

21st October 2009

## Ascot Mining Plc\* – Near-Term Multiple Gold Mine Producer. Speculative Buy with 94p Target Price.

On the 29th of September Ascot Mining commissioned its 100% owned Chassoul gold mine in Costa Rica and in so doing made the not so insignificant step from mine developer to producer. The company has three wholly owned subsidiaries each looking at gold production status from its Costa Rican mines within the next 6 months. Veritas Gold wholly owns the Chassoul gold mine, while Veritas Resources is involved in a 50:50 joint venture at the Toyota gold mine. Toyota is targeting production before the end of 2009 which will precede production from Veritas Mining's Tres Hermanos / El Recio licences at the beginning of 2010.

Each of Ascot's projects are located along the central gold belt of Costa Rica and are easily accessible from the Pan American Highway. The workforce will be local which contributes experience and stability as well as being a major factor in Ascot's low cost of production.

The **Chassoul** gold mine ("Mina de Oro") commenced production on the 29th of September and currently has a company estimated 56,700 ounces of gold in the one explored vein. There are at least 8 other unexplored veins on the property which lies 22 kilometres from the main road. Chassoul will be mined via a series of tunnels cut into the side of the hill with current initial production of 20 tpd (tonnes per day) set to ramp up to 150 tpd within the next few months. Initial production is yielding approximately 15 g/t of gold, with grades expected to settle down to somewhere in the region of 10 g/t gold. Average operating costs are expected to settle at \$424 per ounce in the long term. Both the crushing facility and tailings dam have been over-engineered to cope with higher throughputs of 300 tpd and 400 tpd respectively.

A 50:50 joint venture with Auro Magra CR SA, the **Toyota** mine is located due West of Chassoul, is fully permitted, has the majority of infrastructure already in place and is targeting production before Christmas. Production will begin at a rate of 50 tonnes per day increasing to 150 tpd in two stages. Mill recoveries are expected to be in the region of 92% which at a grade of 0.48 ounces per tonne will initially yield 20 ounces of gold per day rising to 60 ounces per day at capacity. The Costa Rica Government's estimated resource

### Key Data

EPIC	ASMP / AM3.DE
Share Price	44.5p
Spread	43p – 46p
Total no of shares	35,135,577
Market Cap	£15.6 million
12 Month Range	27p – 46p
Net Cash	£100,000 (est)
Market	PLUS / XETRA®
Website	<a href="http://www.ascotmining.com">www.ascotmining.com</a>
Sector	Gold Mining
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comprises 4 parallel gold veins 300 metres apart with 666,190 tonnes of ore at an average grade of 0.48 g/t for 319,770 ounces of gold.

The third string in Ascot's bow is the **Tres Hermanos and El Recio** projects held by Veritas Mining on a 20 year renewable lease with options to purchase. Internal company resource estimates have 219,797 ounces of gold (at 0.4 oz/t) at Tres Hermanos and 27,283 ounces (0.23 oz/t) and 22,996 ounces (0.09 oz/t) from El Recio's underground and open pit mines respectively. The company is working towards production from early 2010 in a similar profile to both Chassoul and Toyota – 50 tpd initially, ramping up to 150 tpd in a matter of months.

While a peripheral asset at the moment, Veritas Mining has a 10 + 10 year agreement with a syndicate of local miners to purchase the ore they produce. The **Boston** ore supply agreement is low volume but good grade (0.3 – 1.0 oz/t gold), with the syndicate's ore set to be processed at the Tres Hermanos / El Recio mill when capacity becomes available.

On the 8th of June Ascot announced that it will sell up to 7,000 of its projected 29,000 Troy ounces of expected near term gold production on a forward sale programme. To date 1,647 ounces have been subscribed for, with the proceeds allowing the company to accelerate its operations and expand gold production. Ascot does not intend to hedge the majority of its expected gold production in the future, but this financing plan prevents the excessive dilution of the company's capital, something Ascot has been careful to avoid since its inception.

Our valuation of Ascot is based on a discounted cash flow of production from the Chassoul, Toyota and the Tres Hermanos / El Recio gold mines. Our overall assumptions are a recovery rate of 80%, gold price of \$950 per ounce, discount rate of 10%, USD/GBP rate of \$1.70, taxes and charges of 30% on gross profits, overheads of \$1.2 million for the year to 30th September 2010, \$1.4 million in 2011 and then rising at 5% per annum in perpetuity. Finally, overall operating costs have been assumed at \$500 per ounce for production to 30th September 2010, \$450 per oz in 2011, \$400 per oz in 2012 and \$350 per oz thereafter.

Beginning with Chassoul, our assumptions are production at 50tpd for November 2009, December 2009 and January 2010, then 150 tpd from February 2010 onwards. The average grade is 0.32 oz/t, and with the current resource estimated at 46,034 ounces of gold, our DCF ceases at the end of 2012. Ascot will be confident of adding to this resource as it targets Chassoul's other veins, but this will remain upside to our model.

We have assumed Toyota production begins at 50tpd in March 2010 and runs at this rate for 3 months before hitting 150 tpd in June 2010. The average grade is 0.48 oz/t and, with an attributable gold resource of 159,885 ounces estimated, production should run past the limit of our DCF on the 30th September 2017. Being a JV, we have only attributed 50% of production to Ascot.

Finally Tres Hermanos and El Recio are assumed to commence production at 50tpd in July 2010 before ramping up to 150 tpd from October 2010. With a grade of 0.40 oz/t estimated at Tres, production will continue from both mines beyond our DCF limit on the 30th of September 2017.

The fact that Ascot has only just entered production and that its resource estimates need

updating to meet industry standard has prompted our caution, but material upside exists from further resource finds across the portfolio, increased production rates at each mine, the milling of ore from the Boston supply agreement, higher recovery rates, the continued strength of the gold price and the further lowering of operating costs. Risks exist in the form of delayed production, lower production rates and gold grades, lower gold prices, higher operating costs and the heightened estimate risk of gold vein resources.

Ascot Mining has ambitions of producing 100,000 ounces of gold per annum within the next 5 years and, having only formed in 2006, there appears an ability to expedite operations. GEGR initiates coverage of Ascot Mining with a target price of 94p and **speculative buy** recommendation.



### Forecast Table

Year to 30th Sep	Sales (£ million)	Pre-tax Profit (£ million)	Earnings Per Share (p)	Price Earnings Ratio	Dividends Per Share (p)	Dividend Yield (%)
2007A	0	(0.01)	(10.0)	NA	0	0.0
2008A	0.1	(0.78)	(3.93)	NA	0	0.0
2009E	0.2	(1.0)	(2.8)	NA	0	0.0
2010E	7.0	4.5	12.8	3.4	0	0.0

\* *Worship Street Investments which is advised by t1ps investment management, which is owned by RSH the ultimate owner of GE&CR, owns shares in Ascot.*

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