STOCKS DOWN UNDER

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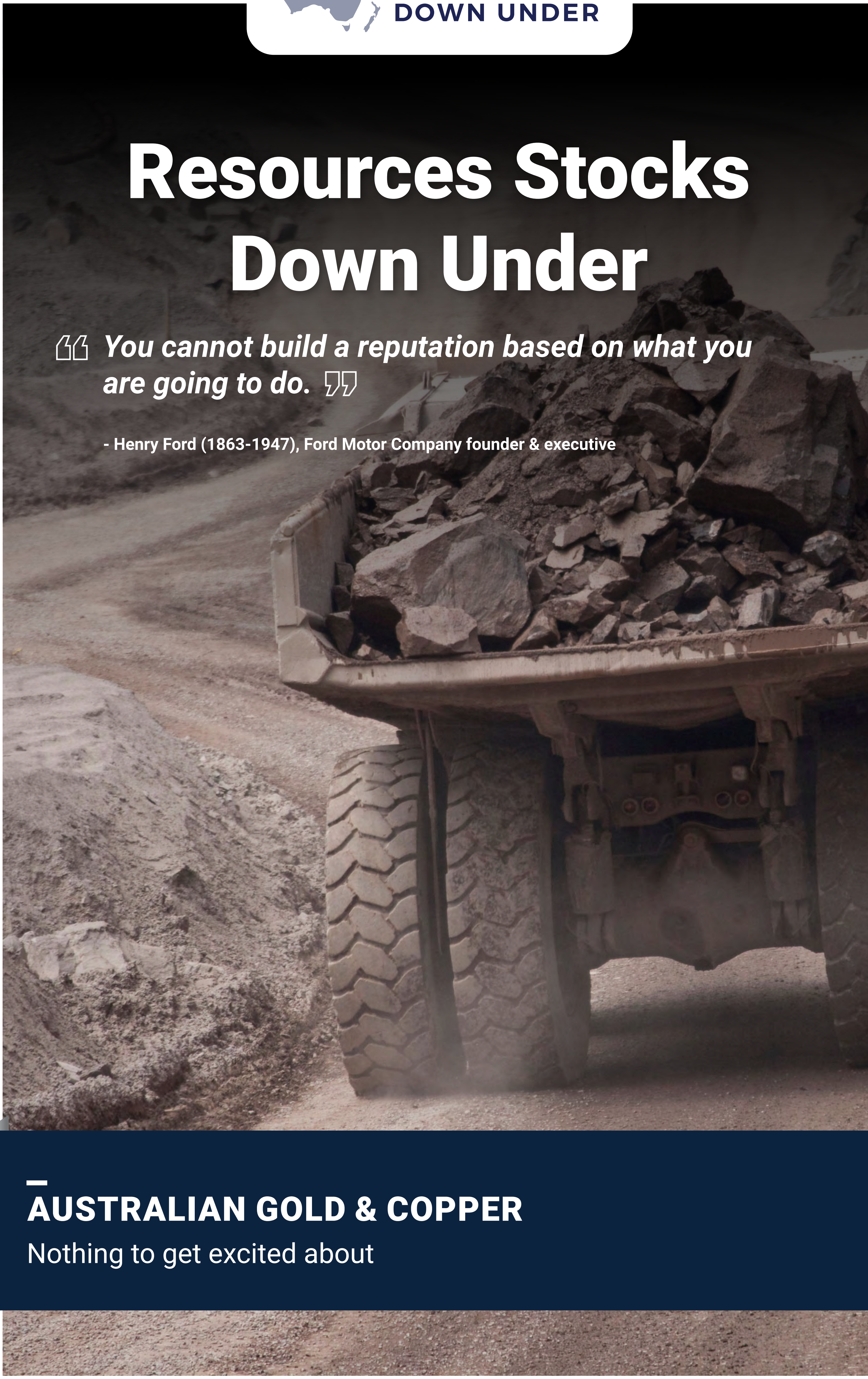
Resources Stocks Down Under

> *You cannot build a reputation based on what you are going to do.*

- Henry Ford (1863-1947), Ford Motor Company founder & executive



AUSTRALIAN GOLD & COPPER

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Stocks Down Under rating: ★★

ASX: AGC
Market cap: A$4.9M

52-week range: A$0.069 / $0.17
Share price: A$0.070

Eighteen months on since Australian Gold & Copper (ASX: AGC) listed, there's been little to get excited about. It listed in January 2021 at 20 cents a share and its valuation has plunged by more than half. This is not because the company hasn't been doing anything, AGC has been a busy explorer in the last 18 months. Rather, its results have been nothing to write home about.

Share price chart

Source: Tradingview

Another Lachlan Ford explorer

AGC owns three gold and copper projects in the Lachlan Ford Belt in NSW. The Lachlan Ford Belt has a long history of mineral production, hosting Newcrest's Cadia copper-gold mine. Since Cadia's discovery in the 1990s there had been few successes until Alkane's (ASX: ALK) Boda discovery in 2019. Whenever one explorer makes a big hit, many peg ground nearby hoping for similar success, but most are unsuccessful.

AGC listed in January 2021 at 20 cents a share as part of a demerger from Magmatic Resources (ASX: MAG). Magmatic and its shareholders collectively own 30% of AGC. AGC has three projects: the Moorefield gold project, the Cargelligo gold and base-metal project and the Gundagai gold project. Moorefield was owned by Magmatic, while the other two were owned by private explorer New South Resources (NSR). NSR boss Glen Diemar became CEO of AGC once it listed and NSR had its own 20% stake.

Notwithstanding that Magmatic retained a stake, the fact that it was spinning off its prospects while retaining gold and copper projects in the same area has arguably given rise to the perception there was less value in that project. And remember, Moorefield was inherited by Magnetic after its sale from the world's seventh-largest gold miner, Gold Fields. Again, it wouldn't have offloaded the project if the vendors had seen further value in it. Of course, sometimes the big miners can make mistakes in offloading projects. Gold Fields itself made a mistake when it offloaded the Bellevue project to Bellevue Gold (ASX: BGL), which has since given it a new life with its exploration success. If you want to know more about that story, you can read about it in our 28 May 2020 edition. Nevertheless, incidents like these have been the exemption rather than the norm.

Big hits have eluded it

As with all ASX explorers, AGC hoped for success based on the operation of successful mines nearby, earlier exploration success and indications of gold prospectively through pre-drilling exploration activities. And it hit the ground running, beginning a drilling campaign at the Pattons prospect at Moorefield within a week of listing. In the first 12 months, AGC completed eight geophysical surveys, multiple large soil sampling programs and eight drill campaigns. It drilled a total of 8,582m and five of its IPO targets. And as of 31 March 2022, AGC has $4.9m in cash, enough to last more than two years at current burn rates.

Shareholders however haven't liked the results and have sent the company down by over 50% since listing. Admittedly, it has been a tough time for gold stocks with the plateauing in the gold price and IPO fatigue, but mediocre results don't help a company's cause. AGC's most exciting result at Moorefield was 5m at 4.16g/t. As a general rule of thumb with gold, anything above 5g/t is considered high grade, but some lower grades can be viable. The question of viability depends on the depth of the result and if the project is in an established mining area already possessing transport, facilities and other infrastructure.

But remember that while individual hits are good, the key is whether or not there is enough of a resource to host an economically viable mine, or at least to define a resource. Most of AGC's hits haven't been impressive. That Moorefield hit was part of a broader anomaly that was 33m at 1.1g/t, but other anomalies have been below 1g/t. Historic rockchip sampling has shown results of up to 35g/t, but nothing close to this has been found in AGC's drilling – yet. The company has also done 3D magnetic inversion modelling of other prospects at Moorefield (Boxdale-Carlisle) that suggest a sizeable gold system, but for AGC investors it seems that seeing will be believing.

Turning now to AGC's other projects; Cargellio is seeing earlier stage exploration and drill planning underway. And at Gundagai, AGC has drilling scheduled for the next quarter. There are some historic rockchip results of up to 6.44g/t, but more recent assaying, detailed in AGC's IPO prospectus, was lower – the best was 3m at 1.62g/t from 33m. At current gold prices – of just over US$1,800 - this result might be viable, but we don't think it's one that's worth getting excited about. Nor would it continue being viable if gold prices declined much further.

Not everyone can be a Chalice

We also think investors have been underwhelmed by AGC's boss Glen Diemar. Not every company can be headed by experienced executives, such as Tim Goyder (who headed Liontown Resources and Chalice Mining), whose presence is enough to invest in a company. Even Goyder was a new executive once. But while Diemar is no doubt a qualified executive, he is younger than most of his peers and we think he hasn't handled the jump to listed life as well as he could've with underwhelming performances at conferences, such as the recent RIU Resources Round Up. We're not saying executives should be judged by performances at conferences, but it isn't encouraging to investors, especially considering the company's average results.

AGC has a busy program ahead with its three projects and drilling set to take place across the rest of this year. But in absence of better results, or reasons to believe better results will be achieved, AGC gets two stars from us.

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