



ALIGN
RESEARCH

Caracal Gold

2nd February 2022

Mid-tier gold producer in the making with a very compelling organic and acquisitive growth strategy in highly prospective East Africa

Caracal Gold is the old Papillon Holdings which joined the LSE in 2016 as a shell. After a couple of false dawns, the Kilimapesa Gold Mine in Kenya has been reversed into it together with a highly experienced management team equipped with the necessary funds to recommence production and really get things moving. Caracal was readmitted to the LSE in August 2021 with big plans to rapidly increase gold production and build a substantial JORC compliant resource base in short order by taking advantage of later stage opportunities in gold projects across Kenya, Tanzania and Uganda.

■ Bold ambitions of 50,000oz pa production and +3Moz MRE by year-end

Gold production has risen swiftly at Kilimapesa since the reopening to 1,000oz per month. Well-defined development plans are in place to optimise operations to significantly increase production, while rapidly building up the resource base to create a reasonably sized long life mine with good margins.

■ New acquisitions Nyakafuru & Simba snapped up in Shanta's backyard

Caracal looks like it caught Shanta Gold napping in acquiring two cracking gold projects in Tanzania. These add JORC resources of 1Moz to the company's existing 671,400ozs. These are advanced projects in proven gold districts which are planned to be developed as conventional open pit mining operations.

■ Envable pipeline of acquisition opportunities to be actioned in 2022

The acquisition pipeline includes one project that is close to production coming with a recently finalised BFS. Plus there is also a Kilimapesa look alike which is already in production. As before, vendors seem more than happy to take paper as they appreciate that the Caracal team is successfully & rapidly adding value.

■ Peer group & DCF analysis suggest +125% potential on a fully diluted basis

Our highly conservative valuation shows the potential. We initiate coverage of Caracal Gold with a **target price of 2.73p** and **Conviction buy** stance.

Table: Financial overview. Source: Company accounts & Align Research

| Year to end Dec | 2019A | 2020A | 2021E | 2022E |
|-----------------|---------|---------|---------|--------|
| Revenue (£'000) | - | - | 4,030 | 24,179 |
| PTP (£'000) | (582) | (1,074) | (1,145) | 5,897 |
| EPS (p) | (0.440) | (0.811) | (0.196) | 0.286 |

This investment may not be suitable for your personal circumstances. If you are in any doubt as to its suitability you should seek professional advice. This note does not constitute advice and your capital is at risk. This is a marketing communication and cannot be considered independent research.

CONVICTION BUY

Target price – 2.73p



Key data

| | |
|------------------|--------------|
| EPIC | GCAT |
| Share price | 1.15p |
| 52 week high/low | 1.75p/0.875p |
| Listing | LSE, FSE |
| Shares in issue | 1,615m |
| Market Cap | £16.7m |
| Sector | Mining |

12 month share price chart



Analyst details

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IMPORTANT: Caracal Gold is a research client of Align Research. Align Research own shares in Caracal Gold. For full disclaimer & risk warning information please refer to the last page of this document.

Business overview

Caracal Gold Operations

Caracal Gold PLC is a gold producer with operations in East Africa. The company started trading on the London Stock Exchange in August 2021 with a bold ambition to rapidly increase gold production to more than 50,000 ounces per annum and build a JORC compliant resource base of over 3 million ounces (Moz) within a 12–18-month period.

- **Kilimapesa Gold Mine (Kenya)** – Caracal has a 100% interest in the producing Kilimapesa Gold Mine which is an established, fully permitted gold mining and processing operation with a JORC compliant resource of 671,446oz gold. Following an extended period under care and maintenance, gold production recommenced in September 2020. Initial monthly gold production of 500oz was boosted to a run rate of 1,000oz by the end of December 2021. The focus is on exploration in order to increase the JORC compliant resource to more than 1.5Moz by drilling several identified targets discovered during previous exploration and drilling. Such an expanding MRE will pave the way for a potential major expansion of the project.

- **Nyakafuru Gold Project (Tanzania)** - In November 2021, the company announced the acquisition of a 100% interest in both the Nyakafuru Gold Project and the Simba Gold Project. Nyakafuru has proven high-grade shallow gold resources contained within four deposits and has seen extensive exploration and feasibility study work by ASX-listed Resolute Mining. The existing JORC gold resources of 0.7Mozs has the potential to increase to 1.1Mozs on the successful granting of existing mining and prospecting applications. The management plans to fast-track additional resource drilling programmes, update the JORC resources and reserves plus pit optimisations, and appoint a Project Team to complete updated mine development studies.

- **Simba Gold Project (Tanzania)** - Simba lies 25km NE and along strike of Nyakafuru. Historical exploration and drilling work by ASX-listed Lione Resources has resulted in the identification of very broad, near-surface gold mineralisation. The existing JORC compliant resources of 320,000oz are across granted mining licences and are defined in four prospects with potential for a large gold system consisting of multiple parallel lodes. The management team is now planning to complete additional resource definition drilling as part of a broader and consolidated exploration plan incorporating Simba into the Nyakafuru gold Project.



Gold pour at Kilimapesa. Source: Company

East Africa

The part of sub-Saharan Africa which is now made up of Kenya, Tanzania and Uganda is normally referred to as East Africa. Due to its latitude the region has a dry and cool climate. The continent of Africa is blessed with an abundance of natural resources and East Africa has coal, natural gas, oil, and uranium as well as a variety of metals and minerals but most notably gold. In fact, East Africa is the host to multiple large gold deposits over 10Moz in size and world class gold mines such as Barrick Gold's Bulyanhulu Gold Mine (16.8Moz) and AngloGold's Geita Gold Mine (12.7Moz), both located in Tanzania.

Kenya has a long history of gold mining but most of this has been artisanal or small-scale mining. The country lies at the heart of this region and is some 586,600km², about 2.5 times the size of the UK. Kenya has a stable political system, the government seems highly supportive of its mining sector and is working hard to bring in foreign direct investment. The country passed a new and modern mining code in 2016 to ensure that activities related to mining and exploration for mining benefited the local people.



East Africa. Source:blogspot.com



Tanzania has a wealth of gold projects. Source: Company

Tanzania meanwhile is a land rich in minerals and a far better-known location for gold as the country is the fourth largest gold producer in Africa. At 947,087km², Tanzania is about four times the size of the UK and some three-quarters the size of South Africa. Tanzania is seen to be one of the mostly politically stable and peaceful countries in Africa and despite global challenges its economy remains stable. In recent years Tanzania has become much more investor friendly and the situation seems to have further improved since President Samia Suluhu assumed office following the death of President John Magufuli in March 2021. President Samia Suluhu is seeking to continue development of the mining sector to ensure its contribution to the economy as well as employing local people.

Tanzania's gold reserves have been estimated at some 45Moz. Gold exploration has largely been focused on the greenstone belts around Lake Victoria with some tremendous discoveries. The last 25 years have seen an increase of more than 700% in the country's annual gold production to hit 48.4t (1.556Moz) in 2019. The country's gold exports accounted for US\$2.2 billion, which represented more than 90% of its mineral exports in that year.

Background

Papillon Holdings plc was incorporated in October 2015 to undertake an acquisition of a target company or business primarily in the industrial and service sectors in the UK. The company joined the Official List in June 2016 with an initial market capitalisation of £1.32 million at the 1p placing price.

In May 2018, the company acquired a 50% stake in Pace Cloud, the holding company of CarCloud Community, a fintech company focused on the used car market. December 2018 saw the company looking to raise up to £500,000 via a 10% convertible loan note with a minimum term of 12 months and a conversion price of 1.25p to finance the costs initially incurred in connection with Pace Cloud.

Papillon was also on the lookout for other opportunities. In May 2019, the company announced that it had terminated its discussions with Phestor Limited, Greenway Activated Carbon Limited and Phestor Denmark as satisfactory terms could not be agreed. The move into resources kicked off in September 2020, with the company signing a binding Heads of Agreement with Mayflower Capital Investments to acquire two gold assets located in Kenya and Congo Brazzaville.

In the same announcement in September 2020, it was reported that although Papillon had fulfilled the terms of its investment of £550,000 to achieve a 50% equity interest in Pace Cloud, the prospectus had been approved by UKLA and the company's brokers were ready to proceed with the placing. Despite all this work, the directors and shareholders of Pace Cloud no longer wished to proceed with the transaction. With no realistic proposal from Pace Cloud as to the honouring of their legal obligations concerning the substantial transaction costs and substantial loan advances, the board sought to spin off all the assets and benefits into a separate vehicle owned by the existing shareholder base. This was proposed to occur at the same time as the move into gold mining.

To acquire the Kilimapesa gold mine, the company agreed to provide Mayflower with £3.25 million, satisfied by issuing 325 million shares at 1p in Papillon. Plus, there is deferred consideration of up to £2.35 million, also in shares at 1p per share dependent on the stage of Kilimapesa's development and the level of success of the Kilimapesa gold mine. In addition, shares worth £500,000 are due on the definition of a JORC (2012) Compliant Resource of +1Moz at Kakamoeka, which is now not being pursued.

At the same time, Papillon had to obtain at least US\$4 million secured debt or equity commitments as well as granting Mayflower the right to appoint two Executive Directors, one Non-Executive Director and a Non-Executive Chairman to Papillon's board of directors, with Papillon reserving the right to appoint two Non-Executive Directors. Mayflower appointed Simon Games-Thomas, Gerard Kisbey-Green and Robert McCrae to the company's board on re-admission.

In late August 2021, the shares recommenced trading on the Main Market of the LSE under the new name of Caracal Gold with a contemporaneous dual listing on the Frankfurt Stock Exchange. Ahead of this process, the company raised £5.5 million in two rounds. At the later placing price of 1p, Caracal Gold had an initial market capitalisation of around £14.5 million on readmission. At that time, the company had a 100% interest in the producing Kilimapesa Gold Mine along with management's plans to rapidly increase production to more than 50,000oz per annum, as well as to build a JORC compliant resource base of more than 3Moz within 12-18 months.

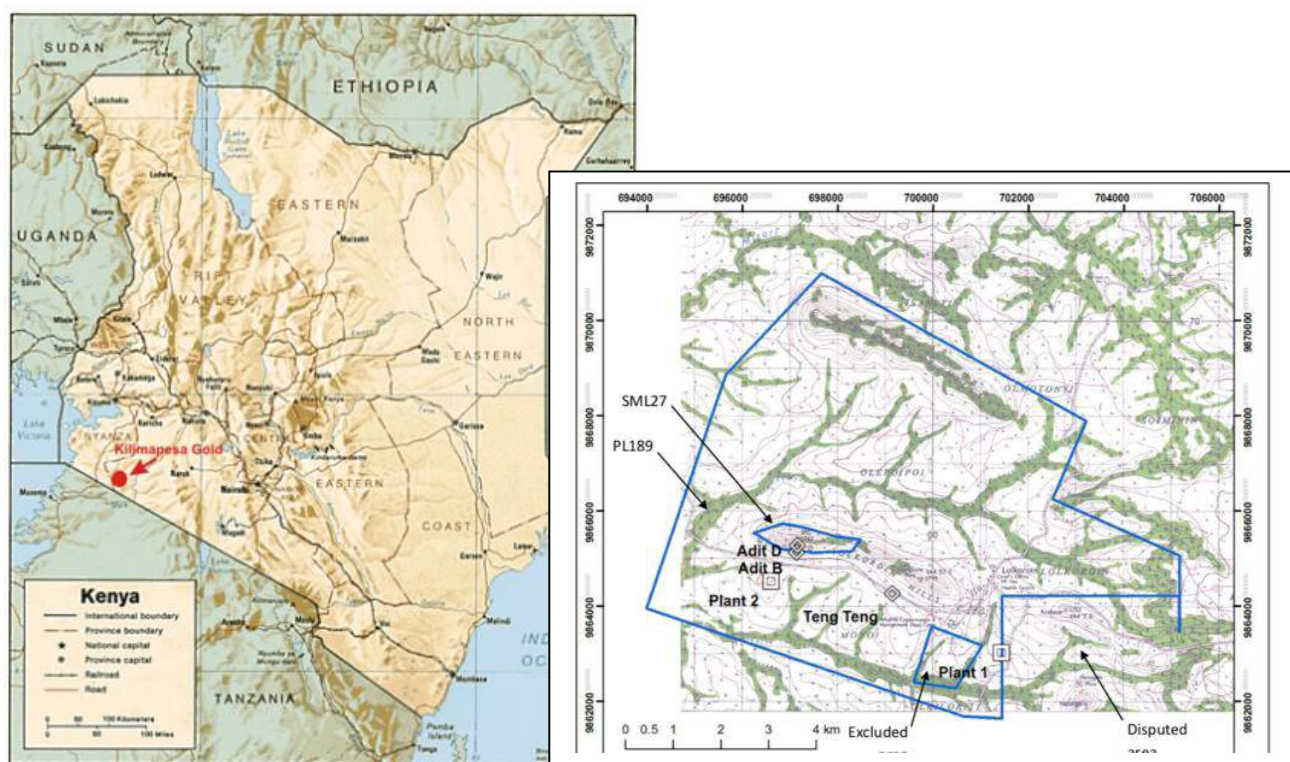
In early December 2021, the board was able to announce the signing of formal agreements to acquire a 100% interest in the advanced Nyakafuru Gold Project as well as securing a 75% interest in the Simba Gold Project, both located in the world-class Lake Victoria Gold Fields in Tanzania. For the two projects combined the up-front share and cash-based consideration totalled US\$3.75 million, with just US\$775,000 payable on settlement of the acquisitions in cash and the balance in shares subject to minimum 12-month lock-in provisions.

Operations

Caracal Gold is an emerging East African focused gold producer which has a well-developed corporate strategy to grow both production and resources organically and through acquisitions. The company has a 100% interest in the Kilimapesa Gold Mine in Kenya and has recently announced the acquisition of two gold projects in Tanzania.

Kilimapesa Gold Mine

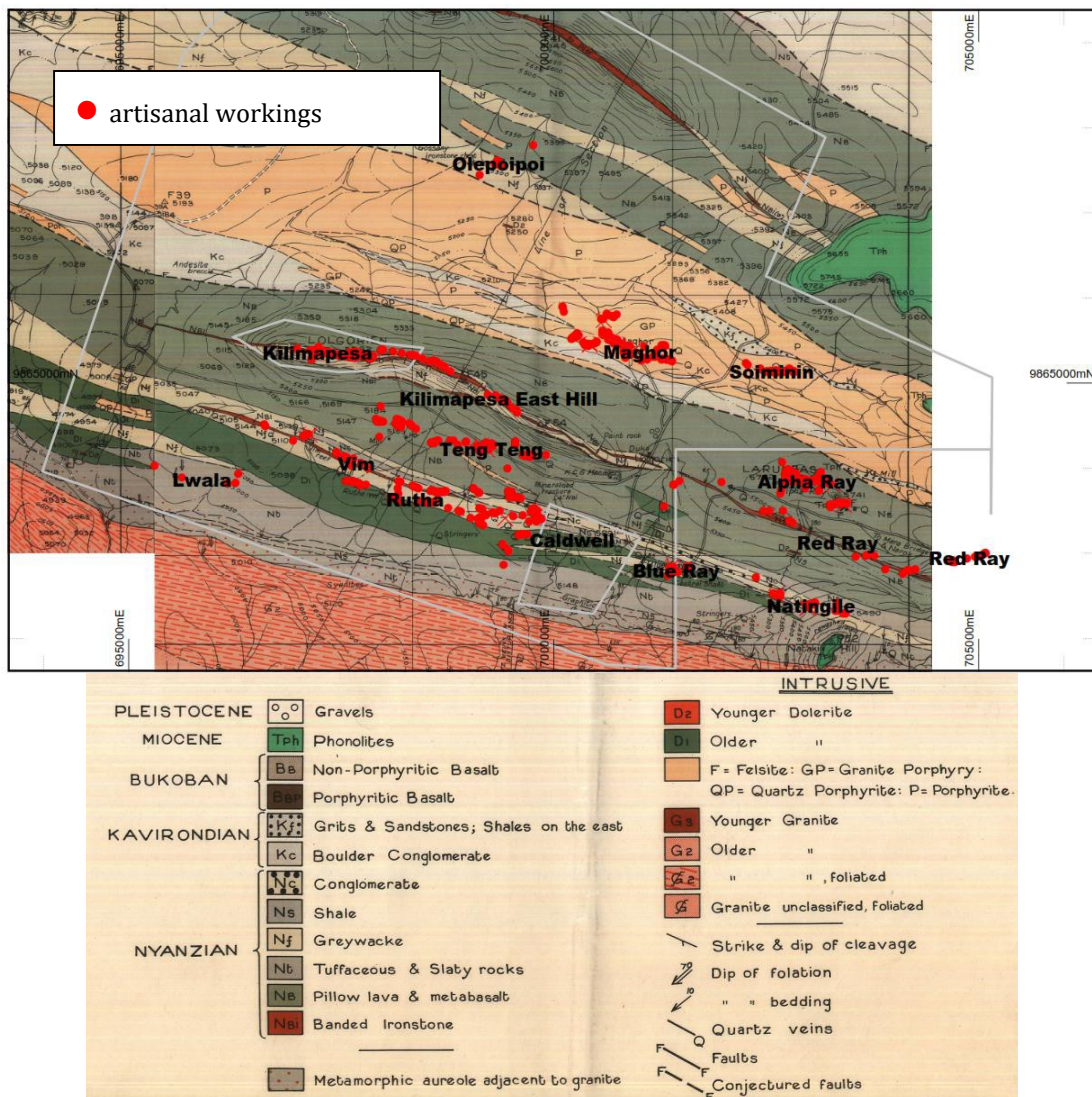
Caracal Gold has a 100% interest in Kilimapesa Gold (Pty) Ltd which owns prospecting licence PL/2018/0189 and Special Mining Lease no. 27 along with production assets and mining operations within these tenements. The mining lease lies within the prospecting licence, which is located at Lolgorien, Narok County in SW Kenya, and lies 230km west of Nairobi, and 20km north of Tanzanian border. This area is close to the Tanzanian Goldfields, which have been a hive of gold mining activity since the 1920s.



Location of the Kilimapesa Gold Mine and outline of PL189 and SML 27. Source: AMS CPR June 2021

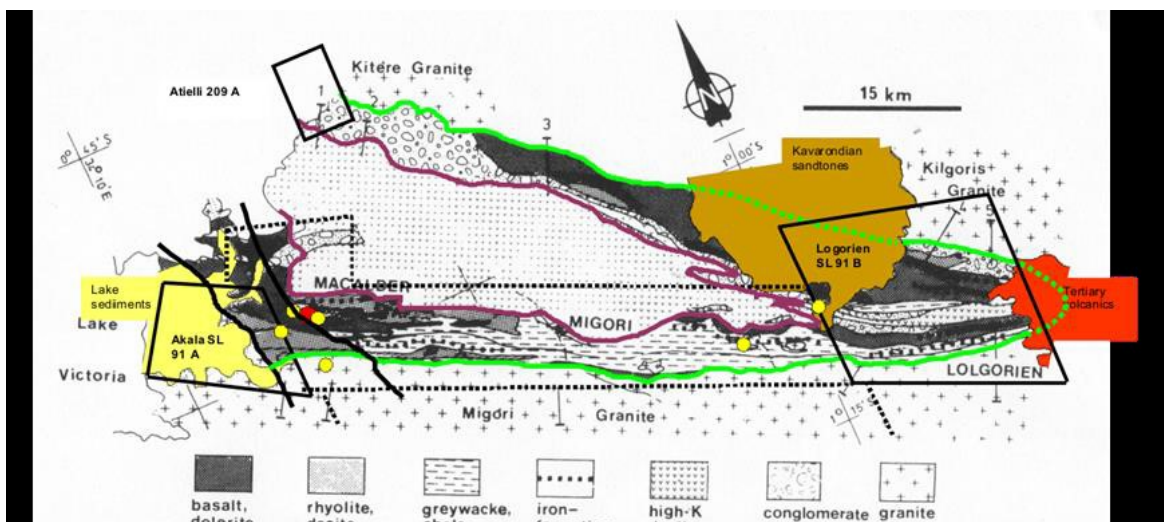
Geology

Kilimapesa covers the eastern end of the Archean Migori Greenstone Belt, an area responsible for most of the Kenya's gold production. Gold mineralisation occurs along a WNW trending complex of shear zones with orientations that run roughly parallel to the strike of the belt. The Migori Greenstone Belt is made up a volcano-sedimentary package dating back to 2,850Ma and is seen as an extension of the granite-greenstone terrain of the Tanzanian Craton/Lake Victoria Gold Fields, which have been the location of extensive modern gold mining. Operating nearby are the likes of Barrick Gold at its North Mara Mine and Shanta Gold with its West Kenya Project.



Geological map of PL189 highlighting artisanal workings. Source: AMS CPR June 2021

The Archean Migori Greenstone Belt hosts the historic Macalder Cu-Au Mine where 950kg of gold was produced in the 1936-66 period as well as Red Rock Resources' 1.2Moz @1.31g/t Mikeo Shear Zone inferred and indicated resource. Numerous small gold quartz veins in this area have been exploited by local artisanal miners.

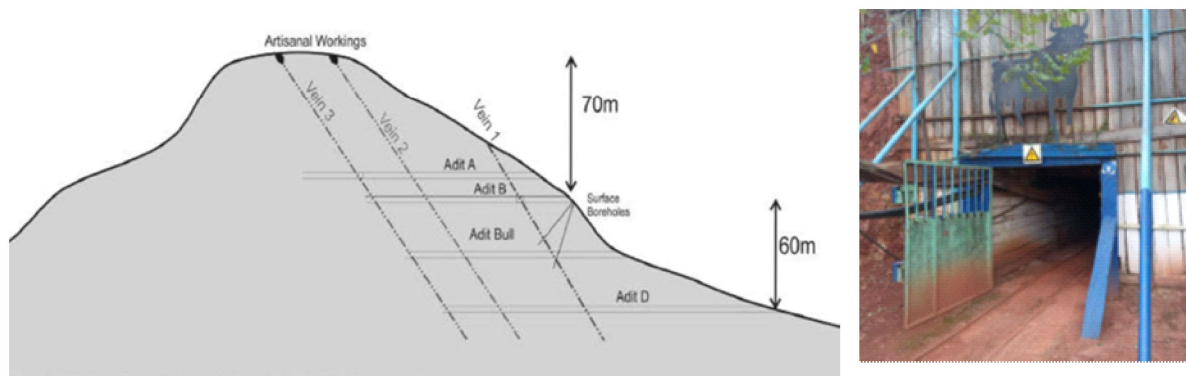


Migori Greenstone Belt. Source: AMS CPR June 2021

Gold mineralisation in the tenement areas occurs as BIF-hosted quartz veins, breccia and chert bands as seen at Kilimapesa Hill and Red Ray. Banded iron formation (BIF) is one of the most easily identifiable of all sedimentary rocks consisting of repeated thin layers. Across the tenements, gold mineralisation also occurs in sediments and basalt-hosted quartz veins as seen at Teng-Teng and other prospects.

Historical production

The development of the Kilimapesa underground mine began in 2011 and since then three adits have been driven into the side of the Kilimapesa Hill, targeting a series of at least three gold veins that run parallel to one another.



Underground mine at Kilimapesa. Source: Company Adit Bull entrance. Source: AMS CPR June 2021

Between 2012 and September 2020, the project produced a total of 20,487oz of gold and 2,073oz of silver which largely came from the processing of tailings from artisanal mining activities. During this period, when production at Kilimapesa was at its highest between January 2017 and when the new mill was commissioned in August 2017, about 6,662oz of gold were extracted from 74,170 tons of ore at a grade of 4.1g/t. This equates to an effective recovery of around 68%.

Impressive ESG

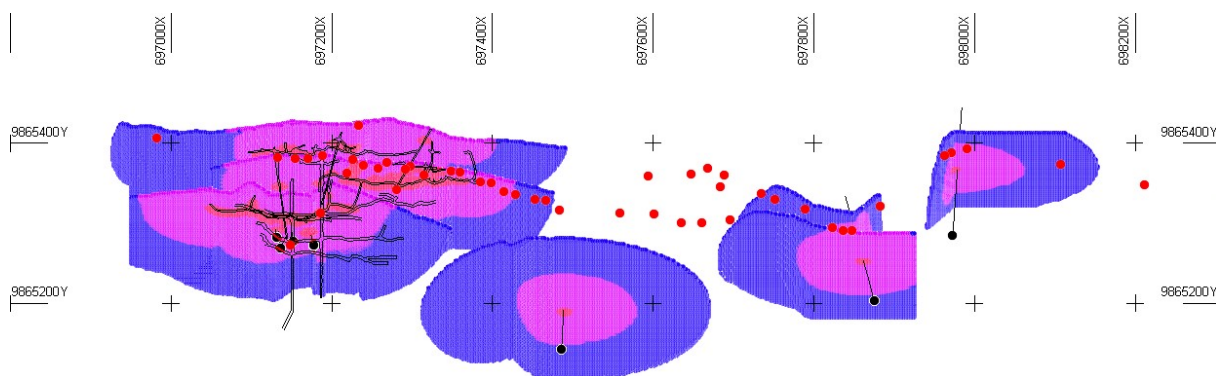
Environmental, Social and Governance is not an afterthought at Caracal Gold. From the very beginnings the company has established a credible ESG framework to ensure compliance right across the company. The management believe that the success at Kilimapesa has been helped by local stakeholder engagement and community sustainability initiatives. Local people are trained and employed at the mining and processing operation which provides direct and sustainable benefits in the company's communities. Safety is a core element throughout the organisation where this commitment is based on using best health and safety practices and proper safety leadership.

Environmental compliance, along with standards and practices, follow national and international guidelines and regulations. A top priority of the management team is to ensure that a culture of environmental stewardship underpins the sustainability of the Kilimapesa Mining and Processing Operation. Caracal has been granted a licence from Kenya's Ministry of Mines and National Environmental Management Authority (NEMA) to process leached tailings generated by artisanal miners, an environmental problem that the company could help resolve.

In November 2021, the company was able to report the connection to Kenya's National Green Grid Power Supply at Kilimapesa. As part of building a sustainable mining and gold processing operation at Kilimapesa, Caracal has now switched the power supply to the processing plant from diesel power generation to the national grid power, which is largely generated by renewable sources including geothermal, hydro, wind and solar.

Gold resources

On the primary orebodies, two gold resources have already been delineated at Kilimapesa which are contained in SML27 and Red Ray which is subject to a dispute over ownership. Of this combined total, Kilimapesa accounts for 6,810,000t at an average grade of 2.43g/t gold for 532,000oz gold. Both these gold resources are located close to the Kilimapesa Gold Processing Plant.



IREs block model in plan view. Colour coding by resource (see table below), red dots indicate artisanal workings. The drill hole and underground workings shown in black. Source: AMS CPR June 2021

| | Tonnes | Grade g/t | Ounces |
|------------------|------------------|-------------|----------------|
| Measured | 626,678 | 3.05 | 61,462 |
| Indicated | 1,337,250 | 2.86 | 123,190 |
| Total | 1,963,928 | 2.92 | 184,652 |
| Inferred | 6,751,363 | 2.24 | 486,794 |
| Total | 8,715,291 | 2.40 | 671,446 |

Total resource of Kilimapesa and Red Ray combined at a cut-off grade of 1g/t. Source: Company

Project acquisition

Caracal Gold acquired the project at the time of LSE readmission in August 2021. This represented an established, fully permitted gold mining and processing operation with a JORC compliant resources of 671,446oz gold. The project seemed to have been starved of capital investment into both the mining and processing for the past five years under the ownership of Goldplat.

Following a period of prolonged car and maintenance, gold production recommenced in September 2020. Underground mining restarted in January 2021 and so early gold production came from processing lower grade tailings. Initially, the monthly gold production target was set at 500oz while expansion work and plant modifications were ongoing. The Competent Persons Report (CPR) dated June 2021 outlines that between October 2020 and May 2021, the mine produced 1,733oz of gold.

Since that time gold production has been improving, with that initial target successfully achieved. This has allowed management to move onto focusing on optimising and expanding operations to increase monthly production in excess of 1,000oz by the end of December 2021. The company will also be focusing on exploration, with the team looking to increase JORC compliant resources to more than 1.5Moz from several identified targets which have resulted from previous exploration and drilling.

Initial plan

Management has set out an initial three phase plan to begin to unlock the value at this project. Phase 1 involves the re-commissioning of the processing plant using artisanal tailings as well as optimising, refurbishing and upgrading the mill to process more than 350tpd. All this work has now been successfully completed. Currently, the team is in the process of designing and costing new primary crushing and gravity circuits and a second ball mill as well as managing the refurbishment of underground mine and pre-development work on the mining blocks to provide future production.

Phase 2, which is in progress, involves increasing the plant throughput to more than 700tpd to target production of 1,000oz gold. Mains power to the processing plant and the underground mine was connected in November 2021 but the relocation of the camp has been rescheduled to 2022. Also, in November 2021, the newly acquired Diamond Drilling (DD) and Reverse Circulation (RC) drill rigs arrived on site which will allow for exploration drilling to begin and is planned to increase resource base to 1.5Moz initially.

Phase 3 includes a Feasibility Study, design and construction of a processing plant to increase production to more than 25,000oz per annum, as well as exploration drilling programme designed to increase the resource base to in excess of 2Moz.

Processing plant

Gold ore is processed by a mill called Plant #2 which has a nameplate capacity of 6,000 tons per month and was commissioned in January 2017. Adding a second mill, that is already on site, will allow capacity to be doubled to 12,000 tons per month.

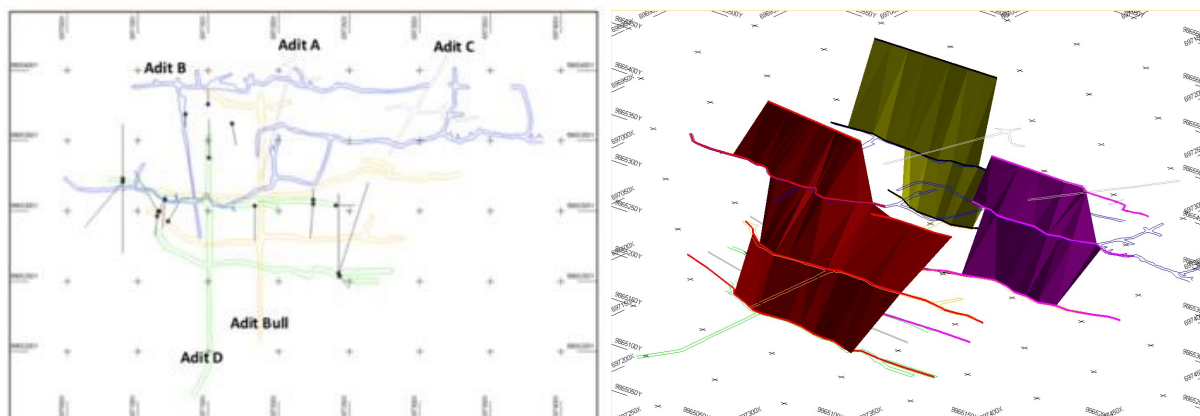


Gold processing plant at Kilimapesa Gold Mine. Source: Company

Plant #2 consists of a conventional Carbon in Leach (CIL) gold processing plant along with an elution plant and smelter. The processing consists of an impact crusher, classifier, cyclone, ball mill with 350tpd capacity, gravity concentrators, thickener and CIL Circuit. This is followed by gold and silver being washed off the carbon in the elution plant which has a 1.2t capacity. Next the material goes through a regeneration kiln and finally a gold induction furnace. There is an onsite assay laboratory to provide a reliable and accurate service in a timely manner. Feed to the process plant has traditionally been 60% higher grade run of mine (ROM) production and 40% lower grade tailings.

Underground mine

The development of the Kilimapesa Mine has been through driving five adits into the side of Kilimapesa Hill called A, B, C, D and Bull adits which have intersected what would seem to be least three gold-bearing veins. That is because to date three of these gold veins are known to have been exploited by developing drives and then mining using a series of raises and stopes. Drives are 2.5m x 2m in size with raises excavated at 10-15m intervals.



Kilimapesa mine development in plan and oblique views. Source: AMS CPR June 2021

The orebodies have a strike of S +/- E-W and with a dip angle which varies between 45 to 70°. During mining the face is sampled to keep a good check on the grade of the gold ore and in the 2017-19 period, the average grade of underground ore was 4.1g/t gold.

Current production

Funds raised on readmission to the LSE have been used to refurbish and upgrade the processing plant as well as undertake vital maintenance work to speed up development in the underground mine and for the purchase of new mining equipment. In Q3 2021, mining continued at the Bull and D Adits with ROM ore being transported to the mill throughout September 2021. Work underground is designed to allow the project to meet the planned increased level of production.

At the processing plant, work on optimising the facility is continuing with the target of achieving a steady state of over 700tpd required to hit the gold target of 1,000oz per month. This level of throughput is to be achieved by supplementing 300 tonnes per day (tpd) of high-grade ROM with up to 400tpd of additional lower grade tailings.

| | July | August | September |
|---------------------|------|--------|-----------|
| Gold sales (ounces) | 455 | 526 | 569 |

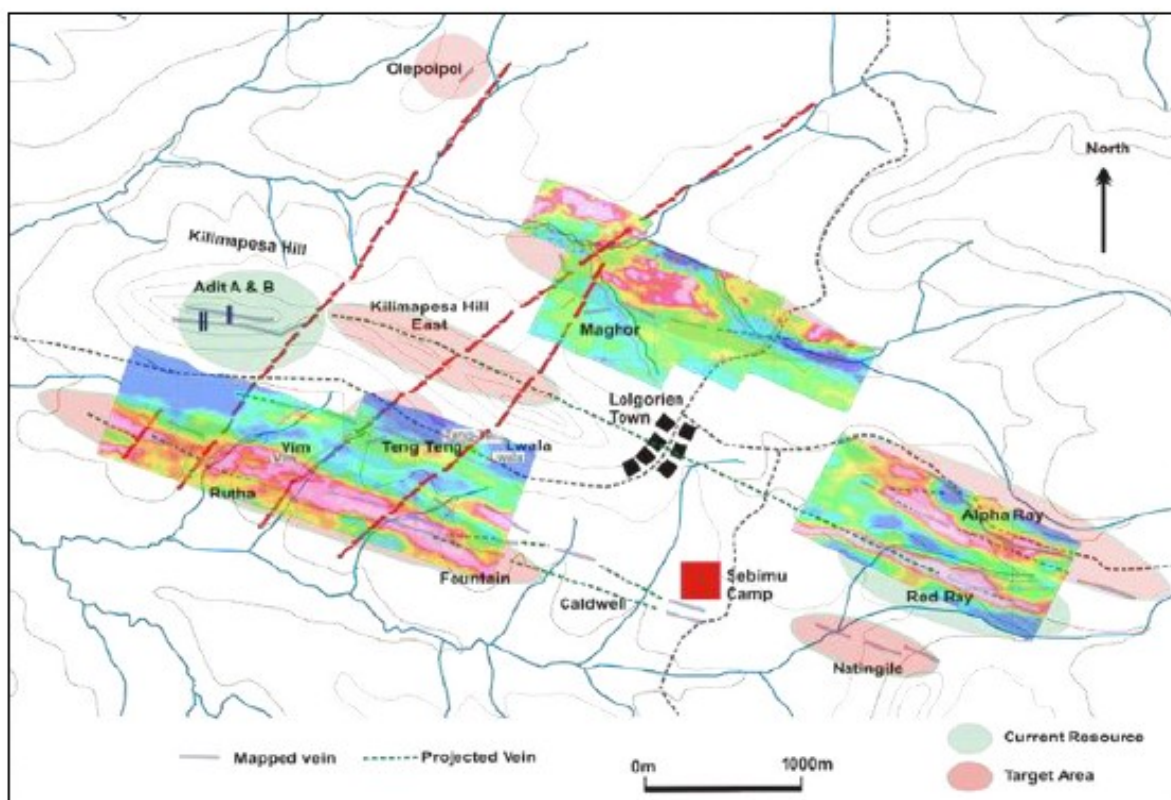
Q3 2021 Rising gold sales in Q3 2021. Source: Company

Operating costs in September 2021 were US\$985/oz. Total costs came out at US\$1,694/oz which includes all-in sustaining costs (AISC) as well as reflecting the planned capex at both the underground mine and the processing plant along with the purchase of new mining and exploration equipment, stores, plant consumables etc.

In Q4 2021, the major target is to double monthly gold production and sales to 1,000oz and strengthen the resource base. The costs mentioned above should not be seen as being representative of the future ongoing costs of this operation which are expected to begin falling in this quarter.

High priority exploration targets

The arrival of two newly acquired drill rigs on-site in November 2021 will allow the exploration programme to begin. The priority would seem to be underground and surface exploration at the Kilimapesa Hill mining licence to assist in mine planning as well as increase the size and quality of the MRE. The company has identified multiple targets on PL 0189 which represent high grade and/or shallow, open-pittable potential which includes the Southern mineralized zone, Olepoipoi, Natingile and Maghor.



Current resource and targeted area for exploration. Source: Company

An exploration and resource expansion programme has commenced in priority areas, including the newly targeted dolerite Southern Mineralized Zone that has been identified from the old workings, with results of 40m at 4.98g/t gold discovered. Drilling here is planned to follow on from trenching to determine the extent of this mineralisation.

Tanzanian Gold Acquisitions

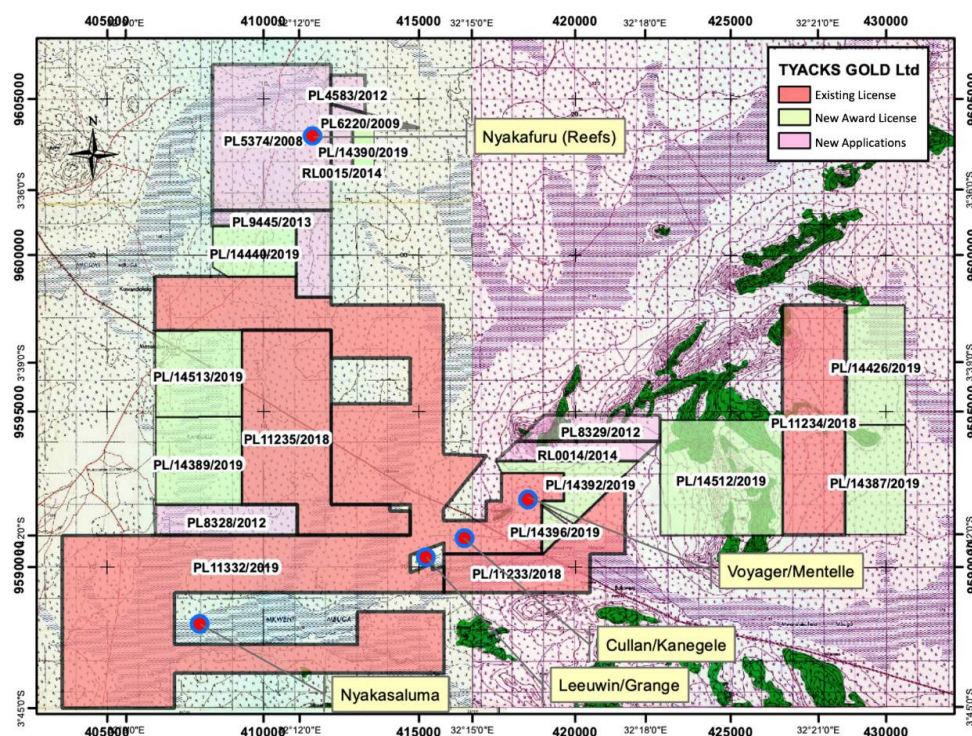
In December 2021, the board was able to announce the signing of agreements for the acquisition of the Nyakafuru Gold Project and Simba Gold Project. These are two major gold projects located quite close to one another in Tanzania and together will add 1.0Moz of gold resources. Each project not only has proven high grade shallow gold resource but has also been the subject of substantial exploration and feasibility work since 1990s. On top of that, these gold projects are also seen to apparently lie in a similar geological setting to Caracal's Kilimapesa Gold Mine in Kenya.

Nyakafuru and Simba are advanced gold projects that will serve to extend the company's project portfolio by more than 350km² which is composed of granted mining and exploration licences as well as new applications. These projects are located within the Lake Victoria Goldfield, one of Africa's largest gold producing regions with gold endowment of more than 50Moz and well-known for being the location of several world class deposits.

Nyakafuru Gold Project

The Nyakafuru Gold Project spans a total exploration licence area of 280km² within the Nyanzian System of the Lake Victoria Gold Fields, an area which lies within the northern part of the Archaean Tanzania Craton. The Nyanzian System comprises of a series of typical Archaean volcano-sedimentary sequences or greenstone belts within a much larger area of granite-gneiss complexes which is something like 2.6 - 3 billion years in age.

The licences actually cover the SW end of the Siga-Mabale Greenstone Belt which lies 60km SW of Barrick Gold's 18Moz Bulyanhulu Gold Mine. The project area consists of 11 granted exploration licences and a mining and exploration licence under application. Existing granted exploration licences contain the Leeuwin, Grange, Cullen and Voyager and Mentelle deposits. In addition, a mining/exploration application has yet to be granted for the rich Nyakafuru Reefs deposits.



Nyakafuru Gold Licences. Source: Company

The Nyakafuru Gold Project lies 140km by sealed road SW of Tanzania's second largest city. The project comes with impressive infrastructure which includes national highway, power and an established camp with office, accommodation and workshop facilities.

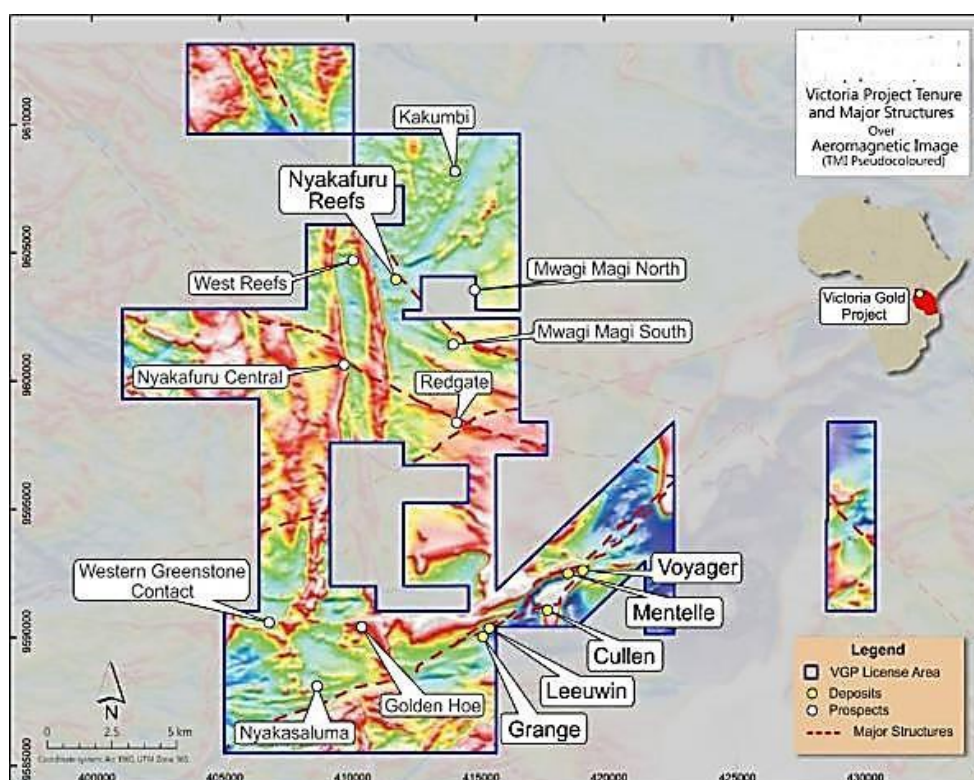
There has been no shortage of funds spent on this project as around 3,160 DD, RC and AC drill holes totalling 186,000m have been drilled to delineate the resource. The project was previously owned by ASX-listed Resolute Mining which had undertaken development studies with positive results based on a large scale conventional open pit operation and CIL processing plant. Plus, the project comes with EIA approval and so offers the real prospect of near-term development.

Resources

The project has a JORC compliant resource of 0.7Moz at 2.08g/t along with impressive potential for a decent increase in the resource base. In addition, there is the scope to add 400,488oz of gold resources once the Nyakafuru Reefs application is granted. Caracal will be acquiring 100% of Tyacks Gold Limited and this looks like a cracking deal to us as the total up-front/milestone-based share and cash acquisition payments work out at an undemanding US\$7.12 per ounce.

| | Measured | | | Indicated | | | Inferred | | | TOTAL RESOURCES | | |
|-------------------------------------|------------|-------------|----------------|------------|-------------|----------------|------------|-------------|----------------|-----------------|-------------|------------------|
| | Mt | g/t | oz | Mt | g/t | oz | Mt | g/t | oz | Mt | g/t | oz |
| Nyakafuru Gold Project | | | | | | | | | | | | |
| Voyager-Mentelle | - | - | - | 5.9 | 1.71 | 321,647 | 1.9 | 1.47 | 89,383 | 7.7 | 1.65 | 411,030 |
| Leeuwin-Grange | - | - | - | 2.2 | 1.62 | 113,987 | 2.4 | 1.75 | 133,734 | 4.6 | 1.69 | 247,721 |
| TOTAL RESOURCES | - | - | - | 8.1 | 1.69 | 435,634 | 4.3 | 1.64 | 223,117 | 12.3 | 1.67 | 658,751 |
| Nyakafuru Reefs (under application) | 1.4 | 4.27 | 189,408 | 0.9 | 3.11 | 88,548 | 1.2 | 3.08 | 122,531 | 3.5 | 3.56 | 400,488 |
| TOTAL RESOURCES | 1.4 | 4.27 | 189,408 | 8.9 | 1.83 | 524,173 | 5.5 | 1.95 | 345,650 | 15.8 | 2.08 | 1,059,231 |

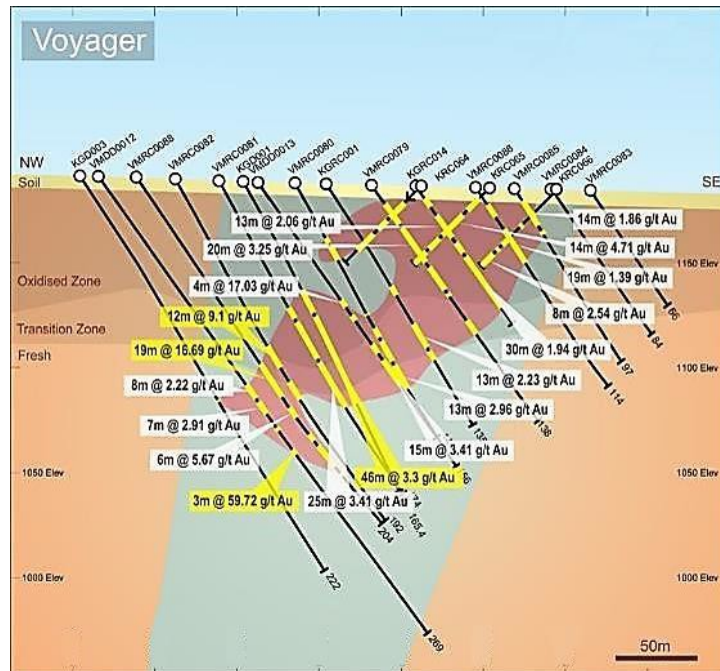
Nyakafuru Gold Project resources. Source: Company



The four main deposit areas and exploration targets at the Nyakafuru Gold Project. Source: Company

Large exploration upside potential

There are four main deposits and additional targets at Nyakafuru. Previous exploration work has discovered significant high-grade shallow gold resources at Voyager-Mentelle, Cullen, Leeuwin-Grange and Nyakafuru Reefs. Past drilling has only been shallow and so these deposits have significant potential for mineralisation extensions at depth. In the case of both Voyager-Mentelle and Leeuwin-Grange, there is also additional resource potential both along strike as well as depth.



Previous drilling results recorded at Voyager. Source: Company

Nyakafuru also has a series of other exploration targets with significant drill intercepts being recorded at Nyakasaluma, Redgate, Golden Hoe, West Reefs, Western Greenstone Contact, Kakumbi and Mwagi Magi. Plus, there are multiple drill ready targets that include a mineralised shear zone that is more than 2km long with numerous wide drill intersections at Nyakasaluma. Also, there is a lightly tested target with significant strike length at Redgate and the site of recent major artisanal gold rush at Golden Hoe. In addition, there is undoubtedly significant exploration upside with a number of other prospective targets identified from initial geophysical and geochemical data.

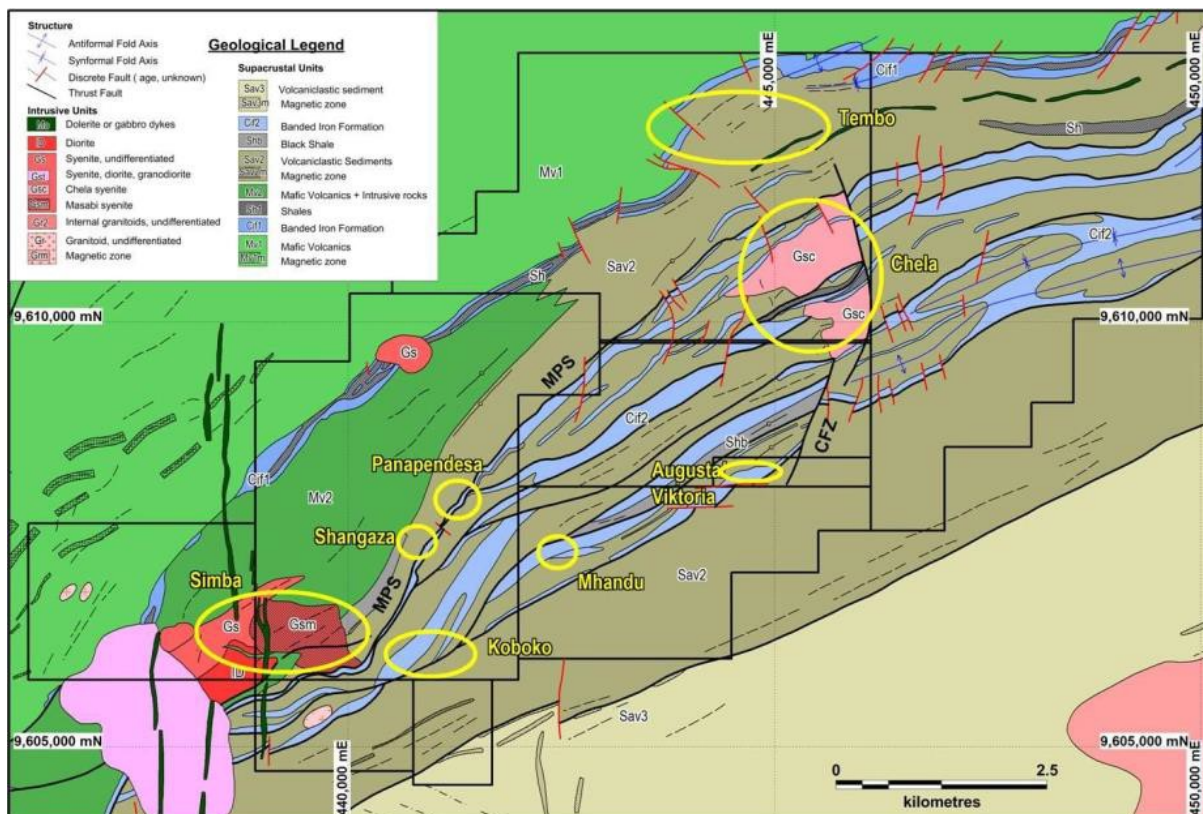
Moving towards gold production

Nyakafuru will be the immediate focus out of these two latest acquisitions. The company has a well-developed plan to move this project forward to production with the following steps. First up, the company will be assembling a Project Team to complete updated development studies. More resource definition drilling is planned to be undertaken at Voyager-Mentelle, Cullen and Nyakasaluma to provide for an updated JORC resource and reserve estimates as well as pit optimisation studies. In tandem, the company intends to work on getting the licence approved for the Nyakafuru Reefs Project.

Early on will see the start of the work programme for environmental studies to international standards. This is a key requirement in raising the necessary project finance. At the same time, geotechnical and hydrogeology assessments will be analysed. Also, detailed engineering work will be carried out for the design of a processing plant as all the above are major elements that will be necessary to complete an updated Development Study. All this work will allow final regulatory approvals and permits to be granted which will leave Caracal able to commence site preparation works and mine construction.

Simba Gold Project

Some 25km NE and along strike from the Nuyakafuru Gold Project lies the Simba Gold Project, which hosts a large gold system. The project has a JORC compliant resource of 320,000oz gold (Inferred 7.4t at 1.40g/t) along with major exploration upside. In all, four priority prospects have been delineated at Simba where broad, near-surface gold zones have been intersected.

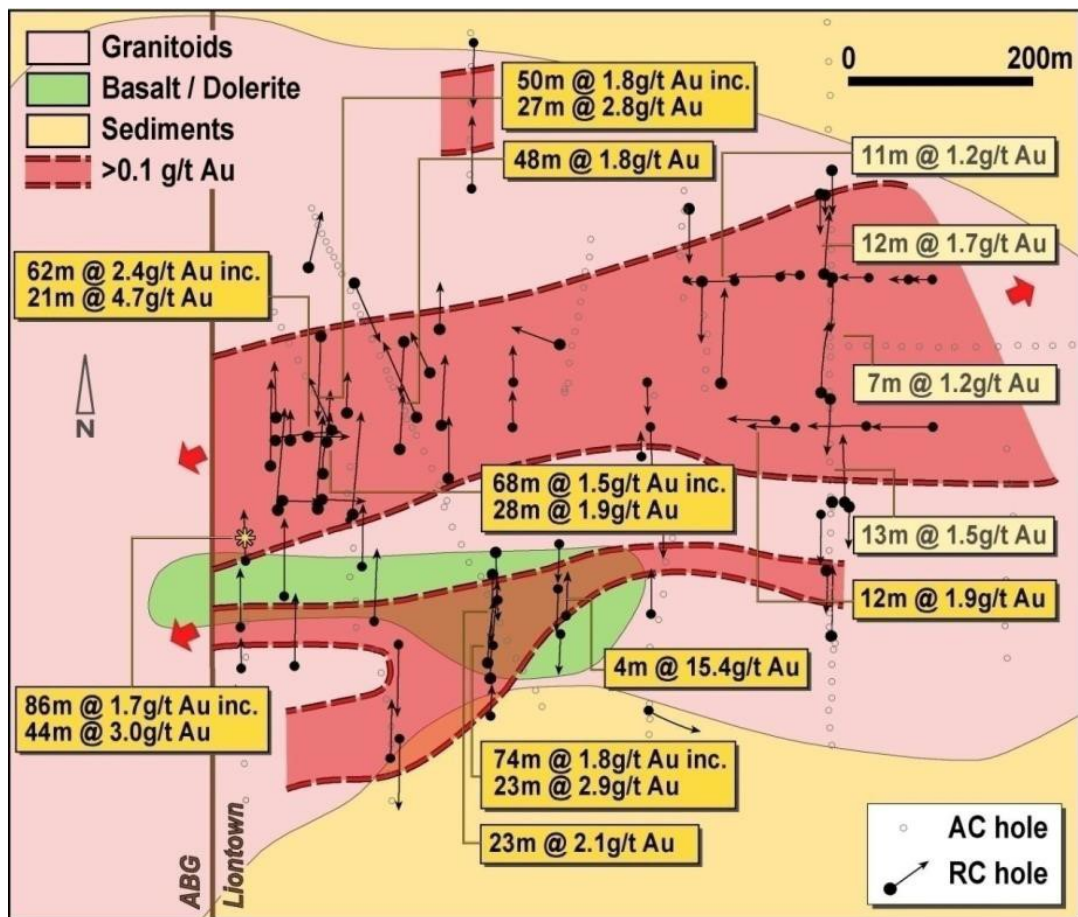


Geology at Simba Gold Project. Source: Company

Gold is structurally controlled at Simba and to date some 18 sub-parallel lodes of mineralisation have already been identified. Here, past exploration has revealed that the main lodes of mineralisation extend over 400m along strike. In fact, some lodes look as though they may well extend over more than 1,000m whilst many others remain open.

The Simba Gold Project consists of 15 granted mining licences and 3 mining licence applications. The acquisition agreement has been signed with a local company called Shangaza Golden Group, with the total up-front/milestone-based share and cash-based acquisition payment representing US\$3.38 per ounce.

Past drilling has discovered gold mineralisation over a 1,000m strike and 800m width and there looks to be significant growth potential as mineralisation remains open to the NE. Simba does sport the potential for a large granitoid-hosted gold (syenite-diorite complex) system, with multiple parallel lodes which are largely hidden beneath a thin cover of sediments less than 30m thick.



Drilling at Simba Gold Project highlighting the best assays. Source: Company

Next steps

The role of the Simba Gold Project in the scheme of things looks to be part of the wider Nyakakfuru Gold Project, providing gold ore from a series of shallow pits to be trucked to the main site for processing. To this end, Caracal is seeking to undertake additional resource definition drilling as part of a broader and consolidated exploration plan incorporating both Nyakafuru and Simba.

There is plenty of exploration upside at Simba as the mineralised system remains open along strike. In addition, there are multiple trends that have been discovered that are now begging to be drilled including Simba-Panapendesa Gap, Simba – Parallel Lodes and Koboko Trend (see map on the previous page).

Simba-Panapendesa Gap represents an immediate extension which is approximately 1.5km long. The main Simba zone is basically the western extension of Panapendesa that lies hidden under a layer of soil. At the Simba – Parallel Lodes, strike extensions of 15m at 1.9g/t gold, 23m at 2.9g/t gold and 17m at 1.2g/t gold have been recorded. Meanwhile, a 2km anomaly has been discovered at the Koboko Trend which could point to a wide area that has been structurally modified.

Strategy for growth

Caracal Gold is rapidly being built up to become a mid-tier gold producer in East Africa. Truth is that there is not much competition for gold projects in East Africa, a region markedly different from West Africa where the market is becoming crowded and where political risk seems to be increasing. In addition, in West Africa, mining company management must juggle with two legal systems – French and English, whereas in East Africa it is a lot more straight forward as English law prevails. There is no doubting the compelling geological prospectivity that exists across Kenya, Tanzania and Uganda for gold, and it is here that Caracal is seizing the opportunity for rapid growth.

From the outset the management team behind Caracal had planned to get an asset listed in the UK and then bring it into production. This move was to be followed by picking up other assets in and around Kenya. The team is not looking for any grass root projects but more advanced exploration/development projects. There is a fair amount of such gold projects around which have failed to make headway either due to poor management, lack of capital or combination of both these factors. The company is seeking to turn such projects around and advance them through to a production decision. Caracal was readmitted to the LSE in August 2021 with a bold ambition to rapidly increase gold production to more than 50,000oz pa and build a JORC compliant resource base of +3Moz within the (then) next 12-18 months, which corresponds to June – December 2022. All the signs are that Caracal is going to get fairly close to this lofty target in our view.

On readmission to the LSE, the Kilimapesa Gold Project in Kenya was reversed into Caracal. In the past this asset was owned by Goldplat which was trying to move away from processing mining scrap into hard rock mining. The problem was that the Goldplat management balked at investing the necessary capital required to get this mine back into production. Under new ownership, Caracal has invested more in Kilimapesa in a matter of months than Goldplat did in 4-5 years. The company raised £2.8 million ahead of the Reverse Takeover (RTO) which has gone into the operation, followed by raising another £2.7 million at the RTO. Close on £5 million has now been invested in refurbishing and rejigging the processing plant along with funding the purchase of new mining equipment and underground development work to ensure a rapidly rising level of gold production.

Progress has been quite swift and now production is running at 1,000tpd with a blend of high-grade ROM (60%) and low-grade tailings (40%) sufficient to hit the intermediate 1,000oz monthly target. Caracal faced a situation at Kilimapesa where there was no development work in place and so driveways have had to be driven and raises created from a standing start. The team has been refurbishing parts of the processing plant in stages. To boost production from the current level will require the mill to be shut down for six weeks to install a second ball mill which is currently being refurbished in Nairobi. During this period, mining would not be stopped as ROM would be stockpiled, waiting for the processing plant to recommence operations having been upgraded to produce 1,500oz per month or 18,000oz per annum. We have a lot of faith in the management team here as Exec. Director Gerard Kisbey Green is the ex-CEO of Goldplat and so knows this project inside out.

Kilimapesa looks to have potential for a JORC resource of over 1.5Moz in quite short order as the serious upside potential here has been well highlighted by the success of recent surface trenching results. Here it is worth pointing out that these BIF-hosted gold deposits found in greenstone belts are highly attractive exploration targets as such deposits can be remarkably large with sizeable gold production. One obvious example of a BIF-hosted gold deposit is the Homestake mine in the Wyoming Archaean Craton in South Dakota, USA, which was North America's largest and deepest gold mine before it closed in 2002. During its 25-year life the mine produced 43.9Moz of gold. It does seem important not to underestimate Kilimapesa's potential going forward.

Caracal is currently targeting 50,000oz gold per annum where +25,000oz pa would come from Kilimapesa. Increasing production from 18,000oz to +25,000oz pa at the first project would require major works. A DD programme has just begun involving 16 holes of roughly 200m depth for 3,000m in the Mining Licence. The goal is to confirm mineralisation down-dip of the existing underground mining operations. This drilling programme has been targeted on increasing the resource base to support a far larger project. There is no shortage of drilling targets that have been identified from a combination of surface mapping, geochemical sampling, trenching and channel sampling, which served up some highly attractive potential options.

This is a highly prospective project area with a number of gold workings besides Kilimapesa Hill and the Teng mine (where in the past +10g/t gold was mined from high-grade veins). Recent trenching work has discovered major gold mineralisation across this licence area that seems simply littered with artisanal workings. In parallel with the DD programme there will also be 10,000m of RC drilling on the prospecting licence which remains under explored using modern methods. This RC drilling programme will focus on the Southern Mineralised Zone (SMZ) which has rapidly become established as a high priority target where initially sampling produced some cracking results such as 40m at 4.85g/t gold (including 7m at 7.6g/t) from trench CART 0003. The company's systematic exploration ought to lead to the successful identification of additional mineralised zones

Such is the scale of the potential that is beginning to be unveiled at Kilimapesa that the team have far greater ambitions and are considering rejigging the whole project to really optimise the project which could well target some 75,000 – 100,000oz pa. To support such a level of gold production would need a MRE in the region of 2Moz. This would require significant expenditure on drilling to boost resources and reserves to feed into a Feasibility Study which would probably be scheduled to begin in mid-2022. In having acquired their own drilling rigs, Caracal will be able to ensure that target areas can be drilled economically and in a timely fashion without being dependent on third parties.

Kilimapesa looks to be a sound foundation on which to build a robust gold mining vehicle which is being positioned to become a consolidator of gold projects across East Africa. In a short space of time, the management has made tremendous progress and now investors can clearly see rising gold production and the real prospect of a rapidly growing cash flow to help fuel expansion. At the same time, Caracal provides plenty of exploration upside and the capacity to grow in an overlooked but highly prospective gold region of the world which remains well-under explored using modern exploration methods and up to date gold mineralisation models.

The team has been looking for opportunities in Tanzania and in November 2021 was able to announce the acquisition of two cracking gold mining projects which came at an ultra-low price per ounce. In Q1 2022, Caracal expects the government to sign-off for them to become the new owners, probably first for the Simba Gold Project followed by Nyakafuru Gold Project by the end of the quarter. The priority is Nyakafuru which is fast being visualised as the hub of operation, with Simba becoming one of a number of satellite shallow pit operations feeding a central mill. With Simba lying along strike from Voyager, it will be seen to become part of the broader Nyakafuru Gold Project.

London is just a post box and Caracal's management are either based at Nairobi or on site, which is as it should be. The team have been on the ground in Kenya since August 2020 and have demonstrated a good track record of achievement, including getting a key permit renewed. Being based on the ground in East Africa does allow the team to get first wind of sound opportunities. It has to be said that the Nyakafuru Gold Project in Tanzania looks like it was metaphorically stolen from underneath the nose of Shanta Gold as the project is in their backyard. For investors, Caracal offers the scope for tremendous growth. Not only is the company already in production but seems to have a clear strategy to become a mid-tier gold producer in East Africa and already the pieces seem to be in place to achieve something like 125,000oz of gold per annum over time, based on the current assets. There is no doubt that the team at Caracal are doing some smart acquisitions which look set to continue.

Financials & current trading

Under its old guise as Papillon Holdings, the company has been seeking an acquisition to reverse into its shell. After a number of false dawns, that aim was achieved in 2021 with the acquisition of certain contractual production & exploration rights in two gold assets located in Kenya & Congo Brazzaville.

| Y/E 31 December £'000s | 2016A | 2017A | 2018A | 2019A | 2020A |
|---------------------------|-------|-------|-------|-------|--------|
| Revenue | - | 300 | - | - | - |
| Pre-tax profit/loss | -403 | -161 | -307 | -582 | -1,074 |
| Net profit/loss | -403 | -161 | -307 | -582 | -1,074 |

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

2020 results

The twelve months ended 31st December 2020 cover a period where the company announced the signing of a binding Heads of Agreement with Mayflower Capital Investments Pty Limited to acquire certain contractual gold production and exploration rights in Kenya and in Congo Brazzaville. In this period, losses increased to £1.074 million mainly due to the writing off an intercompany loan due from Odessa Ventures Limited of £0.547 million, a company that has been set up to hold the residuary Pace Cloud assets and which was planned to be spun off upon completion of the RTO with no encumbrances. After £0.93 million of administration costs (which included a £0.547 million write off), £0.144 million of net financing costs and £0.068 million of listing costs, the pre-tax loss came out at £1.074 million. With no tax payable, the loss for the period was also £1.074 million, which worked out at a loss per share of 0.811p.

2021 interim results

The six months to 30th June 2021 was a transformational period following the agreement by Papillon to acquire the Kilimapesa Gold Mine from Mayflower. Results for the period included the ongoing running costs of the company including listing fees on the London Stock Exchange and other advisory costs. The loss before taxation came out at £0.36 million after £0.28 million of administrative expenses, £0.022 million of finance costs and £0.06 million of listing costs. With no tax payable, the loss for the period was £0.362 million which equated to a loss per share of 0.27p.

Recent developments

November 2021 saw a number of announcements. Firstly, a Q3 operations report highlighted that underground mining operations during September 2021 focused on development of reef drive and new raises to open up new stoping areas to meet the planned increased level of ROM production, with gold processing plant feed levels tested at a targeted rate of +700 tonnes per day. In September 2021, gold sales totalled 569 ounces, 7.6% higher than the previous month. Secondly, the company completed the connection to Kenya's national grid power operations at its producing Kilimapesa Gold Mining and Processing Operations. Thirdly, Caracal's Prospecting Licence PL/2018/0189, which surrounds its Mining Licence, was renewed for three more years. In addition, Caracal was able to report that drill rigs were on site at Kilimapesa.

In December 2021, the board was able to announce that the company had signed formal agreements to acquire a 100% interest in the advanced Nyakafuru Gold Project and secure a 75% interest in the Simba Gold Project, which are both located in the world-class Lake Victoria Gold Fields in Tanzania.

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.

Gold price risks

Gold prices are highly cyclical and can have a negative or positive impact on the valuation of the company's projects and revenue from the sales of the precious metal. Over the past twelve years the price of gold has been highly volatile, trading in the range of more than US\$2,000 per ounce, well up from a low of US\$712.

Exchange rate risks

Movements in the value of currencies will have an effect on the company's accounts on translation from Kenyan, Tanzanian and Ugandan shillings, as well as US dollars into sterling. Fluctuations in the value of the Kenyan, Tanzanian and Ugandan shillings, along with the US dollar against sterling, may influence the valuation that Caracal Gold is awarded by the market.

Future funds

The market for raising funds for small cap companies looks to have had improved from the worse conditions a couple of years ago. However, the global spread of the COVID-19 infection has meant that equity markets have become extremely difficult. Even ahead of the arrival of the pandemic, some recent fund raisings in the resources sector saw share prices being undermined by incoming investors demanding substantial discounts to provide the necessary capital.

Political risk

Kenya, Tanzania and Uganda are developing countries where there is always some degree of political risk attached to the mining industry. However, these governments seem to be supportive of the mining sector, which represents an important source of foreign earnings.

Board of Directors

Simon Games Thomas – Non-Executive Chairman

Simon has over 30 years' experience in the global financial and commodity markets. His career has involved extended periods in running trading operations in precious metals, base metals and agricultural products as well as having set up and run his own futures brokerage.

He also has significant experience in the financing of advanced exploration and development projects and mining operations in Africa, Asia and Europe using debt and commodity linked debt instruments. Simon held senior management roles in London, Sydney and Singapore for banks such as UBS, JP Morgan, Merrill Lynch, Rothschild and Lehman Brothers.

Simon is the founder and Director of Pegasus. Since leaving banking he has founded a firm offering financing and risk management advice and re-structuring advice to corporates in Africa, South America and Australia. He is also a shareholder in a renewable energy start-up and establishing a commodity lending and trade finance fund.

Robbie McCrae – Chief Executive Officer

Robbie has over 25 years' experience in the mining and exploration industry in Africa. He qualified with a BCom Economics and Financing from the University of Witwatersrand. Robbie has been involved in the exploration, development and financing of projects in over 15 African countries across a broad range of commodities including precious metals, gemstones, base metal, bulk commodities and industrial minerals. He has managed both the development of these projects for both private and listed companies and has acted in roles of project owner as well as project/construction contractor. Robbie was the founding shareholder of Mining Project Development Ltd, which owned the Zanaga Iron Ore Project in the Republic of Congo prior to its acquisition by Glencore.

In addition, Robbie has held senior executive management positions with a number of Australian Securities Exchange listed mining and exploration companies, including CEO of Minbos Resources, which had several high-grade phosphate projects in Angola and the Democratic Republic of Congo and COO of Black Mountain Resources which operated a high-grade vermiculite mine and phosphate exploration project located in Uganda. He was also a founder of Luiji Gold Limited, which explored and developed gold projects in Zambia and where he was also involved on the listing onto the Toronto Stock Exchange. Between 1994 and 2006, Robbie was Director, Business Development of MDM Engineering (Pty) Ltd, an African focused natural resource contracting and process engineering companies in Africa, which was responsible for the construction of processing plants for a number of major gold and copper operations throughout Africa.

Gerard Kisbey-Green – Executive Director

Gerard has over 34 years of experience in the mining and related financial industry. After graduating as a Mining Engineer in South Africa, he gained experience on South African mines, eventually working in various management positions for several large South African mining companies. During that time, he worked on gold, platinum and coal mines primarily in South Africa but also in Germany and Australia.

Gerard then moved into the financial markets where he spent 17 years, the first 5 of which as a mining equity analyst on the Johannesburg Stock Exchange where he was rated amongst the top analysts in the Financial Times; annual rankings. He then moved into mining corporate finance and worked in South Africa for 5 years and England for 7 years for banks including JPMorganChase, Investec and Standard Bank.

Gerard has significant experience in IPO's, including in capital raisings, M&A transactions, and has worked with industry participants such as Nomads, broker, and other advisors on deals that cover a diversity of commodities and geographic locations. On leaving the banking industry, Gerard became CEO of Peterstow Aquapower (SA), which is a mining technology company, and Director of Peterstow Holdings. Gerard then held the positions of President and CEO of Aurigin Resources, a Toronto-based private company focused on gold exploration in East Africa, between December 2012 and September 2018.

Gerard joined the Board of Goldplat plc in August 2014 as a Non-Executive Director and assumed the role of CEO of Goldplat Plc in February 2015-a position he held until April 2019. Gerard re-joined the Board of Goldplat plc in May 2020 as a Non-Executive Director. He is currently working as a private consultant and is the Mining Lead for Sutton International Limited, a private company developing mining projects - primarily in Africa.

Charles Tatnall – Non-Executive Director

Charles is primarily involved in advising and raising funds for small and medium sized enterprises with varying business activities ranging from advising investment and family wealth companies to reviewing investments and business opportunities together with the management of personal investments. Until 2005, he was consultant to Bolton Group plc, a UK-listed investment company, identifying and conducting due diligence on potential investment and acquisition opportunities from a broad range of industry sectors. These included natural resources, both exploration and production, electronic hardware and software, and biotechnology.

James Longley – Non-Executive Director

James is a Chartered Accountant whose career has been focussed on venture capital, private equity and building growth companies. His earlier career was with Arthur Andersen, Creditanstalt-Bankverein Merchant Banking and Touche Ross Corporate Finance. In 1990 he co-led the £10.5 million management buy-in of The Wilcox Group, one of the UK's leading aluminium alloy tipping trailer manufacturers. James was also co-founder, Director and Chief Financial Officer of BioProgress Technology International, Inc., a VMS and drug delivery system developer using proprietary films, processes and formulations. It was a NASD quoted and regulated company from 1997 to 2002 and was subsequently listed on AIM.

James was also a co-founder, Director and Chief Financial Officer of PhotoBox Limited from 2000 to 2006, a company that then merged with its French counterparts, Photoways to create Europe's leading online photofinishing business. The group acquired Moonpig.com in 2011 which was recently separately listed on the LSE with a valuation in excess of £1.2 billion. James is currently a co-founder, Director, Chief Financial Officer and interim CEO of Plutus PowerGen plc, a company listed on AIM. He is also a Director of Stranger Holdings plc, a standard listed company on the London Stock Exchange.

Senior Management Team

Jason Brewer – Financial Manager

Jason has over 25 years' experience in mining, equity investment, corporate and project financing, capital raising, investment advising and evaluation of resource companies. He is a qualified Mining Engineer with a Masters degree, with honours, from the Royal School of Mines, London and has experience in a variety of commodities having worked in underground and open-cast mining operations in the UK, Australia, Canada and South Africa. Jason has also worked for a number of major global investment banks including Dresdner Kleinwort Benson, NM Rothschild & Sons (Australia) Limited and Investec Bank (Australia) Limited in London, Sydney and Perth where he had responsibility for structuring and arranging corporate and project financing facilities for mining companies predominantly operating in Asia and Africa. He has held a number of Executive and Non-Executive Director positions on publicly listed mining and exploration companies in Australia and the UK.

Nico Di Cio – Kenya General Manager

Nico is a qualified engineer and miner who has been involved in underground gold mining for 34 years. Previously he was Mine Captain in South Africa for JCI at Randfontein Estates Gold Mine and Central Rand Gold, before being promoted to Mine Manager of the open cast. He joined Kilimapesa in 2013 as Mine Manager and was made General Manager in 2015.

Mark Green – Operations Manager

Mark has worked on African-focussed exploration and mining development projects for over 15 years. He holds a diploma in Mechanical Engineering, a BCom in Business Administration and an MBA. He was previously country manager and project director for iron ore projects in Congo Brazzaville and Liberia, phosphate projects in Angola and the DRC, and most recently for a base metal project in Malawi. He has established and managed and exploration programmes as well as overseen feasibility studies and mine operations. This has given him broad experience dealing with community relations and liaising with governments over matters like permitting.

Gordon McCrae – Technical Consultant

Gordon has over 40 years' experience in the development of mines in Africa. He was responsible for founding MDM Engineering, which grew into one of the premier metallurgical engineering companies in Africa, involved in the design and construction of some of the largest gold mines in the continent. Since leaving MDM he has consulted for many ASX/AIM-listed companies and has built a successful iron ore and manganese mining business based in the Northern Cape in South Africa.

Innocent Chifamba – Plant Metallurgist

Innocent is a Metallurgical Engineer with over ten years' experience in the design, construction and operation of gold processing plants. He started work as a metallurgist with Metallon Gold before joining Blanket Mine where he was promoted to the role of plant metallurgist.

Forecasts

We initiate coverage of Caracal Gold with forecasts for the full years ending 31st December 2021 and 2022. In 2021, gold production is expected to have totalled 3,000 ounces since the company acquired the Kilimapesa Gold Project. Based on an average gold price during this period of US\$1,800 per ounce results in revenue of £4.03 million. After AISC costs estimated at US\$1,600 per ounce and royalty payments, cost of sales are £3.094 million with a gross profit of £0.125 million. With £0.35 million of listing costs plus £0.9 million of general and administrative expenses, along with financing cost and interest income, the loss before tax is forecast to be £1.145 million. No tax payable means that the loss for the period is expected to come out £1.145 million, with a loss per share of 0.196p.

For the year to 31st December 2022, we have been guided towards average gold production of 1,500 ounces per month or 18,000 ounces for the year. A gold price of US\$1,800 per ounce would generate revenue of £24.179 million. After AISC costs estimated at US\$1,150 per ounce and royalty payments, cost of sales came out £17.382 million resulting in a gross profit of £6.797 million. After £0.9 million of general and administrative expenses, profit before tax is estimated at £5.897 million. Given the outstanding tax losses that the company has accumulated, a lower tax charge in the period is envisaged due to accumulated losses, with tax payable being £0.556 million. This results in a profit for the year of £5.341 million and earnings per share of 0.286p.

| Year End 31 December (£'000s) | FY 2019a | FY 2020a | FY 2021e | FY 2022e |
|--|-------------|-------------|---------------|---------------|
| Continuing operations | | | | |
| Revenue | - | - | 4,030 | 24,179 |
| Cost of sales | - | - | (3,904) | (17,382) |
| Gross profit/ (loss) | - | - | 125 | 6,797 |
| Listing costs | (33) | (68) | (350) | - |
| Administrative expenses | (443) | (862) | (900) | (900) |
| Finance costs | (122) | (176) | (30) | - |
| Interest income | 16 | 32 | 10 | - |
| Profit /(loss) before taxation | (582) | (1,074) | (1,145) | 5,897 |
| Taxation | - | - | - | (556) |
| Profit/(loss) and comprehensive profit/(loss) for the period | (582) | (1,074) | (1,145) | 5,341 |
| <hr/> | | | | |
| Earnings/ (loss) per share (p) | (0.440) | (0.811) | (0.196) | 0.286 |
| Weighted average number | 132,400,000 | 132,400,000 | 583,251,733 | 1,864,837,358 |
| Total shares plus options, warrants, deferred consideration for Kilimapesa and the total considerations for both Nyakafuru & Simba | 203,900,000 | 203,900,000 | 2,489,234,221 | 2,614,414,728 |

Source: Company/Align Research

Valuation

We have set out to determine a meaningful valuation of Caracal Gold in order to calculate a realistic target price. In our analysis we have sought to value the company by reference to both discounted cash flow financial modelling as well as peer group comparisons.

Discounted cash flow

A financial model has been created solely for the Kilimapesa Gold Project in order to determine for the value that lies within this project that Caracal is rapidly developing. The project was modelled based on the current JORC complaint resource which totalling 8.7 million tonnes at 2.40g/t for 671,446 ounces. We have assumed that a total of roughly half of this resource is mined. A flat gold price over the life of the project was assumed at US\$1,800.

Gold production is modelled at 18,000 ounces per annum for the years 2022 to 2024 before rising to 25,000oz pa over the remaining years 2025 to 2036. Annual revenue is seen to rise from US\$32.4 million in the early years to US\$45 million from 2025 onwards. The step up in production requires expansion capital which is assumed at US\$25 million, to be funded by debt finance on a 70:30 basis over the remaining life of the project at currently available commercial rates. Sustaining capital has been estimated at US\$1.5 million a year early on rising to US\$2.5 million per annum as the size of the project is scaled up to 25,000oz pa.

Operating costs are seen to initially be US\$950/oz and following the expansion are estimated to fall to some US\$850/oz. On this basis AISC costs have been modelled at US\$1,150/oz and then fall to US\$950/oz subsequently on expansion. The Net Present Value has been determined after taking account of royalties and taxes. There are three royalties in place – Kenyan government (5%), Myori Group (2%) and Goldplat (1% capped at US\$1.5 million). The prevailing corporation tax rate in Kenya of 30% was used.

| Discount factor | 10% | 12% |
|-----------------|-------|-------|
| NPV US\$m | 59.78 | 52.45 |
| NPV £m | 44.28 | 38.85 |

Net Present Values determined for the Kilimapeasa Gold Project. Source: Align Research

In order to adopt a conservative valuation figure for the project, we usually choose to use the NPV(12) figure, which is £38.85 million. Although using a 12% discount figure serves to risk a project greater than using the commonly applied discount rates of 10%, 8% or even 5%, we would seek to further risk the project given the current status. As yet, feasibility studies on expansion of the project to 25,000oz pa have not been completed and the costs are not known with much confidence. In our normal analysis we would seek to further risk this project by 20%, which would mean undertaking further analysis based on using 80% of the NPV(12) figure, which would be £31.08 million.

Peer Group Comparison

The closet quoted company on London looks to be Shanta Gold (LSE:SHG) which is also an East Africa-focused gold producer, developer and explorer. Shanta is focused on its flagship asset, the New Luika Gold Mine located in southwest Tanzania, where production in 2021 of 60-65,000oz of gold is planned to be increased to 75,000oz in 2022. Shanta's JORC resources stand at 1,393koz in the Measured and Indicated categories and 741koz in the Inferred category, giving a total of 2,135koz.

Currently, Shanta's shares are trading at 8.03p, down from 12p in mid-November 2021 when temporary operational problems led to lower production guidance for Q4 2021. At a share price of 8.03p, Shanta's market capitalisation is £84.15 million and the Enterprise value is £74.16 million (US\$100.11 million). On this basis the EV per ounce based on total ounces of 2,135koz works out at £34.74 (US\$46.89) per total ounce.

| Projects and resource status | Tonnes Mt | Grade g/t | Gold ounces |
|---|--------------|--------------|------------------|
| Kilimapesa Gold Mining and Processing Operations | | | |
| Measured | 0.6 | 3.05 | 411,030 |
| Indicated | 1.3 | 2.86 | 123,190 |
| Inferred | 6.8 | 2.24 | 486,794 |
| | 8.7 | 2.40 | 671,446 |
| | | | |
| Nyakafuru Gold Project (excluding Nyakafuru Reefs) | | | |
| Indicated | 8.1 | 1.69 | 435,634 |
| Inferred | 4.3 | 1.64 | 223,117 |
| | 12.3 | 1.67 | 658,751 |
| | | | |
| Simba Gold Project | | | |
| Inferred | 7.4 | 1.40 | 320,000 |
| | 7.4 | 1.40 | 320,000 |
| | | | |
| TOTAL GOLD RESOURCES | 28.4 | 1.91 | 1,650,197 |
| | | | |
| <i>Nyakafuru Reefs (under application)</i> | | | |
| <i>Nyakafuru Reefs Total Resources</i> | 3.5 | 3.56 | 400,488 |
| | | | |
| TOTAL GOLD RESOURCES (incl Nyakafuru Reefs) | 31.9 | 1.99 | 2,050,676 |

Total project resources. Source: Company

Caracal Gold has Measured and Indicated resources of 966,854oz and total resources of 1,650,197 ounces across the Kilimapesa, Nyakafuru and Simba Gold Projects. On the above peer comparison, this suggests £57.32 million (US\$77.39 million) based on the EV/oz figure determined above on the total resources.

Selected valuation

Following our analysis, the valuation adopted is one which reflects both the results of the determined NPV for Kilimapesa and the peer group comparison analysis for the total gold resource of the portfolio of projects that the company has now assembled. We believe that it is important to properly reflect on the fuller valuation provided by the peer comparison based per ounce of JORC-compliant resources in the ground.

Caracal sees Shanta as currently being ahead of them by two years but Shanta clearly shows the sought of entity that is looking to be being created. This cannot be fully modelled to any degree of accuracy at this stage but the valuation for the company and the target price for the stock would be too low if this value wasn't in some way reflected.

On that basis, to remain to be conservative we have chosen to adopt the peer comparison figure of £57.32 million (US\$77.39 million), as deemed to be fair value for the Kilimapesa, Nyakafuru and Simba projects.

| Asset | £million |
|--|-----------------|
| Kilimapesa, Nyakafuru and Simba fair value | 57.32 |
| Debt | - |
| Cash £750,000 | 0.75 |
| Sub-total | 58.07 |
| Per share | |
| Based on the number of shares in issue (1,615,332,001) | 4.01p |
| Fully diluted basis | |
| Funds coming from options being exercised | £9.97million |
| Total | £68.04 million |
| Based on the number of shares on a fully diluted basis including the deferred consideration for Kilimapesa and the total considerations for both Nyakafuru & Simba (2,489,234,221) | 2.73p |

Sum-of-the-parts valuation. Source: Align Research

Our SOTP valuation totals £58.07 million. Based on the number of shares currently in issue (1,615,332,001) the per share valuation would come out at 4.01p. On a fully diluted basis (2,489,234,221), we have added the funds that would result from the options being exercised of £9.97 million. This gives a total of £68.04 million, or a share price of 2.73p, which looks to us to be the most appropriate target price for the stock over the next 12-18 months.

Conclusion

In the six months or so since Caracal Gold was readmitted to the LSE, management have achieved a lot in our view. There looks as though there will be no let-up in the pace of advancement in the current year as the company gets powered further towards its goal of becoming a mid-tier gold producer in East Africa. It looks like investors are going to get rewarded with a rapidly improving newsflow which could see Caracal a lot of attention as the company clearly begins charting its way towards becoming a serious player in this space.

The compelling newsflow looks likely to kick off with drilling reports and if anything like the trenching we would expect a fair bit of visible gold to be showing up ahead of assays getting back from the lab confirming the widths and grades. At the same time there will be regular operational updates which we believe will be reporting increased throughput and rising gold production. Plus, we expect updates on the completion of the two acquisitions and the issuance of the Nyakafuru Reefs licence which will add an immediate 400,000oz of resources.

Caracal expects to be granted the licences for the Nyakafuru Gold Project in Q1 2022, which will allow work to begin in earnest on an updated Feasibility Study which is expected to provide all the information and data on which to make the final investment decision in H2 2022. Previous owner Resolute Mining was looking at a rather grander 1.7Mtpa scheme based on a shallow open pit. The company will be seeking to develop something slightly smaller initially at 1Mtpa, but this does have the benefit of coming with a much shorter development time of around just 9-10 months. Everything is available onsite as Resolute set up an exploration camp. As for processing, as luck would have it just down the road is Barrick's 4Mtpa project which is on care and maintenance at the moment, which might provide some additional highly attractive options going forward.

The company has just begun a drilling programme at Kilimapesa to support expansion. Caracal has bought its own drill rigs which should result in healthy regular increases in the MRE. Currently, the resource base stands at 1.6Moz following the acquisition of the Tanzanian assets which added 1Moz straight away. Drilling has started and so we think the MRE could easily be in the 2Moz – 2.5Moz range by the end of 2022. The rapidly rising MRE is important as it not only allows for the planning and development for far larger projects but also provides a clear signal to the market of the sort of value that is being created and critically, the future level of gold production that could be supported.

It is plain to see that management plans to make a lot more acquisitions in this region before competitors wake up to the opportunities that East Africa offers. We are led to believe that in the acquisition pipeline are a whole host of exciting assets which includes another potential Kilimapesa plus another one in Tanzania. Apparently, one project comes with a BFS which has just been finalised and is close to production, while the Kilimapesa look alike is already in production. Vendors seem more than happy to take paper as they see what the team is doing in rapidly adding value. There is still a long way to go but to help in this journey the board is expected to be strengthened. So too will the management team with the expected appointment of a new General Manager and Chief Financial Officer. **We see excellent opportunities being created for investors and initiate coverage of Caracal Gold with a Conviction Buy stance and a share price target of 2.73p.**

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