSJV diamond mining area during this twelve-month period. Tectonic's share of diamonds and HMS revenue has been estimated at £0.360 million, with the company's share of cost of sales estimated at £0.240 million being included in other costs. The loss from continuing operations before tax came out at £0.578 million, the same as the total comprehensive loss for the year. The loss per share was determined to be 0.06p.

Valuation

To determine a valuation for Tectonic and a target price which makes sense in the current market, we have focused our attention on the gold interests in Australia. We have determined a valuation for a short-term resource target for Biloela. In addition, we have adopted a valuation for the Rockhampton, Clermont and Sarina projects in NE Queensland provided by independent expert HLB Mann Judd.

Biloela

Our valuation has sought to ascertain what Tectonic might be worth in the future if certain milestones, including resource definition targets are achieved based on the CPR and discussions with management. Over the past seven years, Signature - the Subsidiary has painstakingly been working at assembling a portfolio of compelling gold exploration and developing opportunities which are seen to offer the potential for the definition of a mineral resource, each with in excess of 3 million ounces of gold.

Although Signature had no JORC-compliant resources, the company had completed in-depth internal resource modelling at the two lead prospects which were in excess of over 230,000 ounces each, that is 233,000 ounces at Specimen Hill Main Lodes and 230,000 ounces at the Last Chance Main Lodes.

A short-term resource target for Biloela (Specimen Hill and Last Chance) is used as the basis of our valuation. This figure has been determined by reference to the resource inventory that has been modelled internally by the company plus the immediate resource definition targets and the likely true scale of the ultimate potential. In addition, also taken into consideration has been available infrastructure in the vicinity, along with the presence of operating gold mines and majors in the surrounding area. **On the back of this analysis, to value Tectonic's resources at Biloela we have chosen to use a figure of 500,000 ounces for Specimen Hill and 230,000 ounces for Last Chance, which makes a total of 730,000 ounces.** The company believes that the requisite infill drilling and testing of extensions to Main Lodes would allow the evaluation of a JORC definable resource if it is to be done properly.

However, we believe that the best guide to the true valuation that Tectonic might attract over the next 18 months may be best reflected in looking at recent deals in the sector.

It has been a busy twelve months in the gold sector. As it is a truly international industry, we have looked at gold explorers in all jurisdictions. For an up to date value per ounce figure for gold in the ground, we relied on a recent research report on gold miners' M&A (Dart, July 2020) which highlighted that the price paid for exploration ounces has peaked at US\$107.25.

Over the last four quarters the moving average of the price paid for exploration ounces was US\$63.71. It should be pointed out that the record level was US\$107.53 and was seen in 2017, even though the spot gold price today is more than US\$400 per ounce higher than three years ago. **We have used an upper range figure paid for exploration ounces of US\$100 (or A\$136) so as not to get too carried away.**

It should be noted that Gold Road sold 50% of its Gruyere project to Gold Fields in November 2016 (where the JORC resource had been defined and the project brought to the feasibility stage) for A\$350 million. Gruyere is a large shear hosted porphyry gold deposit, with reserves of 3.5Moz and total resources of 6.2Moz. Looking beyond the headlines of this deal shows that deposits at Central Bore (0.7Mt., 9.1g/t, 187koz) and Attila/Alaric (5.3Mt., 1.64g/t, 270koz), were also included. Adding in these other ore sources gave the joint venture total resources of 6.6Moz at that time. This showed a valuation per ounce of this deal of A\$106 (A\$350 million/3.3Moz).

Tectonic is seeking to rapidly move its IRGS discoveries at Specimen Hill and Last Chance from exploration to the feasibility stage and then sell these projects or de-risk them in joint venture deals with majors. We are confident that the M&A valuation figure provides a reliable benchmark price per ounce on which to derive a valuation that Tectonic's first projects might attract going forward. **Between these two projects we have estimated 730,000 ounces, which at A\$136/oz suggests a valuation of A\$99.28 million.**

Rockhampton

In valuing the other project in NE Queensland, we have adopted a valuation provided by Independent Expert HLB Mann Judd. We know that this is highly conservative as this analysis was carried out when the gold price in Australian dollar terms was around a third less than it is today. This all dates back to a Scheme of Arrangement document which provided the information to allow shareholders in Signature Gold to make the decision to accept the RTO into Tectonic Gold. It provided two valuations for Signature. One was by Independent Expert HLB Mann Judd, which valued Signature Gold as a company in its entirety and in turn was largely based on a valuation by GeoDiscovery Group of the four projects.

Minerals exploration, discovery and management company GeoDiscovery Group employed two valuation methods. Firstly, the multiple of exploration expenditure method (MEE) which uses a prospectively enhancement multiplier (PEM) to multiply the exploration expenditure by a factor between 0.5 to 3.0 depending on the degree that exploration has created value (or destroyed value) in line with the VALMIN code. Secondly, a comparable market value method which relies on the comparison of Signature's in-ground resources.

Fair value market valuation analysis based on multiples of the exploration expenditures determined values for Rockhampton ranging from A\$2.699 million (low) to A\$2.883 million (high) with A\$2.791 million being the preferred value, which is used in our SOTP table.

Sum-of-the-parts valuation

Assets	Valuation	
	A\$ million	£ million
Biloela (Specimen Hill and Last Chance)	99.28	56.38
Rockhampton	2.791	1.538
Total	A\$102.07m	£57.92m
Per share basis		
Currently issued shares (844,035,467)		6.86p
Fully diluted (1,044,906,905)		5.54p

Source: Align Research

Based on our model, our sum-of-the-parts valuation comes out at A\$102.07 million or £57.92 million. Using the current number of shares in issue (844,035,067) suggests a per share valuation of 6.86p per share. On a fully diluted basis (1,044,906,905), the valuation per share comes out at 5.54p - which we have chosen to adopt as our target price.

Compared to the current share price, our target price would seem to be high. However, the stock listed on AQUIS in 2018 at 2p. This is not the most liquid market and small selling pressure since that time from long term shareholders in Tectonic's previous guise as AIM-listed StratMin Global hit the price hard whilst insiders were prevented from increasing their stakes early on. All of this saw the share price fall dramatically, which now seems to have created a good buying opportunity in our view.

Conclusion

In our view, Tectonic looks like a compelling stock to buy, with the share price currently sitting at such a derisory level compared to our valuation. It is an unusual play which is highly leveraged to the gold price but has already been de-risked. The company is a pioneer in the IRGS space in Australia and as such has first mover advantage which has allowed the team to take the first pick of tenements that have the best potential for 3 million ounce plus gold resources to be defined. In recognition of the company's R&D on IRGS, the Australian Federal government is effectively a co-investor, which serves to dramatically reduce the required spend on exploration or make the exploration dollars go much further. In addition, international drilling services group Titeline Drilling, which has seen and drilled many assets around the world, has chosen to back Tectonic. This looks like a strong endorsement from an industry partner which we believe speaks volumes for the company's potential going forward.

A healthy news flow seems to be assured with the companies focussed approach to gold and judging by the current work programme. Management intends to provide the market with regular updates from the Australian projects and about the cash coming in from South Africa.

There is nothing better than a drilling program to stir up a share price and the 3,500 metres drilling at Specimen Hill and Mt. Cassidy is expected to kick off soon. This drilling should give rise to an enviable series of announcements concerning: the start of drilling, ongoing reports, assay results all leading towards a maiden JORC resource, upgraded resources, and feasibility studies where the economic value of the gold mining project based on the defined resource will be determined. This all points to a sustained news flow over Q4 2020 and Q1 2021, culminating in the real prospect of a corporate deal on Specimen Hill before the end of 2021 in our view. **All the while, these activities could be continuing to bask in record gold prices which means that all the good news could be magnified to boost the valuations of all these projects ahead of a joint venture or sale.**

Given all these expected developments, we look forward to being given the chance to update our target price as the company makes rapid progress over the next eighteen months.

Our coverage of Tectonic Gold is updated with a target price of 5.54p and a Conviction Buy stance.

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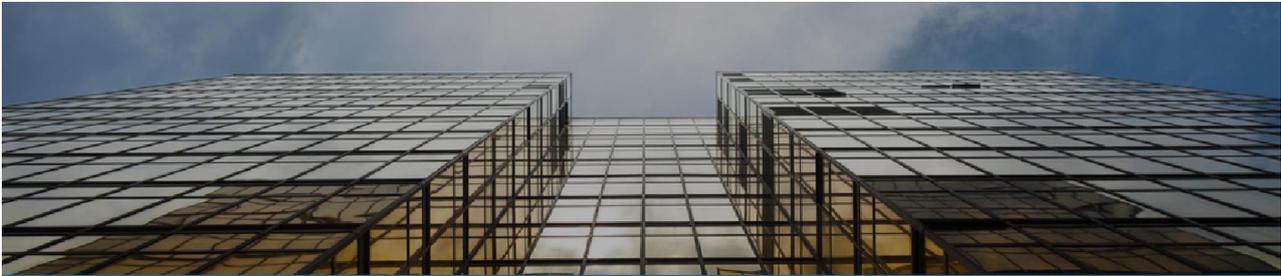
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