Precious Metals

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Time-tested inflation hedges

The Desjardins Takeaway

We are initiating coverage of four gold producers, all showing potential for production growth, and five gold developers showing potential for resource growth, with all of the covered assets in the Americas. We priced our report as of Friday, May 14, with gold flat and the S&P/TSX Global Gold Index up just 2.4% this year. In this report, we discuss why we believe interest rate increases will be limited and why we expect inflation to continue, causing real rates to decline, which would be a positive for the gold price. We also look at historical valuations for gold equities and discuss why current levels are attractive before diving into a more detailed look at our nine covered companies.

Highlights

Our gold equity coverage ranges in market cap from C$200m to C$3b. We see significant production growth potential for all four of the producing companies on which we are initiating coverage—Argonaut, Equinox, Lundin Gold and Pure Gold. Similarly, we see significant resource growth potential for all five of the developer companies on which we are initiating coverage—Integra Resources, Liberty Gold, Marathon Gold, Minera Alamos and Osisko Development.

Summary of coverage

Company	Ticker	Price May-14 (C$)	Mkt cap (C$m)	Rating	Target (C$)	Exp return (%)
Gold producers						
Argonaut Gold Inc.	AR	2.85	884	Buy–Speculative	4.25	49
Equinox Gold Corp.	EQX	10.09	3,003	Buy–Above-average Risk	14.00	39
Lundin Gold Inc.	LUG	11.75	2,722	Hold–Speculative	14.00	19
Pure Gold Mining Inc.	PGM	1.52	609	Hold–Speculative	1.80	18
Gold developers						
Integra Resources Corp.	ITR	3.70	203	Buy–Speculative	7.00	89
Liberty Gold Corp.	LGD	1.56	410	Buy–Speculative	2.75	76
Marathon Gold Corporation	MOZ	2.92	624	Buy–Above-average Risk	3.50	20
Minera Alamos Inc.	MAI	0.65	287	Buy–Speculative	1.30	100
Osisko Development Corp.	ODV	7.13	950	Buy–Speculative	10.75	51

Source: Desjardins Capital Markets, FactSet

Our top producer pick is Argonaut due to the transformation that is underway—using cash flows from its assets in Mexico to help fund development of the Magino project in Ontario, the company will go from being a Mexican heap leacher with a high cost base to emerge as a lower-cost, more diversified producer with a long-life asset in a stable jurisdiction. While there are certainly risks along the way, we believe that patient investors should be rewarded with a significant valuation re-rating; or, if it does not re-rate, then we see the company as a compelling takeout candidate.

Our top developer pick is Minera Alamos, as we see the company quickly moving from being a developer to a multi-asset producer, with each asset in its portfolio having an exceptional IRR and low capital intensity. With the first asset pouring gold around mid-year, the company will begin to reinvest cash flows into exploration and development of the next asset and should experience a re-rating as it transitions to producer status.

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John Sclodnick
Amanda Lewis, Associate

Report summary

We are initiating coverage of four gold producers, all showing potential for production growth, and five gold developers showing potential for resource growth, with all of the covered assets in the Americas (see Exhibit 1). We provide a brief overview of the companies in the *Summary of coverage companies* section below.

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Exhibit 1: Summary of coverage

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Following a quick summary of our coverage in the next section, we discuss our approach and methodologies in relation to our valuations, and look at the respective comparable peer groups and how our coverage stacks up on key metrics. We also take a look at the macro environment for gold; it seems evident just from our everyday experience that inflation is increasing and we take a look at the underlying data beyond anecdotal evidence in a number of charts.

Gold is flat and the S&P/TSX Global Gold Index is up just 2.4% this year, and we discuss why we believe interest rate increases will be limited and why real yields will decline. We also look at historical valuations for gold equities and discuss why current levels are attractive; our various seasonality charts show that July and August are the best months to own gold and that May is a good time to build a position. Lastly, we take a detailed look at our coverage with company-specific initiation reports.

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Summary of coverage companies

Producers

Argonaut Gold Inc. (AR C$2.85, TSX, Buy–Speculative, C$4.25 target)

Fully funded transformation underway. We are initiating coverage of Argonaut with a Buy–Speculative rating and C$4.25/share 12-month target, which implies a potential return of 49%. Argonaut is in the midst of a transformation. Prior to July 2020, the company operated three low-grade Mexican heap leaches (El Castillo, San Agustin and La Colorada), all having relatively short mine lives, and lacked a meaningful growth project that the market believed in. Those Mexican heap leaches are no longer the focus of the company, but will instead deliver free cash flow to fund the company's transformation—namely, the Magino project in Ontario. This project single-handedly addresses all of the main investor concerns with Argonaut: (1) it adds a low-cost, long-minelife operation in a stable operating jurisdiction; (2) it diversifies the production base outside of Mexico; and (3) it adds an intriguing exploration component with the exciting high-grade intercepts that Argonaut is finding at depth. The company took a preliminary step toward addressing investor concerns by adding the Florida Canyon mine in Nevada when it completed the Alio Gold acquisition in July 2020. It also has the Cerro de Gallo project in Guanajuato, Mexico, in its portfolio as well as the Ana Paula project in Guerrero, Mexico. The average consensus P/NAV multiple of junior producers is 0.67x while intermediate producers trade at an average of 0.78x. We estimate that Argonaut is trading at 0.61x currently. If Argonaut were to trade in line—as we expect it will after Magino is ramped up—the share price would need to outperform junior producers by 10%. At that point, it would be producing more than 300koz/yr and given its diversified North American asset base, we believe it should trade closer to intermediate producers, which would require outperformance of 28%, or 9% per year until 2024 when Magino is fully ramped up.

Equinox Gold Corp. (EQX C$10.09, TSX/US$8.31, NYSE American, Buy–Above-average Risk, C$14.00 target)

Ready, set, grow. We are initiating coverage of Equinox with a Buy–Above-average Risk rating and C$14.00/share 12-month target, which implies a potential return of 39%. Equinox owns a total of seven producing mines and four growth projects. The largest producer, growth driver and NAV component is the Los Filos mine in Mexico, where an expansion is planned to take annual production to more than 350koz; the company also owns the Mercedes mine in Mexico. In Brazil, it owns the cornerstone Aurizona mine, the Fazenda and RDM mines, as well as the Santa Luz project which is currently being constructed. In the US, it operates the Mesquite and Castle Mountain mines, both in California, with a Phase 2 expansion planned at Castle Mountain. Rounding out the portfolio is the 60%-owned Greenstone project in Ontario which is fully permitted, with construction planned to commence in 2H21. The company has a diverse production base in the Americas, and with an unparalleled growth profile to take annual production above the 1moz threshold, we expect it could fetch a premium valuation to the peer group with steady operational performance and execution on its growth mandate as Santa Luz comes online and high-grade deposits are accessed at Los Filos. We view the current valuation as an attractive entry point while the company makes the necessary investments to drive up production and drive down costs, which should result in EBITDA increasing 67% next year based on our estimates and potentially force a re-rating. Based on consensus estimates, Equinox is currently trading at 0.55x NAV (0.57x based on our estimate), which is a 29% discount to the intermediate peer average and is near the lowest P/NAV valuation on consensus numbers in the last two years where it traded as low as 0.51x. This discount is unjustified in our view, and we believe the stock will re-rate over the course of the year to trade more in line with peers.

Lundin Gold Inc. (LUG C$11.75, TSX, Hold–Speculative, C$14.00 target)

Fruta del Norte is golden delicious. We are initiating coverage of Lundin Gold with a Hold–Speculative rating and C$14.00/share 12-month target, which implies a potential return of 19%. Lundin Gold is backed by the eponymous Lundin Group, with Lundin Family Trusts holding 26.5% of the shares outstanding while Newcrest Mining owns another 31.9%. Lundin Gold holds a 100% interest in the world-class Fruta del Norte mine in southern Ecuador after this was acquired from Kinross Gold for US$240m in December 2014. While the mine has faced expected challenges given the company is operating in a newer mining jurisdiction—eg a shutdown due to COVID-19 amid its ramp-up last year, followed by a short blockade from a local community—the company appears to be in the best position of its operating life. The mine exceeded production guidance in 2020 and has shown a good start to doing the same in 2021, not to mention the planned expansion in 4Q21; importantly, the most business-friendly presidential candidate, Guillermo Lasso, won the election in April. 2021 will mark the mine's first full operating year and the significant free cash flow generated will be used to pay down debt; at the same time, the company will be keeping an eye out for M&A opportunities to diversify production and lower its risk profile—that is if it's not acquired before then. Management has done an impressive job of derisking the operation as the asset has outperformed expectations so far compared with guidance, while the jurisdictional outlook has never been better with a business-friendly president elected. However, in our view, the positive outlook for the company and the jurisdiction is priced in with the stock trading at 0.95x our NAV estimate and at a premium of 22% and 33% to peers on a NAV and EBITDA basis, respectively. Furthermore, the company will experience a declining production profile following the peak in 2022. It is Lundin Gold's current valuation vs peers, combined with its asset's production profile and jurisdictional risk in Ecuador, that drives our Hold rating at this juncture.

Pure Gold Mining Inc. (PGM C$1.52, TSX-V, Hold–Speculative, C$1.80 target)

Expected participant in Red Lake consolidation. We are initiating coverage of Pure Gold with a Hold–Speculative rating and C$1.80/share 12-month target, which implies a potential return of 18%. Pure Gold is Canada's newest gold producer after it restarted the PureGold mine in Red Lake, Ontario. The PureGold mine complex includes the Main deposit which hosts more than 1moz of gold reserves at a grade of 9.0g/t and is the formerly producing Madsen mine, on which the Phase 1 development plan is based. The complex also hosts the Russet South, Fork and Wedge deposits, which have M&I resources delineated; in total, the company hosts more than 2.5moz of defined resources. The property is directly next door to Evolution Mining's Red Lake complex, which is currently mining below 2km; in comparison, the resources delineated at the PureGold mine extend to 1.3km, indicating that there is potentially a long minelife at the asset with further exploration at depth, supported by the high-grade interval discovered at the 2km level. With successful exploration along strike and at depth, we see potential for the company to expand throughput. The Red Lake mining district has been undergoing a wave of consolidation driven by Australia-based Evolution Mining after it acquired Newmont's Red Lake complex in late 2019 for US$375m and then added Battle North Gold's Bateman gold project in the Red Lake district earlier this year for US$275m, representing US$201/oz of resources and 1.02x its feasibility study NPV (at US$1,700/oz Au, C$1.25/US$1 and 5% DR). If Pure Gold were acquired at 1.02x NAV, this would translate to C$2.06/share or a 36% premium to Friday's (May 14) close, and if it were acquired at US$201/oz of resources, this would translate to C$1.59/share or a 5% premium to Friday's close. Our Hold rating is driven by early ramp-up issues, namely a mill feed grade well below expectations in 1Q due to unexpected mining dilution. While the company has reported improvements over the last few weeks, we would like to see more consistency. If realized head grades meet expectations in the coming quarters, we believe that the stock should regain its premium multiple but the current valuation does not offer sufficient upside considering the ramp-up risk, in our view.

Developers

Integra Resources Corp. (ITR C$3.70, TSX-V, Buy–Speculative, C$7.00 target)

An Integral part of a gold or silver developer portfolio. We are initiating coverage of Integra Resources with a Buy–Speculative rating and C$7.00/share 12-month target, which implies a potential return of 89%. Integra Resources is focused on advancing its 100%-owned DeLamar gold and silver project in southwest Idaho. The company released a PEA on the project in September 2019 and is now working on an updated resource estimate, which will be followed by a pre-feasibility study. It already has a large resource of more than 4.5moz Aueq including 4.0moz Aueq in M&I at a grade of 0.73g/t Aueq. Based on our gold and silver price assumptions, ~60% of the resource value comes from gold and ~40% from silver. The company is derisking the project by advancing economic studies and conducting baseline environmental work, and will put a plan of operations in place next year to start the formal permitting process. In the meantime, it has numerous exciting exploration targets to drill on its ~110km^2 land package. Integra Resources is led largely by the same group that managed Integra Gold, which was acquired by Eldorado Gold for C$593m in May 2017 and is now that company's flagship asset. The DeLamar project has a large and growing resource in a stable operating jurisdiction and there are several opportunities to optimize the project. One of these is a high-grade exploration campaign which, if successful, could displace low-grade mill feed with higher-grade material, driving NAV accretion. Another area is improved silver recoveries, which is a focus of the upcoming PFS; with silver prices as a greater economic driver of the project, it could attract more attention from silver producers looking to lower their cost base and risk profile as well as from silver investors who, due to a lack of investment opportunities, have driven silver company valuations to an average of ~1.5x NAV vs gold producers at ~0.75x and gold developers at 0.58x. We believe the PFS should help Integra Resources close the valuation gap from its 0.49x NAV multiple.

Liberty Gold Corp. (LGD C$1.56, TSX-V, Buy–Speculative, C$2.75 target)

Liberated gold. We are initiating coverage of Liberty Gold with a Buy–Speculative rating and C$2.75/share 12-month target, which implies a potential return of 76%. Liberty Gold is an exploration and development company focused on advancing its flagship 100%-owned Black Pine gold project in Idaho. After acquiring the project in 2016, impressive oxide drill results quickly showed potential for a large-scale, high-margin, low-capital-intensity project to emerge. Black Pine has superseded the company's Goldstrike project in Utah which had demonstrated strong economics in a 2018 PEA, featuring a 29.4% IRR at US$1,300/oz gold. The company also has a 62.9% interest in the TV Tower project in Turkey and recently released a resource estimate of ~1.4moz of attributable gold and ~2.6moz of gold-equivalent including copper and silver. Management has done an impressive job of monetizing non-core assets to fund Black Pine's drilling programs and advancement. It has sold six assets to bring in C$40.4m of value, highlighted by the divestment of the Halilağa project in Turkey for C$30m where the bank-guaranteed staggered payments have enabled the company to undertake aggressive drill programs at Black Pine without incurring significant share dilution. Liberty Gold therefore ended 2020 with a larger treasury than it started the year, without an equity financing. We expect the company to end 2021 with a higher cash balance than in 2020, with no further asset sales. We see a high-margin, low-capital-intensity project developing that has already shown relatively high grades and recoveries, which should lead to a low cost profile. The exploration results outside of the resource area means than the upcoming maiden resource estimate will be just a start to the resource growth given the company has a ~50km^2 property to explore, with numerous highly prospective gold targets already identified. And with a strong balance sheet and the potential for another asset sale, investors can get in at a low valuation and without incurring any significant share dilution until a construction decision is made...that is if the company is not acquired before then.

Marathon Gold Corporation (MOZ C$2.92, TSX, Buy–Above-average Risk, C$3.50 target)

Final stretch with the production finish line in sight. We are initiating coverage of Marathon Gold with a Buy–Speculative rating and C$3.50/share 12-month target, which implies a potential return of 20%. Marathon Gold is focused on advancing its 100%-owned Valentine gold project in Newfoundland to production. After recently announcing positive results from the feasibility study, it is now working on detailed engineering and procurement as it simultaneously works through the permitting process; it expects to complete the environmental assessment in the fall. The company has continued to add value through an aggressive 85,000m drill program along the Valentine Shear Zone mineralized trend which extends 20km, with five deposits already delineated. We believe that the Berry deposit, which was the most recent discovery and which is not included in the feasibility study, has the potential to be the highest-margin deposit, further proving that there is significant exploration and resource growth potential for minelife extension beyond what is included in our model. Marathon Gold is a developer stock which checks all the boxes that investors look for—it has nearly 5moz of resources at relatively high grades for an open pit, which should translate into strong margins once it is in production. Moreover, it is in a safe operating jurisdiction and is well-advanced in the permitting process, with a feasibility-level study and demonstrated resource growth potential beyond that. All this makes for a compelling takeout target, and if it is acquired for the average price paid per ounce of recent Canadian projects, this would require a takeout premium of 37% vs Friday's (May 14) closing price. However, investors do not need to wait on this as we believe that even more value could be surfaced by taking the project to the production stage and that the company has the management team to do it. In our view, Marathon Gold is as low-risk as it gets in the gold developer space and should let investors sleep well.

Minera Alamos Inc. (MAI C$0.65, TSX-V, Buy–Speculative, C$1.30 target)

Developer to intermediate producer...real quick. We are initiating coverage of Minera Alamos with a Buy–Speculative rating and C$1.30/share 12-month target, which implies a potential return of 100%. Minera Alamos owns three gold projects in Mexico, all exhibiting low start-up costs and an average IRR of 115%. The company is taking a shareholder-friendly approach to development, in our opinion—rather than continuously drilling the properties to establish as big a resource as possible while adhering to NI 43-101 compliance, it has instead drilled out a starter pit area and conducted a bulk tonnage mining test at its first project, which in our view provides better resource confidence for this type of low-grade oxide gold mineralization, particularly as it pertains to the metallurgy. The Santana project is expected to pour gold around the end of the quarter. The company will then reinvest the cash flows into exploring the property further and developing the next project in the pipeline, Cerro de Oro. Once these two assets are cash flowing, it will build out the third mine in the portfolio, La Fortuna, which we model coming online in 2024. This bolt-on strategy enables the company to limit dilution for shareholders while ultimately achieving a multi-mine operating platform, with exploration upside at each project. The management team had intended on executing a similar strategy when it operated Castle Gold before it was acquired by Argonaut Gold for C$130m in late 2009 for its El Castillo mine, where management had tripled the resource to 1,200koz from 400koz and put the mine into production for US$7m. Minera Alamos only recently announced an NI 43-101–compliant maiden resource estimate at Cerro de Oro and is expected to announce one shortly at Santana as well. This would give the company NI 43-101–compliant resources at all assets, including La Fortuna, which should put the stock on the radar of significantly more institutional investors. We expect they will be attracted to the low capital intensity and high IRR of the projects, as well as the company's enviable growth profile, which should drive a re-rating as the projects come online. Investors have the opportunity to get in early with a proven management team who are frugal stewards of shareholder capital and, in our view, the best heap leachers in the business.

Osisko Development Corp. (ODV C$7.13, TSX-V, Buy–Speculative, C$$10.75 target)

Getting the band back together. We are initiating coverage of Osisko Development with a Buy–Speculative rating and C$10.75/share 12-month target, which implies a potential return of 51%. Osisko Development was formed on November 25, 2020 through a spinout of the mining assets that were previously held within Osisko Gold Royalties. The assets now held by Osisko Development include the Cariboo gold project in BC, the Bonanza Ledge II project which is part of the Cariboo property, the San Antonio gold project in Sonora, Mexico, an exploration land package in the Guerrero gold belt of Mexico, as well as a package of exploration properties in the James Bay area of Canada; it also holds a portfolio of publicly traded equities. The company will transition to producer status later this year after it restarts operations at Bonanza Ledge. These cash flows will then be reinvested to permit and construct the San Antonio mine, with the increased cash flows used to fund the development of the long-life cornerstone asset in the Cariboo gold project. The company is targeting a feasibility study on the project in 2H of this year and is hoping to receive permits to allow for construction to commence in 2022, with first gold anticipated in 2023. In 2024, when Cariboo is fully ramped up, we see the stock trading at 1.5x EV/2024 EBITDA, with a free cash flow yield of 29%. Osisko Development should be considered an intermediate producer in 2024 and that group averages 4.7x EV/EBITDA FY1, with an average FCF FY1 yield of 5.2%; to trade in line with the group on an EV/EBITDA basis, Osisko Development would need to outperform by 128% or a CAGR of 43%, and to trade in line on an FCF basis, it would need to outperform by 452% or a CAGR of 113%. The Cariboo project is a district play with potential to develop into a long-life mining camp, as numerous exploration targets have already been identified on the extensive, highly prospective land package.

Peer group comparison

We refer to peer groups throughout the report and we have been consistent in terms of the companies that form the various peer groups. While every mining company has unique attributes, we aim to group companies together such that on average, the resulting valuations represent a reasonable level for what the market is willing to pay for that type of company. We include all Desjardins covered companies that fit within a given peer group and highlight these in bold, while the companies on which we are initiating coverage in this report are bolded and highlighted in grey. In the comps tables below, we show our estimates for the names under coverage and consensus estimates based on FactSet data for the companies that we do not cover. Lastly, given we have based our long-term gold price estimates on consensus, we do not expect this to be a driver of valuation differences, and believe that consensus estimates are suitable comparisons to our Desjardins estimates.

Exhibit 2: Developer comps table

Company	Ticker	Price May-14 (C$)	Mkt cap (US$m)	Working capital (US$m)	EV (US$m)	Gold-eq resources Contained (kGEO)	Gold-eq resources Grade (g/t Aueq)	Valuation P/NAV (x)	Valuation EV/resources (US$/GEO)
Artemis Gold	ARTG	6.21	615	4	343	13,833	0.7	0.62	25
Ascot Resources	**AOT**	**1.18**	**364**	**79**	**303**	**3,271**	**7.9**	**0.62**	**93**
Gold Standard Ventures	GSV	0.70	207	12	161	3,088	0.9	0.46	52
Integra Resources	**ITR**	**3.70**	**168**	**19**	**144**	**4,627**	**0.7**	**0.49**	**31**
Liberty Gold	**LGD**	**1.56**	**329**	**18**	**313**	**4,182**	**0.6**	**0.52**	**75**
Marathon Gold	**MOZ**	**2.92**	**516**	**37**	**478**	**4,780**	**1.7**	**0.77**	**100**
Minera Alamos	**MAI**	**0.65**	**236**	**19**	**220**	**1,019**	**0.6**	**0.49**	**216**
Orla Mining	**OLA**	**4.87**	**923**	**65**	**921**	**15,114**	**1.0**	**0.66**	**61**
Osisko Development	**ODV**	**7.13**	**701**	**145**	**538**	**6,970**	**3.1**	**0.57**	**77**
Osisko Mining	OSK	3.14	922	217	706	6,139	8.5	0.52	115
Prime Mining	**PRYM**	**3.59**	**290**	**26**	**264**	**1,160**	**1.3**	**0.90**	**228**
Rio2	RIO	0.79	130	1	118	6,373	0.4	0.38	19
Sabina Gold & Silver	SBB	1.73	497	30	414	9,177	6.0	0.45	45
Skeena Resources	SKE	3.28	597	15	431	5,708	4.0	0.62	75
Average			**464**	**49**	**382**	**6,103**	**2.7**	**0.58**	**86**

Note: Figures for AOT, ITR, LGD, MOZ, MAI, OLA, ODV and PRYM based on Desjardins estimates; all other estimates based on consensus. Gold-equivalent ounces based on spot prices
Source: Desjardins Capital Markets, company reports, FactSet

Exhibit 3: Junior producer comps table

Company	Ticker	Price May-14 (C$)	Mkt cap (US$m)	Net debt (US$m)	EV (US$m)	Performance 1m (%)	Performance Ytd (%)	Performance 12m (%)	EV/EBITDA (x) 2021E	EV/EBITDA (x) 2022E	FCF (US$m) 2021E	FCF (US$m) 2022E	FCF yield (%) 2021E	FCF yield (%) 2022E	Valuation NAVPS (C$)	Valuation P/NAV (x)
Americas Gold & Silver	**USA**	2.73	289	17	307	-1	-33	-7	12.1	2.5	-14	74	-5.0	25.6	6.66	0.41
Argonaut Gold	**AR**	**2.85**	**730**	**-189**	**541**	**+10**	**+4**	**+67**	**3.5**	**2.6**	**-132**	**-44**	**-18.0**	**-6.0**	**4.77**	**0.61**
Calibre Mining	CXB	1.99	549	-58	541	+9	-18	+53	3.6	3.1	47	85	8.5	15.5	2.38	0.84
Fiore Gold	**F**	**1.18**	**96**	**-19**	**77**	**-2**	**-18**	**+47**	**3.3**	**2.4**	**2**	**1**	**2.4**	**1.5**	**2.70**	**0.44**
Galiano Gold	**GAU**	**1.49**	**276**	**-63**	**212**	**+3**	**+4**	**-7**	**10.3**	**14.9**	**63**	**32**	**22.8**	**11.5**	**1.70**	**0.88**
Golden Star Resources	GSC	4.18	396	74	540	+3	-11	+19	4.1	3.5	80	71	20.3	17.9	8.11	0.52
Gran Colombia Gold	GCM	5.24	265	-122	184	-7	-35	-10	1.0	0.9	75	116	28.4	43.7	12.60	0.42
K92 Mining	**KNT**	**7.51**	**1,361**	**-47**	**1,314**	**+1**	**-1**	**+113**	**10.3**	**7.9**	**29**	**39**	**2.1**	**2.8**	**11.88**	**0.63**
Karora Resources	**KRR**	**3.74**	**454**	**-34**	**419**	**-8**	**-1**	**+68**	**5.4**	**3.6**	**28**	**25**	**6.1**	**5.5**	**5.45**	**0.69**
Pure Gold Mining	**PGM**	**1.52**	**503**	**66**	**570**	**+19**	**-41**	**+55**	**30.4**	**7.2**	**-47**	**55**	**-9.4**	**10.8**	**2.02**	**0.75**
Roxgold	ROXG	2.11	654	-11	700	+12	+31	+70	6.3	5.5	25	-14	3.8	-2.1	2.74	0.77
Victoria Gold	VGCX	15.32	787	162	981	+8	+26	+39	6.4	4.0	85	193	10.9	24.5	16.71	0.92
Wesdome Gold Mines	**WDO**	**9.37**	**1,087**	**-40**	**1,047**	**-5**	**-12**	**-18**	**11.1**	**5.0**	**-2**	**102**	**-0.2**	**9.4**	**11.13**	**0.84**
Average			**573**	**-20**	**572**	**+3**	**-8**	**+38**	**8.3**	**4.9**	**18**	**57**	**5.6**	**12.4**		**0.67**

Note: Figures for USA, AR, F, GAU, KNT, KRR, PGM and WDO based on Desjardins estimates; all other estimates based on consensus. USA estimates were substantially revised on May 17
Source: Desjardins Capital Markets, company reports, FactSet

Exhibit 4: Intermediate producer comps table

Company	Ticker	Price May-14 (C$)	Mkt cap (US$m)	Net debt (US$m)	EV (US$m)	Performance 1m (%)	Ytd (%)	12m (%)	EV/EBITDA (x) 2021E	2022E	FCF (US$m) 2021E	2022E	FCF yield (%) 2021E	2022E	Valuation NAVPS (C$)	P/NAV (x)
Alamos Gold	AGI	10.54	3,421	-264	3,185	+2	-5	-8	6.5	5.7	94	193	2.7	5.7	12.05	0.87
Centerra Gold	CG	8.64	2,113	-807	1,321	-23	-41	-33	1.5	1.2	340	644	16.1	30.5	12.56	0.69
Dundee Precious Metals	DPM	8.25	1,241	-170	1,077	-5	-10	+20	3.1	3.4	224	231	18.1	18.6	10.38	0.79
Eldorado Gold	ELD	13.49	2,027	-17	2,002	-0	-20	+8	4.4	4.0	58	128	2.8	6.3	22.87	0.59
Equinox Gold	**EQX**	**10.09**	**2,025**	**506**	**2,531**	**-6**	**-23**	**-14**	**6.0**	**3.5**	**-95**	**271**	**-4.7**	**13.4**	**17.13**	**0.57**
IAMGOLD	IMG	4.05	1,595	-437	1,258	+0	-13	-24	2.6	2.1	-293	-150	-18.4	-9.4	8.28	0.49
Lundin Gold	**LUG**	**11.75**	**2,249**	**665**	**2,914**	**+9**	**+8**	**+2**	**6.2**	**5.3**	**276**	**362**	**12.3**	**16.1**	**12.40**	**0.95**
New Gold	NGD	2.21	1,243	326	1,573	-2	-21	+58	3.8	2.7	93	220	7.5	17.7	2.50	0.88
OceanaGold	OGC	2.61	1,519	163	1,703	+27	+6	+1	6.3	3.4	-102	152	-6.7	10.0	3.44	0.76
Pretium Resources	PVG	13.54	2,102	51	2,153	-2	-7	+13	7.6	6.6	162	235	7.7	11.2	12.45	1.09
SSR Mining	SSRM	20.91	3,805	-400	4,119	+9	-18	-20	5.1	5.2	390	519	10.2	13.6	24.70	0.85
Torex Gold	TXG	16.59	1,175	-167	1,014	-2	-13	-8	1.9	2.0	148	159	12.6	13.5	27.82	0.60
Yamana Gold	YRI	6.21	4,956	354	6,126	+9	-15	-14	5.9	5.5	391	485	7.9	9.8	6.43	0.97
Average			**2,267**	**-15**	**2,383**	**+1**	**-13**	**-2**	**4.7**	**3.9**	**130**	**265**	**5.2**	**12.1**		**0.78**

Note: Figures for EQX and LUG based on Desjardins estimates; all other estimates based on consensus
Source: Desjardins Capital Markets, company reports, FactSet

Valuation methodology

- **Producers.** For our covered producers in this initiation report, we base our target prices on a combination of NAV and EBITDA. We believe NAV best reflects a company's long-term potential. However, the market's reaction, as reflected in the share price, to an event with only near-term implications such as a company missing quarterly earnings expectations, suggests that a greater premium and focus is paid to the company's near-term cash-generating ability, and this is reflected in our NTM EBITDA estimate. Typically, we apply an equal weighting to our NAV and EBITDA target multiples, with the multiples assessed based on both historical trading levels and peer comparisons.
- **Developers.** For our covered developers, our preferred valuation is derived from our NAV estimate. We assess our NAV multiple partially on our level of confidence that the company can achieve the inputs that drive our NAV estimate, but there are potentially other factors that could influence our NAV multiple including liquidity, jurisdictional risk, or historical trading multiples and peer comparisons.
- **Discount rates.** We apply a 5% discount rate to our discounted cash flow models of mines that are in production to be generally in line with other estimates on the Street. If a project is fully financed and permitted but not in production, we increase our discount rate to 6%, and if a project is not fully financed or permitted but has a reliable economic study, we apply a 7% discount rate. If there is no reliable economic study and we do not have strong conviction in the assumptions in our DCF model, we apply an 8% discount rate.

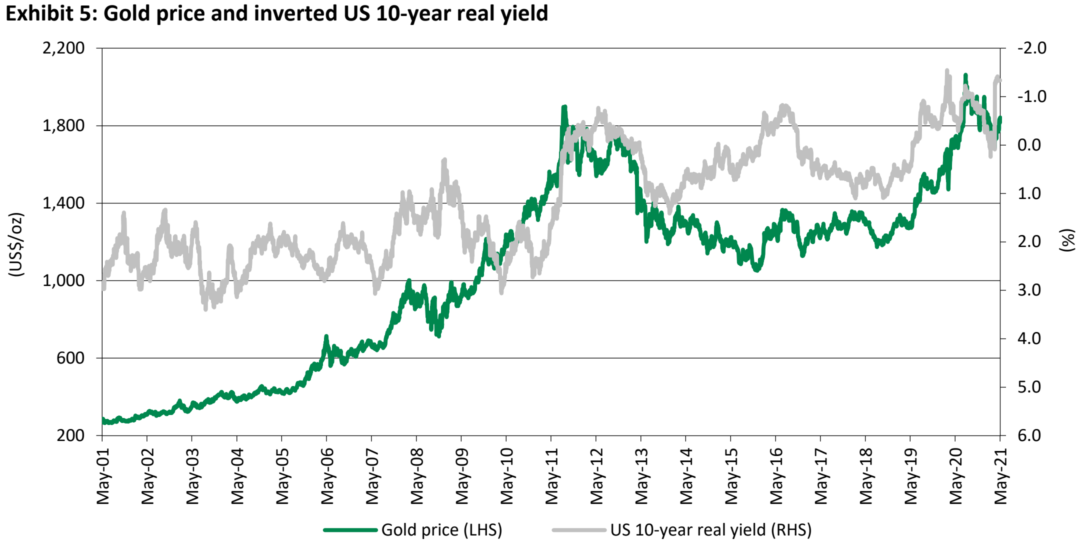
Gold price outlook

Along with persistently low interest rates in the US, an increased willingness by the Federal Reserve to allow for some inflation to creep in, further pressuring real rates, is a boon for gold. This should also cause US dollar weakness to persist, which could see a strengthening in the local currencies of the companies' operations, somewhat offsetting the margin expansion from higher gold prices. Our overall outlook for the gold price is bullish, as we believe central banks are cognizant of the economy's precarious position with countries running such steep deficits—higher interest rates would crimp spending plans, with more tax revenue allocated to making interest payments on refinanced debt. Given the substantial increase in the money supply, we expect inflation to pick up and with central banks loath to increase rates, this will drive down real rates, further incentivizing gold holdings over traditional government currencies.

We expect many readers would have experienced firsthand the inflation caused by the increase in the money supply, whether from housing prices, stock valuations, cryptocurrency prices, renovation costs or even food prices. Commodity and raw material prices have increased; factory production costs in China have increased and there has been a surge in input costs, which will continue to drive prices higher generally. Rising costs will likely cause employees to demand higher wages to maintain living standards, which could further drive up the prices of goods and services—commencing a wage inflation spiral. In our view, wage inflation is a key reading to monitor, and any uptick could increase the risk of inflation spiralling. Gold has been a strong preserver of purchasing power historically, and we believe it will be of increasing interest to investors as they look to maintain their purchasing power. We look at a number of charts below that support our view and the outlook for gold.

- **The classic chart—gold price and US 10-year real yield.** Exhibit 5 shows the strong historical relationship between gold and real rates—in this case, the US 10-year real yield. The real yield has led the gold price recently and the latest surge into further negative territory would require a similar surge in the gold price to maintain the strong historical relationship, which exhibits an R^2 of 0.68 since 2001.

Exhibit 5: Gold price and inverted US 10-year real yield

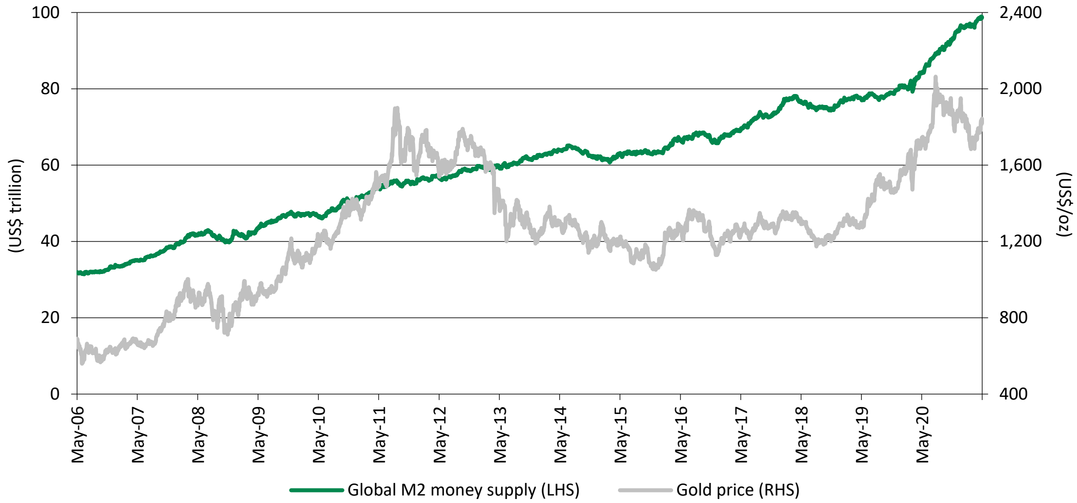


Source: Bloomberg

- **Money supply—the inflation culprit.** The gold price and global M2 money supply have demonstrated a correlation over the past five years, with increased disposable income creating strong demand for gold on concerns of eroding purchasing power. This relationship diverged in 2021 but also points to a near-term increase in the gold price to maintain the relationship. A regression on both data sets shows an R^2 of 0.58 since 2006, increasing to 0.79 since 2016.

John Sclodnick
Amanda Lewis, Associate

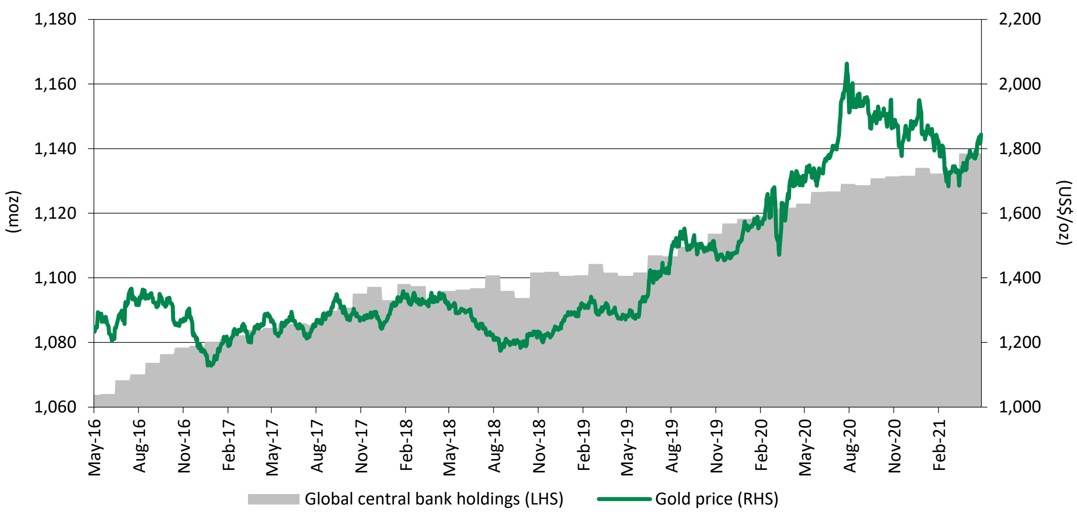
Exhibit 6: Global M2 money supply and the gold price



Source: Bloomberg

- **Central banks are not eating their own cooking.** As central banks increased money supply, appetite for gold has followed. There has been persistent central bank demand for gold which coincided with the end of the gold bear market in 2016. Central bank gold demand has slowed slightly but remains supportive, with central banks adding 273t of gold reserves in 2020. Turkey was the largest purchaser of gold in 2020, followed by India and Russia. In 1Q21, global central bank gold demand picked back up and increased to 96t from 45t in 4Q20. This increase in demand has continued thus far in 2Q21.

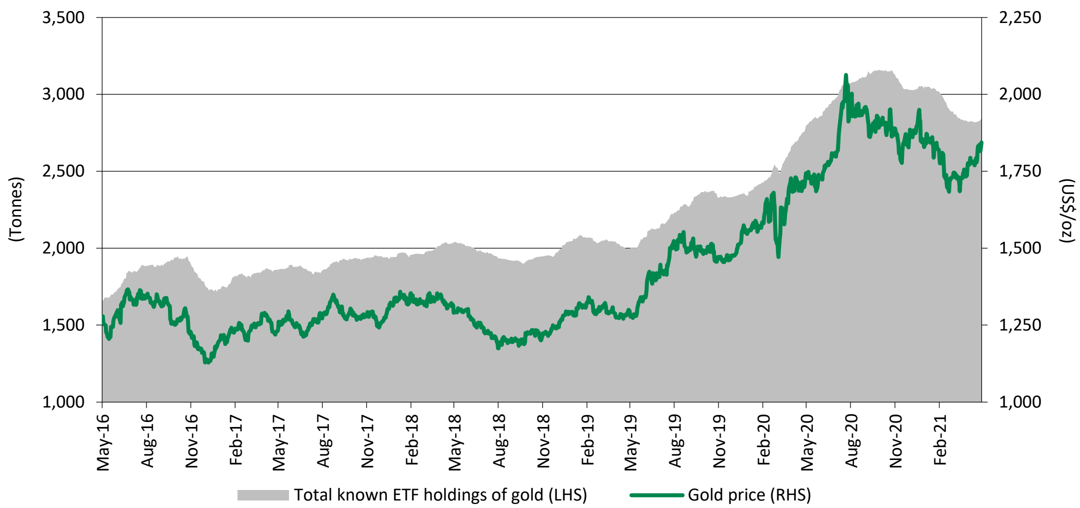
Exhibit 7: Global central bank gold holdings



Source: Bloomberg

- **Gold ETF investors driving gold price, or gold price driving ETF demand?** Gold ETFs hit highs in September–October 2020, driven by economic uncertainty, low interest rates and fiscal expansion. 4Q20 and 1Q21 saw the opposite trend, with a total of 308t in net outflows in the two quarters as successful COVID-19 vaccines increased investor appetite for riskier equity investments. There has been some reversal thus far in 2Q21, with a decline from the previous two quarters as inflation concerns increase. It's hard to know if investors are reacting to gold price movements or driving them, but there is a clear and strong correlation between ETF demand and near-term gold price movements.

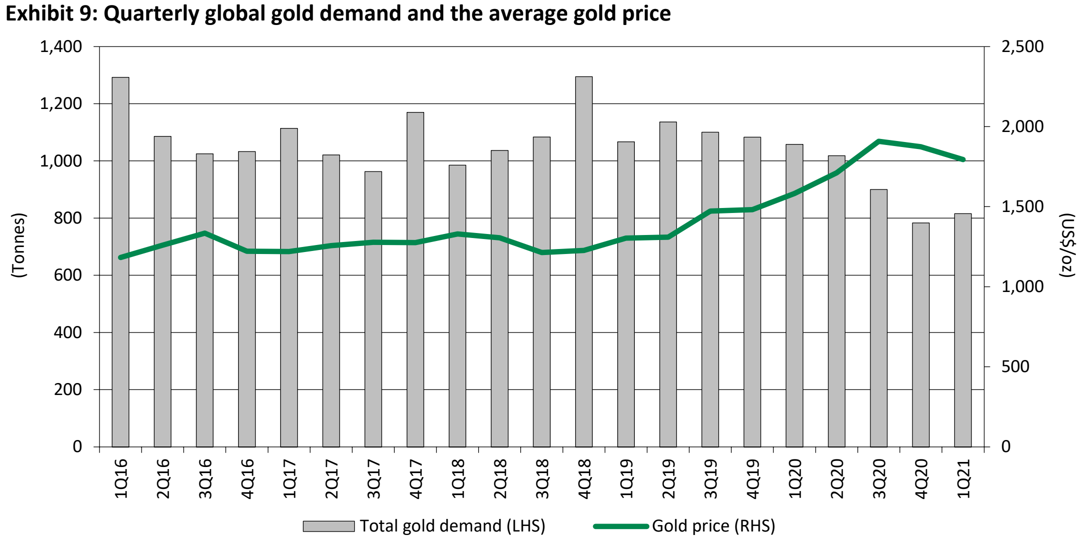
Exhibit 8: Global ETF gold holdings



Source: Bloomberg

- **Global gold demand rises quarter-over-quarter in 1Q21.** Global gold demand declined 14% yoy in 2020 and 28% yoy in 4Q20, the weakest quarter since 2Q08. The full-year decline was caused by economic weakness and high gold prices resulting from the COVID-19 pandemic. The first three quarters of 2020 saw decreased consumer demand and increased gold ETF demand, but this reversed in 4Q with a recovery in the jewellery market offset by a decline in gold investment as gold ETFs experienced a 130t outflow in November and December 2020. 1Q21 exhibited similar trends to 4Q20, with rising consumer demand offset by continued gold ETF outflows. Prior to 2020, gold demand had been fairly consistent for the previous five years, with quarterly demand falling within a range of 963–1,295t.

Exhibit 9: Quarterly global gold demand and the average gold price

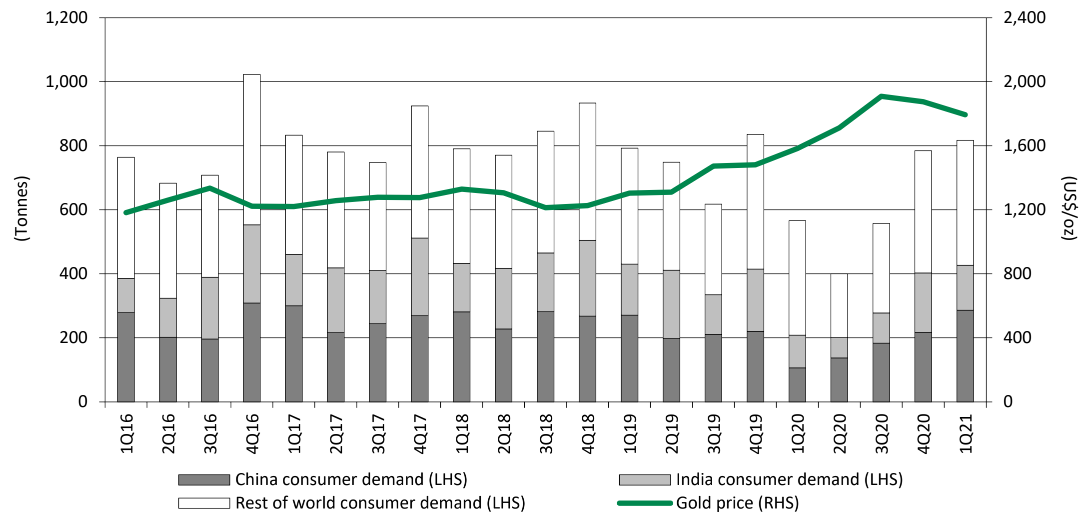


Source: World Gold Council

- **China the largest consumer of gold.** Consumer demand has accounted for 73% of total gold demand on average since 2016, including jewellery and total bar and coin investment by individuals. Consumer demand declined 23% yoy in 2020, with a 34% yoy decrease in gold jewellery demand and a 3% yoy increase in bar and coin demand. 2020 demand from the top two largest consumers of gold jewellery, India and China, declined by 42% and 36%, respectively.

1Q21 saw a consumer demand recovery in China and the rest of the world although consumer demand in India declined. Consumer demand in China and India is a key driver of the seasonal patterns in gold price movements.

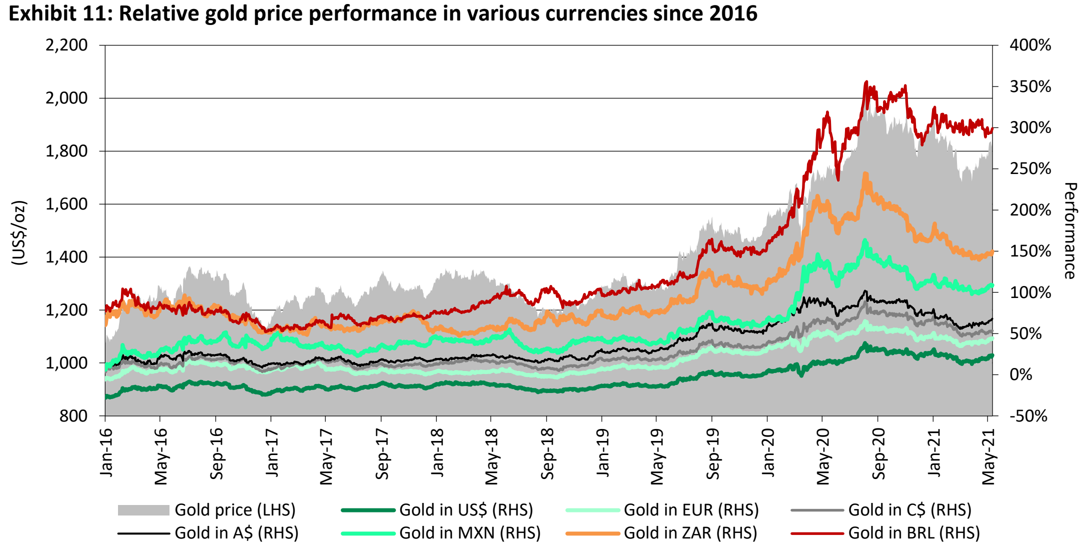
Exhibit 10: Quarterly consumer gold demand and the average gold price



Source: World Gold Council

- **Gold prices rising in various currencies.** The gold price shows a strong negative correlation with the strength of the US dollar. However, the gold price in other currencies shows a strong performance. To us, this is evidence of strong global demand for gold, as investors seek refuge from inflation risk, even at higher prices in local currencies.

Exhibit 11: Relative gold price performance in various currencies since 2016



Source: Bloomberg

Commodity and FX forecasts

As we discuss above, we view the macro environment as being supportive of a stable and slowly rising gold price. However, we prefer our models and corporate forecasts to be driven by our operational estimates. We therefore base our estimates for the current year as well as the following year on the spot gold price so that our FY1 and FY2 forecasts are comparable, with differences driven by operational changes rather than gold price assumptions. Beyond that, we base our gold price forecasts loosely on consensus estimates, with some influence from the forward curve, and set our long-term assumptions in 2023 and run them flat from thereon for our long-term prices

We use the same methodology for our silver and base metals prices, basing the current year and next year on spot prices and looking to consensus estimates, with some influence from the forward curve, for 2023 and in the long term. For currencies, we also apply spot prices for the current year and next year, and then base our 2023 and long-term estimates on the forward curve. For 2021 and 2022, we take the spot price as of April 15—US$1,775/oz gold, US$26/oz silver and US$4.00/lb copper. For 2023, we assume US$1,700/oz gold, US$24/oz silver and US$3.50/lb copper. The relevant currencies for our coverage are the Canadian dollar, Mexican peso and Brazilian real; for 2021 and 2022, we apply the spot rate vs the US dollar of C$1.25, MXN20.00 and BRL5.60, and for 2023 we assume C$1.26, MXN22.07 and BRL6.30 (see Exhibit 12).

Exhibit 12: Commodity and FX outlook

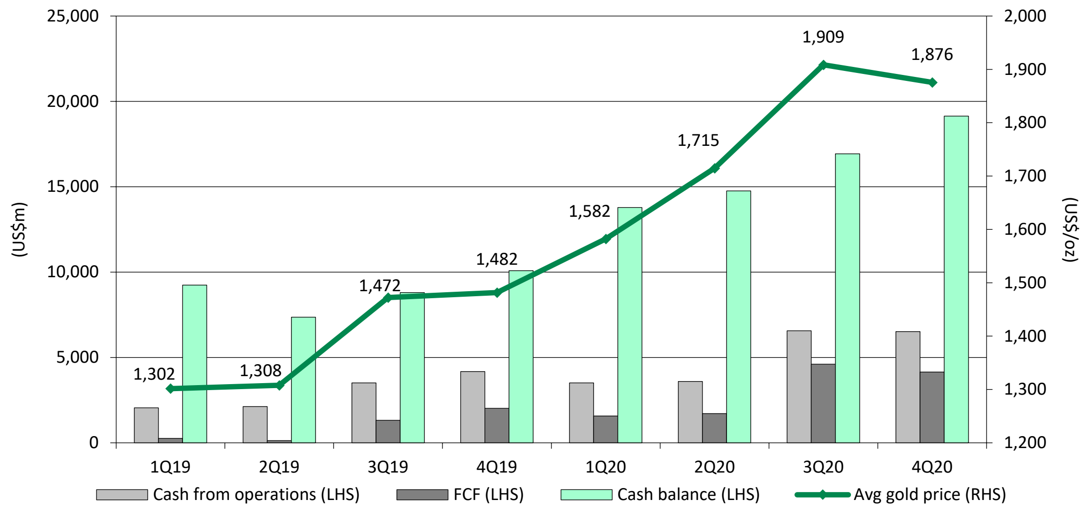
	Unit	2Q21E	3Q21E	4Q21E	2021E	2022E	2023E+
Commodity							
Gold	US$/oz	1,775	1,775	1,775	1,780	1,775	1,700
Silver	US$/oz	26.00	26.00	26.00	26.05	26.00	24.00
Copper	US$/lb	4.00	4.00	4.00	3.97	4.00	3.50
Exchange rate							
C$/US$		1.25	1.25	1.25	1.25	1.25	1.26
MXN/US$		20.00	20.00	20.00	20.09	20.00	22.07
BRL/US$		5.60	5.60	5.60	5.57	5.60	6.30

Source: Desjardins Capital Markets, Bloomberg

Gold equity themes and outlook

- **Excess cash accumulation will be spent.** The senior and intermediate gold producers have been generating massive amounts of free cash flow and with their coffers now bursting at the seams, they have turned to returning cash to shareholders through growing dividends. The higher gold price has caused free cash flows in the sector to surge; we estimate a cumulative cash balance among Canadian listed senior and intermediate producers of US$19.1b (see Exhibit 13). However, this is not the core business model given the nature of the business involves depleting a key asset of gold reserves; ultimately, investors are not in these stocks to seek dividends but, rather, gold exposure. While this has been a topic for quite a while, it is inevitable that these producing companies will need to replenish their reserves, and the larger their production, the greater the need for either new discoveries (which have been less frequent) or acquiring reserves or resources. We expect the pace of acquisitions to pick up this year and the premiums paid to increase as quality development projects themselves become scarce resources.

Exhibit 13: Gold producer coffers are overflowing



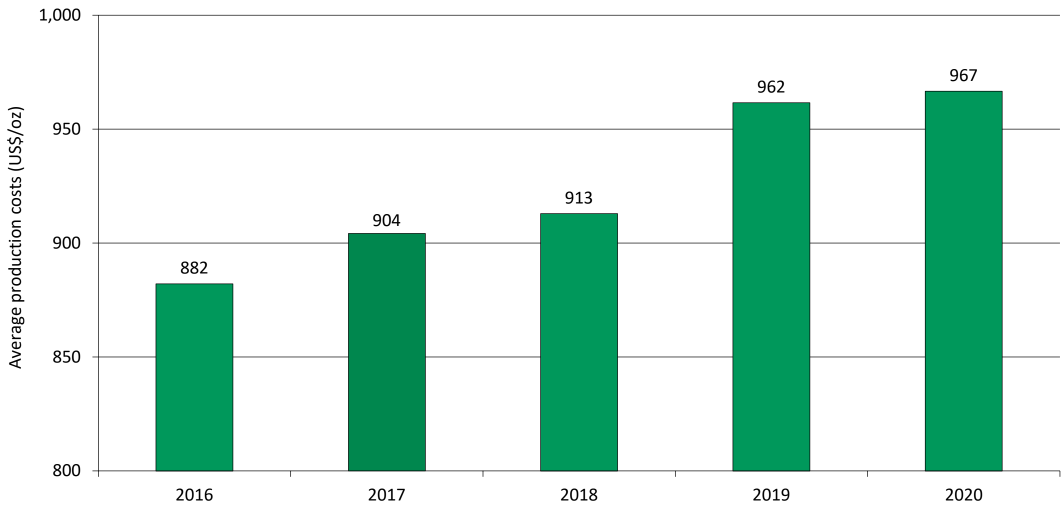
Source: Desjardins Capital Markets, S&P Global Market Intelligence

- **Who could be acquisitive in our coverage?** With respect to our coverage list, we see Equinox, Argonaut and Osisko Development having a relatively full development pipeline and are therefore unlikely to participate in acquisitions over the next couple of years. We believe Lundin Gold could be on the hunt to diversify its production base outside of Ecuador (if Newcrest Mining does not acquire it before then) and may look to acquire a producing asset in the Americas in a relatively lower-risk operating jurisdiction compared with Ecuador. Once Pure Gold is fully ramped up around mid-year, we see potential for the company to be involved in consolidation in the Red Lake district, given it is a high-margin single-asset company in Canada and those rarely last long as standalone entities. Minera Alamos has been opportunistic with M&A, exemplified by its acquisition of Cerro de Oro for C$6.3m, a steal of a deal compared with our current valuation of the project at C$156m; if the company comes across other value-enhancing opportunities, we expect it will take advantage of these.

- **What will producers look for in an acquisition?** We believe producers in general will be seeking projects that are located in relatively stable operating jurisdictions and, ideally, can lower the AISC profile of the acquirer. While there has been a recent trend of zero-premium mergers of equals, we expect that a premium will be required to acquire the premier projects available. With an acquirer having to factor in both the acquisition price and the cost to develop a project, it will need to see potential for resource growth beyond what has already been defined and thus will be looking for district scale. In our view, the development companies from our coverage that are most likely to be acquired are Marathon Gold, Liberty Gold and Integra Resources.

- **Potential cost pressure.** Production costs per ounce for 2020 have already increased 10% from 2016 levels, but we believe this is just the beginning of a trend of rising cost pressures (see Exhibit 14). Over the near term, we expect cost pressures to increase due to a combination of strengthening local currencies (DXY is down 10% over the past year) and a surge in new project development pushing up labour construction costs in the industry; there is also the well-documented increase in raw material input costs, with crude prices up 123% over the past year, iron ore prices up 135% and copper prices up 101%—all of which will contribute to elevated development and operating costs going forward.

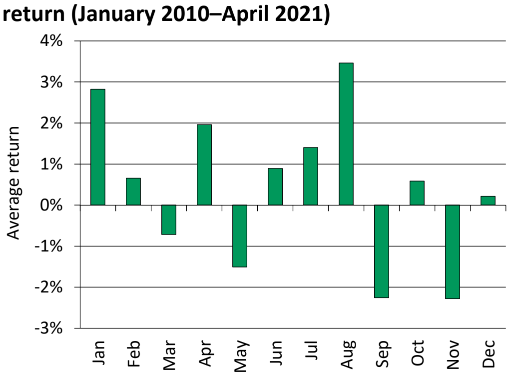
Exhibit 14: Average global production costs on the rise



Source: Desjardins Capital Markets, S&P Global Market Intelligence

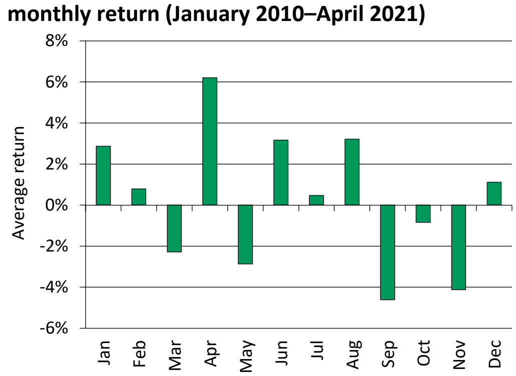
- **Seasonality trends show that now is the best time to buy golds.** While we certainly expect cost inflation pressures to occur in the gold sector, we also see it as a prevailing theme outside of the sector. This should be positive for the gold price, allowing the gold sector to preserve, if not grow, margins, depending on the degree of positive gold price reaction and the level of cost inflation. This, together with the reasons for our bullish stance on gold stated above, support our view that gold equities are an excellent way to play the theme of coming inflation pressures; and based on seasonality trends, now is the time to build a position. Looking back to 2010, August has been the best month to hold gold with an average return of 3.5%, while June and July also show positive returns. May has typically been a poor month to hold gold with a negative average return of 1.5%. Seasonally, it has been a positive trade to build a position in May for the summer gold rally (see Exhibits 15a–b).

Exhibit 15a: Spot gold (US$) average monthly return (January 2010–April 2021)



Source: Bloomberg

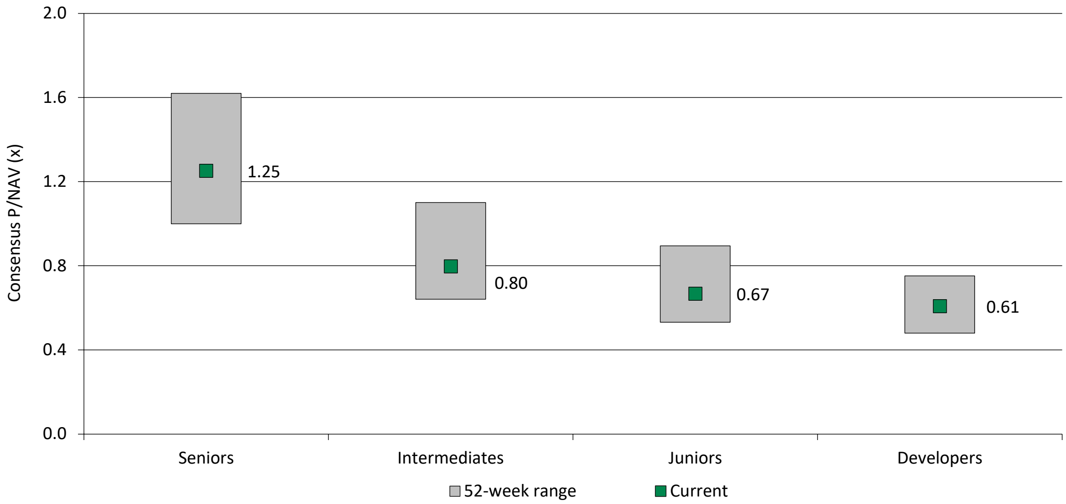
Exhibit 15b: S&P/TSX Global Gold Index average monthly return (January 2010–April 2021)



Source: Bloomberg

- **Current valuations present an attractive entry point.** No matter the size of gold company, from developers to senior producers, they are all trading at P/NAV multiples that are below the average range over the past year (see Exhibit 16; includes companies beyond those in our comps charts).Gold developers at 0.61x NAV are trading 2% below their average and 19% below their peak over the last year. Junior producers at 0.67x are trading 7% below their average and 26% below their peak over the last year while the corresponding figures for intermediates (at 0.80x) are 9% and 28%, respectively, and for seniors (at 1.25x) 4% and 23%, respectively.

Exhibit 16: LTM precious metals P/NAV multiples



Source: Desjardins Capital Markets, FactSet

Now we'll take a look at our company-specific initiation reports, which provide an overview of each company, the primary assets driving our NAV, resource growth potential and our overall investment thesis. Our top producer pick is Argonaut for its ongoing transformation and our top developer pick is Minera Alamos.

Argonaut Gold Inc.

Fully funded transformation underway—initiating coverage with a Buy rating and C$4.25 target

- ***Argonaut Gold is transitioning from a Mexican heap leacher with high costs and short mine lives to having the bulk of its production from a low-cost, long-minelife asset in Ontario***
- ***The company is fully funded to deliver first production from Magino in 2023 and is taking measures to derisk the development, including securing a fixed-bid EPC contract***
- ***Once Magino is ramped up, we expect the company to shake off the persistent valuation discount to peers and re-rate to trade in line with or at a premium to peers***

Highlights

Argonaut is in the midst of a transformation. Prior to July 2020, it operated three low-grade Mexican heap leaches—El Castillo, San Agustin and La Colorada—all having relatively short mine lives, and was lacking a meaningful growth project that the market believed in. Those Mexican heap leaches are no longer the focus of the company, but will instead deliver free cash flow to fund the company's transformation—namely, the Magino project in Ontario. This project single-handedly addresses all of the main investor concerns with Argonaut: (1) it adds a low-cost, long-minelife operation in a stable operating jurisdiction; (2) it diversifies the production base to outside of Mexico, and (3) it adds an intriguing exploration component with the exciting high-grade intercepts that Argonaut is finding at depth. The company took a preliminary step to address investor concerns by adding the Florida Canyon mine in Nevada when it completed the Alio Gold acquisition in July 2020. The company also has the Cerro de Gallo project in Guanajuato, Mexico, in its portfolio as well as the Ana Paula project in Guerrero, Mexico. While it is early days, we are excited about the recent drilling at La Colorada which uncovered high-grade intercepts below the El Crestón open pit, creating the possibility of a future transition to underground mining. Intercepts from one of the recent drill holes ranked in the top 300 global drill intercepts since the start of 2019 and we look forward to follow-up results.

Valuation

Our one-year-forward target price is C$4.25/share, based on a 1.00x NAV multiple (75% weighting) and a 4.0x NTM EBITDA multiple (25%). We weigh more heavily toward NAV since the bulk of the share value is in the non-producing Magino project, and we believe the 1.00x NAV multiple is attainable once Argonaut is based primarily on this project. Our 4.0x NTM EBITDA estimate is in line with where peer producers trade and we believe the company deserves to trade in line with this group. Currently, Argonaut is trading at 0.61x our cash-adjusted NAV and 3.5x 2021 EBITDA vs junior producer peers at an average of 0.67x and 8.3x, respectively. We believe that while a slight discount is warranted at this time given the construction risk ahead, the gap should close once Magino comes online with its low-cost, long-life asset in Ontario, which is estimated to constitute 52% of NAV and 42% of 2024 production, and we expect the stock should re-rate to trade in line with or at a premium to peers.

Recommendation

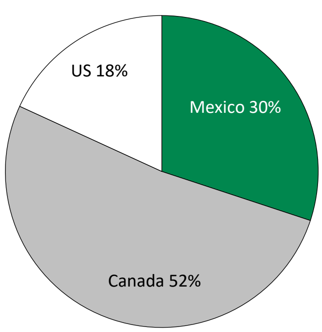
We are initiating coverage of Argonaut with a Buy–Speculative rating and C$4.25/share 12-month target, which implies a potential return of 49%. The average consensus P/NAV multiple of junior producers is 0.67x while intermediate producers trade at an average of 0.78x. We estimate that Argonaut is trading at 0.61x currently. If Argonaut were to trade in line—as we expect it will after Magino is ramped up—the share price would need to outperform junior producers by 10%. At that point, it would be producing more than 300koz/yr and, with a diversified North American asset base, we believe it should trade closer to intermediate producers, which would require outperformance of 28%, or 9% per year until 2024 when Magino is fully ramped up.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Transformation story underway.** The company is undergoing a bold transformation from exclusively low-grade Mexican heap leach operations to a more diversified production base, anchored by the low-cost, long-life Magino project in Ontario. Magino is the company's focus and should drive share price performance in the future, from both construction updates as well as the exciting high-grade exploration story at depth.
- **Magino is the catalyst driving a re-rating.** Argonaut has been mired in a discounted valuation for years due to the short mine lives at its assets and no deliverable growth story. Additionally, jurisdictional headline scares from Mexico had a damaging impact, and the company's challenges with achieving guidance did not help either. Half of its NAV is anchored by a long-life asset in a stable jurisdiction with resource growth potential; once Magino is ramped up, there is no reason why the stock should not trade in line with peers at that point, in our view.
- **Mitigating development risk.** We certainly see risk in the interim before Magino is ramped up, but we note that management is taking steps to mitigate this risk. It has reached an EPC agreement with Ausenco Engineering to deliver the processing plant with performance guarantees and this represents ~40% of the initial capex budget. We are supportive of the idea of hedging a portion of the Canadian dollar exposure during the build and would not oppose a certain amount of gold price hedges until Magino is derisked to ensure adequate cash flow to fully fund the development. We realize certain investors who have invested for the gold leverage may not appreciate this move, but in our view, it is a prudent course of action to safeguard the capital structure for longer-term investors.
- **Expect a minimum of 10% share appreciation on re-rating.** The average consensus P/NAV multiple for junior producers is 0.67x while intermediate producers trade at an average of 0.78x. We estimate that Argonaut is trading at 0.61x currently. If Argonaut were to trade in line—as we expect it will after Magino is ramped up—the share price would need to outperform junior producers by 10%. At that point, it would be producing more than 300koz/yr and, with a diversified North American asset base, we believe it should trade closer to intermediate producers, which would require outperformance of 28%, or 9% per year until 2024 when Magino is fully ramped up.
- **If no re-rating, then takeout?** If the shares do not re-rate as we expect once Argonaut emerges from its transition to having the majority of its production from a low-cost, long-life asset in Ontario, we see it as a prime acquisition target. Assets such as Magino are what producers look for, with its sought-after area code, low-cost production base, expansion potential, as well as plenty of exploration upside.
- **Diversified North American producer.** With the acquisition of Alio and its Florida Canyon mine, and with Magino production expected to come online in 2023, Argonaut should successfully evolve from a low-grade Mexican heap leach operator to a diversified North American producer. Based on our estimates, 52% of the company's NAV is based in Canada, with 30% in Mexico and 18% in the US, an enviable jurisdictional profile for any company (see Exhibit 1).

Exhibit 1: Argonaut NAV breakdown by country



Source: Desjardins Capital Markets

Valuation overview

Net asset value and target methodology

We estimate a NAV for Argonaut of C$4.77/share, comprised of C$4.90/share for mining assets and -C$0.14/share of net cash (does not sum due to rounding; see Exhibit 2 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards given our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Magino.** We value Magino at C$802m or C$2.54/share, which represents 52% of our NAV for mining assets. Our DCF model is based on the latest technical report, which includes 100% of reserves and applies a 7% discount rate to the after-tax free cash flow. We do not include any value for the exploration upside at depth, and with the project fully financed and a fixed bid in place for the construction of the processing plant, we believe our NAV is conservative.
- **Florida Canyon.** Our DCF model is based on 100% of reserves and we see the minelife ending in 2029 before residual leaching commences. There are significant capital projects this year and next which will positively impact the opex over the life of mine. We calculate an $NPV_{5\%}$ of C$281m (C$0.89/share), which represents 18% of our NAV for mining assets, indicating a steal of a deal vs the ~C$83m the company paid for Alio, which also included the Ana Paula asset.
- **San Agustin.** Our model is based on 100% of reserves and we see the minelife ending in 2025, with residual leaching extending production into 2026. We also see a slightly declining grade profile, offset by a falling strip ratio. We calculate an $NPV_{5\%}$ of C$225m (C$0.71/share), which represents 15% of our NAV for mining assets.
- **La Colorada.** Based on the life-of-mine plan, the best years are ahead with Argonaut mining and processing the higher-grade ore from the El Crestón pit, which also has higher recoveries. Our $NPV_{5\%}$ is valued at C$177m (C$0.56/share), which represents 11% of our NAV for mining assets.
- **El Castillo.** With our model based on mining 100% of reserves, we forecast El Castillo will deplete its reserves at the end of 2021 and enter the residual leach phase. As our DCF model begins capturing free cash flow from 1Q22 onwards, our $NPV_{5\%}$ is valued at -C$3m (-C$0.01/share), which represents the closure costs.
- **Net cash.** We estimate a cash balance of C$113m at 1Q22, as well as C$66m in debt and C$41m in capital leases. We then deduct our estimated G&A spending over the next five years discounted at 5%, which amounts to C$57m, and finally calculate in-the-money options and warrants of C$8m. This drives our net cash estimate of -C$0.14/share and a fully diluted share count of 316.3m.
- **Target price.** Our one-year-forward target price is C$4.25/share, based on a 1.00x NAV multiple (75% weighting) and a 4.0x NTM EBITDA multiple (25%). We weigh more heavily toward NAV since the bulk of the share value is in the non-producing Magino project, and we believe the 1.00x NAV multiple is attainable once Argonaut is based primarily on this project. Our 4.0x NTM EBITDA estimate is in line with where peer producers trade and we believe the company deserves to trade in line with this group.

John Sclodnick
Amanda Lewis, Associate

Exhibit 2: Argonaut NAV breakdown by asset

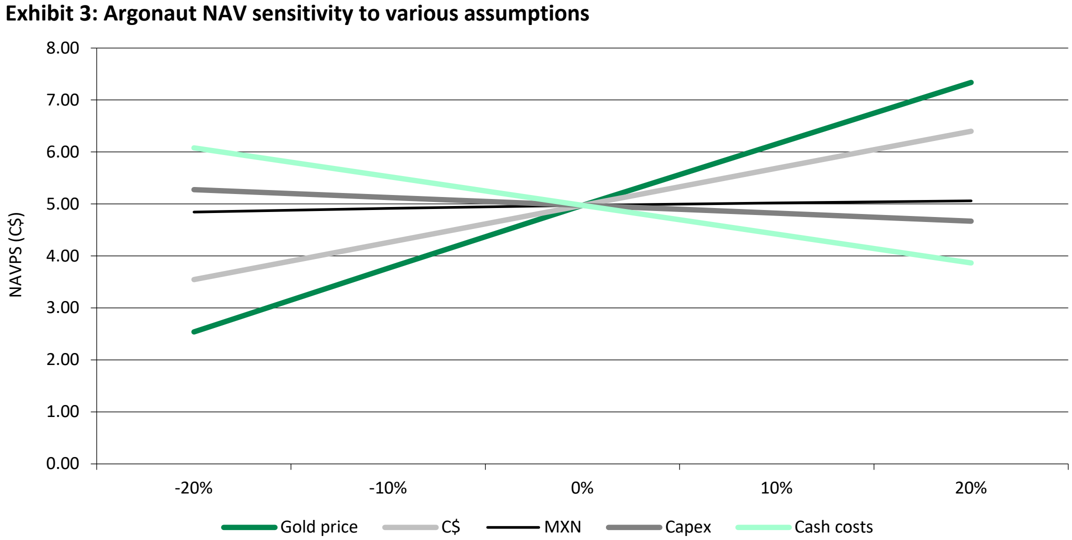
	Jurisdiction	Per share (C$)	% of DCF
Magino (7% DR)	Ontario	2.54	52
Florida Canyon (5% DR)	Nevada	0.89	18
San Agustin (5% DR)	Mexico	0.71	15
La Colorada (5% DR)	Mexico	0.56	11
Cerro del Gallo (credit/M&I oz)	Mexico	0.12	2
Ana Paula (credit/M&I oz)	Mexico	0.10	2
San Antonio (credit/M&I oz)	Mexico	0.00	0
El Castillo (5% DR)	Mexico	-0.01	0
Total mining assets		**4.90**	
Cash & ST investments		0.36	
In-the-money options & warrants		0.02	
Corporate G&A (5 years @ 5% DR)		-0.18	
Debt & cap leases		-0.34	
Net cash/share		**-0.14**	
Total NAV		**4.77**	
Shares O/S (FD) (m)		316.3	

Source: Desjardins Capital Markets

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 23.2% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ assumption, changing by 14.3% for a 10% change in the C$/US$ rate; our NAV is not particularly sensitive to changes in the Mexican peso. Our NAV estimate would change by 10.7% for a 10% change in our opex assumption while it shows little sensitivity to capex estimates, changing by 2.8% for a 10% change in capex (see Exhibit 3).
- Our 2022 EBITDA estimate would change by 16.7% for a 10% change in our gold price assumption, by 7.9% for a 10% change in our opex assumption and by 1.6% for a 10% change in our MXN assumption.

Exhibit 3: Argonaut NAV sensitivity to various assumptions



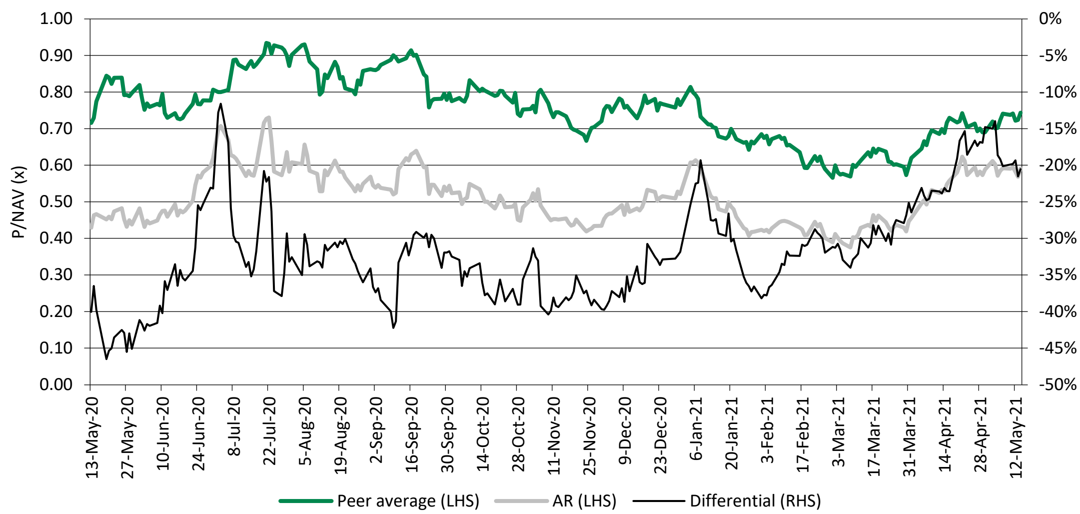
Source: Desjardins Capital Markets

Valuation comparables

- Argonaut has persistently traded at deep discounts on both of our preferred valuation metrics, ie P/NAV and EV/EBITDA. As we discuss above, we believe this is due to a combination of historically short mine lives at its Mexican assets, as well as the low-grade nature of those deposits. The operational missteps leading to guidance revisions and earnings misses have not helped valuation levels either. However, the company has begun to address what we believe is the biggest factor in its discounted valuation—the total minelife of its assets. The recent addition of Florida Canyon, which currently has the longest minelife in the portfolio, and the addition of Magino, which has an even longer minelife when it comes online in 2023, should result in meaningful improvements to Argonaut's valuation.

- Argonaut is currently trading at 0.61x NAV and 3.5x 2021 EBITDA vs junior producer peers at an average of 0.67x and 8.3x, respectively. We believe that while a slight discount is warranted at this time, the gap should close once its low-cost, long-life Magino asset in Ontario comes online, which will constitute 52% of NAV and 42% of 2024 production, and we expect the stock should re-rate to trade in line with or at a premium to peers.

Exhibit 4: Argonaut NAV differential from peers



Source: Desjardins Capital Markets, FactSet

Upcoming catalysts

- Execution of optimizations at Florida Canyon—1H21
- Florida Canyon exploration results—2021
- Magino construction updates—2021
- Magino exploration results at depth—2021
- Cerro del Gallo permitting decision—2021
- La Colorada drill results—2021

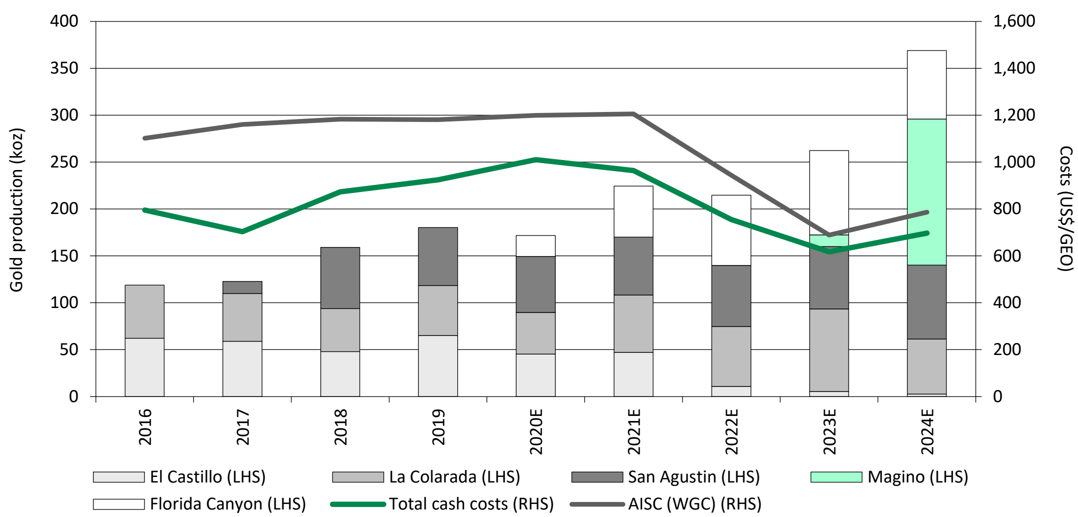
John Sclodnick
Amanda Lewis, Associate

Company overview

Argonaut is in the midst of a transformation. Prior to July 2020, the company operated three low-grade Mexican heap leaches—El Castillo, San Agustin and La Colorada—all with relatively short mine lives, and the company was lacking a meaningful growth project that the market believed in. Those Mexican heap leaches are no longer the focus of the company, but will instead deliver free cash flow to fund the company's transformation—namely, the Magino project in Ontario. This project single-handedly addresses all of the main investor concerns with Argonaut: (1) it adds a long-minelife, low-cost operation in a stable operating jurisdiction; (2) it diversifies the production base to outside of Mexico, and (3) it adds an intriguing exploration component with the exciting high-grade intercepts that Argonaut is finding at depth. The company took a preliminary step toward addressing investor concerns by adding the Florida Canyon mine in Nevada when it completed the Alio Gold acquisition in July 2020. Also in Argonaut's portfolio is the Cerro de Gallo project in Guanajuato, Mexico, although we are less keen on it as a development project. While it does provide a relatively longer minelife than the current Mexican operations, and at a lower AISC, its development is significantly more complex than the heap leaches the company currently operates in Mexico and the project does not diversify the jurisdictional production base given it is also in Mexico. Additionally, Argonaut has retained the Ana Paula project after a definitive agreement to sell the mine expired, with the acquiring company unable to fulfill its financing obligations.

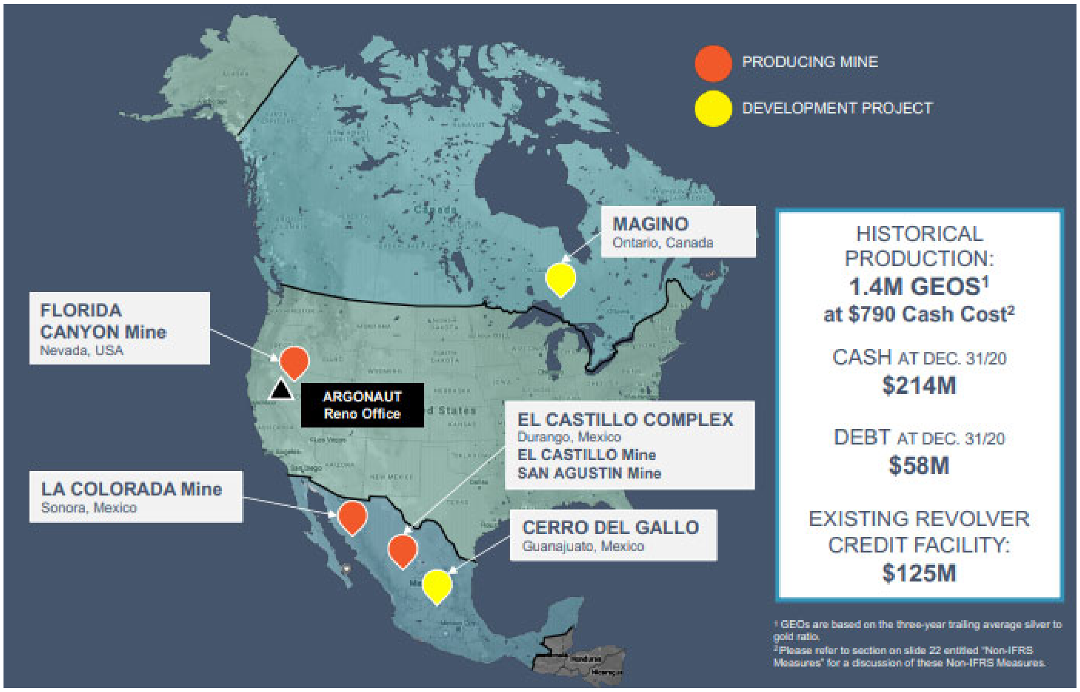
While it is early days, we are excited about the recent drilling at La Colorada which uncovered high-grade intercepts below the El Crestón open pit, creating the possibility of a future transition to underground mining. Intercepts from one of the recent drill holes ranked in the top 300 global drill intercepts since the start of 2019 and we look forward to follow-up results. Drilling highlights included 12.2m at 98.9g/t Au and 30.3g/t Ag, including 3.0m of 383.0g/t Au and 113.5g/t Ag. Given we view Magino as the primary driver of the share price as it represents more than half of our NAV, and with the other operations well-understood by the market, our report for Argonaut is focused on Magino.

Exhibit 5: Argonaut production profile



Source: Desjardins Capital Markets, company reports

Exhibit 6: Argonaut asset locations in North America



Source: Company presentation

Magino

Argonaut owns 100% of the Magino project, which is located near Wawa, Ontario, and directly next door to the Island Gold mine. The feasibility study envisions a low-grade, bulk-tonnage, open pit mine with a conventional mill and, based on a 10ktpd operating scenario, would produce ~130koz/yr at an AISC of US$711/oz. The company has also released a study looking at a 30ktpd operation, which would increase annual gold production to ~320koz at AISC of US$718/oz; the project is already fully permitted for a 35ktpd throughput scenario—an attractive attribute in the eyes of potential acquirers.

The project is fully funded and the company has broken ground on construction, with an estimated two-year build cost of C$480–510m; first gold pour is expected in 1H23. Argonaut achieved a significant derisking milestone with the signing of a fixed-bid contract to construct the Magino processing facility and other items, which amount to ~40% of the initial capital cost. The contract was signed with arguably the best in the business—Ausenco Engineering—and with the construction commencing ahead of many other projects which have or intend to enter into fixed-bid contracts, we expect the Magino project to have the top engineering team from Ausenco Engineering assigned to it.

Our model

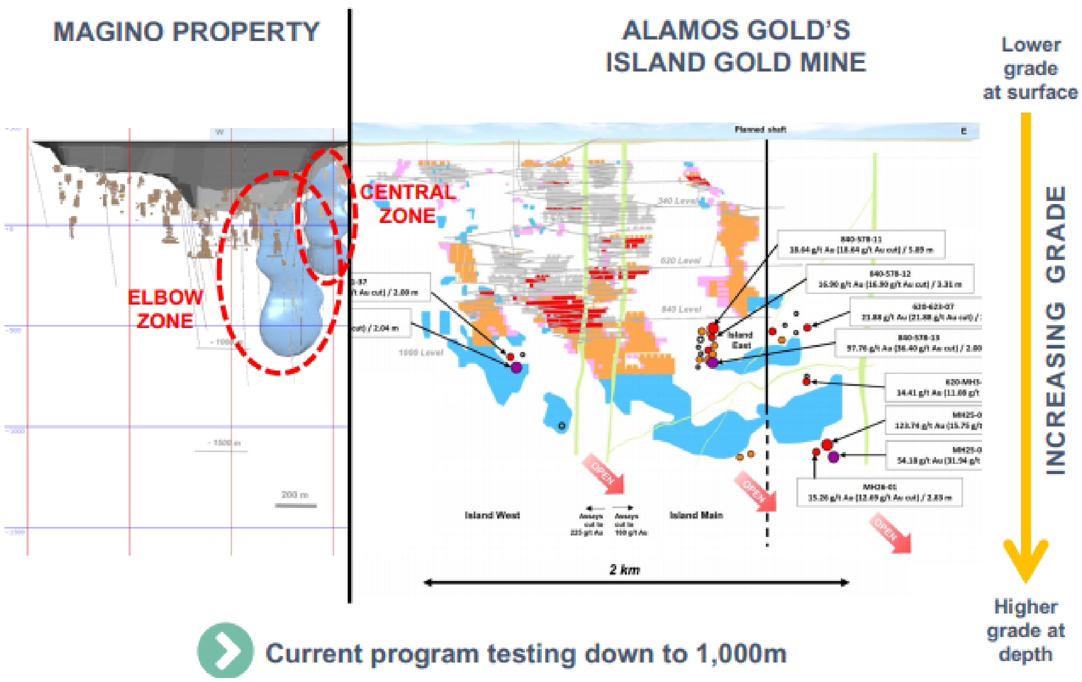
Our DCF model is based on a 10ktpd operating scenario and we forecast 100% of the reserves being mined and processed. As we do not factor in any resource growth, we believe that our model is quite conservative although we believe the company could both expand the operation and/or extend the minelife with resource conversion, as well as potentially add higher-grade material to the mill feed with successful underground exploration (discussed in more detail in the *Resource growth potential* section below). We model a life-of-mine average strip ratio of 3.9, an average grade of 1.14g/t and an average recovery of 93.0% for life-of-mine production of 1,995koz at an average AISC of US$780/oz. We take a conservative approach to our estimates and assume production commences in 4Q23 (vs management's estimate of 1Q23), with a life-of-mine average opex of US$24.99/t, 13% higher than the US$22.07/t estimated in the feasibility study. We also estimate initial capex of US$421.5m

(C$539.5m), which is 9% above the mid-point of guidance and 6% above the upper range of guidance. We are most conservative in our sustaining capex assumptions vs the feasibility study; we estimate US$114m over the life of mine, 36% above the US$84m estimated in the feasibility study as we have noticed that technical studies have a track record of severely underestimating sustaining capital requirements, plus we expect some inflation to have occurred since the December 2017 study. Under these conservative assumptions, we still estimate a project NPV of C$802m at a 7% discount rate. Once the project has reached construction, we plan to lower our discount rate to 5%; at a 5% discount rate, we estimate a project NPV of C$977m and an after-tax IRR of 19%.

Resource growth potential

The Magino property is located in the Goudreau Deformation Zone and shares a property boundary with Alamos's Island Gold mine to the east; Wesdome's Eagle River mine is also located in the district. Both are underground operations with high-grade resources at a depth of ~1.5km; the Island Gold mine has 1,310koz in reserves grading 9.7g/t, while the Eagle River mine has 550koz in reserves grading 14.4g/t. Magino has been explored only to ~300m, but Argonaut's early drilling at depth looks promising. Highlight holes include 4.26g/t over 26.6m, 4.92g/t over 29.6m, 7.39g/t over 14.3m and 6.9g/t over 15.2m. We calculate a weighted average grade of 4.6g/t over an average width of 4.4m; in our view, this bodes well for the potential to eventually add higher-grade feed to the mill. We expect the drilling at depth to continue to act as a catalyst for the share price and likely be the ultimate factor in terms of attracting a bidder for the company. Argonaut has planned a 50,000m drill program this year, primarily at depth, while also testing some regional targets.

Exhibit 7: Exploration potential at depth at Magino property



Source: Company presentation

2021 outlook

Argonaut is guiding to production of 210–250koz Aueq for 2021 at total cash costs of US$950–1,050/oz and AISC of US$1,250–1,350/oz, with production relatively equally divided between assets. The highest production is expected to come from San Agustin at 65–75koz Aueq at total cash costs of US$900–1,000/oz, while the highest-margin ounces are expected to come from La Colorada, with production of 55–65koz Aueq at cash costs of US$700–800/oz. El Castillo is nearing the end of its minelife and this is reflected in production expectations of 40–50koz at cash costs of US$1,050–1,150/oz. The optimizations at Florida Canyon drive expectations of declining cash costs in 2H21 as the company hopes to see a lower cost profile going forward than the 50–60koz produced at US$1,200–1,300/oz guided to this year. Capital costs are expected to be US$255–275m, 80% of which is expansion capital, with US$180–190m spent at Magino.

We estimate 2021 production of 234koz Aueq at total cash costs of US$964/oz and AISC of US$1,206/oz with total capital spending of US$258m. Consensus estimates call for production of 236koz Aueq at total cash costs of US$988/oz and AISC of US$1,319/oz with capex spending of US$262m.

Exhibit 8: Argonaut guidance vs consensus and Desjardins

	Guidance	Consensus	Desjardins estimate	Difference[1] (%)
Production (koz Aueq)	210–250	236	234	-2.5
Cash costs (US$/oz)	950–1,050	988	964	1.2
AISC (US$/oz)	1,250–1,350	1,319	1,206	-1.4
Capex (US$m)	255–275	262	258	1.2

[1] Represents the difference between the mid-point of guidance and consensus estimates
Source: Desjardins Capital Markets, company reports, FactSet

Financial state

Argonaut ended 1Q21 with US$227m in cash and US$53m in debt in the form of a convertible note that accrues interest at 4.625% per year, has a conversion price of US$2.86/share and matures on November 30, 2025. We see the company generating US$303m in operating cash flow over the next two years and, combined with the US$125m available on the revolving credit facility and the cash in treasury, Argonaut is fully funded to achieve commercial production at Magino while maintaining its exploration programs and capital projects at its other operating assets. The company has 4.8m options outstanding, with 3.9m exercisable and 3.3m in the money, and another 0.8m warrants outstanding, all of which are currently in the money. The company ended the quarter with 310m shares outstanding; we calculate 316m including in-the-money options and warrants (convertibles would add 20m to the share count if they were in the money).

Potential risks

The company is very conservative with its finances and maintains a strong balance sheet, which limits its financial risk. That said, there are numerous risks inherent to investing in a mining company; we have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Development risk.** The most significant risk, in our view, is Magino development maintaining its stated budget and timeline. A cost overrun, a schedule delay and/or a dip in the gold price could adversely affect the company's ability to bring the project to commercial production status and could potentially lead to financing on undesirable terms. The fixed-bid contract covering 40% of the initial capex helps alleviate these concerns, but it remains the most significant risk in our view. We believe it would be prudent to consider hedging a portion of gold production and/or the Canadian dollar to ensure that Magino is able to ramp up to commercial production.

- **Gold price risk.** The company's revenue is derived almost exclusively from the sale of gold; therefore, any decline in the gold price could adversely impact our valuation and we believe AR shares could underperform.
- **Jurisdictional risk.** Over the next two years, we estimate that 71% of the company's production will be derived from Mexico; any changes to tax rates, royalties or strength in the Mexican peso could adversely impact our valuation.
- **Social risk.** Argonaut has agreements in place with local ejidos to access land for its Mexican operations, but if an ejido chooses to rescind this access, legally or not, it would have a negative impact on our valuation.
- **Cost inflation risk.** Any increase in input costs to production could negatively impact the margins Argonaut generates and adversely impact our valuation. These inputs may include wage costs, cyanide or lime costs, and energy costs.

Management and board

Argonaut management has extensive experience, which includes managing the business through various commodity cycles, and it has consistently focused on maintaining a strong balance sheet. Management and insiders currently own 1.59% of the shares outstanding, based on FactSet data, with about half of this being accounted for by the CEO.

- **Peter Dougherty, President & CEO.** Mr Dougherty has been a mining industry executive for 25 years and has been the president and CEO of Argonaut since 2009. He served as the CFO of Meridian Gold from 2002 until its acquisition by Yamana in 2007 for C$3.5b. Mr Dougherty holds a BSc in accounting from Southern Oregon State College and an MBA from Drexel University.
- **David Ponczoch, CFO.** Mr Ponczoch has extensive experience as a financial executive in the mining industry, having previously served as CFO of Twin Metals Minnesota, regional finance director of Yamana and controller for the El Peñón mine. He holds a bachelor's degree in finance from Brigham Young University and an MBA from Michigan State University.
- **Lowe Billingsley, Senior Vice-President, Operations.** Mr Billingsley has more than 30 years of industry experience and was previously the mine manager for the Stillwater East Mining Complex. Prior to that, he spent 27 years with AngloGold Ashanti, rising to senior vice-president of the Americas. He holds a BA in geology from Colorado College.
- **Robert Rose, Vice-President, Technical Services.** Mr Rose previously served as COO of Andina Minerals, and prior to that as a project manager for Kappes, Cassiday and Associates, where he was involved in the design and construction of the Ocampo and Pinos Altos mines in Mexico. He holds a BSc in mining engineering from the Colorado School of Mines.
- **Dan Symons, Vice-President, Corporate Development & Investor Relations.** Prior to joining Argonaut in mid-2016, Mr Symons worked as vice-president of business development and investor relations at Romarco Minerals before it was acquired by OceanaGold in 2015 for C$856m. Mr Symons has more than a decade of experience in investor relations. He holds an honours BA from Concordia University and is a member of the Canadian Investor Relations Institute.
- **Brian Arkell, Vice-President, Exploration.** Mr Arkell has more than 30 years of experience in exploration, resource development and mine operations. He was president and CEO of Caza Gold from 2014–17 and senior vice-president, corporate development, for Rio Novo Gold from 2011–13. Prior to that, he worked at Newmont in a number of senior roles, including director of geology for Canada and South America. He has a BSc and MSc in geology and engineering.
- **Board of directors.** James Kofman (chair), Ian Atkinson, Peter Dougherty, Stephen Lang, Peter Mordaunt, Dale Peniuk, Paula Rogers, Audra Walsh.

Desjardins

MAY 19, 2021

Argonaut Gold Inc.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

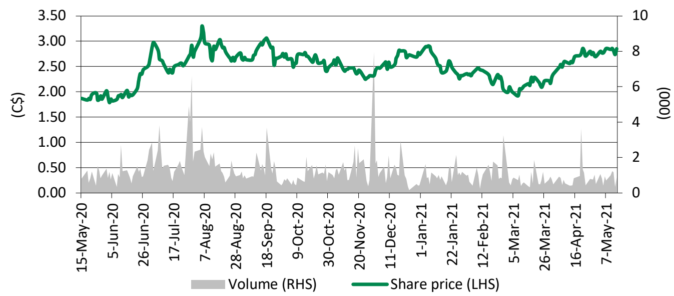
Ticker	AR, TSX
Current price (C$)	2.85
Stock rating	Buy
Target price (C$)	4.25
Potential total return	49%
Risk rating	Speculative
Shares outstanding (m)	310.0
Market capitalization (C$m)	883.5

Fiscal year-end	December 31
52-week high (C$)	3.42
52-week low (C$)	1.70
P/NAV (x)	0.61
NAV target multiple (x)	1.00
EV/NTM EBITDA (x)	3.2
EBITDA target multiple (x)	4.0
FCF yield FY1 (%)	NM

Financial data

Assumptions	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Gold (US$/oz)	1,392	1,770	1,780	1,775	1,700
Silver (US$/oz)	16.20	20.49	26.05	26.00	24.00
C$/US$	1.33	1.34	1.25	1.25	1.26
MXN/US$	19.2	21.5	20.1	20.0	22.1
Financial forecasts	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Balance sheet (US$m)					
Cash & equivalents	39	222	111	62	182
Working capital	79	266	164	120	246
Total debt	10	81	81	81	77
Income statement (US$m)					
Revenue	269	320	413	397	437
Cost of sales	181	175	237	179	175
G&A expense	12	11	12	10	10
EBITDA	**75**	**129**	**154**	**205**	**249**
Depreciation, depletion & amortization	46	51	68	64	78
Net income	-93	14	74	101	123
Cash flow (US$m)					
Operating CF (bef chgs in WC)	71	95	122	177	214
Capital expenditure	52	64	258	221	89
Net proceeds from equity	3	99	27	0	0
Net proceeds (repayment) from debt	-3	25	0	0	0
Free cash flow	22	45	-132	-44	125
Per share data (US$/FD share)					
EPS FD	**-0.52**	**0.06**	**0.24**	**0.32**	**0.39**
Adjusted EPS	**0.07**	**0.20**	**0.18**	**0.33**	**0.40**
CFPS (bef chgs in WC)	**0.40**	**0.40**	**0.39**	**0.56**	**0.68**
FCFPS	**0.12**	**0.19**	**-0.43**	**-0.14**	**0.40**
Weighted avg basic shares O/S (m)	179	233	307	310	310
Weighted avg diluted shares O/S (m)	179	238	311	314	314

Stock/volume chart

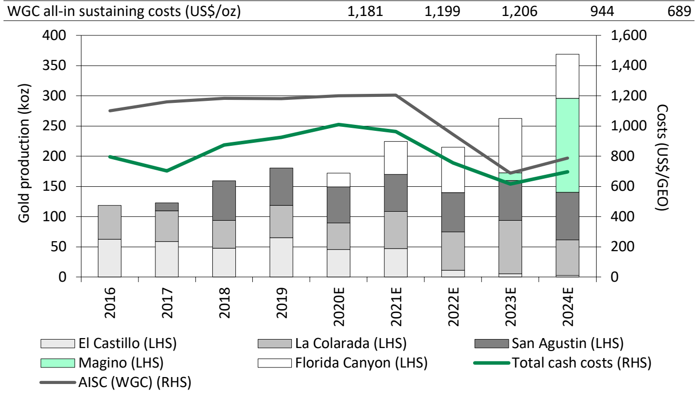


NAV summary

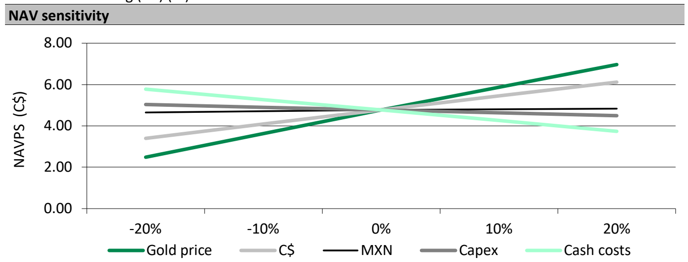
Asset	**Ownership (%)**	**NAVPS (C$)**
Magino (7% DR)	100	2.54
Florida Canyon (5% DR)	100	0.89
San Agustin (5% DR)	100	0.71
La Colorada (5% DR)	100	0.56
Cerro del Gallo (credit/M&I oz)	100	0.12
Ana Paula (credit/M&I oz)	100	0.10
San Antonio (credit/M&I oz)	100	0.00
El Castillo (5% DR)	100	-0.01
Project NAVPS		**4.90**
Cash & ST investments (FY1)		0.36
In-the-money options & warrants		0.02
Corporate G&A (5 years @ 5% DR)		-0.18
Debt & cap leases		-0.34
Total NAVPS		**4.77**
P/NAV (x)		**0.61**
Shares outstanding (FD) (m)		316

Operational data

Consolidated production profile	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Gold-eq production (koz)	187	178	234	224	270
Total cash costs (US$/oz)	924	1,010	964	755	617
WGC all-in sustaining costs (US$/oz)	1,181	1,199	1,206	944	689



NAV sensitivity



Reserves & resources

As at December 31, 2020	**Tonnes (m)**	**Au grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	323.5	0.66	7
M&I resources (incl reserves)	659.0	0.62	13
Inferred resources	56.4	0.66	1

Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		310.0
Exercisable options	2.55	3.9
Warrants	0.00	0.8
Fully diluted shares		316.3
Top ownership	**% outstanding**	**Shares (m)**
GMT Capital Corp.	15.7	48.0
Van Eck Associates Corp.	6.5	18.9
Donald Smith & Co., Inc.	4.1	12.0
Dimensional Fund Advisors LP	2.7	7.7
Ruffer LLP	1.9	5.4
Mackenzie Financial Corp.	1.7	4.9
AMG Fondsverwaltung AG	1.2	3.5
US Global Investors, Inc. (Asset Management)	1.1	3.2
Bankinter Gestion de Activos SA SGIIC	1.1	3.2
Franklin Advisers, Inc.	1.1	3.1

Source: Desjardins Capital Markets, FactSet, company reports

John Sclodnick
Amanda Lewis, Associate

ESG overview

AR is a junior Canadian gold mining company focused on exploration, development and production in North America. The company's operating assets are the El Castillo and San Agustin mines in Durango, Mexico, the La Colorada mine in Sonora, Mexico, and the Florida Canyon mine in Nevada in the US. The company's projects include the Magino project in Ontario, Canada, the Cerro del Gallo project in Guanajuato, Mexico, and the Ana Paula project in Guerrero, Mexico. Owing to the nature of its business, AR is inherently exposed to significant environmental, social and governance risks. However, the company has demonstrated a consistent focus on managing these risks, with particular attention to environmental impacts and community relations. Unlike many junior producers, AR has published an annual sustainability report since 2014, which was later integrated into its annual report starting in 2018. The company's commitment to sustainability begins at the board level with a safety, health, environment, sustainability and technical committee currently composed of four board members. The committee focuses on sustainable development, local community support and technical oversight. AR has received the Socially Responsible Company ESR designation for the past eight years at all of its operating mines in Mexico.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• To mitigate the risk of water shortages, AR began in 2020 to migrate its irrigation system from sprinklers to a hose drip system in the arid zones of Mexico where the company conducts heap leaching. • In 2020, the Magino project obtained environmental approval for its closure plan, fish habitat plan and species at risk permit. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – Reduction in water consumption of 8% from the implementation of a hose drip irrigation system. – In 2020, about 16,000 specimens of flora and 76 specimens of wildlife were successfully rescued and relocated away from mining operations.	• **Positive** – The company maintains a strong focus on protecting biodiversity and has been taking actions to sustain healthy ecosystems in proximity to its operations.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• The company conducts regular air quality monitoring and is working to reduce GHG emissions by using renewable energy sources. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – The company installed 32 solar panels in remote areas of its Mexican operations, reducing GHG emissions by 84t and diesel use by 31,345 litres/yr.	• **Neutral** – There is scope for the company to improve its disclosure on GHG and other gas emissions.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged, as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• AR conducts regular environmental audits to ascertain its level of compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve its disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• The company reports on key safety metrics each year. • During the COVID-19 pandemic, AR assisted the Mexican government in developing health and safety protocols for the industry. • **Metric** – In 2020, the company decreased the frequency of accidents, incidents and LTIF rates at all operating mines, with the exception of La Colorada, which experienced a 29.6% increase in the number of incidents. – 7,630 hours of health and safety training were completed in 2020.	• **Neutral** – There is scope for the company to improve disclosure on its policies and level of compliance with safety and health standards.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• As AR's projects develop, the company is growing its team with a focus on increasing diversity and hiring locally. • The company prioritizes employee training on a range of topics including computer training, leadership training, mental wellness and workplace harassment. • **Metric** – In 2020, AR's team grew to 1,636 employees (901 direct employees and 735 contractors) from 1,497 employees in 2019.	• **Neutral** – Key areas where the company can improve its disclosure are labour practices and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• AR focuses its community relations efforts on supporting education, health, culture, infrastructure and sports. • At the Magino project, AR is engaged with the local Indigenous communities and has various types of community agreements in place with all six local First Nations and Métis communities. • In 2020, AR focused its efforts on assisting with COVID-19 in local communities through sanitization campaigns, medical centre support, sanitary supply donations and sanitization training. • **Metric** – In 2020, AR provided 450 scholarships in La Colorada, achieving a milestone of 3,000 scholarships now granted in the community. – Infrastructure improvements in Mexico completed by AR in 2020 include 67km of road rehabilitation, two new water wells built, and eight homes and three schools restored. – Community cultural events were a challenge in 2020 due to the pandemic; however, in 2019 the company reached a record for total participation in its community events, with 15,324 participants.	• **Positive** – The company has a strong focus on stakeholder engagement and community relations activities. – The company has established itself as a leader in community relations and involvement.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• AR values diversity in the workplace and the company's nominating & corporate governance committee has committed to broadening the diversity of the board of directors. • **Metric** – Two of the eight board directors (25%) and none of the management team are women. – At the end of 2020, 12% of the company's workforce was made up of women and 73% of the workforce was from local communities.	• **Neutral** – There is scope for the company to improve its disclosure on diversity standards.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• AR maintains a written code of ethics and business conduct guidelines for all directors, officers and employees, with an anonymous reporting hotline available for violations of the code. • **Metric** – No indication of fraud, corruption or bribery. – Seven of the eight board members (88%) are independent, including the chair, and there is separation of the chairperson and CEO roles.	• **Neutral** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption policies, as well as the relevant training programs for employees.

Equinox Gold Corp.

Ready, set, grow—initiating coverage with a Buy rating and C$14.00 target

- ***Equinox is an intermediate gold producer with an unrivalled growth portfolio to see its production eclipse 1moz in two years with a declining cost profile***
- ***The stock is trading at a significant discount to peers despite the company-having a larger and more diverse production base***
- ***We expect to see the stock re-rate and eventually gain a premium multiple to peers as the company successfully executes on its growth mandate***

Highlights

Equinox is an Americas-based intermediate gold producer headquartered in Vancouver, BC. The company was formed in 2017 and owned the Aurizona and Castle Mountain development projects before acquiring the Mesquite mine in 2018, which elevated it to producer status. Equinox has been relentlessly focused on growing production since then, subsequently merging with Leagold, which brought in the flagship Los Filos mine as well as three smaller Brazilian mines and the Santa Luz project; it also closed the acquisition of Premier Gold earlier this year, which added the Greenstone project in Ontario and the Mercedes mine in Mexico to the portfolio. The company now owns a total of seven producing mines and four growth projects. The largest producer, growth driver and NAV component is the Los Filos mine in Guerrero, Mexico, where an expansion is planned to take annual production to more than 350koz; the company also owns the Mercedes mine in Mexico. In Brazil, it owns the cornerstone Aurizona mine, the Fazenda and RDM mines, as well as the Santa Luz project which is currently being constructed. In the US, it operates the Mesquite and Castle Mountain mines, both located in California, with a Phase 2 expansion planned at Castle Mountain. Rounding out the portfolio is the 60%-owned Greenstone project in Ontario which is fully permitted, with construction planned to commence in 2H21.

Valuation

Our one-year-forward target price is C$14.00/share and is based on an equally weighted 1.00x NAV multiple and a 6.0x NTM EBITDA multiple. With a NTM EBITDA estimate of US$513m which captures the 2Q21–1Q22 period and our C$17.13/share NAV estimate, we calculate a target value of C$13.98/share, which we round to C$14.00/share. Based on consensus estimates, Equinox is currently trading at 0.55x NAV (0.57x based on our estimate), which is a 29% discount to the intermediate peer average and is near the lowest P/NAV valuation on consensus numbers in the last two years where it traded as low as 0.51x. This discount is unjustified in our view, and we believe the stock will re-rate over the course of the year to trade more in line with peers. We estimate that Equinox is currently trading at 6.0x EV/EBITDA FY1, declining to 3.5x in 2022 on 67% EBITDA growth, and see this as supportive of our Buy rating ahead of a potential re-rating of the shares.

Recommendation

We are initiating coverage of Equinox with a Buy–Above-average Risk rating and C$14.00/share 12-month target, which implies a potential return of 39%. The company has a diverse production base in the Americas, and with an unparalleled growth profile to take annual production above the 1moz threshold, we expect it could fetch a premium valuation to the peer group with steady operational performance and execution on its growth mandate as Santa Luz comes online and high-grade deposits are accessed at Los Filos. We view the current valuation as an attractive entry point while the company makes the necessary investments to drive up production and drive down costs, which should result in an EBITDA increase of 67% next year based on our estimates and potentially force a re-rating.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Unparalleled growth profile.** Equinox has one of the most aggressive growth plans in the industry, in our view. With the addition of the Leagold assets, production increased 137% to 477koz in 2020, and with an uninterrupted year of production from Los Filos, Castle Mountain now online and a slight boost with Mercedes replacing Pilar in the portfolio, we estimate that production will increase another 34% in 2021 to 638koz. With Los Filos mining high-grade deposits next year as well as Santa Luz coming online, we expect production to increase by another 48% yoy to reach 944koz and effectively elevate the company to senior producer status in the 1moz range; we see sustained production of around 1moz or more for at least a decade based on our current model estimates.

- **Opportunity to improve quality.** The company currently has seven operating mines, and Santa Luz will make it eight next year. In our view, the current portfolio size is a bit larger than optimal to ensure that all operations are running as efficiently as possible and to appropriately allocate resources. The company has an opportunity to right-size the portfolio and divest some of the smaller assets that take up a disproportionate amount of management's time relative to their EBITDA contribution—we note that the company has three mines that produce less than 75koz annually. This will enable management to focus on bringing on the Greenstone mine and could have the additional benefit of improving investor perception, given some investors continue to view the portfolio as lower-quality vs peers even though some of the higher-cost operations have little bearing on the company's overall cost profile.

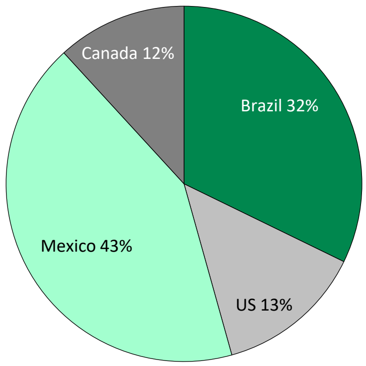
- **Growth profile is fully funded.** The company's acquisition of Premier Gold recently closed in April, bringing in the Greenstone development project in Ontario. With the company already having a fully funded development pipeline to see production exceed 1moz annually, we are not expecting further M&A, which is a positive as we see the number of acquisitions in the sector increasing as producers look to backfill production profiles. This means that Equinox will not need to compete with other producers and, in fact, could be a beneficiary of a hot gold sector in terms of deal-making given it has a couple of assets it could potentially divest (Mercedes and RDM). The company has a strong balance sheet to make the necessary investments in 2021 and should reap the benefits of a lower cost profile and production growth over the next decade.

- **It's all about execution now.** This biggest risk to our valuation, in our view, is execution on the growth mandate beyond 2023. We are confident that the company will be able to access the high-grade deposits at Los Filos later this year and to have the CIL plant ready to process this material in 2023, which is the biggest growth driver. However, we have more material concerns regarding the growth projects beyond this, as we see capex inflation risk at Greenstone; at Castle Mountain, we see risk to the development timeline given permits are required to expand the operation in Phase 2, along with water needs that may require overland pipelines as well as the fact that California is not known for ease of mine permitting. We see an opportunity for the market to gain comfort with the company's ability to execute on the growth mandate by delivering the Santa Luz project on time and on budget this year.

- **Current valuation with near-term growth is attractive.** With the shares underperforming the S&P/TSX Global Gold Index by 25% ytd and trading at a P/NAV discount of 29% vs intermediate producer peers, we view the current valuation as an attractive entry point given the biggest risks are longer-dated while the company should see a step change in its production profile in 2022. Investors have an opportunity to acquire the stock before expected significant EBITDA growth drives down its EBITDA valuation next year, and we believe it should re-rate to trade in line with peers on 2022 with successful execution at Santa Luz and development of the high-grade deposits at Los Filos. With the company producing above the intermediate average and seeing a downward trend in costs from the mid-2021 inflection point, as well as having diversified operations across the Americas (see Exhibit 1), we believe Equinox should trade at a premium to the intermediate peer group with successful execution on its growth projects.

John Sclodnick
Amanda Lewis, Associate

Exhibit 1: Equinox NAV breakdown by country



Source: Desjardins Capital Markets

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Equinox of C$17.13/share, comprised of C$16.21/share of mining assets and C$0.93/share of net cash (may not sum do to rounding, see Exhibit 2 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards since our target price is one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Los Filos.** We value Los Filos at C$2,243m or C$6.53/share, which represents 40% of our NAV of mining assets. This is based on a DCF model of 125% of reserves to reflect the exploration upside and we discount the after-tax free cash flows at 5%.
- **Aurizona.** Our DCF model is based on 125% of reserves, which is justified in our view as the company has demonstrated resource growth potential with satellite deposits, as well as a PEA on an underground operation which can extend the minelife. We calculate an $NPV_{5\%}$ of C$859m or C$2.50/share, which represents 15% of our NAV of mining assets and is the second largest component after Los Filos.
- **Greenstone.** We base our model of Greenstone on the December 2020 feasibility study and calculate an $NPV_{7\%}$ of C$656m on Equinox's 60% interest, which equates to C$1.91/share and represents 12% of our NAV of mining assets.
- **Santa Luz.** We calculate an $NPV_{6\%}$ of C$579m or C$1.69/share, which represents 10% of our NAV of mining assets. Our DCF model is based on the June 2020 feasibility study, with reserves increased by 25% as we see potential for minelife extension.
- **Castle Mountain.** We base our model on 100% of reserves and assume that the Phase 2 expansion occurs in 2025. Since most of the value is derived in Phase 2 which is not yet permitted, we apply a 7% discount rate to our DCF model and value the mine at C$384m or C$1.12/share, which is 7% of our NAV of mining assets.
- **Mesquite.** Our model is also based on 125% of reserves as it continues to extend its short minelife. We value the mine at C$365m or C$1.06/share at a 5% discount rate, which is 7% of our NAV of mining assets.
- **Other mines.** For the RDM and Fazenda mines in Brazil as well as the Mercedes mine in Mexico, we estimate a total value of C$1.40/share, which represents a combined 9% of our NAV of mining assets and, as such, we view them as non-core.
- **Net cash.** We estimate a cash balance of C$436m at 1Q22, and attribute C$240m to the Solaris Resources investment and C$124m to the i-80 Gold investment. We deduct C$164m in G&A

spending over the next five years, discounted at 5%, and calculate C$338m in debt one year forward. We model the convertible notes being converted to equity and add in the C$19m of in-the-money options and warrants, which results in a fully diluted share count of 343.4m. This drives our net cash estimate of C$0.93/share.

- **Target price.** Our one-year-forward target price is C$14.00/share and is based on an equally weighted 1.00x NAV multiple and 6.0x NTM EBITDA multiple. With a NTM EBITDA estimate of US$513m which captures the 2Q21–1Q22 period and our C$17.13/share NAV estimate, we calculate a target value of C$13.98/share, which we round to C$14.00/share.

Exhibit 2: Equinox NAV breakdown by asset

	Jurisdiction	Per share (C$)	% of DCF
Los Filos (5% DR)	Mexico	6.53	40
Aurizona (5% DR)	Brazil	2.50	15
Greenstone (7% DR)	Ontario	1.91	12
Santa Luz (6% DR)	Brazil	1.69	10
Castle Mountain (7% DR)	US	1.12	7
Mesquite (5% DR)	US	1.06	7
RDM (5% DR)	Brazil	0.67	4
Fazenda (5% DR)	Brazil	0.36	2
Mercedes (5% DR)	Mexico	0.36	2
Total mining assets		**16.21**	
Cash & ST investments		2.33	
In-the-money options & warrants		0.05	
Corporate G&A (5 years @ 5% DR)		-0.48	
ST & LT debt		-0.98	
Net cash/share		**0.93**	
Total NAV		**17.13**	
Shares O/S (FD) (m)		343.4	

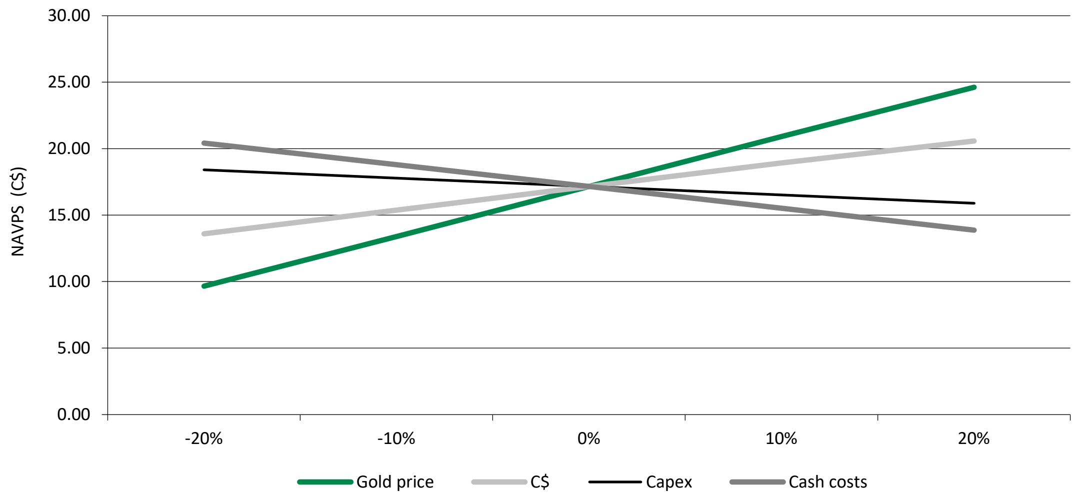
Source: Desjardins Capital Markets

NAV and EBITDA sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 21.9% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ assumption as it is denominated in Canadian dollars, changing by 9.7% for a 10% change; there is also some influence from our Greenstone DCF. Our NAV would change by 9.5% for a 10% change in our opex assumption and by 3.7% for a 10% change in our capex assumption. It would change by 0.7% for a 10% change in both our MXN/US$ and BRL/US$ assumptions as we estimate that a little less than half of mine site opex is denominated in those currencies at the respective operations (see Exhibit 3).

- Our 2022 EBITDA estimate would change by 20.5% for a 10% change in our gold price assumption and by 10.9% for a 10% change in our opex assumption. It would change by ~1.5% for a 10% change in our MXN/US$ and BRL/US$ assumptions.

Exhibit 3: Equinox NAV sensitivity to various assumptions



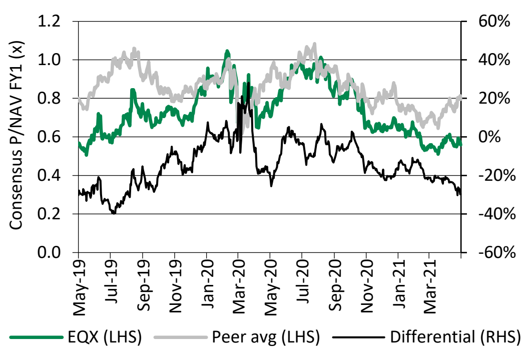
Source: Desjardins Capital Markets

Valuation comparables

- Based on consensus estimates, Equinox is currently trading at 0.55x NAV (0.57x based on our estimate), which is a 29% discount to the intermediate peer average and is near the lowest P/NAV valuation on consensus numbers in the last two years where it traded as low as 0.51x. This discount is unjustified in our view, and we believe the stock will re-rate over the course of the year to trade more in line with peers (see Exhibit 4a). Given the company's rapid transformation, diverse production base in the Americas and unparalleled growth profile, we expect it could fetch a premium to the peer group with steady operational performance and execution on its growth mandate as Santa Luz comes online and high-grade deposits are accessed at Los Filos. We view the current valuation as an attractive entry point.

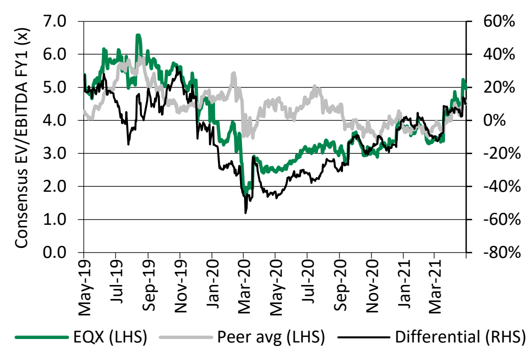
- On a consensus EV/EBITDA FY2 basis, Equinox is trading at 3.4x—a 13% discount to the peer group, which is relatively in line with the average over the last two years. The differential was particularly volatile due to the Leagold acquisition, which caused a significant discount before the market appropriately priced in the new production (see Exhibit 4b). However, with the company making investments this year to drive higher production and lower costs, it is on the cusp of significant EBITDA growth, which could drive down its EBITDA valuation and, in our opinion, force a re-rating as it continues to advance its projects on schedule and on budget this year. We estimate Equinox is currently trading at EV/EBITDA FY1 of 6.0x, declining to 3.5x in FY2 on 67% EBITDA growth, and see this as supportive of our Buy rating ahead of a potential re-rating of the shares.

Exhibit 4a: Equinox vs peers on consensus P/NAV over the last two years



Source: Desjardins Capital Markets, FactSet

Exhibit 4b: Equinox vs peers on consensus EV/EBITDA FY1 over the last two years



Source: Desjardins Capital Markets, FactSet

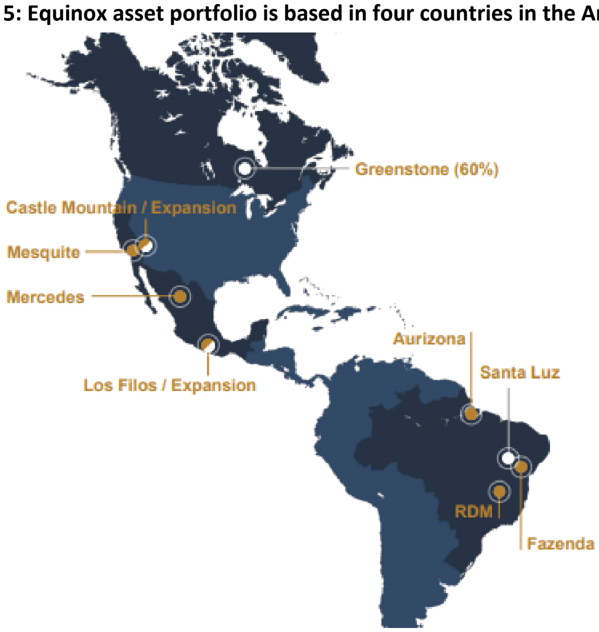
Upcoming catalysts

- Production from high-grade sources at Los Filos—2H21
- Completion of Santa Luz construction—4Q21
- First gold pour at Santa Luz—1Q22
- Feasibility study on Los Filos expansion—mid-2021
- Pre-feasibility study for Aurizona underground—2H21
- Permitting updates at Castle Mountain—2H21
- Potential asset divestitures—2021

Company overview

Equinox is an Americas-based intermediate gold producer headquartered in Vancouver, BC. The company was formed in December 2017 following the three-way merger of Trek Mining, NewCastle Gold and Anfield Gold. It owned the Aurizona mine and Castle Mountain project at that time before acquiring the Mesquite mine in October 2018, which elevated the company to producer status. Equinox has been relentlessly focused on growing production since then, subsequently merging with Leagold in March 2020, which brought in the flagship Los Filos mine as well as three smaller Brazilian mines and the Santa Luz project; it also closed the acquisition of Premier Gold in April 2021, which added the Greenstone project in Ontario and the Mercedes mine in Mexico to the portfolio. The company now owns a total of seven producing mines and four growth projects. The largest producer, growth driver and NAV component is the Los Filos mine in Guerrero, Mexico, while it also owns the Mercedes mine in Sonora, Mexico. In Brazil, it owns the cornerstone Aurizona mine, along with the Fazenda and RDM mines, and in the US, it operates the Mesquite and Castle Mountain mines. All producing mines are 100%-owned. The company has an unparalleled portfolio of growth projects with the Los Filos expansion, the 60%-owned Greenstone project in Ontario, the Castle Mountain Phase 2 expansion project in California and the Santa Luz restart project in Brazil, plus we see clear potential for minelife extension at Aurizona from an underground operation and satellite deposits.

Exhibit 5: Equinox asset portfolio is based in four countries in the Americas



Source: Company presentation

Mexican operations

Los Filos is the company's most significant asset in terms of NAV contribution, annual production and future growth. The mine was shut down for most of 2020, first due to COVID-19-related directives from the Mexican government and then a blockade by a local ejido that had alleged non-compliance with the social collaboration agreement. The company regained full access to the site and resumed operations in December 2020, and signed an updated agreement with the ejido in April with the same term to 2025. Production growth will be driven by access to high-grade deposits and we model the company beginning to mine the higher-grade Guadalupe open pit and Bermejal underground deposits in 2H of the year; development work is currently underway. Until a CIL plant is constructed, the higher-grade material will be stacked on a leach pad but we should see the results of an optimization study including a CIL plant and an expanded heap leach operation around mid-year. We currently model the CIL plant being constructed in 2H22, after which the company will begin to feed it high-grade ore. We currently model a 4,000tpd CIL processing facility and will wait to see the updated study before reflecting the company's planned 8,000tpd processing plant, which remains upside to our model.

The company recently acquired the Mercedes underground mine, which we view as non-core; given its recent history of challenges sourcing sufficient ore, we believe the asset should be divested as it could potentially create a distraction for management while it works on executing its ambitious growth mandate. We estimate that 36% of our 2021 production estimate will come from Mexico, increasing to 40% in 2022 with contribution from the high-grade deposits at Los Filos.

Brazilian operations

The Brazilian assets form the second largest component of our NAV; this is primarily tied to Aurizona and Santa Luz, both of which are capable of producing above 100koz/yr. Aurizona was the company's original flagship asset prior to the Leagold merger in March 2020. It commenced production in 2019 with an impressive ramp-up and has been a steady producer since. Beyond the 120–130koz production rate, there is more margin upside to come as heavy stripping recedes and AISC is reduced, and with potential growth beyond the current mine plan from both an underground operation and satellite deposits. Drill results were released earlier this year which supported the potential development of both, and the company is preparing the release of a pre-feasibility study of an underground operation at Aurizona later this year after releasing a positive PEA study in 2020. We do not currently model an underground operation, which represents upside to our estimates.

The next major growth driver for production after Los Filos is Santa Luz, which will start contributing over 100koz/yr to the production profile and help lower the company's cost profile in 2022. The management team has cracked the code on the metallurgy; the restart requires the installation of a resin-in-leach circuit and given the existing infrastructure and ~US$100m start-up costs, the project yields an IRR of 77.8% on our estimates.

We believe management could consider a divesture of RDM and we think it would improve sentiment in the eyes of investors who remember the mine not so fondly from the Brio portfolio. Management intends to explore the greenstone belt between Fazenda and Santa Luz and hopes to establish a mining district there. At the current gold price and Brazilian real exchange rate, all of the mines are contributing free cash flow.

We estimate that 41% of our 2021 production estimate will come from Brazil, ticking up to 42% in 2022 with Santa Luz online.

US operations

Equinox acquired the Mesquite mine in late 2018 for US$158m, and after three years of production (our NPV is one-year forward-looking), we value the mine at C$365m (US$292m). The mine had instantly elevated Equinox to producer status while it finished construction of Aurizona. Free cash flow generation from Mesquite has helped fuel growth as the mine was the company's largest gold producer until this year with a full year of operations from Los Filos. In our view, management has done a phenomenal job in extending the minelife, both through the reprocessing of historical waste dumps and identifying new deposits.

The company brought the Castle Mountain project online in 4Q20 with Phase 1, which will leach previously mined low-grade dump material and produce 30–40koz/yr. While this does not really move the needle for a company of Equinox's size, the real prize is the Phase 2 expansion which will see production exceed 200koz/yr over a 14-year minelife. However, Phase 2 will require permit amendments to be issued by the state of California and we have concerns on the timing of these. The recent feasibility study showed an after-tax IRR of 18% at US$1,500/oz gold (25% at US$1,800/oz) and returns could be pressured if there are delays to the issuance of the permit. We currently model Phase 2 commencing in 2025 but we believe that we are on the aggressive side as the project requires overland water pipelines, which we do not think the regulatory agencies are in a hurry to permit.

We estimate that 23% of our 2021 production estimate will come from the US, declining to 18% in 2022 without a major growth driver to offset new production from Santa Luz and Los Filos.

2021 outlook

Equinox is guiding to production of 600–665koz of gold this year at total cash costs of US$940–1,000/oz and AISC of US$1,190–1,275/oz. Los Filos is expected to contribute 28% of total production at 170–190koz at elevated AISC of US$1,330–1,390/oz; however, as it works through capitalized stripping to access the high-grade deposits and generally recovers from the shutdown and blockade in 2020, this should result in a trend of quarter-over-quarter production increases at declining AISC through the year. Mesquite is expected to be the next largest producer at 130–140koz, representing 21% of total production at AISC of US$1,275–1,325/oz, with about 40% of the mine's production expected to come in 4Q as it works through a heavy stripping campaign to access the higher-grade oxide deposit at Brownie. Aurizona will be the third largest producing mine with guidance at 120–130koz, representing 20% of total production, at AISC of US$1,075–1,125/oz. The three largest producers represent ~70% of expected total production.

1Q21 production came in at 129.2koz, representing 20.4% of the mid-point of guidance, while total cash costs of US$1,141/oz and AISC of US$1,482/oz were above the annual guidance range. We expect similar production in 2Q at slightly lower costs, while we are modelling 60% of production to come in the back half of the year. We estimate 2021 gold production of 638koz at total cash costs of US$972/oz and AISC of US$1,238/oz, in the mid-range of guidance, while we believe consensus may be a bit optimistic with a production and cash cost beat. The company is guiding to sustaining capital spending of US$187m and growth capital spending of US$291m for total capex of US$478m vs consensus of US$489m and our estimate of US$476m (see Exhibit 6).

For 2022, we see production increasing 48% to 944koz while we model cash costs falling 10% to US$878/oz and AISC falling 21% to US$974/oz as the company completes major stripping campaigns this year. The positive year-over-year changes are driven by new low-cost ounces coming online from Santa Luz, an expected increase of 67% in production from Los Filos with access to the high-grade deposits and a drop in the strip ratio at Aurizona.

Exhibit 6: Equinox 2021 guidance vs consensus and Desjardins

	Guidance	Consensus	Desjardins est	Difference (%)[1]
Gold production (koz)	600–665	667	638	-5.2
Cash costs (US$/oz)	940–1,000	931	972	4.2
AISC (US$/oz)	1,190–1,275	1,222	1,238	0.8
Capex (US$m)	478	489	476	-2.2

[1] Represents the difference between the mid-point of guidance and consensus estimates
Source: Desjardins Capital Markets, company reports, FactSet

Financial state

The company ended 1Q21 with US$318m in cash, not including equity holdings in Solaris Resources and i-80 Gold which we estimate are worth a total of US$292m. It has US$350m in cash at the end of April following the completion of the sale of its Pilar mine and cash proceeds from a portion of its Solaris investment. It has a total of US$547m in debt, US$291m held on a credit facility and two convertible notes totalling US$257m, each with a US$139m face value; both of the notes are in the money and convertible at US$5.25 and US$7.80, respectively, and mature in April 2024 and March 2025.

We see the company generating US$992m in operating cash flow over the next two years. Based on our estimates, we see it as fully funded to deliver its pipeline of growth projects without needing to tap the US$200m available on the revolver or sell equity investments. The company has 2.9m options outstanding, 2.7m of which are exercisable and 2.5m are in the money, which if exercised could bring in US$11.5m. The company has 19m warrants outstanding, with 16m exercisable at C$15, expiring in October 2021; 0.9m warrants are currently in the money, which would bring in US$3.5m between now and May 2023.

The company will have ~298m shares outstanding at the end of 2Q21 with the closing of the Premier Gold acquisition that quarter; including the in-the-money options, warrants, RSUs and convertible notes, we model a fully diluted share count of 343.4m, on which we base our NAV per share calculation.

Potential risks

The company has a diverse operating portfolio, which helps to limit operational and jurisdictional risk. That said, there are numerous inherent risks to investing in a mining company; we have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Development risk.** The company has assembled an impressive development pipeline and, in our view, the most significant risk is executing on that growth mandate. There is a risk that the company does not achieve its budgets or timelines on the growth project mandates, which could have a significant and materially negative impact on our valuation. Fortunately, it has a strong balance sheet to weather unforeseen development issues.
- **Permitting risk.** The company will need to amend its permits to develop the Castle Mountain Phase 2 expansion. While we do not see vocal opposition to the project at this time and while we believe there is local support for the project given its job creation potential in the area, California is not a state that is quick to issue mining permits and we believe there is a risk that the permits are not awarded in line with our current timeline. We model first production from Phase 2 in 2025.
- **COVID-19-related risk.** The company reported in its 1Q results that there are no ongoing COVID-19 concerns at any operations and that strict protocols have been implemented to mitigate impacts from the virus. However, the third wave of infections has seen case counts in Brazil reach all-time highs and there is a risk that the government mandates a shutdown of operations or that localized infections require the company to restrict operations at its Brazilian mines.

John Sclodnick
Amanda Lewis, Associate

- **Gold price risk.** The company's revenue is derived nearly exclusively from the sale of gold and any decline in the gold price could adversely impact our valuation of the company, resulting in underperformance in the shares.
- **Jurisdictional risk.** While the company has done a good job of diversifying its operating base, we still estimate that 43% and 32% of our NAV of mining assets is based in Mexico and Brazil, respectively. Any changes to taxes or royalties, or local currency appreciation could negatively impact our valuation.
- **Social risk.** The company requires social licence to operate and the potential negative impact of losing this was evident in the blockade by the local community which prevented access to its Los Filos mine from September–December 2020. There is a risk of this occurring again at Los Filos or at another operation.
- **Cost inflation risk.** Any increase to either opex or capex would negatively impact our valuation of the company. We estimate that a 10% increase to opex estimates would cause our NAV to fall by 9.5% while a 10% increase to capex estimates would cause our NAV to fall by 3.7%.

Management and board

The company was assembled by Ross Beaty who continues to lead the company's strategic direction as chair of the board. Mr Beaty's track record includes the formation and subsequent acquisition of numerous other companies and he holds a rare combination of a geology and law degree. He was inducted into the Canadian Mining Hall of Fame in 2018 and has a strong following and exerts significant influence in the Canadian mining industry. Mr Beaty has assembled a highly capable management team, led by Christian Milau, with many having experience from Endeavour Mining. Based on FactSet data, management and insiders currently own 7.2% of the shares outstanding, led by Mr Beaty at 5.9%, while Yamana owns another 2.4%.

- **Christian Milau, CEO.** Mr Milau has more than 20 years of mining experience, with many of those spent in finance and capital markets, and was at the helm for the mergers and acquisitions that grew the company to its current size. Prior to joining Equinox as CEO in August 2016, he was CEO of True Gold before its acquisition by Endeavour Mining for C$240m in April 2016. Previous to that, he held senior positions at Endeavour Mining, New Gold and BNP Paribas. Mr Milau is a CPA.
- **Greg Smith, President.** Mr Smith was appointed president in March 2017 and was previously CEO of JDL Gold prior to its merger with Luna, which ultimately was part of the original merger to form Equinox. Prior to that, he was CEO and founder of Anthem United, president and CEO of Esperanza Resources before it was acquired by Alamos Gold, and CFO of Minefinders before it was acquired by Pan American Silver; he also held senior roles at Goldcorp. Mr Smith is a CPA.
- **Doug Reddy, COO.** Mr Reddy brings more than 30 years of mining experience and joined Equinox through the acquisition of Leagold where he had served as senior vice-president, technical services, since September 2016. Prior to that, he held senior roles at Endeavour Mining for 10 years and also worked at Amec Americas. Mr Reddy is a professional geoscientist (P.Geo).
- **Peter Hardie, CFO.** Mr Hardie has been CFO of Equinox since August 2016 and previously served as CFO of True Gold before its acquisition by Endeavour Mining in April 2016. Prior to that, he spent 10 years at Nevsun Resources in increasingly senior roles and ultimately served as CFO. He is a CPA with 17 years of experience.
- **Scott Heffernan, Executive Vice-President, Exploration.** Mr Heffernan has more than 20 years of mineral exploration experience and joined Equinox in his current role in August 2016. He previously worked for True Gold as vice-president, exploration, prior to its acquisition in April 2016. Prior to that, he worked for two junior exploration companies as well as at Equity Exploration. He is a professional geologist and holds a BSc in geology and an MSc in geological sciences from the University of British Columbia.

- **Susan Toews, General Counsel.** Ms Toews has more than 20 years of legal and business experience and has been in the role of general counsel at Equinox since March 2018. She previously worked at New Gold as vice-president, legal affairs, at Peak Gold as corporate secretary, and at EGX Canada as general counsel. Ms Toews is a member of the Law Society of British Columbia and holds a bachelor of arts and a bachelor of laws.
- **Sebastian D'Amici, Senior Vice-President, Finance.** Mr D'Amici has been with Equinox as senior vice-president, finance, since August 2016. He previously worked at True Gold, CHC Helicopters, Clarus Securities and PricewaterhouseCoopers. Mr D'Amici is a CPA with 13 years of experience and holds a BSc from the University of British Columbia.
- **Rhylin Bailie, Vice-President, Investor Relations.** Ms Bailie joined Equinox in October 2016 as vice-president, investor relations. She has previous investor relations experience in the mining industry from her work at Southern Arc Minerals, Eagle Hill Exploration, Sandspring Resources and NovaGold Resources, and in finance from her work at Placer Dome. Ms Bailie holds a bachelor of environmental studies degree and is a director on the National Board of the Canadian Investor Relations Institute.
- **Board of directors.** Ross Beaty (chair), Maryse Bélanger, Lenard Boggio, Tim Breen, Gordon Campbell, Wesley Clark, Sally Eyre, Marshall Koval, Christian Milau.

Equinox Gold Corp.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

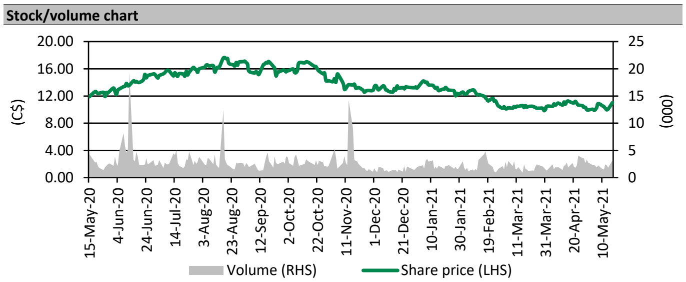
Ticker	**EQX, TSX**
Current price (C$)	**10.09**
Stock rating	**Buy**
Target price (C$)	**14.00**
Potential total return (%)	**39**
Risk rating	**Above-average**
Shares outstanding (m)	**298**
Market capitalization (C$m)	**3,003**

Fiscal year-end	**December 31**
52-week high (C$)	**17.99**
52-week low (C$)	**9.76**
P/NAV (x)	**0.57**
NAV target multiple (x)	**1.00**
EV/NTM EBITDA (x)	**4.9**
EBITDA target multiple (x)	**6.0**
FCF yield FY1 (%)	**-3.4**

Financial data

Assumptions	**2018**	**2019**	**2020**	**2021E**	**2022E**
Gold (US$/oz)	1,272	1,392	1,770	1,780	1,775
C$/US$	1.30	1.33	1.34	1.25	1.25
BRL/US$	3.65	3.94	5.15	5.57	5.60
Financial forecasts	**2018**	**2019**	**2020**	**2021E**	**2022E**
Balance sheet (US$m)					
Cash & equivalents	61	68	345	308	556
Working capital	30	17	423	384	651
Total debt	228	281	545	534	507
Income statement (US$m)					
Revenue	30	282	843	1,111	1,652
Cost of sales	18	159	422	642	897
G&A expense (ex non-cash items)	11	15	34	28	28
EBITDA	**-24**	**94**	**380**	**425**	**713**
Depreciation, depletion & amortization	4	39	132	196	298
Net income	-51	-20	21	180	288
Cash flow (US$m)					
Operating CF (bef chgs in WC)	-17	76	232	364	611
Capital expenditure	103	98	173	476	340
Net proceeds from equity	87	0	211	76	0
Net proceeds (repayment) from debt	192	53	-27	-13	-27
Free cash flow	-126	-38	44	-95	271
Per share data (US$/FD share)					
EPS FD	**-0.55**	**-0.15**	**0.09**	**0.54**	**0.83**
Adjusted EPS	**-0.55**	**0.28**	**0.37**	**0.38**	**0.83**
CFPS (bef chgs in WC)	**-0.19**	**0.57**	**1.06**	**1.09**	**1.76**
FCFPS	**-1.36**	**-0.28**	**0.20**	**-0.29**	**0.78**
Weighted avg basic shares O/S (m)	92	112	212	284	298
Weighted avg diluted shares O/S (m)	92	134	218	333	347

Stock/volume chart

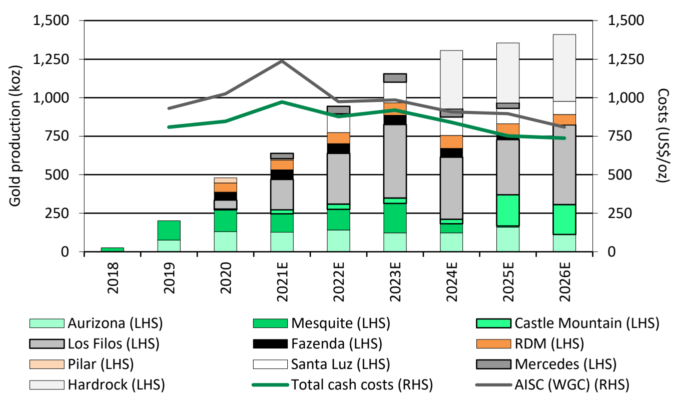


NAV summary

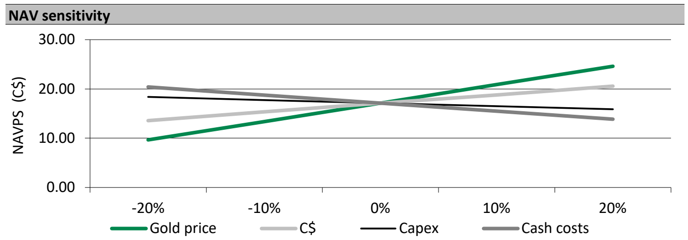
Asset	**Ownership (%)**	**NAVPS (C$)**
Aurizona (5% DR)	100	2.50
Mesquite (5% DR)	100	1.06
Castle Mountain (7% DR)	100	1.12
Los Filos (5% DR)	100	6.53
Fazenda (5% DR)	100	0.36
RDM (5% DR)	100	0.67
Santa Luz (6% DR)	100	1.69
Mercedes (5% DR)	100	0.36
Greenstone (7% DR)	60	1.91
Project NAVPS		**16.21**
Cash & ST investments		1.27
In-the-money options & warrants		0.05
i-80 Gold		0.36
Solaris Resources		0.70
Corporate G&A (5 years @ 5% DR)		-0.48
ST & LT debt		-0.98
Total NAVPS		**17.13**
P/NAV (x)		**0.57**
Shares outstanding (FD) (m)		343

Operational data

Consolidated production profile	**2018**	**2019**	**2020**	**2021E**	**2022E**
Gold production (koz)	26	201	477	638	944
Total cash costs (US$/oz)	0	809	847	972	878
WGC all-in sustaining costs (US$/oz)	0	931	1,025	1,238	974



NAV sensitivity



Reserves & resources

As at December 31, 2019	**Tonnes (m)**	**Au grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	568.7	0.91	17
M&I resources (incl reserves)	1,048.5	0.89	30
Inferred resources	343.6	1.11	12

Source: Desjardins Capital Markets, FactSet, company reports

Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		297.7
Exercisable options	6.83	2.7
Warrants	14.09	18.8
Fully diluted shares		343.4

Top ownership	**% outstanding**	**Shares (m)**
Van Eck Associates Corp.	8.9	26.6
Beaty Ross J	5.9	18.9
Blackrock Investment Management (Uk) Ltd.	4.3	11.1
Yamana Gold, Inc.	2.4	7.2
The Vanguard Group, Inc.	1.6	4.7
Donald Smith & Co., Inc.	1.5	4.6

ESG overview

EQX is a Canadian gold mining company with seven producing mines and four development projects. The company's operating assets are Mesquite and Castle Mountain in the US, Los Filos and Mercedes in Mexico, and Aurizona, Fazenda and RDM in Brazil. The company's development projects include Santa Luz in Brazil, Greenstone in Canada and two operating mine site expansion projects at Los Filos and Castle Mountain. Owing to the nature of its business, EQX is inherently exposed to significant environmental, social and governance risks. However, the company has prioritized responsible mining and published its first ESG report in May 2021. The report reviews past ESG performance, lays out future targets and is aligned with leading sustainability disclosure frameworks such as the Global Reporting Initiative and the Task Force on Climate-Related Financial Disclosures. EQX's commitment to sustainability is demonstrated at the highest level, with 18% of management's 2021 incentive plan compensation linked to ESG performance.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• EQX is committed to maintaining compliance with environmental systems and policies. • The company sets environmental incident targets and provides annual results broken down by mine site, type and severity. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – Met 2020 target of achieving a significant environmental incident frequency rate of 1.65 or less; however, 21 incidents were reported, of which the majority were wildlife mortality. – For 2021, EQX has targeted a significant environmental incident frequency rate of 1.6 or less. – The company has partnered with local groups to mitigate adverse impacts from mining (such as initiatives to protect Joshua trees near the mining operations and to establish watering points for local populations of bighorn sheep).	• **Neutral** – There is scope for the company to improve disclosure on the area of land disturbed.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• EQX plans to review and implement opportunities to reduce its energy use and GHG emissions. • In 2020, EQX conducted an energy and greenhouse gas assessment workshop for management. • In 2021, the company plans to publish emissions reports and to set emissions intensity reduction targets for both its mine sites and corporate offices. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – EQX has indicated that the level of disclosure on environmental policies and practices will improve in the coming year.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• Regular monitoring, inspection and auditing is completed at all of the company's 10 tailings storage facilities. • In response to concerns from the Church of England Pensions Board, in 2020 EQX published a report on its tailings dams that lays out the technical design, management and emergency response plan for the company's tailing storage facilities. • All of the company's tailings facilities in Brazil have audible early warning systems installed to alert people within 10km of a potential failure. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Positive** – EQX reviews tailings and closure plans regularly to ensure compliance at all sites. – The company is continuously working to improve management of effluents and waste.

Materiality issue	Management process, controls and measurement	Momentum
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• EQX sets health and safety targets and provides annual results broken down by mine site and incident type. • The company is closely monitoring the COVID-19 situation and has been proactively testing its workforce to reduce the spread. • **Metric** – No significant fines or violations related to occupational health and safety. – The company met all its 2020 safety targets: (1) zero fatalities; (2) lost time injury frequency of 0.95 or less (0.69 achieved); and (3) total recordable injury frequency of 4.82 or less (3.67 achieved). – For 2021, EQX has targeted a total recordable injury frequency rate of 3.9 or less. – The company had completed more than 18,000 COVID-19 tests as of April 9, 2021.	• **Neutral** – There is scope for the company to improve disclosure on its policies and level of compliance with safety and health standards.
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• EQX hires local labour wherever possible and has programs in place to provide support and training so that local community members can advance in the company. • **Metric** – No significant fines or violations related to employment practices. – 99% of the workforce at EQX's mines in Brazil are Brazilian. – 99% of the workforce at EQX's Los Filos mine are Mexican.	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• EQX aims to engage early and frequently with local communities through its dedicated on-site community departments. • The company has faced local community opposition at Los Filos; however, in April 2021, the company reached a social collaboration agreement with the local ejido at the mine site, with an effective term to April 2025. • In 2020, the company contributed to local healthcare, food programs, infrastructure development, youth education, sports programs and cultural activities. • **Metric** – In 2020, EQX did not achieve its target of zero days of business interruption due to social conflicts at its operations.	• **Neutral** – There is scope for the company to improve reporting on its impact on local communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• EQX has a diversity policy in place with a target to achieve at least 30% representation by women on the board by 2025. • **Metric** – Two of the nine board directors (22%) and two of the eight management team members (25%) are women.	• **Positive** – The company has clear diversity policies and targets in place. – There is scope for the company to improve disclosure on diversity within its workforce.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• The company's corporate policies cover a vast range of topics including anti-bribery and anti-corruption, whistleblowing and business ethics. • In 2020, EQX established an enterprise risk management process to identify and mitigate potential events that would prevent achievement of the company's business objectives. • **Metric** – No indication of fraud, corruption or bribery. – Six of the nine board members (67%) are independent, and there is separation of the chairperson and CEO roles.	• **Positive** – The company has clear anti-bribery and anti-corruption policies in place. – There is scope for the company to improve disclosure on relevant training programs for employees.

Integra Resources Corp.

An Integral part of a gold or silver developer portfolio—initiating coverage with a Buy rating and C$7.00 target

- ***Integra Resources is working on a PFS study on its DeLamar project in Idaho which already hosts a 4.5moz Aueq resource with a ~60/40 gold/silver split***
- ***The company will look to optimize project economics, which should see a greater emphasis on silver recoveries—this could attract more silver investors and result in a higher NAV multiple***
- ***The company has a number of high-grade exploration targets on the 110km^2 property, and success from its 10,000m drill program could help close the valuation gap vs peers***

Highlights

Integra Resources is focused on advancing its 100%-owned DeLamar gold and silver project in southwest Idaho. The company released a PEA on the project in September 2019 and is now working on an updated resource estimate, which will be followed by a pre-feasibility study. It already has a large resource of more than 4.5moz Aueq including 4.0moz Aueq in M&I at a grade of 0.73g/t Aueq. Based on our gold and silver price assumptions, ~60% of the resource value comes from gold and ~40% from silver. The company is derisking the project by advancing economic studies and conducting baseline environmental work, and will put a plan of operations in place next year to start the formal permitting process. In the meantime, it has numerous exciting exploration targets to drill on its ~110km^2 land package. Given the bulk of the project value is driven from the low-grade heap leach, the small mill to be constructed is where the company can drive considerable value creation with the planned drill program as it looks to displace low-grade mill feed with higher-grade material. Integra Resources is led largely by the same group that managed Integra Gold, which was acquired by Eldorado Gold for C$593m in May 2017 and is now that company's flagship asset.

Valuation

Our one-year-forward target price is C$7.00/share and is based on a 0.90x NAV multiple. Integra Resources trades at 0.49x our NAV estimate on a cash-adjusted basis while developer peers trade at an average of 0.58x; on an EV/oz metric, it trades at US$31/oz vs developer peers at US$86/oz. We expect the stock to begin to close the valuation gap as the company continues to derisk its resource with more advanced economic studies and metallurgical testing; we also see potential for high-grade drill results to catalyze this process. The stock is currently trading at 0.42x NAV based on consensus estimates, a 10.9% discount to its LTM average, which supports our view that the current valuation presents an attractive entry point.

Recommendation

We are initiating coverage of Integra Resources with a Buy–Speculative rating and C$7.00/share 12-month target, which implies a potential return of 89%. Its DeLamar project has a large and growing resource in a stable operating jurisdiction and there are several opportunities to optimize the project. One of these is a high-grade exploration campaign which, if successful, could displace low-grade mill feed with higher-grade material, driving NAV accretion. Another area is improved silver recoveries, which is a focus of the upcoming PFS; with silver prices as a greater economic driver of the project, it could attract more attention from silver producers looking to lower their cost base and risk profile as well as from silver investors who, due to a lack of investment opportunities, have driven silver company valuations to an average of ~1.5x NAV vs gold producers at 0.75x and gold developers at 0.58x. We believe the PFS should help Integra Resources close the valuation gap from its 0.49x NAV multiple.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Big and growing resource in a low-risk jurisdiction.** Integra's DeLamar project has a rare combination of sought-after attributes—an already large and growing resource of ~4.5moz Aueq, with exploration targets to potentially grow the project beyond the currently estimated 10-year minelife. The project is located in the southwest of the stable jurisdiction of Idaho, and as an open pit operation with primarily heap leach recoveries, it should have relatively low opex.

- **Silver component is underappreciated by the market.** As the gold:silver price ratio falls, silver makes up an increasingly large component of the resource value, which we currently estimate at 40% based on our price deck. Silver will have a more prominent focus in the upcoming pre-feasibility study and the silver price will be a larger driver of the project economics. We expect the PFS will attract the attention of silver investors, who, due to a lack of investment opportunities, have driven silver company valuations to an average of ~1.5x NAV vs gold producers at ~0.75x and gold developers at ~0.58x while Integra Resources is at 0.49x.

- **Value-enhancing project-level optimizations.** The company has several levers to pull to optimize project economics and will look to improve silver recoveries in the upcoming PFS, which should help with project economics. It will also consider the inclusion of more sulphide material, which could see a larger mill throughput and we expect this would be NAV-accretive. There are also a number of high-grade exploration targets on the property, and if it can supplement low-grade mill feed with higher-grade material, this will flow straight to the bottom line. Our base-case estimate of a mill feed at 1.23g/t Au is based on displacing just 25% or 500tpd of mill feed with 2.5g/t instead of 0.8g/t material, and this boosts our project NPV estimate by 11% or C$50m; drill results so far lead us to believe that this is a reasonable assumption.

- **Attracting corporate interest.** For the reasons we list above, we believe the project will attract the interest of silver producers looking to boost their resource base, lower their operating costs and improve their jurisdictional profile. Coeur Mining was the first mover with a 5.6% ownership share, not enough to dissuade another company from making an offer to acquire but enough to provide a strong endorsement to the project.

- **Top notch management team.** Integra Resources has a highly regarded management team led by CEO George Salamis. He was also at the helm of Integra Gold, which was acquired for C$593m by Eldorado Gold in May 2017 and is now that company's flagship asset. Much of the team is reunited here and looking to repeat that success with a similar brownfield site with plenty of exploration upside in a low-risk mining jurisdiction.

- **Near-term catalysts should help close valuation gap.** Integra Resources trades at 0.49x our NAV estimate on a cash-adjusted basis while peer developers trade at an average of 0.58x; on an EV/oz metric, it trades at US$31/oz vs developer peers at US$86/oz. We expect the stock to begin to close the valuation gap as the company continues to derisk its resource with more advanced economic studies and metallurgical testing; we also see potential for high-grade drill results to catalyze this process. The stock is currently trading at 0.42x NAV based on consensus estimates, a 10.9% discount to its LTM average, which supports our view that the current valuation presents an attractive entry point.

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Integra Resources of C$7.57/share, comprised of C$6.06/share of mining assets and C$1.50/share of net cash (see Exhibit 1 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards, with net cash as of our fully financed date. We provide details on the DeLamar project beyond valuation in the *Company overview* section below.

- **DeLamar project.** Our NAV estimate is driven by our DCF model of the DeLamar project, which we value at C$480m or C$5.63/share, representing 93% of our NAV of mining assets at a 7% discount rate.
- **Exploration properties.** We also attribute value to the Florida Mountain, Black Sheep and War Eagle exploration targets. This adds C$37m or C$0.44/share to our NAV, representing 7% of our NAV of mining assets, and is based on the next five years of estimated exploration spending discounted at a 7% rate.
- **Net cash.** Included in our net cash estimate is our estimated cash balance required to fully fund our discounted cash flow model at DeLamar, which amounts to C$311m or C$3.64/share. This includes an estimated equity financing of C$125m at C$4.75/share and a C$175m debt issuance. We calculate in-the-money options of C$10m (C$0.12/share) and, lastly, we deduct our estimated G&A spending over the next five years, discounted at a 7% rate, which amounts to C$17m (C0.20/share); our C$175m debt assumption takes C$2.05/share off our net cash estimate, which totals C$1.50/share.
- **Target price**. Our one-year target price is C$7.00/share and is based on a 0.90x NAV multiple.

Exhibit 1: Integra Resources NAV breakdown by asset

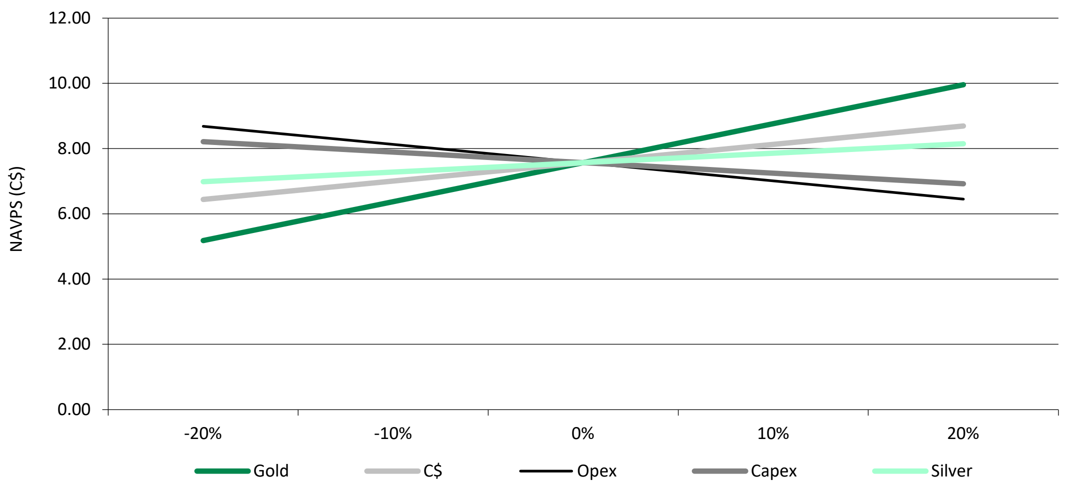
	Jurisdiction	Per share (C$)	% of DCF
DeLamar project (7% DR)	Idaho	5.63	93
Exploration	Idaho	0.44	7
Total mining assets		**6.06**	
Cash & ST investments		3.64	
In-the-money options & warrants		0.12	
Corporate G&A (5 years @ 7% DR)		-0.20	
ST & LT debt		-2.05	
Net cash/share		**1.50**	
Total NAV		**7.57**	
Shares O/S (FD) (m)		85.3	

Source: Desjardins Capital Market

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 15.8% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ and opex assumptions, which both change by 7.4% for a 10% change, followed by a 4.3% change for a 10% change in our capex assumption. It shows relatively little sensitivity to the silver price, changing by 3.8% for a 10% change although we expect the sensitivity to increase going forward as the company looks to optimize silver recoveries in the upcoming PFS (see Exhibit 2).

Exhibit 2: Integra Resources NAV sensitivity to various assumptions

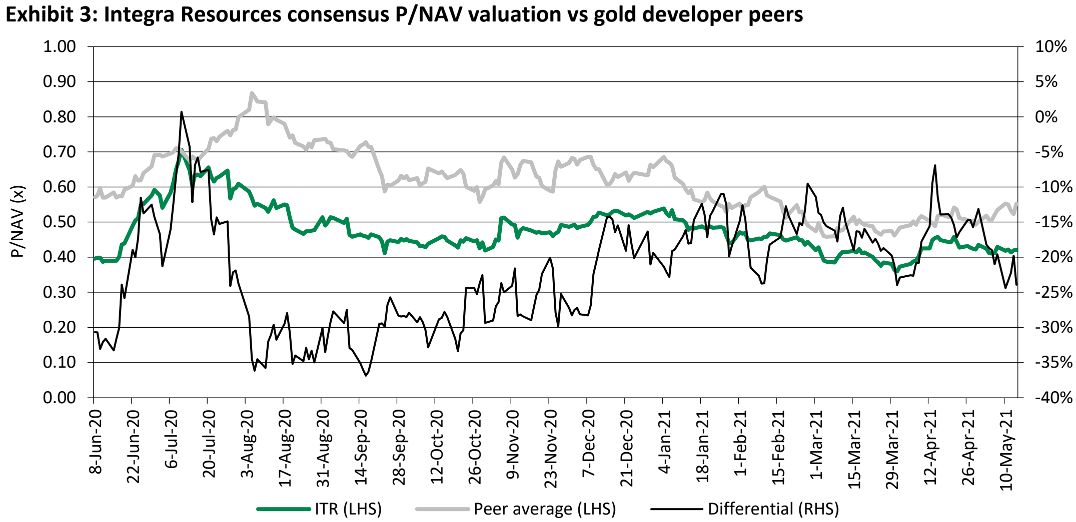


Source: Desjardins Capital Markets

Valuation comparables

- Integra Resources trades at 0.49x our NAV estimate on a cash-adjusted basis while peer developers trade at an average of 0.58x; on an EV/oz metric, it trades at US$31/oz vs gold developer peers at US$86/oz. We expect the stock to begin to close the valuation gap as the company continues to derisk its resource with more advanced economic studies and metallurgical testing; we also see potential for high-grade drill results to catalyze this process. The stock is currently trading at 0.42x NAV based on consensus estimates, a 10.9% discount to its LTM average, which supports our view that the current valuation presents an attractive entry point (see Exhibit 3).

Exhibit 3: Integra Resources consensus P/NAV valuation vs gold developer peers



Source: Desjardins Capital Markets, FactSet

Upcoming catalysts

- Updated mineral resource estimate—2Q21
- Pre-feasibility study result—4Q21
- Advanced metallurgy results—4Q21
- Commencement of permitting and plan of operations—1Q22
- Exploration results from 10,000m drill program—throughout 2021

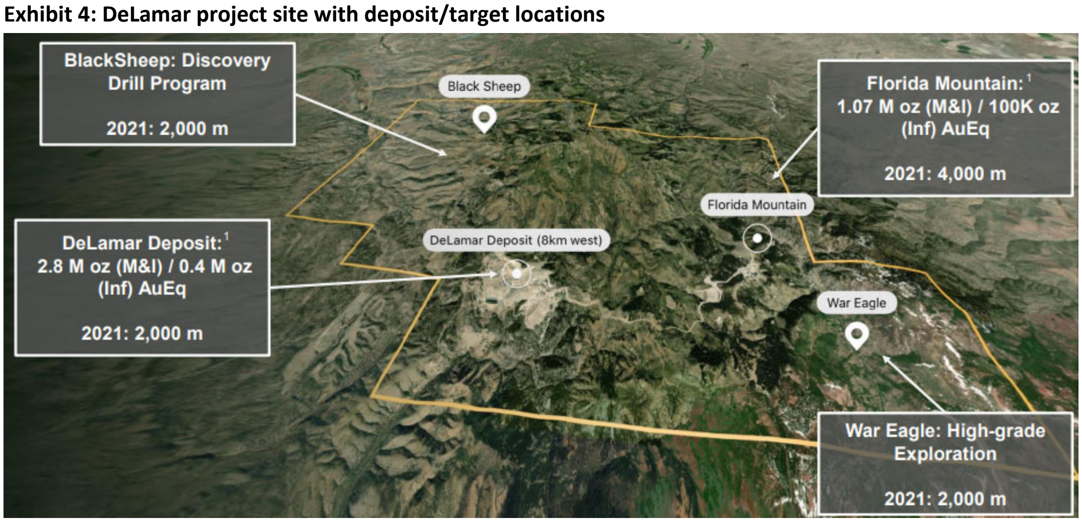
Company overview

Integra Resources is focused on advancing its 100%-owned DeLamar gold and silver project in southwest Idaho. The company released a PEA on the project in September 2019 and is now working on an updated resource estimate, which will be followed by a pre-feasibility study. It already has a large resource of more than 4.5moz Aueq including 4.0moz Aueq in M&I at a grade of 0.73g/t Aueq. Based on our gold and silver price assumptions, ~60% of the resource value comes from gold and ~40% from silver. Based on recoverable ounces, ~77% is derived from gold sales and ~23% from silver sales, but we expect the contribution from silver to increase with the results of the upcoming PFS. The company is derisking the project by advancing economic studies and conducting baseline environmental work, and will put a plan of operations in place next year to start the formal permitting process. In the meantime, it has numerous exciting exploration targets to drill on its ~110km^2 land package, which is now about 4x as large as when the company was created in 2017, with much of the added land showing potential for high-grade narrow-vein structures, in addition to low-grade bulk tonnage potential. Given the bulk of the project value is driven from the low-grade heap leach, the small mill to be constructed is where the company can drive considerable value creation with the planned drill program as it looks to displace low-grade mill feed with higher-grade material. Integra Resources is largely led by the same group that managed Integra Gold, which was acquired by Eldorado Gold for C$593m in May 2017 and is now that company's flagship asset.

DeLamar project

The DeLamar project is a disturbed site that was operated from the 1890s until World War I, and modern mining operations were conducted from the 1970s through to the 1990s. The previous owner, Kinross Gold, closed and partially reclaimed the site due to low gold prices. The DeLamar project consists of the DeLamar deposit which hosts 73% of the M&I resource on a gold-equivalent basis (66% on a pure-gold basis), with the remainder held at the Florida Mountain deposit; however we see greater potential for resource growth at Florida Mountain, which we discuss in more detail below. Based on the PEA, the bulk of the resource is in leachable oxide material with a smaller component of sulphides. However, management is looking at adding more of the sulphide material to the mine plan in the upcoming PFS. The property also holds the Black Sheep exploration area and the War Eagle high-grade exploration target (see Exhibit 4).

Exhibit 4: DeLamar project site with deposit/target locations



Source: Company presentation

The company announced the results of the PEA of the DeLamar project in September 2019, which showed an $NPV_{5\%}$ of C$472m and an IRR of 43% at a US$1,350/oz gold price, US$16.90/oz silver price and C$1.32/US$1 exchange rate. The project conceives of an open pit operation comprising a

27,000tpd heap leach with an average stacked grade of 0.58g/t Aueq and 2,000tpd mill processing an average grade of 1.02g/t Aueq. The low-grade operation benefits from a low strip ratio of 1.09 and relatively high heap leach recoveries of 83% and 34% for gold and silver, respectively. This drives estimated annual production of 124koz Aueq over a 10-year minelife at average cash costs of US$469/oz net of silver credits (US$617/oz on a co-product basis) and AISC of US$619/oz net of silver credits (US$742/oz on a co-product basis). Initial capex was estimated at US$142m, with a mill constructed in year 2 for another US$41m.

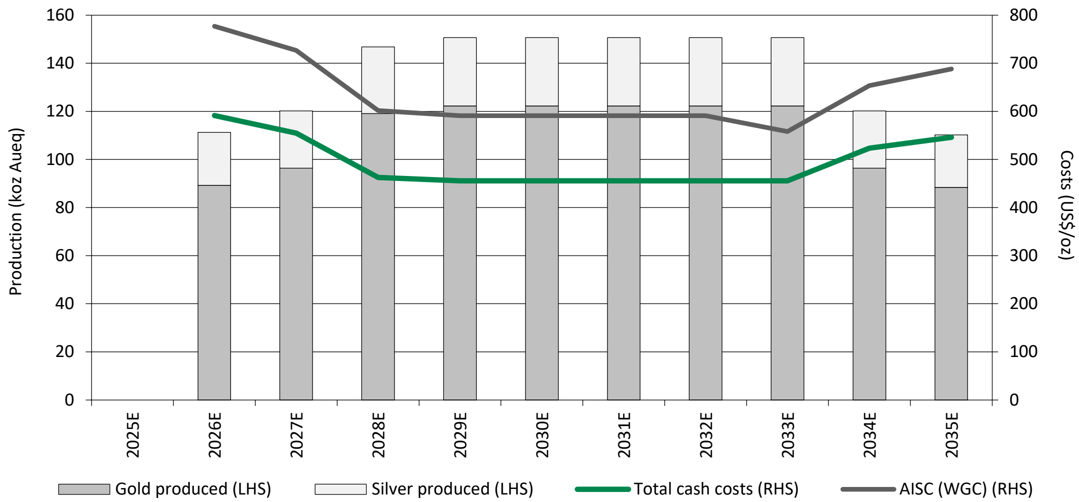
The company will release an updated mineral resource estimate later this quarter which will form the basis of the PFS scheduled for release in 4Q21. A key difference that the company is contemplating in the PFS is improving silver recoveries given the higher silver price currently. Management is assessing trade-off studies with a larger mill with estimated silver recoveries of 80% vs the 34% estimated from heap leaching. The company is also assessing the use of high-pressure grinding rolls in the crushing circuit prior to leaching as well as an agitated leach circuit for better recoveries of the transitional mineralization.

Our model

We base our model on the same tonnage mined and milled in the PEA study, and use the operational estimates as a reference point, along with benchmarking, to determine our estimates. Key differences from the PEA include assuming a gold recovery of 78% or 6% less than the 83% applied in the PEA, which is based on bottle roll and column leach tests of both Florida Mountain and DeLamar deposit drill core; we prefer to take a more conservative approach and assume a recovery closer to the average heap leach recovery in the Great Basin area, which we estimate in the 75% range. Another key difference from the PEA is our milled gold grade assumption of 1.23g/t, 53% higher than the 0.80g/t Au in the PEA. Based on the drill results we have seen from higher-grade sulphide targets, we believe it is safe to assume that the project will see at least 25% of the mill feed supplemented with 2.5g/t material, which is what our model assumes. This is a highly sensitive input and the company has a real opportunity to transform the project economics by finding high-grade sulphide mill feed; the change boosts our project NPV estimate by 11% or C$50m. This assumption helps to offset our lower heap leach recovery estimate and, along with our higher silver price assumption, drives our average annual and life-of-mine gold-equivalent production estimate 10% above that in the PEA.

On costs, we estimate mining costs of US$2.25/t (vs PEA at US$2.00/t), leaching costs of US$3.50/t (vs PEA at US$2.79/t), milling costs at US$16.00/t (vs PEA at US$9.07/t) and G&A costs of US$1.00/t (vs PEA at US$0.55/t). This leads to a total opex estimate of US$10.15/t, 30% higher than the US$7.82/t estimated in the PEA. However, with our silver price estimate of US$24/oz, 27% higher than the PEA assumption, our cash cost estimate on a net of by-products basis is US$489/oz, or just 4.3% higher than the US$469/oz estimated in the PEA, while our AISC estimate of US$637/oz is just 2.9% higher than the PEA estimate.

Exhibit 5: Integra Resources production profile



Source: Desjardins Capital Markets

We estimate initial and expansion capital of US$232m, 15% higher than the PEA estimate, and sustaining capex that is 7.1% higher. Combined with a 26% higher life-of-mine gold price assumption, this generates an NPV at 5% of C$599m or 27% higher than the PEA estimate, and C$480m at 7% (applied in our NAV estimate) with a 47.1% IRR.

Exhibit 6: Desjardins estimates vs PEA estimates for DeLamar project

	Desjardins	PEA	Difference (%)
Ore mined (mt)	93.5	93.7	-0.2
Average milled gold grade (g/t)	1.23	0.80	53.1
Average milled gold recovery (%)	90	90	0.0
Average leached gold grade (g/t)	0.39	0.39	0.0
Average leached gold recovery (%)	78	83	-6.0
LOM gold-equivalent production (kGEO)	1,362	1,239	9.9
Minelife (years)	10	10	0.0
Average annual gold-equivalent production (kGEO)	136	124	9.9
Total operating costs (US$/t)	10.15	7.82	29.8
Total cash costs (US$/oz Au)	489	469	4.3
AISC (US$/oz)	637	619	2.9
Total growth capex (US$m)	232	201	15.3
Total sustaining capex (US$m)	100	93	7.1
Gold price assumption (US$/oz)	1,700	1,350	25.9
Silver price assumption (US$/oz)	24.00	16.90	42.0
After-tax NPV @ 5% DR (C$m)	**599**	**472**	**26.8**
After-tax IRR (%)	**47.1**	**43.0**	**9.5**

Source: Desjardins Capital Markets, company reports

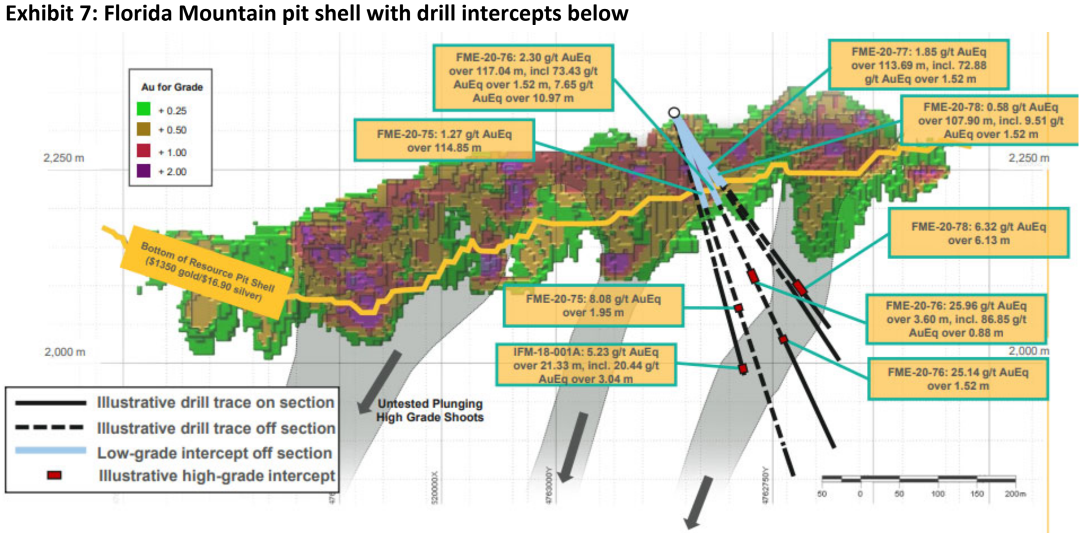
Resource growth potential

The company already has more than 4.5moz of gold-equivalent resources, with over 4moz of this in the M&I category, which is an enviable position. However, given the M&I grade of 0.73g/t Aueq, we believe the best opportunity for resource growth is grade-driven and we like that the company's 2021 drilling plan includes high-grade targets. Integra Resources was able to drill at the Black Sheep and Florida Mountain deposit through the winter; it released the first four holes in February, which included intersecting 1.43g/t Aueq over 79m, and in April it announced 34.5g/t Aueq over 1.5m at

Florida Mountain. The company now has four drill rigs at the project focusing on follow-up drilling at Florida Mountain and Black Sheep. Of the 10,000m drill program this year, 4,000m are allocated to Florida Mountain targeting an expansion of the low-grade resource area as well as targeting the high-grade shoots; 2,000m are allocated to the Black Sheep area, 2,000m are allocated to the War Eagle target and 2,000m will be drilled at the DeLamar deposit area.

The exploration target that we are most excited about is War Eagle, where the company intercepted a highlight intercept of 12.4g/t Aueq over 34.1m in late 2019, which was followed up with 32.6g/t Aueq over 7.6m in 2020. The Black Sheep area is intriguing as an early-stage exploration target that covers 30km^2, and recent drill results intercepted gold and silver mineralization, corroborating geophysical and geochemical anomalies. Another opportunity that has us particularly excited is the high-grade potential below the Florida Mountain pit shell. Integra Resources has now modelled seven high-grade vein structures that are located around the historical underground mining area, with historical workings spanning 2km. Highlight intercepts below the pit shell are 26.0g/t Aueq over 3.6m as well as 2.4g/t Aueq over 30.9m.

Exhibit 7: Florida Mountain pit shell with drill intercepts below



Source: Company presentation

Financial state

The company 1Q21 with a cash balance of C$28.3m, no debt and no warrants. It is fully funded for its 2021 activities through to the delivery of the pre-feasibility study in 4Q21. In order to fully fund the development of the DeLamar project, we model the company needing to raise C$300m, with C$125m in equity and C$175m in debt. We model equity raised at C$4.75/share, which is a 20% discount to the 52-week high and represents a P/NAV valuation of 0.63x. We expect that the company will see a stronger valuation on the delivery of the more advanced PFS in 4Q21. Based on our financing assumptions and including the in-the-money options, we estimate the company will have a fully diluted and fully funded share count of 85.3m shares, on which we base our NAV per share estimate.

Potential risks

Integra Resources is derisking the DeLamar project with more advanced metallurgical testing as well as more advanced economic studies, with the pre-feasibility study out soon, and the formal permitting process should begin next year. That said, there are numerous risks to investing in a mining company, particularly one that does not have operating cash flows. We have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Development and cost risk.** We model a 15% capex overrun and 30% higher opex compared with the PEA study but there is a risk that the capital and operating costs exceed our estimates, which would have a negative impact on our valuation. Our NAV estimate would change by 7.4% for a 10% change in our opex assumption and by 4.3% for a 10% change in our capex assumption.
- **Exploration risk.** Included in our base-case estimates is the assumption that the company will find high-grade material that can be mined and milled to upgrade the mill feed. There is a risk that further exploration does not yield the higher-grade material to be processed.
- **Permitting risk.** Idaho does not have a recent track record of successfully permitted precious metals projects. There is a risk that the project does not get permitted or that it does not adhere to our modelled permitting timelines to allow for construction and production in line with our estimates, which would have a negative impact on our valuation.
- **Financing risk.** We see the company requiring external financing to develop the DeLamar project and there is a risk that the financings are completed on less favourable terms than we estimate, which could increase share dilution and negatively impact our valuation.
- **Market risk.** The company will generate its revenue from the sale of gold and silver, so a decline in the gold or silver price would have a negative impact on our valuation of the company. We estimate that a 10% lower gold price would cause our NAV estimate to fall by 15.8% while a 10% lower silver price would cause our NAV estimate to fall by 3.8%.

Management and board

Integra Resources has a highly regarded management team, many of whom were at Integra Gold, which was successfully developed and sold to Eldorado Gold for C$593m in May 2017. Management and insiders currently own 5.9% of the shares outstanding, led by CEO George Salamis with 2.8%, while Coeur Mining owns another 5.6%, based on FactSet data.

- **George Salamis, President & CEO.** Mr Salamis brings more than 30 years of experience in the mining industry, most recently as executive chairman of Integra Gold, which was sold to Eldorado Gold in 2017. He previously worked at Placer Dome and Cameco before shifting his focus to mineral exploration and junior mining companies. Mr Salamis has global experience in all stages of mining project development from discovery to sale, including involvement in more than US$2b of M&A transactions. He holds a BSc in geology from the University of Montreal-École Polytechnique and is a director at Contact Gold.
- **Andrée St-Germain, CFO & Corporate Secretary.** Ms St-Germain was previously CFO at both Integra Gold and Golden Queen Mining. In her previous roles, she was involved in overseeing the sale of Integra Gold to Eldorado Gold and in securing financing for Golden Queen to transition from development to production. Ms St-Germain began her career in investment banking at Dundee Capital Markets and is currently a director of Ascot Resources and Osisko Mining.
- **Max Baker, Vice-President, Exploration.** Dr Baker brings more than 40 years of global exploration experience. He worked previously as vice-president, exploration, at various junior mining companies and as chief geologist at Rennison Goldfields, as well as at Newcrest Mining and Mount Isa Mines. Dr Baker holds a PhD in geology and is a member of the Australasian Institute of Mining and Metallurgy.

John Sclodnick
Amanda Lewis, Associate

- **Tim Arnold, COO.** Mr Arnold brings more than 35 years of experience developing and operating mines, including his most recent position as vice-president, operations, at Pershing Gold. He was also previously COO of Geovic Mining and has worked at Nevada Copper, General Moly, Coeur d'Alene Mines and Hecla Mining. Mr Arnold is a professional engineer and holds a BSc in mining engineering as well as an MBA.
- **Josh Serfass, Executive Vice-President, Corporate Development & Investor Relations.** Prior to joining Integra Resources, Mr Serfass was the manager of corporate communications at Integra Gold and involved in the development and sale of the Lamaque mine to Eldorado Gold. Mr Serfass has previous experience working at Citibank, Liz Claiborne and L. Knife and Sons.
- **Mark Stockton, Vice-President, Corporate Affairs & Sustainability.** Prior to joining Integra Resources, Mr Stockton was part of the team at Integra Gold and involved in the sale of the Lamaque mine to Eldorado Gold in 2017. Mr Stockton held the roles of manager of Québec operations and manager of business development during his time at Integra Gold.
- **Randall Oliphant, Strategic Advisor.** Mr Oliphant is a chartered professional accountant with 30 years of experience in the mining industry. He served as president and CEO of Barrick Gold from 1999–2003 and was previously chairman of Western Goldfields and then New Gold. Mr Oliphant is on the advisory board of Metalmark Capital and the board of directors of Franco-Nevada and WesternZagros Resources.
- **Board of directors.** Stephen de Jong (chair), David Awram, Timo Jauristo, Anna Ladd-Kruger, Carolyn Clark Loder, CL "Butch" Otter, George Salamis.

Integra Resources Corp.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**ITR, TSX-V**
Current price (C$)	**3.70**
Stock rating	**Buy**
Target price (C$)	**7.00**
Potential total return (%)	**89**
Risk rating	**Speculative**
Shares outstanding (m)	**55**
Market capitalization (C$m)	**203**

Fiscal year-end	**December 31**
52-week high (C$)	**5.90**
52-week low (C$)	**3.20**
P/NAV (x)	**0.49**
NAV target multiple (x)	**0.90**
EV/GEO (US$)	**31.8**
EV/GEO target (US$)	**NA**
FCF yield FY1 (%)	**NM**

Financial data

Assumptions	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gold (US$/oz)	1,780	1,775	1,700	1,700	1,700
Silver (US$/oz)	26.05	26.00	24.00	24.00	24.00
C$/US$	1.25	1.25	1.26	1.26	1.26

Financial forecasts	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Balance sheet (C$m)					
Cash & equivalents	311	285	264	193	13
Working capital	305	279	259	187	8
Total debt	175	175	175	175	175
Income statement (C$m)					
Revenue	0	0	0	0	0
Cost of sales	0	0	0	0	0
G&A expense	6	6	3	3	3
EBITDA	**-26**	**-18**	**-14**	**-9**	**-4**
Depreciation, depletion & amortization	0	0	0	0	0
Net income	-28	-28	-21	-17	-13
Cash flow (C$m)					
Operating CF (bef chgs in WC)	-26	-26	-20	-16	-12
Capital expenditure	0	0	0	56	167
Net proceeds from equity	126	0	0	0	0
Net proceeds (repayment) from debt	175	0	0	0	0
Free cash flow	-27	-26	-20	-72	-179
Per share data (C$/FD share)					
EPS FD	**-0.51**	**-0.34**	**-0.26**	**-0.21**	**-0.16**
Adjusted EPS	**-0.47**	**-0.32**	**-0.25**	**-0.20**	**-0.15**
CFPS (bef chgs in WC)	**-0.47**	**-0.32**	**-0.25**	**-0.20**	**-0.15**
FCFPS	**-0.49**	**-0.32**	**-0.25**	**-0.89**	**-2.21**
Weighted avg basic shares O/S (m)	55	81	81	81	81
Weighted avg diluted shares O/S (m)	55	81	81	81	81

Operational data

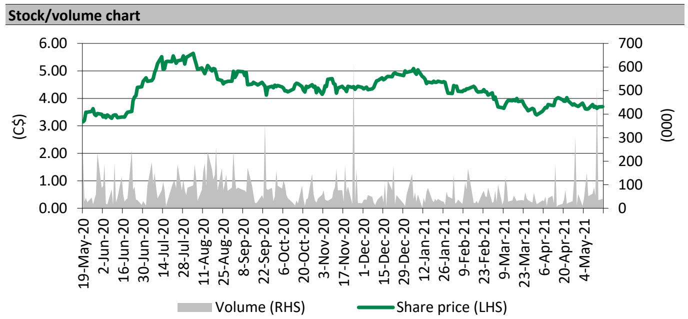
Consolidated production profile	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**
Gold production (koz)	0	110	119	145	149
Total cash costs (US$/oz)	0	591	555	462	456
WGC all-in sustaining costs (US$/oz)	0	777	726	601	591

DeLamar project estimates	**PEA**	**Desjardins**
Ore mined (Mt)	93.7	93.5
Average milled gold grade (g/t)	0.80	1.22
Average milled gold recovery (%)	90	90
Average leached gold grade (g/t)	0.39	0.39
Average leached gold recovery (%)	83	78
LOM gold-equivalent production (kGEO)	1,239	1,362
Minelife (years)	10	10
Average annual gold-equivalent production (kGEO)	124	136
Total operating costs (US$/t)	8	10
Total cash costs (US$/oz Au)	469	489
AISC (US$/oz)	619	637
Total growth capex (US$m)	201	232
Total sustaining capex (US$m)	93	100
After-tax NPV @ 5% DR (C$m)	**472**	**599**
After-tax IRR (%)	**43.0**	**47.1**

Reserves & resources

As at May 2019	**Tonnes (m)**	**Au grade (g/t Aueq)**	**Contained Aueq (moz)**
Probable reserves	0	0.00	0.00
Indicated resources (incl reserves)	172	0.73	4.02
Inferred resources	28	0.57	0.52

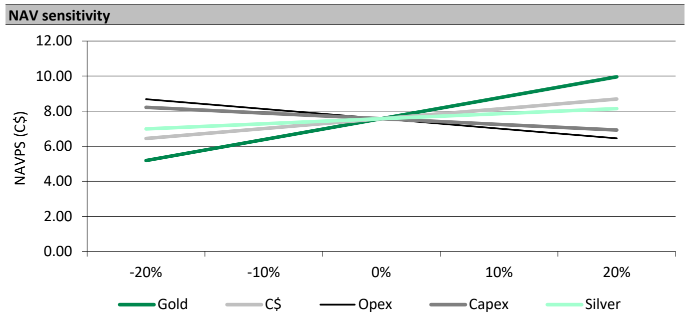
Stock/volume chart



NAV summary

Asset	**Ownership (%)**	**NAVPS (C$)**
DeLamar project (7% DR)	100	5.63
Exploration	100	0.44
Project NAVPS		**6.06**
Cash & ST investments		3.64
In-the-money options & warrants		0.12
Corporate G&A (5 years @ 7% DR)		-0.20
ST & LT debt		-2.05
Total NAVPS		**7.57**
P/NAV (x)		**0.49**
Shares outstanding (FD) (m)		85

NAV sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		91.8
Exercisable options	2.68	4.8
Warrants	0.00	0.0
Fully diluted shares		96.6

Top ownership	**% outstanding**	**Shares (m)**
Sprott Asset Management LP	6.7	3.7
Franklin Advisers, Inc.	6.2	3.4
Coeur Mining, Inc.	5.6	3.0
Merk Investments LLC	5.4	2.9
RBC Global Asset Management, Inc.	3.7	2.0
SALAMIS GEORGE GREGORY	2.7	1.5
Ruffer LLP	2.6	1.4
CQS (UK) LLP	2.1	1.1

Source: Desjardins Capital Markets, Factset, company reports

ESG overview

ITR is a Canadian gold development company focused on developing its DeLamar gold-silver project in Idaho, US. The project encompasses the DeLamar and Florida Mountain deposits, both of which are brownfield sites with long histories of mining activity. Owing to the nature of its business, the company is inherently exposed to significant environmental, social and governance risks. However, ITR in committed to sustainable mining and recently appointed a vice-president, corporate affairs and sustainability, who is responsible for implementing the company's ESG strategy and programs. The company has a board-level technical, safety, environmental and sustainability committee and has incorporated social responsibility metrics into management's incentive plan. Similar to many junior producers, ITR does not publish an annual sustainability report, so there is scope to improve on an ESG reporting basis. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• In 2020, ITR hired a sustainability consultant, Warm Springs Consulting, to evaluate several sustainable and regenerative systems that could be implemented at the DeLamar project. • Environmental baseline studies are underway at the project. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Positive** – The company is focusing on environmental management and operational controls. – There is scope for the company to improve disclosure on environmental policies and practices as the level of activity on-site increases.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• The company conducts regular environmental data collection to ascertain its level of compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on environmental policies and practices as the level of activity on-site increases.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• The company conducts regular environmental data collection to ascertain its level of compliance with environmental systems and policies. • Previous reclamation activity on the historical site was well done; however, ITR plans to enhance historical reclamation with its own mine closure plan. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on environmental policies and practices as the level of activity on-site increases.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• ITR is monitoring the COVID-19 situation to protect the health of its employees and stakeholders. • **Metric** – No significant fines or violations related to occupational health and safety.	• **Neutral** – There is scope for the company to improve disclosure on its health and safety management systems and reporting.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• ITR hires local labour wherever possible. • **Metric** – No significant fines or violations related to employment practices.	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• ITR prioritizes community engagement and began engaging with local stakeholders in Owyhee and Malheur counties early. • The local community is receptive to mining activity in the region, with mining beginning at DeLamar in 1891. • **Metric** – No significant fines or violations related to community relations and Indigenous rights. – In 2019, prior to the outbreak of COVID-19, the company participated in local community events such as the Jordan Valley School Science Fair, Owyhee County Historical Society Outpost Days and the Owyhee and Junior rodeos.	• **Neutral** – ITR continues to respect and support local communities. – There is scope for the company to improve reporting on its impact on local communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• ITR believes in diversity and inclusion at all levels in the workplace and has a formal diversity policy in place. • **Metric** – Two of the seven board directors (29%) and one of the six management team members (17%) are women.	• **Positive** – ITR has a clear diversity policy in place. – There is scope for the company to improve disclosure on diversity within its workforce.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• Idaho is a stable mining jurisdiction, with little indication of corruption or bribery. • ITR's code of ethics covers anti-bribery and anti-corruption policies. • The company has a whistleblower policy which can be used in cases of bribery or corruption. • **Metric** – No indication of fraud, corruption or bribery. – Six of the seven board members (86%) are independent, including an independent chair, and there is separation of the chairperson and CEO roles.	• **Positive** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption training programs for employees.

Liberty Gold Corp.

Liberated gold—initiating coverage with a Buy rating and C$2.75 target

- ***Through non-core asset sales, Liberty Gold continues to fund the advancement of its flagship Black Pine project without significant share dilution***
- ***Black Pine is an oxide gold project in Idaho, and early results show potential for a high-grade, high-recovery, heap leach project with low capex to drive an impressive IRR***
- ***The company has a slew of near-term material catalysts including a maiden resource estimate and PEA study at Black Pine, which should help the stock close the valuation gap vs peers***

Highlights

Liberty Gold is an exploration and development company focused on advancing its flagship 100%-owned Black Pine gold project in Idaho. After acquiring the project in 2016, impressive oxide drill results quickly showed potential for a large-scale, high-margin, low-capital-intensity project to emerge. Black Pine has superseded the company's Goldstrike project in Utah which had demonstrated strong economics in a 2018 PEA, featuring a 29.4% IRR at US$1,300/oz gold. The company also has a 62.9% interest in the TV Tower project in Turkey and recently released a resource estimate of ~1.4moz of attributable gold and ~2.6moz of gold-equivalent including copper and silver.

Management has done an impressive job of monetizing non-core assets to fund Black Pine's drilling programs and advancement. It has sold six assets to bring in C$40.4m of value, highlighted by the divestment of the Halilağa project in Turkey for C$30m where the bank-guaranteed staggered payments have enabled the company to undertake aggressive drill programs at Black Pine without incurring significant share dilution. Liberty Gold therefore ended 2020 with a larger treasury than it started the year, without an equity financing. We expect the company to end 2021 with a higher cash balance than in 2020, with no further asset sales.

Valuation

Our one-year target price is C$2.75/share and is based on a 0.85x NAV multiple. Liberty Gold is currently trading at 0.52x NAV vs developer peers at 0.58x. Given the high-margin Black Pine project is in the US, this discount is squarely due to the early-stage nature of the flagship project. Fortunately for investors, they have a chance to acquire the shares before the company releases a maiden resource estimate for the project followed by a PEA study, which should help close the valuation gap vs peers. As the company continues to advance the project without suffering share dilution as at most other developers given its self-funded model, we expect the stock to trade at a premium valuation.

Recommendation

We are initiating coverage of Liberty Gold with a Buy–Speculative rating and C$2.75/share 12-month target, which implies a potential return of 76%. We see Liberty Gold developing a high-margin, low-capital-intensity project that has already shown relatively high grades and recoveries, which should lead to a low cost profile. The exploration results outside of the resource area means that the upcoming maiden resource estimate will be just a start to the resource growth given the company has a ~50km^2 property to explore, with numerous highly prospective gold targets already identified. And with a strong balance sheet and the potential for another asset sale in TV Tower, investors can get in at a low valuation and without incurring any significant share dilution until a construction decision is made...that is if the company is not acquired before then.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **All the ingredients for impressive economics.** While it is early days and pre-resource and economic study, based on the assay results and metallurgical tests completed so far, the flagship Black Pine project looks like it could have impressive economic returns. We calculate a weighted average grade based on the assays released of 0.78g/t, which is very high considering it is oxide material. The weighted average recovery of 82.1% from the Phase 2 metallurgical column testing is also impressive and supportive of a high-margin heap leach project. We estimate an IRR of 39%, which is highly attractive, particularly in a low-risk jurisdiction such as Idaho.
- **Maiden resource estimate will just be the start.** Based on the assays released so far, we believe the maiden resource estimate at Black Pine could see ~2.0moz declared. However, the company has already had assay results on other regional targets that will not be included in this estimate that show significant further resource growth beyond this. The company will target a ~2.5km gap between a mineralized area (Rangefront) and the resource area which it is now able to drill with a permit amendment; this could see the resource grow substantially larger compared with the current strike length of the resource area of ~1.6km. Also, one of the highest-grade areas identified so far (the M Zone) has seen only limited drilling and will be a focus of follow-up work.
- **Will attract the attention of producers.** We believe that the high-margin Black Pine project, with district-scale potential on the 50km^2 property, combined with the stable operating jurisdiction of Idaho, will certainly pique the interest of producers seeking to lower their cost base and risk profile. Liberty Gold is an attractive takeout candidate in our view, particularly with the release of a maiden resource estimate and economic study to allow potential acquirers (and investors) to gain confidence in the project.
- **Self-funded to construction decision.** Management has done an impressive job in realizing value from its non-core assets, with recent sales adding more than C$40m in value; combined with warrants that will come due later this year and bring another ~C$12m in cash to the treasury, we should see the company being fully funded for its 2021 budget. If it is able to realize value from the sale of its non-core TV Tower project in Turkey for a similar per-ounce price as for the divestiture of Halilağa, the company could be funded to a construction decision. It would then need to raise funding to construct Black Pine but would already have its next leg of growth in the portfolio with the Goldstrike project nearby in Utah, where we estimate an IRR of 38% based on the July 2018 PEA.
- **Near-term catalysts to help close valuation gap.** Liberty Gold is currently trading at 0.52x NAV vs developer peers at 0.58x. Given the high-margin Black Pine project is in the US, this discount is squarely due to the early-stage nature of the flagship project. Fortunately for investors, they have a chance to acquire the shares before the company releases a maiden resource estimate for the project followed by a PEA study, which should help close the valuation gap vs peers. As the company continues to advance the project without suffering share dilution as at most other developers given its self-funded model, we expect the stock to trade at a premium valuation.

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Liberty Gold of C$3.00/share, comprised of C$2.51/share of mining assets and C$0.49/share of net cash (see Exhibit 1 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards, with net cash as of 4Q22 to factor in our financing assumptions that quarter. We provide details on the flagship Black Pine asset beyond valuation in the *Company overview* section below.

- **Black Pine.** The bulk of our NAV estimate is from our DCF model for Black Pine, which we value at C$576m or C$1.56/share, representing 62% of our NAV of mining assets at an 8% discount rate. We use an 8% rate since the project is not permitted and no resource estimate or economic study has been completed.
- **Goldstrike.** We value the Goldstrike project at C$254m or C$0.69/share, representing 27% of our NAV of mining assets at an 8% discount rate. Our DCF model is based on the July 2018 PEA and technical report and we use an 8% discount rate since it is not the focus of the company.
- **TV Tower.** We value the TV Tower asset in Turkey at C$57m or C$0.15/share, representing 6% of our NAV of mining assets. We apply a credit-per-ounce valuation based on US$17.42/oz Aueq, the same price paid per ounce for its divestiture of Halilağa in 2019, which we view as conservative given the recent increase in gold, copper and silver prices since then.
- **Exploration properties.** We also attribute value to the company's exploration activities, with five years of exploration spending discounted at 7%. This adds C$37m or C$0.11/share to our NAV, representing 4% of our NAV of mining assets.
- **Net cash.** Included in our net cash estimate is the cash required to fully fund the development of Black Pine through to commercial production, which amounts to C$381m or C$1.03/share. This includes an estimated equity financing of C$188m (US$150m) at C$2.50/share and a C$188m (US$150m) debt issuance in 4Q22. The company has 21m warrants exercisable in October 2021 at C$0.60, which is included in our cash balance estimate; we also include the 9.2m of exercisable and in-the-money options, which adds a total of C$5m or C$0.01/share to our net cash estimate. We deduct our estimated G&A spending over the next five years, discounted at a 7% rate, which amounts to C$22m or C$0.06/share. Our C$188m debt assumption takes C$0.51/share off our net cash estimate of C$0.49/share. Including our financing assumptions and exercise of in-the-money options and warrants, our fully diluted and fully funded share count estimate is 369.1m, on which we base our NAV per share calculation.
- **Target price.** Our one-year target price is C$2.75/share and is based on a 0.85x NAV multiple.

Exhibit 1: Liberty Gold NAV breakdown by asset

	Jurisdiction	Per share (C$)	% of DCF
Black Pine (8% DR)	Idaho	1.56	62
Goldstrike (8% DR)	Utah	0.69	27
TV Tower (credit/oz)	Turkey	0.15	6
Exploration		0.11	4
Total mining assets		**2.51**	
Cash & ST investments		1.04	
In-the-money options & warrants		0.01	
Corporate G&A (5 years @ 7% DR)		-0.06	
ST & LT debt		-0.51	
Net cash/share		**0.49**	
Total NAV		**3.00**	
Shares O/S (FD) (m)		369.1	

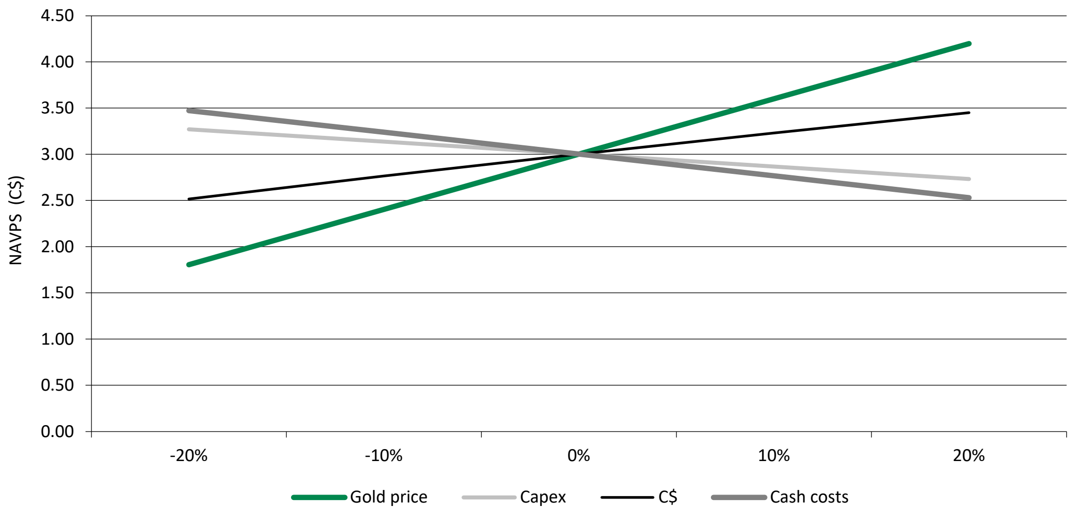
Source: Desjardins Capital Markets

John Sclodnick
Amanda Lewis, Associate

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 19.9% for a 10% change in the gold price. Our NAV estimate would change by 7.9% for a 10% change in our opex assumption and by 4.5% for a 10% change in our capex assumption. Our NAV estimate changes by 7.6% for a 10% change in the C$/US$ rate (see Exhibit 2).

Exhibit 2: Liberty Gold NAV sensitivity to various assumptions



Source: Desjardins Capital Markets

Valuation comparables

- Liberty Gold is currently trading at 0.52x NAV vs developer peers at 0.58x. Given the high-margin Black Pine project is in the US, this discount is squarely due to the early-stage nature of the flagship project. Fortunately for investors, they have a chance to acquire the shares before the company releases a maiden resource estimate for the project followed by a PEA study, which should help close the valuation gap vs peers. As the company continues to advance the project without suffering share dilution as at most other developers given its self-funded model, we expect the stock to trade at a premium valuation.

Upcoming catalysts

- Black Pine maiden resource estimate—late 2Q21
- Black Pine PEA results—2H21
- Results from 48,000m RC drill program at Black Pine—throughout 2021
- Phase 3 metallurgical test results at Black Pine—3Q21
- Updated Goldstrike PEA—2H21
- Potential TV Tower divestiture

Company overview

Liberty Gold is an exploration and development company focused on advancing its flagship 100%-owned Black Pine gold project in Idaho. After acquiring the project in 2016, impressive oxide drill results quickly showed potential for a large-scale, high-margin, low-capital-intensity project to emerge. Black Pine has superseded the company's Goldstrike project in Utah, which had demonstrated strong economics in a 2018 PEA, featuring a 29.4% IRR at US$1,300/oz gold. The company also has a 62.9% interest in the TV Tower project in Turkey and recently released a resource estimate of ~1.4moz of attributable gold and ~2.6moz of gold-equivalent including copper and silver.

Management has done an impressive job of monetizing non-core assets to fund Black Pine's drilling programs and advancement. It has sold six assets to bring in C$40.4m of value, highlighted by the divestment of the Halilağa project in Turkey for C$30m where the bank-guaranteed staggered payments have enabled the company to undertake aggressive drill programs at Black Pine without incurring significant share dilution. This enabled Liberty Gold to end 2020 with a larger treasury than it started the year, without an equity financing. We expect the company to end 2021 with a higher cash balance than in 2020, with no further asset sales, and with a US$6m payment for Halilağa and the exercise of US$10m in warrants fully funding the 2021 budget, which includes exploration spending, a resource calculation and a PEA study.

Liberty Gold is backed by Oxygen Capital and was formed as a spinout company after Fronteer Gold was sold to Newmont Mining for C$2.3b in 2011. At that time, the company was focused on the Kinsley project in Nevada (sold for C$9m in 2020). It then turned its attention to the Goldstrike project in Utah, which was shaping up nicely before drilling at Black Pine intersected long intervals of leachable oxide gold at relatively high grades, resulting in the company justifiably switching its attention to Black Pine.

Exhibit 3: Liberty Gold project locations in the Great Basin

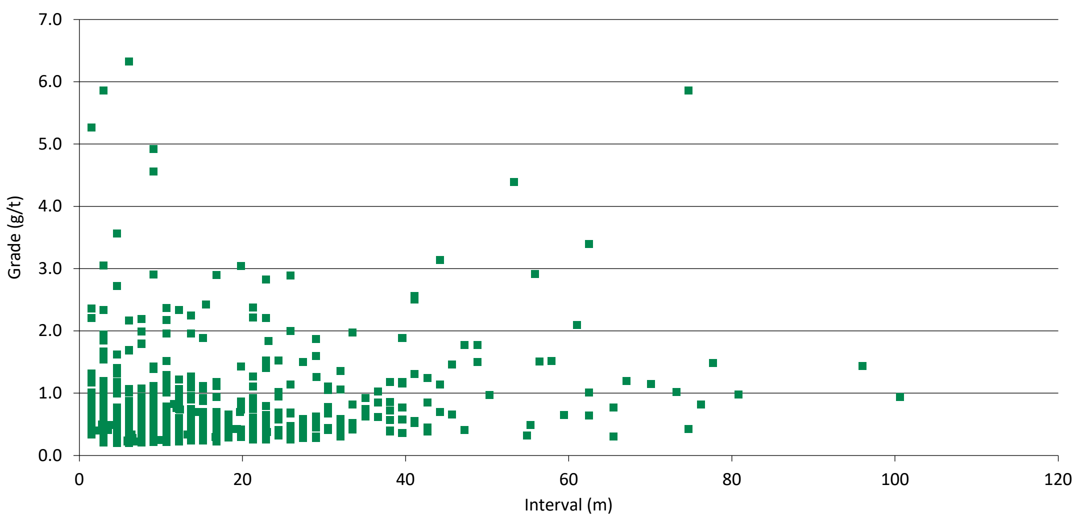
Source: Company presentation

Black Pine

Liberty Gold acquired the Black Pine project in June 2016 for US$0.8m in cash, 300,000 Liberty Gold shares and a 0.5% NSR. It had previously produced 435koz from five shallow pits at an average mined grade of 0.63g/t and the acquisition was further derisked as it came with a database of 1,874 shallow drill holes including unmined intercepts of attractive grades. The property shows gold-in-soil anomalies over a 14km^2 area; this has been the focus of exploration work so far and it has not disappointed. Management has increased the land package to ~50km^2 from ~32km^2. In addition to the high-grade oxide gold endowment, the project has other beneficial attributes including a power line that runs to the property boundary, a freeway that is just 15km away as well as a dry property, which should benefit the permitting process; groundwater is also available in the basin.

There are three critical items that make a successful gold project: (1) is there gold in the ground? (2) can it be extracted economically; and (3) is there social licence to extract it? So far, the answer to all three from Black Pine is an emphatic 'yes'. In terms of the gold endowment, we have compiled drill assay results released by Liberty Gold and calculate a weighted average grade of 0.78g/t over 11.9m of oxide mineralization, although we think our compilation may have skewed the average toward the small intervals and does not capture the long intervals well.

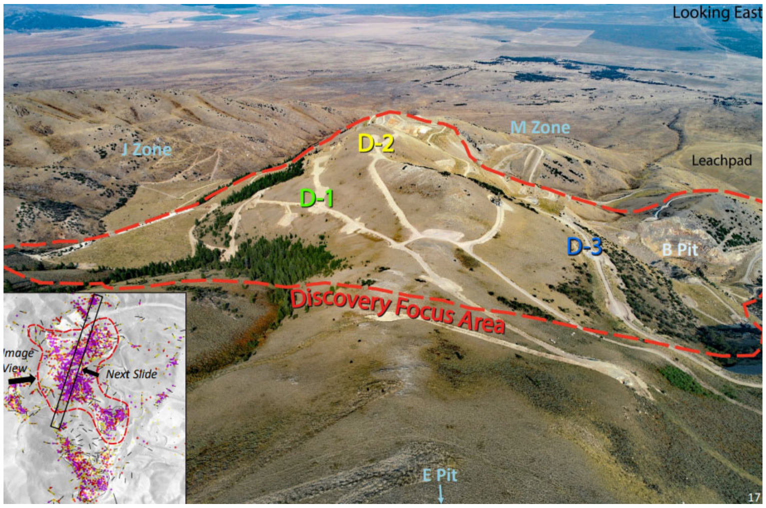
Exhibit 4: Compiled Black Pine assay results showed a weighted average grade of 0.78g/t over 11.9m



Source: Desjardins Capital Markets, company press releases

Looking at extractability, the company has conducted six bulk samples of column tests from the historical pit floors, which showed a weighted average gold extraction of 78.9%; it also conducted 29 column tests from six core holes, with a weighted average gold recovery of 82.1%. Additionally, more than 80% of the leached gold was recovered in the first 10 days, which should help derisk the ramp-up period. The company is currently conducting Phase 3 metallurgy testing consisting of 43 column tests from seven core holes. On the third critical item, while permitting is never easy in the US outside of Nevada, we noted a lack of prevalent industry in the area when we visited the site and we believe the development of a gold mine would be viewed as a boon to the local economy. From Exhibit 5 below, it is clear that there is not a lot of vegetation or watershed being disturbed, and given it is a past producing mine with visibly disturbed areas, we do not see a lot of areas of potential pushback to development.

Exhibit 5: Black Pine property showing the three discoveries that make up the focus area



Source: Company presentation

Our model

The upcoming maiden resource estimate will be based on the D1, D2 and D3 zones, known as the Discovery Focus Area, and potentially satellite zones as well; we discuss our expectations for that announcement in the section below. Ultimately, the resource estimate captures a moment in time and we expect significant growth beyond what is released and also discuss our reasons below. Our valuation of Liberty Gold is primarily driven by our DCF model of Black Pine, which is based on our estimate of the Discovery Focus Area as well as an estimate for growth beyond that. We base our model on 125mt (23% more than we forecast in the maiden resource estimate) at a grade of 0.63g/t (assuming 20% dilution to our weighted average grade calculation) for 2,545koz of contained gold.

We run our model at a throughput rate of 10mtpa or 27,400tpd over a 13-year minelife and assume a 2.50 strip ratio, which is based on discussions with management. Assuming a stacked grade of 0.63g/t and an average life-of-mine recovery rate of 75%, this generates average annual production of 152koz. We estimate mining costs per tonne at US$2.25/t, which is conservative compared with other open pit heap leach operators in the Great Basin such as the Florida Canyon mine which had mining costs of US$2.01/t in 1Q21 and compared with the latest technical report from June 2020 which estimates life-of-mine at US$1.58/t. We estimate total opex at Black Pine of US$10.88/t, which is 17% higher than the US$9.26/t reported for Florida Canyon with 1Q21 results and 44% higher than the US$7.57/t estimated in the latest technical report. We view Florida Canyon as an appropriate benchmark to drive our conservative opex assumptions since it is a relatively higher-cost operation in the Great Basin with a long operating history; in addition, the 1Q numbers do not factor in the operating efficiencies to be gained with the investments that Argonaut Gold is currently making, which should drive costs down to the life-of-mine averages vs 1Q21. Given the lack of an economic study available at Black Pine, we prefer to use benchmarking with a conservative bias in our model; to be clear, we ultimately expect Black Pine to be a lower-cost operation than Florida Canyon. We estimate initial capex of US$250m for the 27,400tpd operation, with our capex estimate based on discussions with management. We looked to the Goldstrike July 2018 PEA to ensure our estimates are reasonable—initial capex for Goldstrike is estimated at US$113m for a 22,400tpd operation, equating to US$5,045/tpd, while our Black Pine estimate is US$9,124/tpd or 81% higher.

Given the lack of a technical report, we are taking a conservative approach in relation to our Black Pine estimates to offer a margin of safety when assessing our NAV estimate and target price. Despite our arguably punitive assumptions in our DCF model, we still estimate an $NPV_{8\%}$ at C$576m (C$815m at a 5% discount rate) and an IRR of 38.8%.

Exhibit 6: Black Pine DCF model key estimates

Ore mined (mt)	125,005
Strip ratio	2.5
Average gold grade (g/t)	0.63
Average recovery (%)	75
LOM gold production (koz)	1,899
Minelife (years)	13.0
Average annual gold production (koz)	146
Mining costs (US$/t mined)	2.25
Processing costs (US$/t)	2.25
G&A costs (US$/t)	0.75
Total operating costs (US$/t)	10.88
Total cash costs (US$/oz Au)	724
Total initial capex (US$m)	250
Total sustaining capex (US$m)	103
Gold price (US$/oz)	1,700
C$/U$	1.26
After-tax NPV @ 8% DR (C$m)	**576**
After-tax IRR (%)	**38.8**

Source: Desjardins Capital Markets

Resource estimate and growth potential

The upcoming maiden resource estimate will be based primarily on the D1, D2 and D3 zones which have been the subject of the most intense drilling on the property since their discoveries, but may also include satellite zones. We have made rough estimates on strike length and width, and base the depth of the deposit on the average reported by zone. Based on these calculations and applying a 75% conversion factor and a density of 2.52, we estimate the total tonnage of each zone. With the weighted average grade reported from each zone diluted by 20%, we calculate the contained gold for that zone. In the D1 zone, we estimate 33.2mt grading 0.53g/t for 566koz of contained gold. In the D2 zone, we estimate 40.7mt grading 0.73g/t for 959koz of contained gold, representing 47% of our total estimate. In the D3 zone, we estimate 27.5mt grading 0.59g/t for 525koz of contained gold. For the entire Discovery Focus Area, we are forecasting 101.4mt grading 0.63g/t for 2,051koz of contained gold (see Exhibit 7).

Exhibit 7: Desjardins forecast for the maiden resource estimate at Black Pine

Zone	Strike (m)	Width (m)	Depth (m)	Factor (%)	Tonnes (kt)	Grade (g/t)	Ounces (koz)
D1	1,000	150	117	75	33,232	0.53	566
D2	700	250	123	75	40,655	0.73	959
D3	500	200	145	75	27,492	0.59	525
Sub-total—Discovery Focus Area					**101,380**	**0.63**	**2,051**

Source: Desjardins Capital Markets, company reports

We view the upcoming maiden resource as capturing a moment in time on the path to further resource growth. We see significant resource growth potential outside of the Discovery Focus Area as the company has intersected high grades over good widths in other target areas; we summarize those assay results in Exhibit 8.

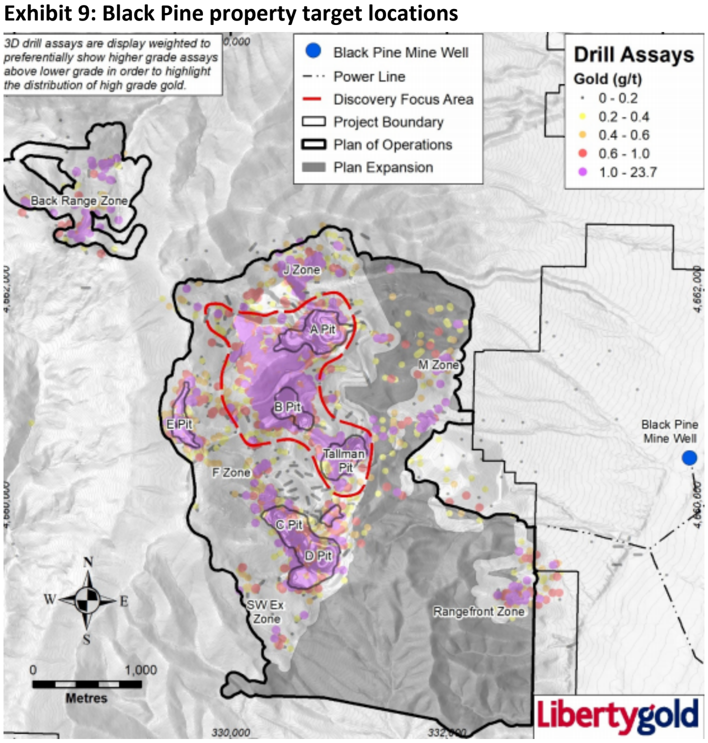
Exhibit 8: Summary of assay results by target area on Black Pine property

Zone	Assays (#)	Interval (m)	Grade (g/t)	Factor (g/t-m)	Depth (m)
D1	284	10.74	0.66	7.12	117
D2	313	12.71	0.92	11.66	123
D3	288	11.32	0.74	8.41	145
J	22	12.40	0.69	8.50	57
F	16	18.01	0.58	10.47	68
M	6	12.45	1.23	15.32	81
SW Extension	15	4.75	0.44	2.08	55
Rangefront	6	26.53	0.49	13.10	65
B Pit	51	13.98	0.72	10.00	80
A Basin	9	24.71	1.26	31.22	79
A Pit Extension	3	8.63	0.28	2.41	112
Other	25	8.04	0.52	4.19	127
	2	5.30	0.61	3.22	145
Total/average	**1,040**	**11.86**	**0.78**	**9.20**	**120**

Source: Desjardins Capital Markets, company reports

One particular area of interest is the area between the Rangefront zone and the Discovery Focus Area, where the company was unable to drill until an expanded drill permit was awarded in February of this year. Drilling in this area will commence in July this year; the company had previously intersected an average of 0.49g/t over 26.5m of shallow oxide gold mineralization in Rangefront. The distance between Rangefront and the Discovery Focus Area is ~2.5km, so successful drilling here has the potential to massively increase the resource endowment of the property as the Discovery Focus Area itself covers ~1.6km^2. We are also looking forward to follow-up results from the M zone; this has assayed some of the highest average grades on the property at 1.23g/t, which also occur at a relatively shallow depth (see Exhibit 9).

Exhibit 9: Black Pine property target locations



Source: Company presentation

Financial state

The company ended 1Q21 with a cash balance of US$17.5m and no debt, with another C$12.4m of warrants in the money which expire on October 2, 2021.The company will receive another US$6m in August this year and another US$6m in August 2022 for the sale of the Halilağa asset. Between the Halilağa payment and money from warrants, we expect the company to end the year with a slightly larger treasury after completing a 56,000m RC and core drill program and delivering a maiden resource estimate and PEA study on the Black Pine project.

In order to fully fund the US$250m initial capex that we estimate is needed to construct Black Pine, we model the company raising US$300m in 4Q22, equally split between debt and equity, with the equity raised at C$2.50/share. We believe that our equity financing price is fair given it is in line with the 52-week high of C$2.40/share and represents a P/NAV valuation of 0.83x, while we expect that the announcement of a resource estimate and economic study will be significant catalysts that should drive an improved valuation. This would leave the company fully funded to build and ramp up Black Pine to commercial production, with the cash balance hitting a low of US$42m. This would result in the company having a fully diluted and fully funded share count of 369.1m shares outstanding, on which we base our NAV per share calculation.

Potential risks

We view Black Pine as a relatively low-capex and low-opex development project in the stable operating jurisdiction of Idaho, which helps reduce the company's overall risk profile. However, there are significant risks to our valuation given the lack of an NI 43-101–compliant resource and economic study. We have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Mineral resource risk.** Given an NI 43-101–compliant resource estimate is not available for the flagship Black Pine project, we base our resource estimate which forms the basis of our DCF model on assay results that the company has released. There is a significant risk that the NI 43-101–compliant mineral resource estimate is below our current estimate, which could result in our having to revise our estimate for our DCF model.
- **Cost assumption risk.** There is currently no economic study, which would include third-party cost estimates for operational and capital expenses. We base our current estimates on benchmarking exercises and discussions with management. There is a risk that these costs are higher than we currently model, which would have a negative impact on our valuation.
- **Exploration risk.** We assume that the company will continue to have success exploring the Black Pine property beyond what will be included in the maiden resource estimate and beyond the assays that have been released so far. There is a risk that future exploration is not as successful as we are expecting, which could negatively impact our valuation.
- **Permitting risk.** The company will need to permit the Black Pine project and there is no recent track record of successful permitting of precious metals development projects in Idaho. There is a risk that construction of the project and production do not accord with the timeline in our model due to permitting delays, which would negatively impact our valuation.
- **Financing risk.** The company will require external financing to develop the Black Pine project, and there is a risk that the financings are completed on less favourable terms than we estimate, which could increase share dilution and negatively impact our valuation.
- **Market risk.** The company will generate nearly all of its revenue from the sale of gold, so a decline in the gold price would have a significant impact on our valuation.

John Sclodnick
Amanda Lewis, Associate

Management and board

Liberty Gold is supported by Oxygen Capital, which has a very successful history of mine development. The co-founders of Oxygen Capital were the former president and CEO, CFO and director of Fronteer Gold, which was acquired by Newmont Mining for C$2.3b in 2011 and resulted in the spinout of Liberty Gold. Geologist Moira Smith, who was responsible for the discovery of Fronteer Gold's flagship Long Canyon project, has stayed on with Liberty Gold. Management and insiders currently own 7.1% of the shares outstanding based on FactSet data, led by CEO Cal Everett with 2.7% share ownership.

- **Cal Everett, President & CEO.** Mr Everett was employed by Axemen Resource Capital as president and CEO from 2008–15. He previously worked for more than 14 years in exploration for senior mining companies and for 19 years in the financial sector, focused on resource equities, resource institutional sales and capital markets at BMO Nesbitt Burns and PI Financial. Mr Everett holds a BSc in economic geology from the University of New Brunswick.
- **Moira Smith, Vice-President, Exploration & Geoscience.** Dr Smith has a PhD in geology from the University of Arizona and is a professional geologist. She previously worked as the chief geologist for Fronteer Gold and prior to that managed exploration programs at Teck. Dr Smith is currently the president of the Society of Economic Geologists and a director of Discovery Silver.
- **Jim Lincoln, COO.** Mr Lincoln has experience in project development, feasibility studies and exploration from his work at multiple mining projects, including Red Dog in Alaska, Magmont West in Missouri and Diamond Hill in Montana. He previously worked as vice-president, operations, at Fronteer Gold. Mr Lincoln holds a master's in mineralogy/minerals and a bachelor's in geology.
- **Peter Shabestari, Vice-President, Operations.** Mr Shabestari is a professional geologist with more than 25 years of mineral exploration experience around the world. He previously worked at Fronteer Gold, where he helped advance the Long Canyon project.
- **Joanna Bailey, CFO & Corporate Secretary.** Dr Bailey joined Liberty Gold at its inception in 2011 as corporate controller after working at Fronteer Gold and PricewaterhouseCoopers. She is a chartered accountant and a member of the Institute of Chartered Accountants of Scotland. Dr Bailey holds a PhD in chemistry.
- **Board of directors.** Mark O'Dea (chair), Greg Etter, Cal Everett, Donald McInnes, Rob Pease, Sean Tetzlaff and Barbara Womersley.

John Sclodnick
Amanda Lewis, Associate

Liberty Gold Corp.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**LGD, TSX-V**
Current price (C$)	**1.56**
Stock rating	**Buy**
Target price (C$)	**2.75**
Potential total return (%)	**76**
Risk rating	**Speculative**
Shares outstanding (m)	**263**
Market capitalization (C$m)	**410**

Fiscal year-end	**December 31**
52-week high (C$)	**2.40**
52-week low (C$)	**1.17**
P/NAV (x)	**0.52**
NAV target multiple (x)	**0.85**
EV/GEO (US$)	**83.9**
EV/GEO target (US$)	**NA**
FCF yield FY1 (%)	**NM**

Financial data

Assumptions	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Gold (US$/oz)	1,770	1,780	1,775	1,700	1,700
C$/US$	1.34	1.25	1.25	1.26	1.26

Financial forecasts	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Balance sheet (US$m)					
Cash & equivalents	17	21	305	200	45
Working capital	18	22	306	201	46
Total debt	0	0	0	0	150
Income statement (US$m)					
Revenue	0	0	0	0	0
Cost of sales	0	0	0	0	0
G&A expense	3	3	3	3	3
EBITDA	**-16**	**-17**	**-14**	**-6**	**-6**
Depreciation, depletion & amortization	0	0	0	0	0
Net income	7	-19	-14	-4	-5
Cash flow (US$m)					
Operating CF (bef chgs in WC)	-14	-15	-13	-5	-5
Capital expenditure	0	0	0	100	150
Net proceeds from equity	0	0	150	0	0
Net proceeds (repayment) from debt	0	0	150	0	0
Free cash flow	-14	-16	-13	-105	-155
Per share data (US$/FD share)					
EPS FD	**0.03**	**-0.07**	**-0.05**	**-0.01**	**-0.01**
Adjusted EPS	**0.03**	**-0.07**	**-0.05**	**-0.01**	**-0.01**
CFPS (bef chgs in WC)	**-0.05**	**-0.06**	**-0.05**	**-0.01**	**-0.01**
FCFPS	**-0.05**	**-0.06**	**-0.05**	**-0.29**	**-0.43**
Weighted avg basic shares O/S (m)	246	263	284	359	359
Weighted avg diluted shares O/S (m)	280	263	284	359	359

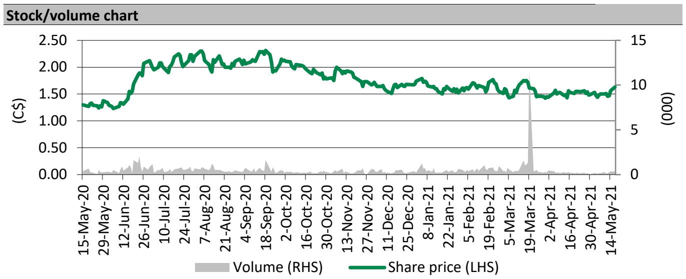
Project operating estimates

	Black Pine	**Goldstrike**
Ore mined (mt)	125,005	88,950
Strip ratio	2.5	1.2
Average gold grade (g/t)	0.63	0.5
Average recovery (%)	75	78
LOM gold production (koz)	1,899	1,071
Minelife (years)	13.0	11.0
Average annual gold production (koz)	146	97
Mining costs (US$/t mined)	2.25	2.50
Processing costs (US$/t)	2.25	2.00
G&A costs (US$/t)	0.75	1.00
Total operating costs (US$/t)	10.88	8.50
Total cash costs (US$/oz Au)	724	758
Total initial capex (US$m)	250	125
Total sustaining capex (US$m)	103	115
Gold price (US$/oz)	1,700	1,700
C$/US$	1.26	1.26
After-tax NPV @ 8% DR (C$m)	**576**	**254**
After-tax IRR (%)	**38.8**	**38.4**

Reserves & resources

As at February 18, 2019	**Tonnes (m)**	**Au grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	0	0.00	0.00
M&I resources (incl reserves)	107	0.45	1.55
Inferred resources	110	0.29	1.03

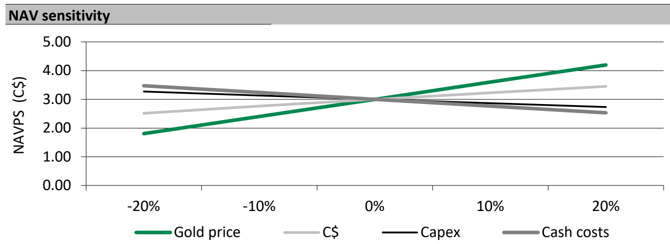
Stock/volume chart



NAV summary

Asset	**Ownership (%)**	**NAVPS (C$)**
Goldstrike (8% DR)	100	0.69
Black Pine (8% DR)	100	1.56
TV Tower (credit/oz)		0.15
Exploration		0.11
Project NAVPS		**2.51**
Cash & ST investments		1.03
In-the-money options & warrants		0.01
Corporate G&A (5 years @ 7% DR)		-0.06
ST & LT debt		-0.51
Total NAVPS		**3.00**
P/NAV (x)		**0.52**
Shares outstanding (FD) (m)		369

NAV sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		358.6
Exercisable options	0.72	10.8
Warrants	0.00	0.0
Fully diluted shares		369.1
Top ownership	**% outstanding**	**Shares (m)**
Van Eck Associates Corp.	11.2	29.3
Rcf Management Llc	5.9	15.6
Franklin Advisers, Inc.	5.9	15.5
Invesco Advisers, Inc.	4.8	12.7
Merk Investments Llc	3.9	10.2
Everett Calvin	2.7	7.1
Odea Mark G	1.9	4.9
Konwave Ag	1.7	4.6
Rbc Global Asset Management, Inc.	1.4	3.6
Etf Managers Group Llc	0.9	2.5
Tetzlaff Sean	0.8	2.2

Source: Desjardins Capital Markets, FactSet, company reports

ESG overview

LGD is a Canadian gold development company with two projects in the US: Black Pine in southern Idaho and Goldstrike in southwest Utah. The company also holds a 62.9% stake in the TV Tower project in western Turkey. Owing to the nature of its business, LGD is inherently exposed to significant environmental, social and governance risks. However, even at this early stage of project development, the company is focused on mitigating these risks, with leadership provided by its board-level health, safety and sustainability committee. Similar to many junior producers, the company does not publish an annual sustainability report, so there is scope to improve on an ESG reporting basis. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• The company is committed to meeting all environmental requirements set by federal and state agencies. • LGD is completing studies to obtain abundant data to make positive environmental decisions. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on the area of land disturbed as the level of activity on-site increases.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• The company conducts regular environmental data collection to ascertain its level of compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on GHG and other gas emissions as the level of activity on-site increases.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• The company conducts regular environmental data collection to ascertain its level of compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• To manage COVID-19, LGD set up strict social distancing, hygiene and wellness check protocols. • The company adheres to US Mine Safety and Health Administration guidelines for work on-site. • All site workers and visitors on the mine property are required to complete a health and safety orientation session. • All personnel working in the field are equipped with cell phones or “spot devices” to enable regular check-ins. • **Metric** – No significant fines or violations related to occupational health and safety. – LGD has had no lost time accidents in its history.	• **Positive** – LGD has demonstrated strong safety performance. – There is scope for the company to improve disclosure on its health and safety management systems and reporting.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• LGD hires local labour wherever possible. • **Metric** – No significant fines or violations related to employment practices.	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• LGD is engaged with the local community and has sponsored local agricultural enhancement projects and social events. • The company presents updates to the county commission and provides site tours to the local community to maintain transparency. • **Metric** – No significant fines or violations related to community relations and Indigenous rights.	• **Neutral** – LGD continues to respect and support local communities. – There is scope for the company to improve reporting on its impact on local communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• LGD does not have a formal diversity policy; however, the importance of board diversity is addressed in the board mandate. • The company has above-industry-average gender diversity in its workforce. • **Metric** – One of the seven board directors (14%) and two of the five management team members (40%) are women.	• **Positive** – There is scope for the company to improve disclosure on diversity within its workforce.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• LGD's code of business conduct covers anti-bribery and anti-corruption policies. • The company has a whistleblower policy which can be used in cases of bribery or corruption. • **Metric** – No indication of fraud, corruption or bribery. – Five of the seven board members (71%) are independent, including an independent chair, and there is separation of the chairperson and CEO roles.	• **Neutral** – There is scope for the company to improve disclosure on relevant training programs for employees.

Lundin Gold Inc.

Fruta del Norte is golden delicious—initiating coverage with a Hold rating and C$14.00 target

- ***Fruta del Norte is beginning to mine the highest-grade areas and with an expansion ready for 2022, the free cash flow generation will get even sweeter***
- ***The world-class Fruta del Norte mine makes Lundin Gold a clear takeout candidate, with Newcrest already well-positioned with 32% of the shares***
- ***Our Hold rating is due to the stock trading near peak relative P/NAV valuations compared with its peer group, as well as concern over a peaking production profile next year***

Highlights

Lundin Gold is backed by the eponymous Lundin Group, with Lundin Family Trusts holding 26.5% of the shares outstanding while Newcrest Mining owns another 31.9%. Lundin Gold holds a 100% interest in the world-class Fruta del Norte mine in southern Ecuador after this was acquired from Kinross Gold for US$240m in December 2014. While the mine has faced expected challenges given the company is operating in a newer mining jurisdiction—eg a shutdown due to COVID-19 amid its ramp-up last year, followed by a short blockade from a local community—the company appears to be in the best position of its operating life. The mine exceeded production guidance in 2020 and has shown a good start to doing the same in 2021, not to mention the planned expansion in 4Q21; importantly, the most business-friendly presidential candidate, Guillermo Lasso, won the election in April. 2021 will mark the mine's first full operating year and the significant free cash flow generated will be used to pay down debt; at the same time, the company will be keeping an eye out for M&A opportunities to diversify production and lower its risk profile—that is if it's not acquired before then.

Valuation

Our one-year-forward target price of C$14.00/share is based on an equally weighted 1.00x NAV multiple and 6.0x NTM EBITDA multiple. Lundin Gold is currently trading at 0.95x NAV and 6.2x 2021 EBITDA vs intermediate producer peers at an average of 0.78x and 4.7x, respectively. This represents a premium of 22% on NAV and 32% on EBITDA. Based on consensus estimates, the stock is trading at a 47% premium to peers on a P/NAV valuation vs the historical average of 23% over the past two years, which supports our Hold rating. Lundin Gold has held an average P/NAV multiple of 1.02x and a peak multiple of 1.46x over the past two years based on consensus, so we believe our target NAV multiple is fair. The stock has averaged 6.4x EV/EBITDA FY1 over the last two years, peaking at 9.3x, which justifies our EV/EBITDA target multiple. Should Newcrest acquire the 68% of shares it does not already own, we do not believe this will be done at a discount to NAV; we thus believe investors can confidently accumulate Lundin Gold shares below NAV, but see a more attractive entry point presenting itself.

Recommendation

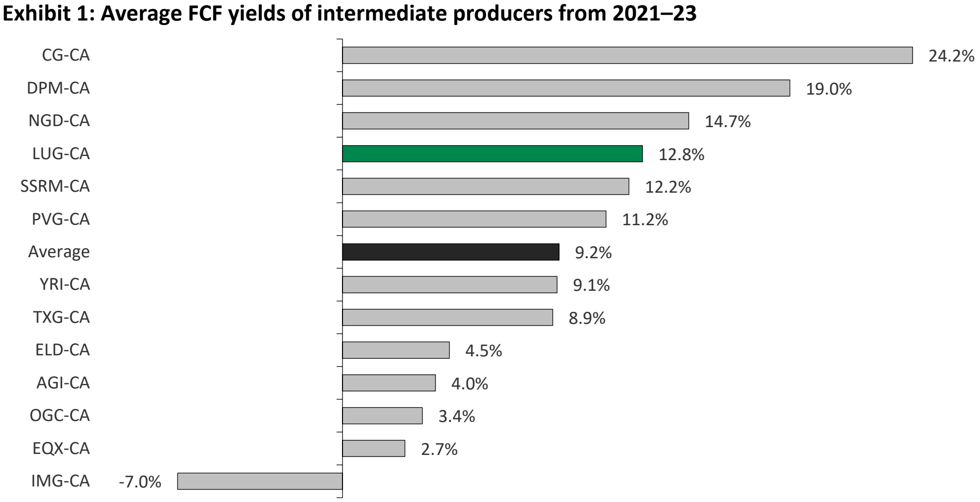
We are initiating coverage of Lundin Gold with a Hold–Speculative rating and C$14.00/share 12-month target, which implies a potential return of 19%. Lundin Gold should be a 'go to' name for investors seeking free cash flow generation with takeout potential and who have a tolerance for risk, given the jurisdiction. Management has done an impressive job of derisking the operation as the asset has outperformed expectations so far compared with guidance, while the jurisdictional outlook has never been better with a business-friendly president elected. Over the next three years, we estimate that the company will generate an average free cash flow yield of 12.8%, 38% higher than the peer average. Our current Hold rating is due to valuation as we believe investors can get in at a more attractive entry point, as well as concern over a peaking production profile in 2022.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **World-class mine just getting started.** The world-class Fruta del Norte mine is commencing its first full operating year in 2021 and has so far yielded positive operational surprises. Grades have come in above expectations thus far and ground conditions have been better than expected, which has enabled greater use of lower-cost mining methods. This has not only lowered operating costs, but has also enabled the company to reduce the cut-off grade and mine more tonnage, which has already resulted in an improved life-of-mine plan featuring a throughput expansion at the end of this year.
- **Developing a reputation for delivering.** While it is early days for the mine, so far management appears to be generating a reputation for underpromising and overdelivering, which is consistently appreciated by investors and typically garners a premium valuation. The company handily exceeded its production guidance in 2020, and has produced 26% of 2021 production guidance after 1Q despite having a slightly back-end-loaded production year. Additionally, we believe management was conservative on the throughput expansion and that there is potential to further expand the production rates. This has enabled the company to maintain a premium valuation vs peers on both a P/NAV and EV/EBITDA basis.
- **Underexplored land package.** Exploration has been squarely focused on the Fruta del Norte deposit area since its discovery. Yet the company has a 38km^2 land package to explore and will now benefit from a better understanding of the geology, having gone underground and commenced mining. The company was awarded a permit to commence the first exploration on the Barbasco target, which has geological similarities to Fruta del Norte, the most advanced target on the 16km long pull-apart basin structure.
- **Takeout potential supports premium valuation.** Newcrest owns 32% of Lundin Gold shares outstanding and increased its economic interest in 2020 with the acquisition of the gold pre-pay and stream facilities that apply to Fruta del Norte. We certainly see strong potential for Newcrest to acquire Lundin Gold and expect that this will require a premium valuation to NAV, which should support the stock price in the near term.
- **A high-grade cash cow.** We estimate a free cash flow yield for Lundin Gold in 2021 of 12%, rising to 16% in 2022 (vs consensus of 11% and 15%, respectively), representing a premium vs intermediate producer peers of 134% in 2021 and 33% in 2022. Over the next three years, we estimate that the company will generate an average free cash flow yield of 12.8%, 39% higher than the peer average. This rapid free cash flow generation should enable Lundin Gold to quickly pay down debt and we model the company becoming net cash positive in 2022. We estimate that net debt/EBITDA will fall from 3.7x at the end of 2020 to 0.8x at the end of 2021.

Exhibit 1: Average FCF yields of intermediate producers from 2021–23



Source: Desjardins Capital Markets, FactSet

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Lundin Gold of C$12.40/share, comprised of C$13.47/share for mining assets and negative C$1.07/share of net cash (see Exhibit 2 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards since our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Fruta del Norte.** We value Fruta del Norte at C$3,177m or C$13.47/share, which represents 100% of our NAV for mining assets. This is based on a DCF model of the latest technical report, which includes 125% of reserves, and applies a 5% discount rate to the after-tax free cash flow. We expect the company should be able to extend the minelife beyond our current assumption as the mine is an underground operation, which limits exploration from surface, not to mention the underexplored land package.
- **Net cash.** We estimate a cash balance of C$525m at the end of 1Q22 and debt of C$695m. We then deduct our estimated G&A spending over the next five years discounted at 5%, which amounts to C$105m. Lastly, we calculate in-the-money options and warrants of C$22.4m. This drives our net cash estimate of negative C$1.07/share and a fully diluted share count of 235.8m.
- **Target price.** Our one-year-forward target price of C$14.00/share is based on an equally weighted 1.00x NAV multiple and 6.0x NTM EBITDA multiple. We see potential for Newcrest to acquire the company and believe this will be done at a premium to NAV. Lundin Gold has held an average P/NAV multiple of 1.02x over the past two years, so we believe that our NAV multiple is fair. The stock has averaged 6.4x EV/EBITDA FY1 over the last two years, which we believe justifies our EV/EBITDA target multiple.

Exhibit 2: Lundin Gold NAV breakdown by asset

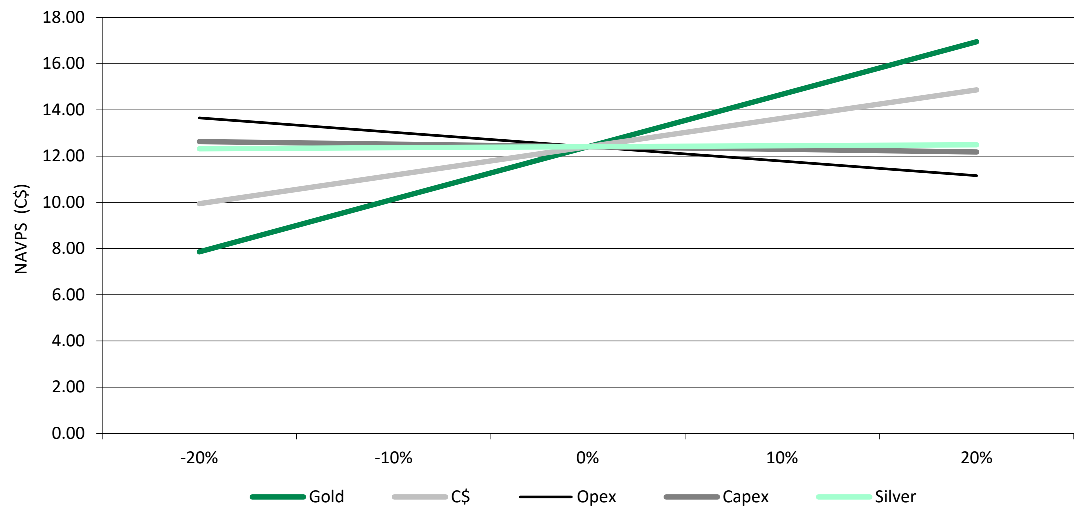
	(C$m)	Per share (C$)	% of DCF
Fruta del Norte (5% DR)	3,177	13.47	100.0
Total mining assets	**3,177**	**13.47**	
Cash & ST investments	548	2.32	
Corporate G&A (5 years @ 5% DR)	-105	-0.45	
ST & LT debt	-695	-2.95	
Interest payments (5 years @ 7% DR)	0	0.00	
Net cash/share	**-252**	**-1.07**	
Total NAV	**2,925**	**12.40**	
Shares O/S (FD) (m)		235.8	

Source: Desjardins Capital Markets

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 18.3% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ assumption since our NAV is denominated in Canadian dollars, changing by 9.9% for a 10% change. Our NAV estimate would change by 4.9% for a 10% change in our opex assumptions while it shows little sensitivity to our capex estimates at 0.9% for a 10% change (see Exhibit 3).
- Our 2021 EBITDA estimate would change by 12.2% for a 10% change in our gold price assumption and by 2.8% for a 10% change in our opex assumption.

Exhibit 3: Lundin Gold NAV sensitivity to various assumptions

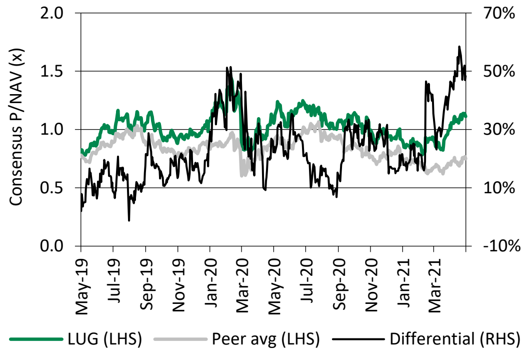


Source: Desjardins Capital Markets

Valuation comparables

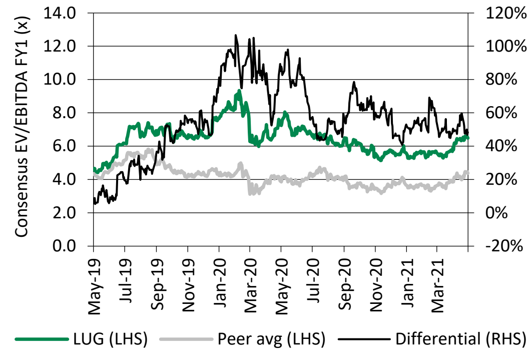
- Lundin Gold has maintained a premium valuation vs peers on both of our preferred valuation metrics of P/NAV and EV/EBITDA. The company has set an early pattern of outperforming expectations, having beaten guidance on higher-than-expected grades early in the minelife. Fruta del Norte is a world-class asset with clear takeout potential, and with a trusted management team at the helm, we expect the premium will be maintained.
- Lundin Gold is currently trading at 0.95x NAV and 6.2x 2021 EBITDA vs intermediate producer peers at an average of 0.78x and 4.7x, respectively, representing a premium of 22% on NAV and 32% on EBITDA. Based on consensus estimates, the stock is trading at a 47% premium to peers on a P/NAV valuation vs the historical average of 23% over the past two years, which supports our Hold rating. Should Newcrest acquire the 68% of shares it does not already own, we do not believe this will be done at a discount to NAV; we thus believe investors can confidently accumulate Lundin Gold shares below NAV, but see a more attractive entry point presenting itself.
- For investors seeking free cash flow, Lundin Gold exhibits one of the best yields in the industry with 2021 yield of 12.3% and 2022 yield of 16.1%. Over the next three years, it has one of the highest average free cash flow yields in the sector at 12.8% vs producers at 9.2% on average, with companies with higher yields than Lundin Gold typically facing a higher degree of uncertainty in receiving those cash flows in our view.

Exhibit 4a: Lundin Gold consensus historical NAV differential vs peers



Source: Desjardins Capital Markets, FactSet

Exhibit 4b: Lundin Gold consensus historical EV/EBITDA FY1 differential vs peers



Source: Desjardins Capital Markets, FactSet

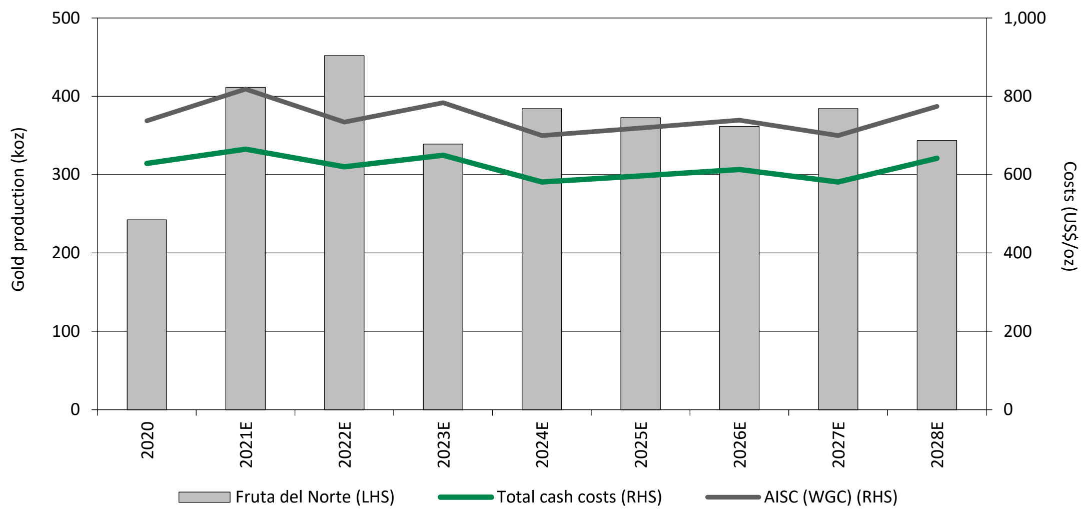
Upcoming catalysts

- Completion of South Vent Raise—3Q21
- Completion of Zamora River bridge—2Q21
- Throughput expansion to 4,200tpd—4Q21
- Results from regional exploration program—2021

Company overview

Lundin Gold is backed by the eponymous Lundin Group, with Lundin Family Trusts holding 26.5% of the shares outstanding while Newcrest Mining owns another 31.9%. Lundin Gold holds a 100% interest in the world-class Fruta del Norte mine in southern Ecuador after this was acquired from Kinross Gold for US$240m in December 2014. At Fruta del Norte, the Lundin Group executed its specialty of developing highly economic assets that are unappreciated by the market due to their challenging jurisdictions—Kinross had been unable to reach a development agreement with the government of Ecuador, but in December 2016 Lundin Gold obtained an exploitation agreement which allowed it to produce gold for 25 years, with a right to renew at the end of the term. The mine has faced both unexpected challenges, such as a shutdown due to COVID-19 amid its ramp-up last year, as well as expected challenges given the company is operating in a newer mining jurisdiction, such as a short blockade by a local community. However, the company appears to be in the best position of its operating life. The mine exceeded production guidance in 2020 and has shown a good start to doing the same in 2021, not to mention the planned expansion in 4Q21; importantly, the most business-friendly presidential candidate, Guillermo Lasso, won the election in April. 2021 will be the mine's first full operating year and the significant free cash flow generated will be used to pay down debt and fund organic growth through exploration. At the same time, the company will keep an eye out for M&A opportunities to diversify production and lower its risk profile, and may also consider instituting a dividend—that is if it's not acquired before then.

Exhibit 5: Lundin Gold production profile

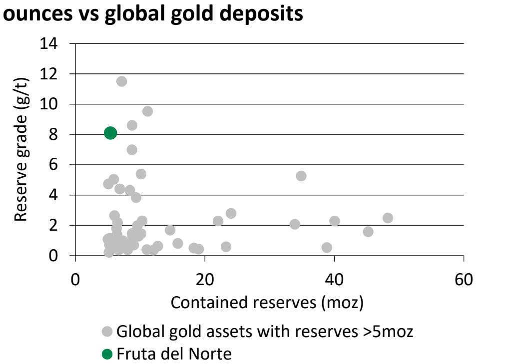


Source: Desjardins Capital Markets

Fruta del Norte

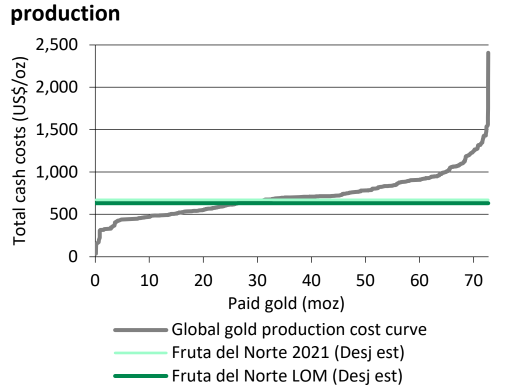
The Fruta del Norte mine has the fourth highest reserve grade in the world among assets that contain in excess of 5moz, according to S&P Global Market Intelligence (see Exhibit 6a). This high-grade mill feed drives one of the lowest total cash cost production profiles; our LOM estimate of US$631/oz is within the lowest 36% of global production, with much of the gold production lower on the cost curve coming in the form of by-product production (see Exhibit 6b).

Exhibit 6a: Fruta del Norte reserve grade and ounces vs global gold deposits



Source: Desjardins Capital Markets, S&P Global Market Intelligence

Exhibit 6b: Fruta del Norte cash costs vs global gold production



Source: Desjardins Capital Markets, S&P Global Market Intelligence

The company updated the life-of-mine plan in December 2020, which included a throughput expansion to 4,200tpd from 3,500tpd scheduled for completion in 4Q21. The updated mine plan calls for life-of-mine production of 4.8moz averaging 340koz/yr over 14 years, with production averaging 390koz/yr over the first five years. Management is confident that annual production can be maintained around the 400koz level as it sees potential for further throughput expansions, and there is also exploration upside to offset some lower-grade areas. In July 2020, the company released an updated reserves estimate with tonnes increasing 18% to 20.8m, grade decreasing 7% to 8.1g/t and total ounces increasing 8% to 5.4moz vs the year-end 2019 estimate. The revised mine plan will see a greater use of long hole mining methods, which was the primary driver of the increased tonnage and lower grades in the update. However, with the company now well-established underground and commencing an underground drill program, we expect to see continued reserves replenishment and identification of more high-grade mill feed to support the production profile.

Our model

Our DCF model is based on the updated mine plan but with reserves increased by 125%, which extends the minelife by three years to 2037 when production will end. Our model sees 6moz produced, averaging 354koz/yr over the 17-year minelife. Annual production is expected to peak in 2022 at 450koz, benefiting from a head grade of 10g/t as well as a full year with the expanded throughput, before dipping in 2023 to 338koz as the grade declines to 7.5g/t.

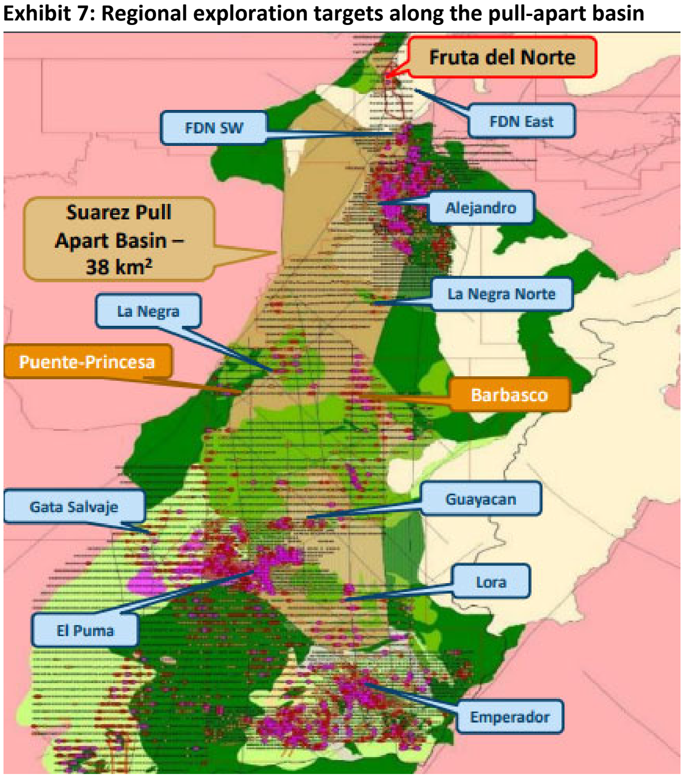
We model life-of-mine AISC of US$695/oz, with our per-tonne opex estimates 25% higher vs the latest technical report, and assume that the bulk of mining will utilize long hole stoping (~US$50/t) instead of costlier drift-and-fill (~US$75/t). Our estimates factor in our expectations for cost inflation, while our average annual sustaining cost estimate is US$23.7m, or 35% higher vs the latest technical report. Based on these assumptions, we estimate a project NPV of C$3,177m at a 5% discount rate.

Resource growth potential

The company increased reserves by 8% vs year-end 2019 in the July update, benefiting from a greater use of long hole mining. Given the company is now launching a 10,000m underground drilling program, we expect the trend of reserve growth and resource expansion to continue, and we see an opportunity for the company to find near-stope ore and continue to extend the minelife.

The company will also commence a regional exploration program after being awarded a permit to drill on the 38km^2 land package outside of the Fruta del Norte area in 3Q20. The permit will allow for drilling on the Barbasco target, one of two high-priority targets with similar geological structures to Fruta del Norte. The company has budgeted US$11m to cover 9,000m. The Barbasco target has indicator elements of arsenic and antimony identified in rock samples, and results from a ZTEM geophysical survey and epithermal vein outcrops also bode well. The company has now refined its Suarez pull-apart basin geology model and is well-positioned to make future discoveries along the 38km^2 pull-apart basin and evaluate additional targets.

Exhibit 7: Regional exploration targets along the pull-apart basin



Source: Company presentation

2021 outlook

Lundin Gold is guiding to 2021 gold production of 380–420koz at AISC of US$770–830/oz which is based on an average head grade of 10.4g/t and an average recovery of 90%, with costs impacted by COVID-19-related expenditures, catch-up on backfilling as well as certain one-time sustaining capital charges, including two raises of the tailings dam. Total capex is estimated at US$61m and includes US$32.6m of sustaining costs. The company is off to a good start after reporting 1Q21 production of 104.3koz, representing 26% of the mid-point of production guidance from a head grade of 11.36g/t and recovery at 87.8%. The company is planning on expanding mill throughput to 4,200tpd from 3,500tpd for a capital cost of US$18.6m, which is targeted for completion in 4Q21 and which should result in a slightly back-half-weighted production outlook—this makes the 1Q result all the more favourable for a potential guidance beat. Management expects that greater residency time will enable mill recoveries to reach 90% and to increase over the remainder of the year.

We forecast 2021 gold production coming in at the high end of guidance at 411.5koz. We also see the company coming in at the higher end of AISC at an estimated US$819/oz as there has been notable cost inflation in the industry while COVID-19 mitigation measures add ~US$27/oz. Our AISC estimate is impacted by our sustaining capex estimate of US$36m while our total capex estimate stands at US$67m for the year. Consensus forecasts gold production of 407koz at AISC of US$827/oz and capex of US$61m. Guidance and our estimates do not factor in any operational disruptions, but with COVID-19 continuing to spread aggressively, we see this as the biggest risk to achieving guidance.

Exhibit 8: Lundin Gold 2021 guidance vs consensus and Desjardins estimates

	Guidance	Consensus	Desjardins est	Difference (%)[1]
Production (koz)	380–420	407	412	-1.7
Cash costs (US$/oz)	NA	664	665	NA
AISC (US$/oz)	770–830	827	819	-3.2
Capex (US$m)	61	61	67	-1.2

[1] Represents the difference between the mid-point of guidance and consensus estimates
Source: Desjardins Capital Markets, company reports, FactSet

Operating in Ecuador

In December 2016, Lundin Gold and the government of Ecuador reached an exploitation agreement as well as an investment protection agreement. The exploitation agreement allows the company to produce gold for 25 years, with a right to renew at the end of the term. Lundin Gold paid an advance royalty to the government of Ecuador of US$65m which can be deducted from future royalty payments, namely the ongoing 5% NSR. Based on the 2018 tax reform, the government of Ecuador and Lundin Gold will each receive 50% of cumulative benefits, calculated as the NPV of cumulative free cash flow net of initial capital invested for Lundin Gold, while benefits to the government of Ecuador will be in the form of the NPV of taxes paid, including corporate income taxes, royalties and the labour profit-sharing paid to the state, as well as VAT. If the cumulative benefit to Ecuador is below the threshold, then Lundin Gold will pay an annual adjustment.

The investment protection agreement includes ensuring a fixed income tax of 22% and exempts the company from a capital outflow tax on debt payments to financial institutions outside of Ecuador; it also ensures that Lundin Gold will get any other benefits which may be granted in future investment protection agreements between the government of Ecuador and other mining companies.

Ecuador revamped its mining code in 2009, which spawned a surge of FDI into the country including from Anglo American, BHP Group, First Quantum Minerals and Newcrest. The revised code offers either an exploration or an exploitation concession. The exploration concession requires milestone achievements before the next stage can be reached, which forces companies to be active; an application for an exploitation concession can be made only in the final stage of the exploration concession. The exploitation concession term is negotiated with the government, and surface rights must also be acquired either through land ownership or easement agreements with land title holders.

We view the Fruta del Norte mine as a bellwether for other companies considering significant capital investments in the country, including outside of the mining industry. We thus believe that it is clearly in the government's best interest to honour the exploitation agreement with Lundin Gold. That said, we do expect political flare-ups to arise periodically, resulting in headline risk for the company which could negatively impact the stock price temporarily. The company endured a short-lived roadblock in 2020 although it did not significantly impact operations; we believe this will not be the last time roadblocks occur and there is a risk that they could last longer and impact operations to a greater extent in the future.

We were pleased to see the most business-friendly candidate, Guillermo Lasso, win the April 2021 presidential election—a clear positive for Lundin Gold and mining companies in the country. However, the government will not be immune to pressures to increase tax revenue, both to offset lower oil revenue in recent years and increased spending to address COVID-19. Ecuador's currency is pegged to the US dollar, which provides some stability but also eliminates a monetary policy tool whereby a weaker currency and the ability to print money could help support COVID-19 expenditures and also boost exports and economic activity. Fortunately, Lundin Gold would not be affected by changes to tax rates based on the 2016 investment agreements, which insulates it from an investor concern that we believe could increase in prominence going forward.

Financial state

The company ended 1Q21 with US$94.4m in cash, with another US$81m in accounts receivable, which is primarily concentrates sold. It reported US$201m in short-term debt and US$576m in long-term debt on the balance sheet, although this is impacted by derivative accounting on a US$150m gold pre-pay credit facility and the mark-to-market impact of the US$150m stream loan credit facility, as the company has total principal outstanding of US$580m. We see the company generating US$343m in operating cash flow and US$276m in free cash flow this year, and turning to a positive net cash position in 2022. The company has 5.5m options outstanding, with 3.8m exercisable and in the money; it has another 0.4m warrants outstanding and in the money at C$5.98. The company ended the quarter with 232m shares outstanding and we calculate a fully diluted share count of 236m including in-the-money options and warrants.

Potential risks

With the mine through its ramp-up and with early production results beating expectations, the primary risk factor is from the company's sole operating jurisdiction in Ecuador. However, in our view, the recent election of the most pro-business candidate and a rejection of Rafael Correa/socialist policies help diminish this risk. We see Lundin Gold and its Fruta del Norte as a bellwether for foreign direct investments; we believe it is in the country's best long-term interest to ensure that the project is a success for all parties involved as Ecuador looks to continue to increase FDI and bolster tax revenue after it was hit by weaker oil prices. Nevertheless, there are numerous inherent risks to investing in a mining company and we outline the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Jurisdictional risk.** While we view the election of former banker Guillermo Lasso to the presidency positively, Ecuador is still a relatively higher-risk operating jurisdiction. This was demonstrated last year after a roadblock by a local community shut down access to the Fruta del Norte mine site for a short period of time. Compared with other operating jurisdictions under coverage, we see an elevated risk of political unrest, labour issues, property rights and changes to laws or taxation, which could impact our valuation. To be clear, we do not see these situations as likely and believe that, all else equal, the risk that they could occur has diminished with the election of the new president although we expect to see some periodic flare-ups that could cause headline noise or temporarily impact operations over the minelife at Fruta del Norte.

- **Social risk.** The company makes a concerted effort to maintain strong positive relationships with the local community, however, there is always the risk of issues arising from the actions of certain individuals, as well as the risk of NGO involvement and opposition to mining activities, as has been voiced by some groups in the rural communities. While the company has strong social licence to operate within the community, there is certainly the risk of roadblocks and isolated opposition.
- **Geotechnical risk.** The ground conditions are considered weak in certain areas of the mine plan, and the company plans to use more selective drift-and-fill mining methods in these areas. The presence of weak ground conditions increases the risk of ground failure, although the company will use appropriate mining methods, shotcrete and backfill to minimize this risk. Thus far in the development, underground conditions have been more stable than initially expected.
- **Labour.** Given there is no recent history of large-scale mining in the country, there is a dearth of skilled labour locally to meet the requirements of the mine plan. Also, there has been artisanal mining in certain areas of the property, which could impede operations.
- **Concentrated shareholder base.** The Lundin Group and Newcrest Mining own ~58% of Lundin Gold shares outstanding and effectively control the company. In addition to impacting its strategic direction, their ownership also reduces the float and liquidity, ceteris paribus.
- **Gold price risk.** The company's revenue is derived nearly exclusively from the sale of gold, and any decline in the gold price could adversely impact our valuation of the company.
- **Cost inflation risk.** Any increase in input costs to production could negatively impact the margins that the company generates and adversely impact our valuation of the company. These inputs may include labour costs, reagent costs and energy costs.
- **COVID-19 risk.** Ecuador has seen an increase in cases recently, causing the country to impose a curfew to try to limit the spread. Hospitals have been overwhelmed by cases and we see a near-term risk that new government measures could impact operations, or potentially that a more local outbreak could necessitate that the company imposes measures that limit operations.

Management and board

The management team comprises primarily individuals who have experience from other Lundin Group companies previously and bring extensive experience to their positions. Management and insiders currently own ~5.4% of the shares outstanding while the Lundin family owns 26.5% and Newcrest Mining owns 31.9%, based on FactSet data.

- **Ron F Hochstein, President & CEO.** Mr Hochstein became president and CEO of the company in 2014 and was instrumental in the acquisition of Fruta del Norte. His experience includes president and CEO of Denison Mines for seven years and he previously served as a consultant to the Lundin family for more than 20 years. He also gained experience as a project manager for Simons Mining Group and was a metallurgical engineer for Noranda Minerals. Mr Hochstein holds a BSc in metallurgical engineering from the University of Alberta and an MBA from the University of British Columbia, and as well as a P.Eng. designation.
- **Alessandro Bitelli, Executive Vice-President & CFO.** Mr Bitelli brings more than 30 years of experience in the resource industry as well as finance. He has worked with the Lundin Group of companies since 2007 and with Lundin Gold since 2016. Previously, he worked as CFO of Orca Gold and Red Back Mining before its acquisition by Kinross for US$9.2b in 2010. Mr Bitelli is a CPA in BC.
- **Sheila Colman, Vice-President, Legal & Corporate Secretary.** Ms Colman has been with Lundin Gold since 2015 and brings more than 20 years of legal experience including in transactions,

financings, and compliance and corporate governance. Previously, she worked at Denison Mines as vice-president and corporate secretary from 2004. She received her BA and LLB from Queen's University and is a member of the Ontario and British Columbia Bar.

- **David Dicaire, Vice-President, Projects & General Manager.** Mr Dicaire has more than 40 years of experience in project development with both project owners and EPCM firms. He worked with Freeport-McMoRan as project director of the US$4.6b Cerro Verde expansion project in Peru and previously served as general manager, project development, for South America for Xstrata Copper.
- **Nathan Monash, Vice-President, Business Sustainability.** Mr Monash has significant experience in sustainable development in the mining industry and previously worked for AngloGold Ashanti, developing its sustainability strategy for the Americas. Prior to that, he worked at Rio Tinto Alcan in a business sustainability capacity; he has also spent time at the World Economic Forum and International Finance Corporation. He holds a BSc in biology from McGill University, a master's in international affairs from Tufts University and a certificate in sustainability leadership from Cambridge University.
- **Iliana Rodriguez, Vice-President, Human Resources.** Ms Rodriguez has more than 20 years of experience in human resources and has been with Lundin Gold since the beginning of operations in Ecuador. She previously worked for Kinross Gold and Occidental Oil & Gas in a number of management positions. She holds an MBA, with a major in human resources, from Universidad San Francisco de Quito and is also vice-president of Ecuador's chapter of Women in Mining.
- **Chester See, Vice-President, Finance.** Mr See has held finance-related roles at a number of resource companies including manager, financial reporting and treasury at Western Coal, financial controller at Lucara Diamond and CFO at NGEx Resources. He also spent three years at PricewaterhouseCoopers. Mr See holds a BComm in accounting from the University of British Columbia and is a CPA in BC.
- **Board of directors.** Lukas Lundin (chair), Carmel Daniele, Ian Gibbs, Chantal Gosselin, Ashley Heppenstall, Ron F Hochstein, Craig Jones, Paul McRae, Bob Thiele, Istvan Zollei.

Lundin Gold Inc.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**LUG, TSX**
Current price (C$)	**11.75**
Stock rating	**Hold**
Target price (C$)	**14.00**
Potential total return	**19%**
Risk rating	**Speculative**
Shares outstanding (m)	**232**
Market capitalization (C$m)	**2,722**

Fiscal year-end	**December 31**
52-week high (C$)	**13.23**
52-week low (C$)	**9.11**
P/NAV (x)	**0.95**
NAV target multiple (x)	**1.00**
EV/NTM EBITDA (x)	**6.2**
EV/EBITDA multiple (x)	**6.0**
FCF yield FY1 (%)	**8%**

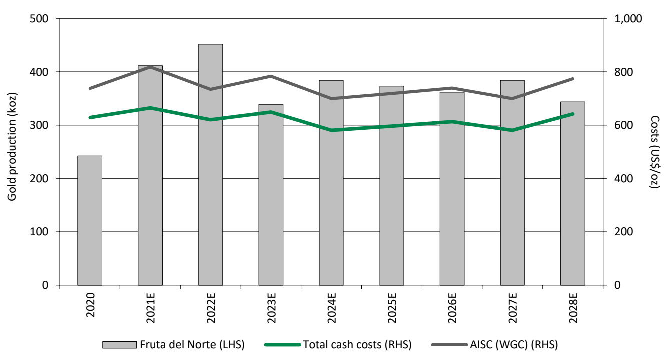
Financial data

Assumptions	**2018**	**2019**	**2020**	**2021E**	**2022E**
Gold (US$/oz)	1,272	1,392	1,770	1,780	1,775
Silver (US$/oz)	18.82	16.20	20.49	26.05	26.00
C$/US$	1.30	1.33	1.34	1.25	1.25

Financial forecasts	**2018**	**2019**	**2020**	**2021E**	**2022E**
Balance sheet (US$m)					
Cash & equivalents	168	76	80	308	670
Working capital	153	33	57	328	708
Total debt	364	879	857	687	595
Income statement (US$m)					
Revenue	0	0	358	715	793
Cost of sales	0	0	133	221	215
G&A expense	17	19	14	16	20
EBITDA	**-23**	**-23**	**209**	**467**	**552**
Depreciation, depletion & amortization	0	0	53	83	92
Net income	-22	-119	-47	288	295
Cash flow (US$m)					
Operating CF (bef chgs in WC)	-18	-19	182	339	388
Capital expenditure	280	409	59	67	26
Net proceeds from equity	396	34	47	0	0
Net proceeds (repayment) from debt	110	356	-32	-29	0
Dividend payments	0	0	42	18	0
Free cash flow (post dividend)	-312	-423	13	258	362
Per share data (US$/FD share)					
EPS FD	**-0.12**	**-0.54**	**-0.21**	**1.23**	**1.26**
Adjusted EPS	**-0.12**	**-0.52**	**0.47**	**1.04**	**1.26**
CFPS (bef chgs in WC)	**-0.10**	**-0.09**	**0.80**	**1.45**	**1.65**
FCFPS	**-1.63**	**-1.91**	**0.06**	**1.10**	**1.54**
Weighted avg basic shares O/S (m)	191	221	228	231	232
Weighted avg diluted shares O/S (m)	191	221	228	234	235

Operational data

Consolidated production profile	**2018**	**2019**	**2020**	**2021E**	**2022E**
Gold production (koz)	0	0	242	412	452
Total cash costs (US$/oz)	0	0	629	665	620
WGC all-in sustaining costs (US$/oz)	0	0	738	819	734

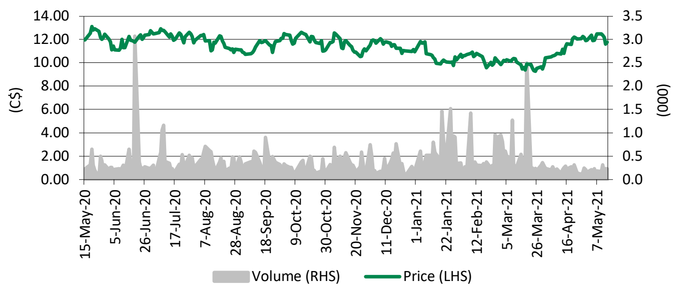


Reserves & resources

As at March 2021	Tonnes (000)	Au grade (g/t)	Contained Au (koz)
Probable reserves	15,490	9.67	4,816
Indicated resources (incl reserves)	23,800	9.61	7,350
Inferred resources	11,600	5.69	2,130

Source: Desjardins Capital Markets, Factset, company reports

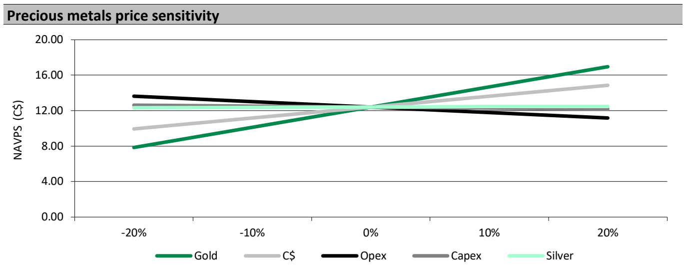
Stock/volume chart



NAV summary

Asset	**Ownership (%)**	**NAVPS (C$)**
Fruta Del Norte (5% DR)	100	13.47
Exploration	100	0.00
Project NAVPS		**13.47**
Cash & ST investments		2.23
In-the-money options & warrants		0.10
Corporate G&A (5 years @ 5% DR)		-0.45
ST & LT debt		-2.95
Total NAVPS		**12.40**
P/NAV (x)		**0.95**
Shares outstanding (FD) (m)		236

Precious metals price sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		231.6
Exercisable options	5.73	4.0
Warrants	0.00	0.4
Fully diluted shares		235.8

Top ownership	**% outstanding**	**Shares (m)**
Newcrest Mining Ltd.	31.9	73.6
Lundin Family	26.5	61.0
Orion Mine Finance Llp	5.4	12.5
Daniele Carmel	4.6	10.7
Blackrock Investment Management (Uk) Ltd.	2.4	5.5
Van Eck Associates Corp.	1.9	4.3
Invesco Advisers, Inc.	1.8	4.1
Jupiter Asset Management Ltd.	1.8	4.0
Fidelity Management & Research Co. Llc	1.1	2.4
Fil Investment Advisors (Uk) Ltd.	1.0	2.4
Blackrock Fund Advisors	0.5	1.1
Ci Investments, Inc.	0.4	1.0
Credit Mutuel Asset Management Sa	0.4	0.8

ESG overview

LUG is a Canadian gold mining company with one producing gold mine, Fruta del Norte, in southeast Ecuador. Fruta del Norte is an underground, high-grade gold mine which achieved commercial production in February 2020. Owing to the nature of its business, LUG is inherently exposed to significant environmental, social and governance risks. However, the company has demonstrated a consistent focus on managing these risks and on maintaining transparency with its stakeholders through its reporting efforts. Unlike many junior producers, the company has published an annual sustainability report since 2016, with its 2020 sustainability report expected in the coming months. LUG has aligned its sustainability focus areas with the UN SDGs and follows the Global Reporting Initiative framework for reporting. The company was one of 10 founding members of the Alliance for Responsible Mining in Ecuador, which focuses on promoting best practices and sustainable mining. In addition, LUG participates in the UN Global Compact roundtables in Ecuador as well as multiple other sustainability-focused initiatives.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• LUG reports annually on the amount of land disturbed and rehabilitated by its operations. • The company tracks, rescues and relocates endangered and vulnerable species of flora and fauna on its land concession. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – In 2019, LUG rescued 63,418 specimens of flora and 6,569 specimens of fauna.	• **Positive** – The company demonstrates good reporting practices and maintains a strong focus on protecting biodiversity. – There is scope for the company to improve disclosure on targets set for ecological risk management.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• LUG reports annually on its GHG emissions, broken down by type (Scope 1, 2 or 3) and source. • The company plans to augment its GHG reporting with a breakdown of emissions per ounce of gold produced. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – The company reported a total of 49,662 tCO2e in 2019, with 78% Scope 1, 15% Scope 2 and 7% Scope 3.	• **Neutral** – LUG demonstrates good reporting practices. – There is scope for the company to improve disclosure on risk management for emissions.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• LUG reports annually on its water usage, water treatment, waste disposal, hazardous waste transport and oil spills. • The company completed construction of its sedimentation ponds and water treatment plant in 2019 to facilitate proper water treatment and storage. • Third-party consultants complete audits throughout the year at Fruta del Norte to monitor LUG's environmental compliance. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – No significant spills (greater than 210 gallons) were reported on-site from 2017–19.	• **Positive** – The company demonstrates good reporting practices and is continuing to focus on environmental management. – There is scope for the company to improve disclosure on targets set for effluent and waste reduction.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• The company reports on key safety metrics and sets targets each year. • A component of senior management's compensation is linked to health and safety performance. • Multiple safety initiatives have been implemented at the mine site including Golden Rules and the Visible Leadership Program. • **Metric** – In 2020, the company recorded improved safety performance with a TRIR of 0.41 and two lost time incidents vs 0.69 and six in 2019. – 100,835 hours of health and safety training were completed in 2019.	• **Neutral** – There is scope for the company to continue to improve its safety performance and disclosure on its level of compliance with safety and health standards.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• LUG is committed to hiring local labour wherever possible. • The company has implemented a training program for local community members to teach them the skills needed for working at the operation. • The company works to co-exist with artisanal mining activity in the region and provides support for artisanal miners seeking to formalize their activities or obtain environmental permits. • A formal grievance mechanism is in place at LUG for employees, contractors and community members to file anonymous concerns and complaints. • **Metric** – By the end of 2019, the company had 2,573 employees, with 48% from the province of Zamora Chinchipe (where the mine is located) and 92% from Ecuador. – In 2019, more than 300 local community members graduated from LUG's Training for Operations program. – No grievances or incidents related to artisanal mining were reported in 2019; however, 20 complaints of illegal activities and one request for administrative protection from the Mining Regulation and Control Agency were filed.	• **Neutral** – Key areas where the company can improve disclosure are labour practices and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• LUG partners with multiple NGOs to support education, entrepreneurship, dairy/agriculture, and health in the local community. • Community engagement is a priority for LUG as demonstrated by its participation in roundtables and its focus on local procurement. • The company is engaged with the local Indigenous communities, specifically the Shuar and Saraguro Indigenous peoples. • **Metric** – In 2019, 63% of total procurement was within Ecuador. – 16 members of the Shuar community successfully completed LUG's Training for Operations program in 2019. The company hopes to increase participation levels moving forward. – In 2020, local community members erected an illegal blockade on the access road to Fruta del Norte which was removed after 15 days once the company and community reached a resolution.	• **Neutral** – The company has a strong focus on stakeholder engagement and community relations activities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• LUG believes in diversity at all levels and the board adopted a diversity policy in 2015. • LUG increased the gender diversity of its operating subsidiary, Aurelian Ecuador S.A., to 12% in 2019 from 10% in 2018. • The company's gender compensation ratio for 2019 was 0.97 (where 1 is compensation equity). • **Metric** – Two of the 10 board directors (20%) and two of the seven management team members (29%) are women.	• **Positive** – There is scope for the company to increase its diversity.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• The company's corporate policies cover topics including anti-bribery, sanctions and anti-money laundering and corporate disclosure. • LUG has a whistleblower policy in place. • **Metric** – No indication of fraud, corruption or bribery. – The majority of board members are independent and there is separation of the chairperson and CEO roles.	• **Neutral** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption policies as well as the relevant training programs for employees.

Marathon Gold Corporation

Final stretch with the production finish line in sight—initiating coverage with a Buy rating and C$3.50 target

- ***Marathon Gold, with its Valentine gold project in Newfoundland, is the rare developer which checks all the boxes that investors and producing companies seek in a gold project***
- ***It has a large resource base with a feasibility-level study in a low-risk jurisdiction and grades to drive high margins as well as demonstrated exploration potential to extend the minelife***
- ***With a top-quality project that is well-advanced in the permitting process and a highly respected management team, this is a gold developer stock that should let investors sleep well***

Highlights

Marathon Gold is focused on advancing its 100%-owned Valentine gold project in Newfoundland to production. After recently announcing positive results from the feasibility study, it is now working on detailed engineering and procurement as it simultaneously works through the permitting process and expects to complete the environmental assessment in the fall. The company has continued to add value through an aggressive 85,000m drill program along the Valentine Shear Zone mineralized trend which extends 20km, with five deposits already delineated. We believe that the Berry deposit, which was the most recent discovery and which is not included in the feasibility study, has the potential to be the highest-margin deposit, further proving that there is significant exploration and resource growth potential for minelife extension beyond what is included in our model.

Valuation

Our one-year-forward target price is C$3.50/share and is based on a 1.00x NAV multiple. We view Marathon Gold as the highest-probability takeout candidate in our coverage and believe that this could occur at a multiple close to NAV. Marathon Gold trades at 0.77x our NAV estimate on a cash-adjusted basis while developer peers trade at an average of 0.58x P/NAV; on an EV/oz metric, it trades at US$100/oz vs developer peers at US$86/oz. Given the Valentine gold project is at an advanced feasibility-level stage and has a clear path to production with a high-margin operation in a stable and sought-after jurisdiction, we believe that the shares should trade at a premium to the peer group on both metrics. We view the company as a clear takeout candidate and if it were acquired at the average price paid per ounce of US$148/oz for the five most comparable Canadian acquisitions, this would imply an acquisition price of C$3.99/share, or a 37% premium to Friday's (May 14) close.

Recommendation

We are initiating coverage of Marathon Gold with a Buy–Above-average Risk rating and C$3.50/share 12-month target, which implies a potential return of 20%. Marathon Gold is a developer stock which checks all the boxes that investors look for—it has nearly 5moz of resources at relatively high grades for an open pit, which should translate into strong margins once it is in production. Moreover, it is in a safe operating jurisdiction and is well-advanced in the permitting process, with a feasibility-level study and demonstrated resource growth potential beyond that. All this makes for a compelling takeout target, but fortunately investors do not need to wait on this as we believe that even more value could be surfaced by taking the project to the production stage and that the company has the management team to do it. In our view, Marathon Gold is as low-risk as it gets in the gold developer space and should let investors sleep well.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Checks all the boxes.** Marathon Gold is a developer stock which checks all the boxes that investors look for—it has nearly 5moz of resources at relatively high grades for an open pit, which should translate into strong margins once it is in production. Moreover, it is in a safe operating jurisdiction and is well-advanced in the permitting process, with a feasibility-level study and demonstrated resource growth potential beyond that. All this makes for a compelling takeout target, but fortunately investors do not need to wait on this as we believe that even more value could be surfaced by taking the project to the production stage and that the company has the management team to do it.

- **Unrivalled resource growth.** The Valentine gold project has more than 2moz of reserves and 4.8moz of total resources. The company recently added 636koz of resources with the discovery of the Berry deposit, which sits along the thoroughly mineralized Valentine Shear Zone, extending 20km along the property and hosting four other deposits. The company has been able to grow its M&I resource base at a CAGR of ~100% since defining 280koz in December 2010. While we expect the percentage rate of growth to slow given the nearly 5moz base, with a rough discovery cost of ~US$15/oz and an exploration budget of more than C$10.5m for this year, resource growth should continue.

- **Desirable neighbourhood.** The company arguably turned Newfoundland into some of the most desired mining real estate in the world. The province used to be known for small, high-grade narrow-vein underground precious metals operations or base metal deposits, but the gold mineral endowment is now well-understood, with scalable potential. Additionally, Newfoundland offers relatively low power costs from hydro and a skilled and available workforce. The permitting process has been smooth thus far and we do not foresee opposition from local communities and Indigenous groups, nor does the project appear to have any ecological dealbreakers.

- **Clear takeout candidate.** We view Marathon Gold as the most likely takeout candidate within our developer coverage, given its sizeable resources and expectations for continued growth, as well as a project that would likely lower both the risk and cost profile of a potential intermediate acquirer. We looked at the five most comparable Canada-based acquisitions, with comparability mostly determined by recency and project similarity; if Marathon Gold were acquired at the average price paid per ounce of US$148/oz, this would imply an acquisition price of C$3.99/share, 37% premium to Friday's (May 14) close.

- **Maximize value creation by moving to producer status.** While it is a compelling acquisition candidate, we believe that shareholders would maximize value by going to production. In its first full year of production in 2024, we estimate that the company would generate C$211.8m in EBITDA at our US$1,700/oz gold price and C$1.255/US$1 assumptions. If the stock trades in line with the junior producer EV/EBITDA FY2 average of 4.9x, it would imply a share price of C$5.02/share, a 72% increase from Friday's close or a CAGR of 36%. The company has brought on a management team which is clearly capable of advancing the project through financing, construction and ramp-up to steady production.

John Sclodnick
Amanda Lewis, Associate

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Marathon Gold of C$3.62/share, comprised of C$2.99/share of mining assets and C$0.63/share of net cash (see Exhibit 1 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards since our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Valentine gold project.** Our NAV estimate is mainly based on our DCF model of the Valentine gold project in Newfoundland, which we value at C$618m or C$2.17/share, representing 73% of our NAV of mining assets at a 7% discount rate. Our DCF model is based on the April 2021 feasibility study, while we base our model on 125% of reserves.
- **Non-modelled resources.** We also ascribe value to the identified ounces that are not included in our DCF model, which attributes value to other deposits including the maiden resource estimate at the Berry deposit. The company has an additional 2.1moz of resources that are not included in our DCF model; we attribute a per-ounce value at 5% of our long-term gold price assumption, which amounts to US$85/oz. We believe this is fair as it is in line with developer peers and is far less than the value per ounce implied by our DCF of US$192/oz. This adds C$233m or C$0.82/share to our NAV, representing 27% of our NAV of mining assets.
- **Net cash.** Included in our net cash forecast is our estimated cash balance required to fully fund our discounted cash flow model at the Valentine gold project, which amounts to C$385m or C$1.35/share. This includes an estimated equity financing of C$150m at C$3.25/share and a C$200m debt issuance in 4Q21. We assume that the 10.8m of warrants with a C$1.90 strike will be exercised prior to expiry on May 26, 2021 and that the 8.5m of warrants with a strike of C$1.60 will be exercised prior to expiry on September 30, 2021, adding C$34m to our estimated cash balance. We deduct our estimated G&A spending over the next five years discounted at a 7% rate, which amounts to C$17m (C$0.06/share); our C$200m debt assumption takes C$0.70/share off our net cash estimate of C$0.63/share.
- **Target price.** Our one-year-forward target price of C$3.50/share is based on a 1.00x NAV multiple. We view Marathon Gold as the highest-probability takeout candidate in our coverage and believe that this could occur at a multiple close to NAV.

Exhibit 1: Marathon Gold NAV breakdown by asset

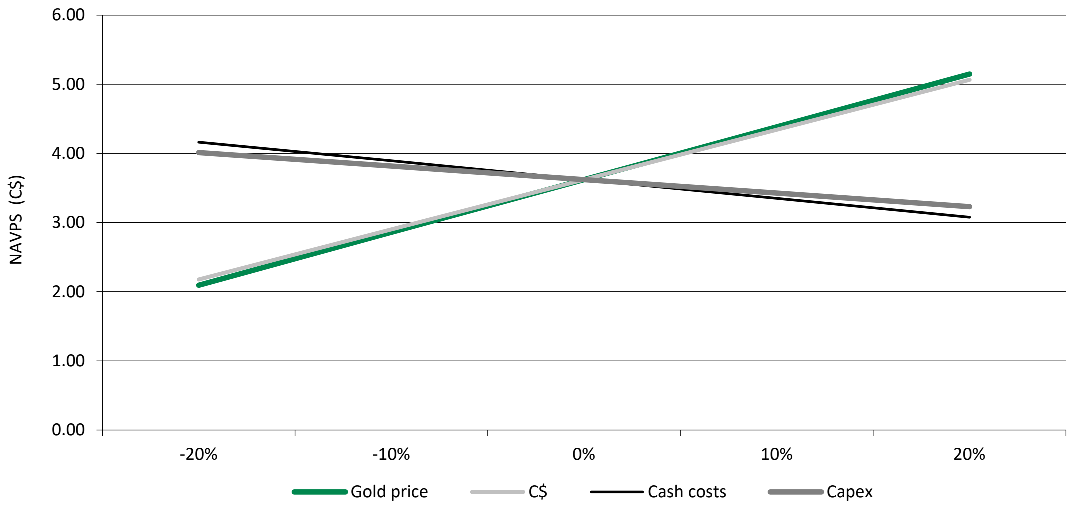
	Jurisdiction	Per share (C$)	% of DCF
Valentine gold project (7% DR)	Newfoundland	2.17	73
Non-modelled resources (credit/oz)	Newfoundland	0.82	27
Total mining assets		**2.99**	
Cash & ST investments		1.35	
In-the-money options & warrants		0.04	
Corporate G&A (5 years @ 7% DR)		-0.06	
ST & LT debt		-0.70	
Net cash/share		**0.63**	
Total NAVPS		**3.62**	
Shares O/S (FD) (m)		284.4	

Source: Desjardins Capital Markets

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 21.1% for a 10% change in the gold price. It is nearly as sensitive to our C$/US$ assumption at a 19.9% change for a 10% in the exchange rate. Our NAV estimate would change by 7.5% for a 10% change in our opex assumption and by 5.4% for a 10% change in our capex assumption (see Exhibit 2).

Exhibit 2: Marathon Gold NAV sensitivity to various assumptions



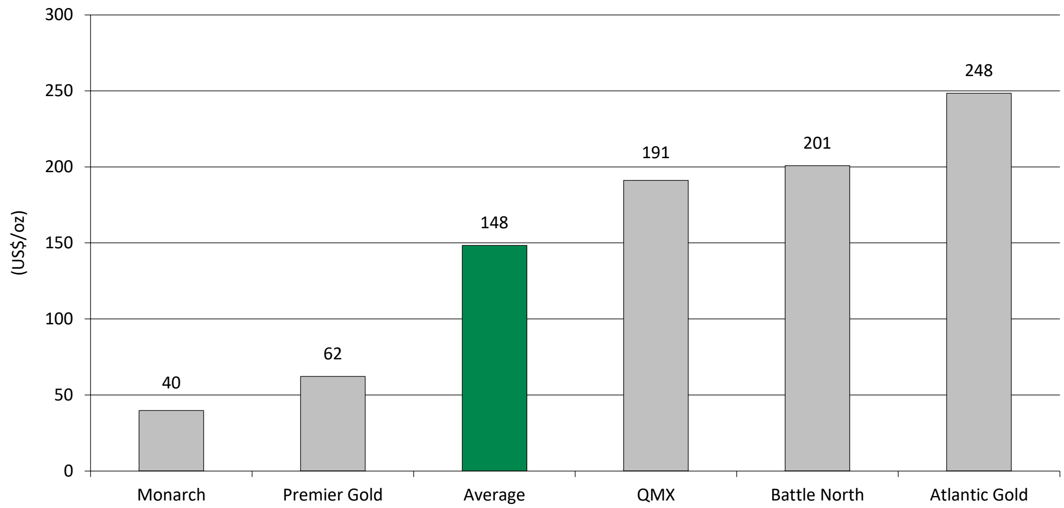
Source: Desjardins Capital Markets

Valuation comparables

- Marathon Gold trades at 0.77x our NAV estimate on a cash-adjusted basis while developer peers trade at an average of 0.58x P/NAV; on an EV/oz metric, it trades at US$100/oz vs developer peers at US$86/oz. Given the Valentine gold project is at an advanced feasibility-level stage and has a clear path to production with a high-margin operation in a stable and sought-after jurisdiction, we believe that the shares should trade at a premium to the peer group on both metrics.

- We view Marathon Gold as the most likely takeout candidate within our developer coverage, given its sizeable resources and expectations for continued growth, as well as a project that would likely lower both the risk and cost profile of a potential intermediate acquirer. We looked at the five most comparable Canada-based acquisitions, with comparability mostly determined by recency and project similarity; if it were acquired at the average price paid per ounce of US$148/oz, this would imply an acquisition price of C$3.99/share, or a 37% premium to Friday's (May 14) close. In our view, the comparable transactions are Equinox acquiring Premier Gold, primarily for the Greenstone project which equated to US$62/oz, Eldorado acquiring QMX for US$191/oz, Saint Barbara acquiring Atlantic Gold for US$248/oz, Yamana acquiring Monarch for US$40/oz and Evolution Mining acquiring Battle North Gold for US$201/oz.

Exhibit 3: Price paid per ounce of comparable acquisitions



Source: Desjardins Capital Markets, FactSet, S&P Global Market Intelligence

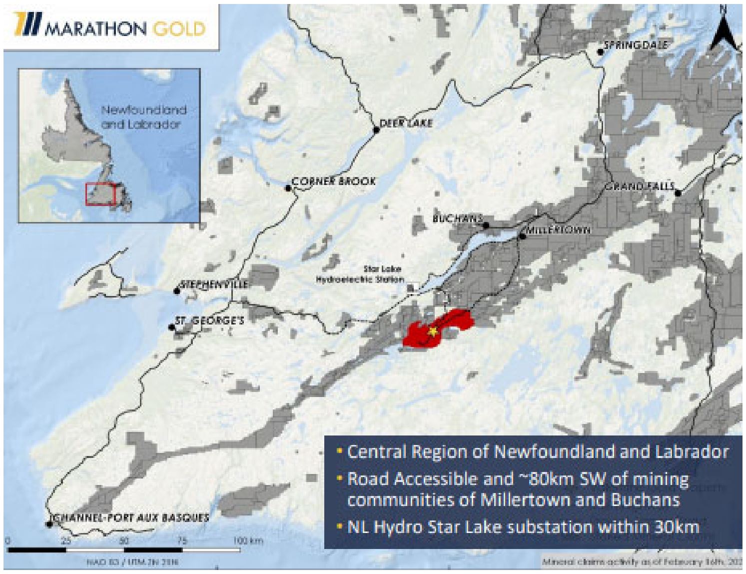
Upcoming catalysts

- Drill results from 85,000m program on the 20km trend of shear zone—ongoing
- Completion of environmental assessment process—3Q21/4Q21
- Construction decision and project financing—4Q21
- Commencement of construction—1Q22
- First gold pour from Valentine gold project—4Q23/1Q24

Company overview

Marathon Gold is focused on advancing its 100%-owned Valentine gold project in Newfoundland to production. After recently announcing positive results from the feasibility study, it is now working on detailed engineering and procurement as it simultaneously works through the permitting process and expects to complete the environmental assessment in the fall. The company has continued to add value through an aggressive 85,000m drill program along the Valentine Shear Zone mineralized trend which extends 20km, with five deposits already delineated. We believe that the Berry deposit, which was the most recent discovery and which is not included in the feasibility study, has the potential to be the highest-margin deposit, further proving that there is significant exploration and resource growth potential for minelife extension beyond what is included in our model.

Exhibit 4: Valentine gold project location in central Newfoundland



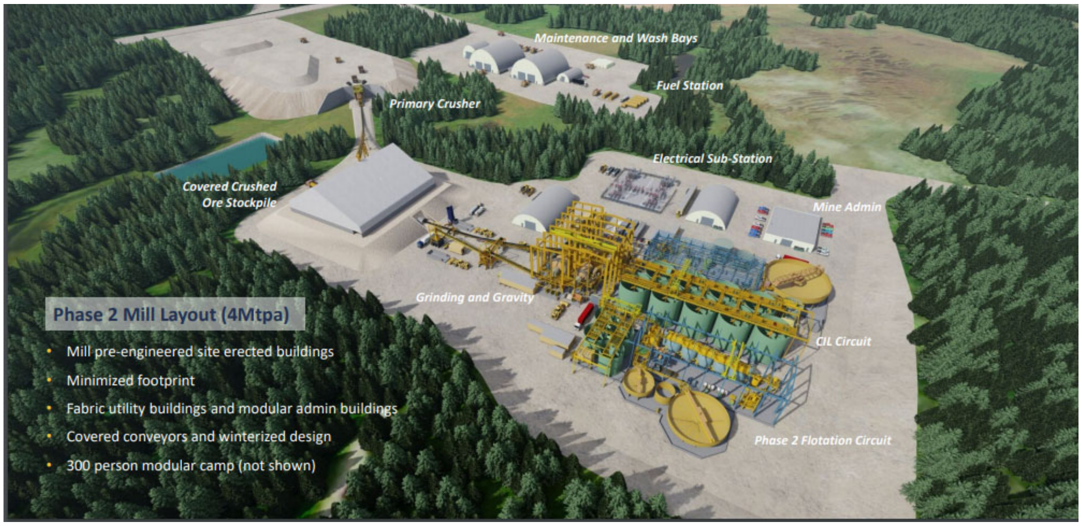
Source: Company presentation

Valentine gold project

The company announced results from a project feasibility study on March 29, 2021 which conceived of an open pit mining operation of the Marathon and Leprechaun deposits, with ore processed at a central mill. The study was based on reserves totalling 47mt grading 1.36g/t for 2,051koz of contained gold, with 60% located at the Marathon deposit and the rest at Leprechaun. The project hosts 57mt in M&I resources (inclusive of reserves) grading 1.72g/t for 3,129koz of contained gold, with 62% located at Marathon, 35% at Leprechaun and the remainder at two small deposits along the Valentine Shear Zone called Victory and Sprite. The project has an additional 30mt of inferred resources grading 1.72g/t for 1,636koz of contained gold, with 636koz located at the Berry deposit with a grade of 1.75g/t; the company declared a maiden resource estimate at the deposit in April, based on exploration work conducted over the last couple of years. The mineral resources, reserves and feasibility study were all based on a US$1,500/oz gold price and C$1.33/US$1.

The development plan would see a mill with a capacity of 6,800tpd constructed initially, with an expansion to 11,000tpd in year 4. Management decided on a mill expansion rather than constructing the full mill upfront to limit the initial capex required, which is currently estimated at C$305m, with another C$44m to complete the expansion. This throughput scenario would allow for a 13-year minelife; at a 94.2% recovery rate, it would see life-of-mine production of 1,930koz at AISC of US$833/oz. This equates to average annual production of 146koz over the minelife; however, excluding the last three years which includes just the milling of low-grade stockpiles, the average annual production rate increases to 173koz from a mill feed of 1.62g/t. The overall strip ratio is 7.2 and the assumed royalty is 1.5% based on executing the 0.5% repurchase right for US$7m prior to year-end 2022. Based on these assumptions, the study generated an IRR of 31.5% and an $NPV_{5\%}$ of C$600m.

Exhibit 5: Valentine gold project proposed site layout at expanded 4mtpa

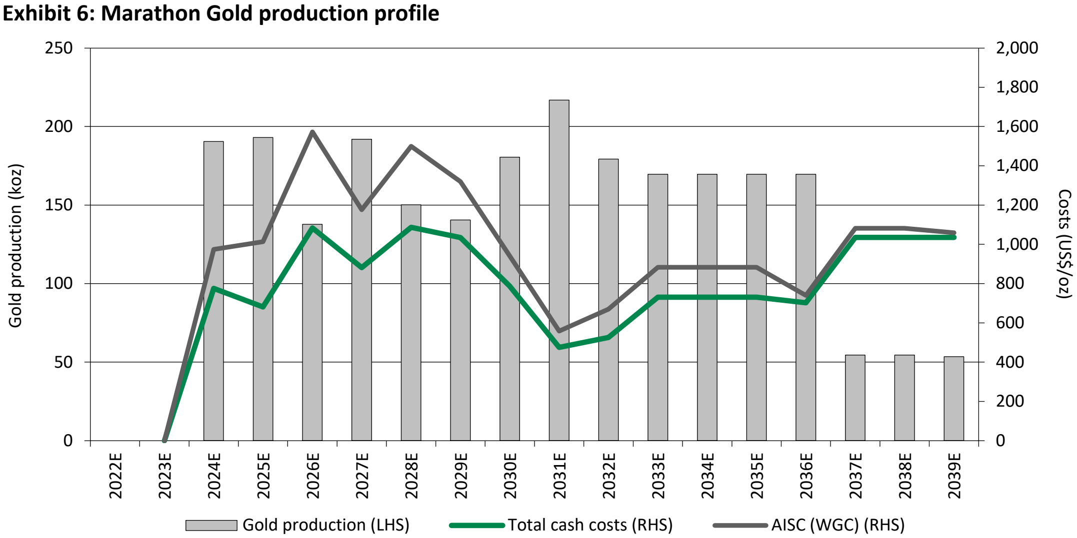


Source: Company presentation

Our model

We base our model on 125% of reserves, which could ultimately prove conservative in our view as the added tonnage and ounces effectively represent the addition from the Berry deposit on a diluted basis, which adds ~550koz. This pushes out the milling of the low-grade stockpiles by another three years, extending production to 2039 and assuming life-of-mine production of 2,421koz or average annual production of 151koz over the 16-year minelife. We assume mining costs of C$2.55/t, in line with the feasibility study estimate, and believe that our figures are achievable given the higher strip ratio avoids hauling costs for most of the mined tonnage. Our overall opex estimate is C$41.51/t milled, which is 10.6% higher than the feasibility study estimate and factors in some cost inflation. We assume initial and expansion capex that is 10% higher than in the feasibility study, as we see cost inflation occurring, although we believe this will be partially mitigated as management plans on using an EPC contract with a fixed-cost bid and performance guarantees—similar to the approach that Argonaut is taking with its Magino development, following the success demonstrated by Atlantic Gold at its Moose River Consolidated project. We assume sustaining capex that is about 6% higher on an average annual basis.

Exhibit 6: Marathon Gold production profile



Source: Desjardins Capital Markets

These assumptions, combined with a 13% higher life-of-mine gold price assumption and a 6% stronger C$/US$ assumption, generates an NPV at 5% of C$788m, or 31% higher than in the feasibility study, and C$618m at 7% (applied in our NAV estimate) with a 31.4% IRR. The IRR is even more compelling in our view vs other feasibility-study-level projects for the relatively lower-risk development path from the operating jurisdiction and the clear permitting timeline, buttressed by the growth potential that is not modelled.

Exhibit 7: Valentine gold project April 2021 feasibility study estimates vs Desjardins

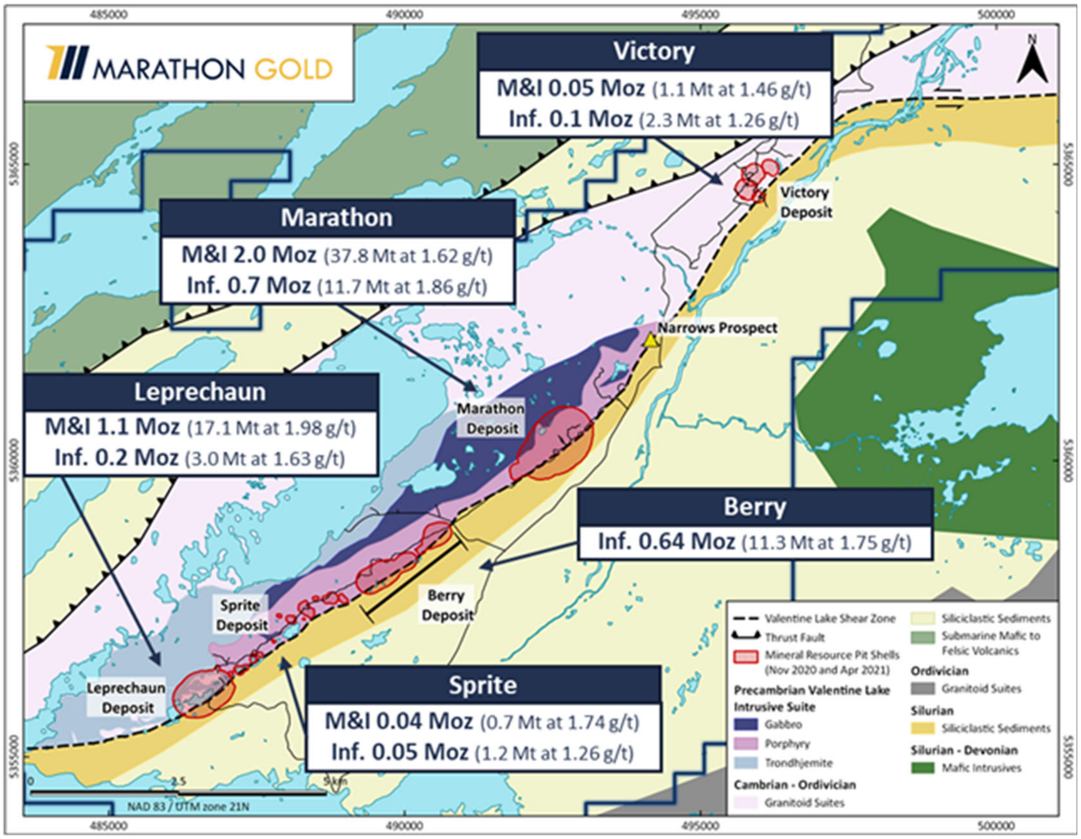
	Desjardins est	April 2021 FS	Difference (%)
Minelife (years)	16	13	23.1
Recovered gold (moz)	2.42	1.93	25.5
Average gold recovery (%)	94	94	0.2
Total mined tonnes (mt)	489	387	26.4
Total milled tonnes (mt)	59	47	25.2
Strip ratio	7.3	7.2	1.6
Annual gold production (koz)	151	146	3.7
Average mill feed grade (g/t)	1.36	1.36	-0.1
Initial capital (C$m)	336	305	10.2
Expansion capital (C$m)	48	44	10.0
Sustaining capital/yr (C$m)	24	24	1.7
Mining (C$/t mined)	2.55	2.55	0.2
Total operating cost (C$/t milled)	41.51	37.52	10.6
Average cash cost (US$/oz)	787	704	11.7
Average AISC (US$/oz)	915	833	9.9
Gold price assumption (US$/oz)	1,700	1,500	13.3
C$/US$	1.26	1.33	-5.9
After-tax $NPV_{5\%}$ (C$m)	788	600	31.3
After-tax IRR (%)	31.4	31.5	-0.3

Source: Desjardins Capital Markets, feasibility study (April 2021)

Resource growth potential

The company's resources are hosted in deposits along the Valentine Shear Zone, a 20km long trend. The gold is hosted in quartz-tourmaline-pyrite veins adjacent to the shear zone, and when these veins are stacked en echelon, there is potential for a deposit of significant size, such as Marathon, Leprechaun and the latest discovery in the Berry deposit. The Berry discovery is further proof of the potential along the 20km trend, as the company continues to quickly build resources. The Berry resource brings total defined resources to 4,765koz, and with 3,129koz in M&I resources which exclude the Berry discovery, the company has been able to grow its M&I resource base at a CAGR of ~100% since defining 280koz in December 2010. While we expect the percentage rate of growth to slow given the nearly 5moz base, with a rough discovery cost of ~US$15/oz and an exploration budget of more than C$10.5m for this year, resource growth should continue. The budget is expected to cover ~85,000m of drilling, with ~50,000m allocated to the Berry deposit to upgrade the resource confidence from inferred; the company will also drill ~8,000m at the Victory and Sprite deposits for potential resource expansion and new ore sources for the mill as well as allocate some drill metres for grassroots exploration on the property.

Exhibit 8: Deposits along Valentine Shear Zone



Source: Company presentation

Financial state

The company ended 1Q21 with a cash balance of C$46.5m and no debt. It has C$20.5m of warrants expiring on May 26, 2021 and C$13.6m of warrants expiring on September 30, 2021 that are both well in the money, with an exercise price of C$1.90/share and C$1.60/share, respectively. The company has an option to buy back 0.5% of the 2% NSR on the Valentine gold project held by Franco-Nevada prior to year-end 2022 for US$7m; we expect it will take this option.

The company just announced on May 13 a C$50m private placement equity financing; combined with the warrant exercise, we model the company ending 3Q21 with a cash balance of C$124m. Prior to any further financing, the company will have C$20m in flow-through dollars to be spent prior to the end of 2022, and the remaining cash balance will more than fund the permitting, engineering and site infrastructure spending planned before official mine construction commences. It also gives the company greater flexibility in choosing when to execute the major project financing; we model an equity raise in 4Q21 of C$75m at C$3.25/share, below the company's 52-week high of C$3.35/share and representing a raise at 0.90x NAV. We also model the company raising C$200m in debt and see this as sufficient capital to complete construction and ramp-up to commercial production at the Valentine gold project. This would leave the company with an estimated fully funded share count of 284.4m shares outstanding; this is the share count on which we base our fully funded NAV estimate.

Potential risks

Marathon Gold is as low-risk as gold development companies get, in our view; however, there are numerous risks to investing in a mining company, particularly one that does not have operating cash flows. We have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Technical risk.** There is a risk that mining dilution is higher than expected for the deposit despite the densely drilled reserves area. This could cause milled grades to be lower than we currently model if the resources do not reconcile with the block model. We are pleased to see management derisking this by drill testing the resource area with an 8,000m program of tightly spaced drilling to determine how it reconciles before going into full-scale construction.
- **Development and cost risk.** We model a 10% capex overrun but there is a risk that the capital costs will exceed our estimates, both on initial capital requirements and sustaining capital. We also model opex to exceed the feasibility study estimates but there is a risk that cost inflation could surpass what we model. Both would have a negative impact on our valuation. Our NAV estimate would change by 7.5% for a 10% change in our opex assumption and by 5.4% for a 10% change in our capex assumption.
- **Exploration risk.** Included in our base-case estimates is the assumption of reserve growth and minelife extension at the Valentine gold project as well as an assumption of continued exploration success beyond our DCF model. There is a risk that further exploration does not translate into as much value as we assume.
- **Permitting risk.** The company is well-advanced in the permitting process and is targeting completion of the environmental assessment in late fall of this year. However, there is a risk that the company is unable to secure the required permits to operate its mines, or that these are not able to be secured in the timeline we model, which could have a negative impact on our valuation.
- **Financing risk.** We see the company requiring external financing to develop the Valentine gold project and there is a risk that the financings are completed on less favourable terms than we estimate, which could increase share dilution and negatively impact our valuation.
- **Market risk.** The company will generate nearly all of its revenue from the sale of gold, so a decline in the gold price would have a significant impact on our valuation of the company. Other market risks, including input costs, wage costs and the Canadian dollar exchange rate, could also impact our valuation.

Management and board

Marathon Gold has one of the most highly regarded management teams among junior gold developers, with the CEO having experience in executing large financing packages and seeing a project through construction to production, while the CFO had previously held the CEO position at an intermediate gold producer. The management team is eminently capable of taking the Valentine gold project through the financing, construction and producer stage, in our view. Management and insiders currently own 2.0% of the shares outstanding, based on FactSet data.

- **Matthew Manson, President & CEO.** Mr Manson brings more than 25 years of experience in the mining industry, including most recently as president and CEO of Stornaway Diamond where he led the C$974m project financing package and constructed and ramped up the Renard diamond mine in central Québec. In 2015 he won the Viola Macmillan award, which is conferred by PDAC for demonstrating leadership in management and financing in mineral exploration or development, and in 2017 he won the *Northern Miner*'s Mining Person of the Year and the Ernst & Young Entrepreneur of the Year (Mining and Energy, Québec) award. He holds a BSc in geophysics from the University of Edinburgh and a PhD in geology from the University of Toronto.

- **Hannes Portmann, CFO & Business Development.** Mr Portmann was most recently employed by New Gold as president and CEO, after being promoted from the role of executive vice-president, business development. Prior to his 10 years at New Gold, he worked in the investment banking mining group at Merrill Lynch after spending four years in the assurance and advisory practice of PricewaterhouseCoopers. Mr Portmann is a CPA and holds a BSc in mining engineering from Queen's University and a master of management and professional accounting from the Rotman School of Management.

- **Tim Williams, COO.** Mr Williams is a professional engineer and brings more than 25 years of experience building and operating mines. He was the vice-president, operations, for Rio Alto Mining and subsequently for Tahoe Resources after it was acquired, and was responsible for the construction, ramp-up and operation of the La Arena and Shahuindo gold mines in Peru. He was most recently employed as executive vice-president and COO of Rio2 and has worked in technical roles for a Peruvian mining contractor, as well as AngloGold Ashanti, Western Mining and Mount Isa Mines. He holds a master's in mining geomechanics and bachelor's in mining economics and geology, as well as a post-graduate degree in mining from Curtin University, Western Australian School of Mines.

- **James Powell, Vice-President, Regulatory & Government Affairs.** Mr Powell has more than 20 years of project management experience on a wide range of mining and industrial projects, including in senior management roles with Alderon Iron Ore and Cape-Ex Iron Ore. He is the current president/chair of the Newfoundland branch of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) and a former director with Mining Industry NL. He holds a BSc in civil engineering and a master of engineering in mining engineering from McGill University.

- **Paolo Toscano, Vice-President, Projects.** Mr Toscano is a professional engineer with more than 25 years of experience in project management, mineral processing, and mine design and operations. He previously worked as director, projects, for Alamos Gold and was responsible for the Lynn Lake gold project in Manitoba, as well as supporting the Island Gold mine and Young-Davidson gold mine in Ontario. He previously worked for Ausenco Engineering, New Gold, Rainy River Resources and SNC-Lavalin. Mr Toscano holds a master of applied science from the University of Toronto and a bachelor of engineering from McGill University.

- **Board of directors.** George Faught (chair), Douglas Bache, Cathy Bennett, James Gowans, Julian Kemp, Matthew Manson, Joseph Spiteri, Janice Stairs.

Marathon Gold Corporation

Ticker	**MOZ, TSX**
Current price (C$)	**2.92**
Stock rating	**Buy**
Target price (C$)	**3.50**
Potential total return (%)	**20**
Risk rating	**Above-average**
Shares outstanding (m)	**213.8**
Market capitalization (C$m)	**624.3**

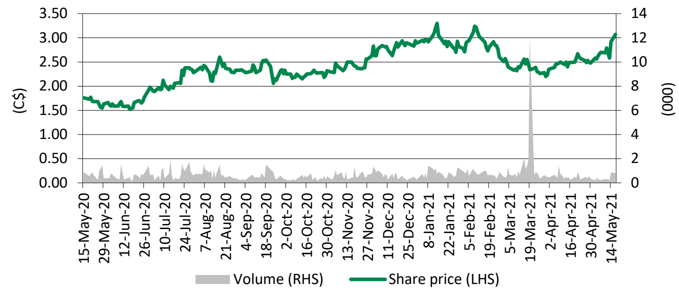
Fiscal year-end	**December 31**
52-week high (C$)	**-**
52-week low (C$)	**-**
P/NAV (x)	**0.77**
NAV target multiple (x)	**1.00**
EV/oz (US$)	**100**
EV/oz target (US$)	**NA**
FCF yield FY1 (%)	**NM**

Financial data

Assumptions	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Gold (US$/oz)	1,770	1,780	1,775	1,700	1,700
C$/US$	1.34	1.25	1.25	1.26	1.26

Financial forecasts	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Balance sheet (C$m)					
Cash & equivalents	51.7	384.6	188.0	32.2	139.4
Working capital	50.3	383.3	186.7	30.9	138.1
Total debt	0.0	200.0	200.0	200.0	150.0
Income statement (C$m)					
Revenue	0.0	0.0	0.0	0.0	404.3
Cost of sales	0.0	0.0	0.0	0.0	185.4
G&A expense	4.6	4.4	4.0	4.0	4.0
Exploration	0.0	0.0	0.0	0.0	0.0
EBITDA	**-7.0**	**-6.8**	**-7.0**	**-7.0**	**211.8**
Net income	-7.0	-7.2	-15.9	-19.1	96.7
Cash flow (C$m)					
Operating CF (bef chgs in WC)	-4.4	-3.8	-12.9	-4.0	188.0
Capital expenditure	18.7	10.6	183.7	151.8	30.8
Net proceeds from equity	47.0	161.2	0.0	0.0	0.0
Net proceeds (repayment) from debt	0.0	200.0	0.0	0.0	-50.0
Free cash flow	-23.3	-14.5	-196.6	-155.8	157.2
Per share data (C$/FD share)					
EPS FD	**-0.04**	**-0.03**	**-0.06**	**-0.07**	**0.35**
Adjusted EPS	**-0.02**	**-0.02**	**-0.05**	**-0.06**	**0.36**
CFPS (bef chgs in WC)	**-0.02**	**-0.02**	**-0.05**	**-0.01**	**0.68**
FCFPS	**-0.12**	**-0.06**	**-0.71**	**-0.57**	**0.57**
Weighted avg basic shares O/S (m)	196	231	275	275	275
Weighted avg diluted shares O/S (m)	196	231	275	275	275

Stock/volume chart



NAV summary

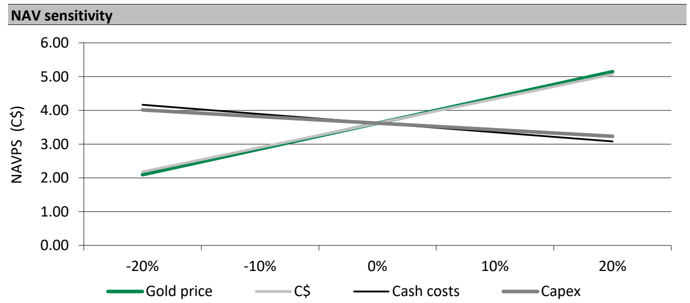
Asset	**Ownership (%)**	**NAVPS (C$)**
Valentine gold project (7% DR)	100	2.17
Non-modelled resources (credit/oz)	100	0.82
Exploration spending	100	0.00
Project NAVPS		**2.99**
Cash & ST investments		1.35
In-the-money options & warrants		0.04
Corporate G&A (5 years @ 7% DR)		-0.06
ST & LT debt		-0.70
Total NAVPS		**3.62**
P/NAV (x)		**0.77**
Shares outstanding (FD) (m)		284

Operational data

Consolidated production profile	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
Gold production (koz)	0	0	190	193	138
Total cash costs (US$/oz)	0	0	776	681	1,083
WGC all-in sustaining costs (US$/oz)	0	0	1,151	1,455	1,277

Valentine gold project operating estimates	**FS**	**Desjardins**
Gold (US$/oz)	1,500	1,700
C$/US$	1.33	1.26
Ore mined (mt)	47	59
Strip ratio	7.2	7.3
Average milled gold grade (g/t)	1.36	1.36
Average mill recovery (%)	94	94
LOM gold production (koz)	1,932	2,421
Minelife (years)	13	16
Average annual gold production (koz)	147	151
Mining costs (C$/t mined)	2.55	2.55
Total operating costs (C$/t)	37.52	41.51
Total cash costs (US$/oz Au)	704	787
WGC all-in sustaining costs (US$/oz)	833	915
Total initial/growth capex (C$m)	349	385
Total sustaining capex (C$m)	294	391
After-tax NPV @ 5% DR (C$m)	**600**	**788**
After-tax IRR (%)	**31.5**	**31.4**

NAV sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		159.6
Exercisable options	1.22	9.1
New shares issued		115.7
Fully diluted shares		284.4
Top ownership	**% outstanding**	**Shares (m)**
BCI Ventures, Inc.	9.8	21.0
Van Eck Associates Corp.	8.7	18.5
1832 Asset Management LP	4.2	9.1
RBC Global Asset Management, Inc.	4.0	8.5
JPMorgan Asset Management (UK) Ltd.	2.3	4.9
Walford Phillip Charles	2.1	4.5
Merk Investments LLC	1.6	3.4
Konwave AG	1.6	3.4
Franklin Advisers, Inc.	1.4	3.0

Reserves & resources

As at April 2021	**Tonnes (m)**	**Au grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	47.1	1.36	2.05
M&I resources (incl reserves)	56.7	1.72	3.13
Inferred resources	29.6	1.72	1.64

Source: Desjardins Capital Markets, FactSet, company reports

John Sclodnick
Amanda Lewis, Associate

ESG overview

MOZ is a Canadian gold development company focused on developing its Valentine gold project in central Newfoundland, Canada. The project is expected to be an open pit operation with a 12-year minelife. Owing to the nature of its business, MOZ is inherently exposed to significant environmental, social and governance risks. However, even at this early stage of its project development, the company has been highly engaged with the local community and focused on incorporating measures in its mine plan to minimize adverse environmental effects. Within the organization, MOZ has showcased a focus on diversity, with more than 40% of its employees and consultants being women. Similar to most gold development companies, MOZ does not publish an annual sustainability report, so there is scope to improve on an ESG reporting basis. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics. MOZ also recently became a member of the Mining Association of Canada, which brings with it an obligation to be compliant with "Towards Sustainable Mining" initiatives.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• The company is committed to meeting requirements under national and provincial environmental acts. • Assessments to mitigate impacts on wildlife and fish habitats, and water and air quality are underway, including a strategy to manage the seasonal caribou migration in the spring and fall. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – Baseline environmental assessments have been ongoing since 2010.	• **Neutral** – There is scope for the company to improve disclosure on environmental policies and practices as the level of activity on-site increases.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• The company conducts regular environmental data collection to ascertain its level of compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on environmental policies and practices as the level of activity on-site increases.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• The planned location for the mine tailings management facility avoids known fish habitats and is located downstream of the Victoria Reservoir and associated dam. • Multiple engineering options are being considered by the company to minimize environmental impacts including thickened tailings to maximize water recycling and improve tailings stability. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Positive** – The company is continuing to focus on environmental management and operational controls. – There is scope for the company to improve disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• MOZ has a health and safety policy in place and plans to develop an integrated occupational health and safety management system. • **Metric** – No significant fines or violations related to occupational health and safety.	• **Neutral** – There is scope for the company to improve disclosure on its health and safety management systems and reporting.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• MOZ hires local labour wherever possible. • The company is currently working on a Newfoundland benefits agreement. • **Metric** – No significant fines or violations related to employment practices. – The company expects to create more than 400 jobs from the Valentine gold project.	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• Since March 2019, MOZ has been engaged with local communities, including the communities of Buchans, Buchans Junction, Millertown, Badger, Bishop's Falls and Grand Falls-Windsor. • The company has also engaged with local Indigenous groups including the Qalipu Mi'kmaq and Miawpukek First Nations, and in May 2021 it signed a socioeconomic agreement with the Qalipu First Nation. • MOZ has signed cooperation agreements with the six surrounding communities; it has also signed a socio and economic agreement with the Qalipu First Nation and is working toward one with the Miawpukek First Nation . • MOZ is currently developing community cooperation agreements, social and economic agreements and Newfoundland benefits agreements. • The company has been actively involved in the community through sponsorship of recreational and cultural events, a quarterly newsletter and public information sessions. • Upgrades are being considered by the company to existing roads and bridges that will be used to access the mine site. • **Metric** – No significant fines or violations related to community relations and Indigenous rights. – MOZ expects to generate ~C$1.3b of income for workers and businesses within Canada, with C$750m specifically for those in Newfoundland. – In 2020, MOZ contributed to the natural ice rink at Buchans Stadium and the purchase of Chromebooks for Avoca Collegiate in Badger.	• **Positive** – MOZ prioritizes the prosperity of local and regional communities. – The company has strong community involvement at this early stage of project development.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• MOZ has a company-wide diversity and inclusivity policy as well as a diversity policy specific to its board of directors. • **Metric** – Two of the eight board directors (25%) and two of the nine management team members (22%) are women, while eight of the company's current 21 full-time employees (38%) are women.	• **Neutral** – There is scope for the company to increase its diversity.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• Newfoundland is a stable mining jurisdiction, with little indication of corruption or bribery. • MOZ's code of ethics covers anti-bribery and anti-corruption policies. • The company has a whistleblower policy which can be used in cases of bribery or corruption. • **Metric** – No indication of fraud, corruption or bribery. – Seven of the eight board members (88%) are independent, including an independent chair, and there is separation of the chairperson and CEO roles.	• **Positive** – The company has clear anti-bribery and anti-corruption policies in place. – There is scope for the company to improve disclosure on relevant training programs for employees.

Minera Alamos Inc.

Developer to intermediate producer...real quick—initiating coverage with a Buy rating and C$1.30 target

- ***Minera Alamos is scheduled to become the next developer to transition to producer status, which should drive a near-term re-rating***
- ***We see a fully funded development pipeline and potential for three producing mines by 2024***
- ***Each of these assets has potential to produce ~100koz/yr, which would bring the company to intermediate producer status***

Highlights

Minera Alamos owns three gold projects in Mexico, all exhibiting low start-up costs and an average IRR of 115%. The company is taking a shareholder-friendly approach to development, in our opinion—rather than continuously drilling the properties to establish as big a resource as possible while adhering to NI 43-101 compliance, it has instead drilled out a starter pit area and conducted a bulk tonnage mining test at its first project, which in our view provides better resource confidence for this type of low-grade oxide gold mineralization, particularly as it pertains to the metallurgy. The Santana project is expected to pour gold around the end of the quarter. The company will then reinvest the cash flows into exploring the property further and developing the next project in the pipeline, Cerro de Oro. Once these two assets are cash flowing, it will build out the third mine in the portfolio, La Fortuna, which we model coming online in 2024. This bolt-on strategy enables the company to limit dilution for shareholders while ultimately achieving a multi-mine operating platform, with exploration upside at each project. The management team had intended on executing a similar strategy when it operated Castle Gold before it was acquired by Argonaut Gold for C$130m in late 2009 for its El Castillo mine, where management had tripled the resource to 1,200koz from 400koz and put the mine into production for US$7m.

Valuation

Our target price of C$1.30/share is based on a 1.00x multiple applied to our NAV estimate of C$1.29/share. We apply a 6% discount rate to the permitted and fully funded Santana and La Fortuna projects and a 7% discount rate to the Cerro de Oro project; we will lower the discount rates to 5% once the assets are in production. The stock currently trades at 0.49x our NAV estimate; in terms of EV/EBITDA, we see the multiple falling steeply from 6.5x in 2022 when Santana is fully ramped up, to 2.7x in 2023 with Cerro de Oro ramped up and to 1.4x in 2024 with La Fortuna online. Gold developer peers currently trade at an average P/NAV of 0.58x, while junior producers trade at 0.67x P/NAV and 4.9x EV/EBITDA FY2. Once all three mines are running, we estimate that the company will generate ~C$150m in annual free cash flow at US$1,700/oz gold and MXN22/US$1. Based on its market cap of C$286m, this implies a free cash flow yield of 52%; to trade at the junior producer average of 5.6%, the shares would need to appreciate by ~840% or ~280% annually over the next three years.

Recommendation

We are initiating coverage of Minera Alamos with a Buy–Speculative rating and C$1.30/share 12-month target, which implies a potential return of 100%. Minera Alamos only recently announced an NI 43-101–compliant maiden resource estimate at Cerro de Oro and is expected to announce one shortly at Santana as well. This would give the company NI 43-101–compliant resources at all assets, including La Fortuna, which should put the stock on the radar of significantly more institutional investors. We expect they will be attracted to the low capital intensity and high IRR of the projects, as well as the company's enviable growth profile, which should drive a re-rating as the projects come online. Investors can get in early with a proven management team who are frugal stewards of shareholder capital and, in our view, the best heap leachers in the business. Minera Alamos is our highest-conviction pick.

John Sclodnick
Amanda Lewis, Associate

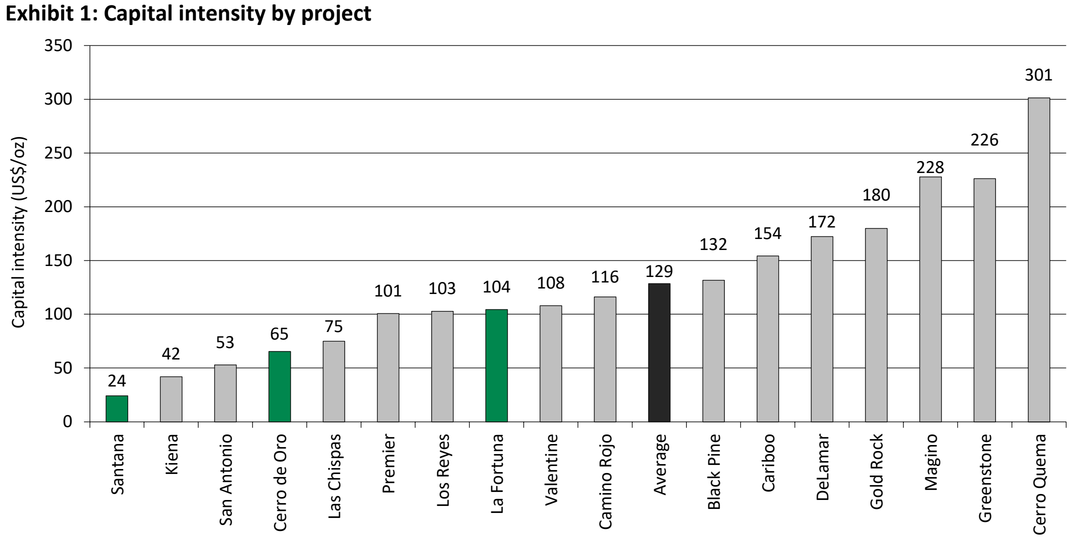
Investment thesis

- **Santana production should catalyze re-rating.** We model first production from Santana at the end of this quarter (2Q21) and a gradual ramp-up to ~55koz/yr, bringing Minera Alamos to junior producer status. The company plans on reinvesting the operating cash flows to explore the property as well as to develop the Cerro de Oro project. We expect the production milestone will start a re-rating as the stock currently trades at 0.49x NAV vs junior producers at an average of 0.67x. We believe Minera Alamos should trade at a premium to the junior producer peers, given the significant growth potential at each of its assets, which is far from fully defined in our NAV, as well as the clear sightline to being a multi-mine producer with assets in the safer states in Mexico.

- **Growth without dilution.** We estimate that the development pipeline including Cerro de Oro and La Fortuna is fully funded. We model the company generating ~C$40m in after-tax FCF per year from Santana. This is more than sufficient to cover a C$2m exploration program at site and the development of Cerro de Oro for US$29m. With no additional equity issuance, we model the company ending 2022 with Cerro de Oro fully constructed, C$23m in cash and no debt, with cash from operations being more than sufficient to develop La Fortuna. Once all three mines are running, we estimate that the company will generate ~C$150m in annual free cash flow at US$1,700/oz gold and MXN22/US$1. Based on its market cap of C$286m, this implies a free cash flow yield of 52%; to trade at the junior producer average of 5.6%, the shares would need to appreciate by ~840% or ~280% annually over the next three years.

- **Low capex intensity limits risk.** We model the three projects having an average after-tax IRR of 115%, as all show low capital requirements and healthy operating margins. Based on initial capex requirements (including sunk capital at Santana) and estimated life-of-mine gold production, Santana shows the lowest capital intensity among all of our covered development projects at US$24/oz. All three projects are well below the average of US$129/oz, with Minera Alamos showing an overall capital intensity of US$59/oz (see Exhibit 1). This significantly lowers the financial risk for investors as a 20% capex overrun at Santana or Cerro de Oro, for example, would equate to an additional cost of only US$2.2m or US$5.8m, respectively.

Exhibit 1: Capital intensity by project



Source: Desjardins Capital Markets

- **Frugal management teams make the best stewards of capital.** The management team has boots on the ground in Mexico, and this is how it is able to develop local relationships that allow for a more genuine CSR program and to adhere to a tight budget during construction. However, the biggest benefit, in our view, is its ability to find the best acquisitions that the broader market is not aware of, as evidenced by the acquisition of Cerro de Oro for just C$6.3m or US$7.48/oz of resources. We currently value the project at C$156m. We expect that the company would take advantage of similar value creation opportunities.

- **Clear sightline to intermediate producer status with current assets.** The management team acquires assets where it sees potential to develop them into 100koz/yr producers. It had done this previously at Argonaut's El Castillo mine, and early indications at Santana and Cerro de Oro show potential that it can do the same here. At Santana, there are six additional breccia pipe targets, and if another two materialize to a similar scale to the Nicho deposit on which the current development plan is based, it could be scaled to a 100koz production run rate. Cerro de Oro is a widely disseminated oxide gold target with potential for a larger production scale than Santana. La Fortuna has ~1,000tpd of spare mill capacity, and with a planned milled grade of 3.68g/t Au, it could ramp up to a nearly 100koz/yr production rate with further discoveries at similar grades without a mill expansion.
- **Expecting increased attention from institutional investors.** The company recently issued a maiden resource estimate for its Cerro de Oro project and expects a maiden resource estimate at Santana this year. This would give the company NI 43-101–compliant resources at all assets and we expect the stock to rapidly be on the radar of institutional investors—we believe they will like what they see.
- **Best in the business.** In our opinion, Minera Alamos is the best builder of heap leach operations in the world with a team that has brought three mines into production in Mexico in the last 13 years. It clearly has a recipe for success and will continue to build, rinse and repeat with its current portfolio (more details on management's track record below). This is largely the same team behind Castle Gold that developed the El Castillo mine and tripled the resource to over 1,200koz from 400koz before it was acquired by Argonaut, which grew annual production to over 100koz/yr at its peak.

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Minera Alamos of C$1.29/share, comprised of C$1.25/share of mining assets and C$0.03/share of net cash (does not sum due to rounding; see Exhibit 2 for breakdown). Our mining asset valuations are based on discounted cash flow models from 4Q21 onwards since our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Santana.** With production expected later this quarter, we value the Santana project in Sonora, Mexico, at C$241m or C$0.52/share, representing 42% of our NAV of mining assets. We apply a 6% discount rate and plan to lower it to 5% once the mine is in production.
- **Cerro de Oro.** We value Cerro de Oro at C$156m or C$0.34/share, representing 27% of our NAV of mining assets. We apply a 7% discount rate since the project is not fully permitted or constructed at this point, although we view it as fully funded.
- **La Fortuna.** Our estimated value for La Fortuna benefits from the company already owning a mill, which lowers the initial capital required. We value it at C$182m or C$0.39/share, representing 31% of our NAV of mining assets. We apply a 6% discount rate since the project is permitted for a construction decision, and we view it as fully funded.
- **Net cash.** Included in our net cash estimate is our C$24m (C$0.05/share) cash balance as of 4Q21, one year forward from the last reported quarter, and C$4m (C$0.01/share) of in-the-money options and warrants; we assume that the rest of the Prime Mining securities held will be sold over the next 12 months, which we have factored into our cash balance. We then deduct our estimated G&A spending over the next five years, discounted at a 5% rate, which amounts to C$13m (C$0.03/share); we estimate that the company will remain debt-free in 4Q21.

John Sclodnick
Amanda Lewis, Associate

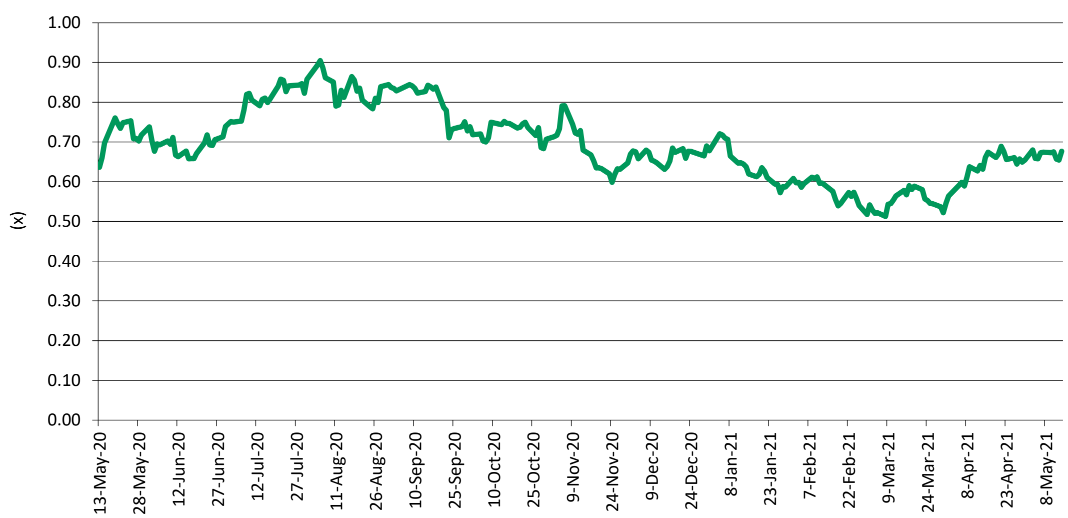
Exhibit 2: Minera Alamos NAV breakdown by asset

	Jurisdiction	Per share (C$)	% of DCF
Santana (6% DR)	Mexico	0.52	42
La Fortuna (6% DR)	Mexico	0.39	31
Cerro de Oro (7% DR)	Mexico	0.34	27
Total mining assets		**1.25**	
Cash & ST investments		0.06	
Marketable securities		0.00	
Corporate G&A (5 years @ 5% DR)		-0.03	
ST & LT debt		0.00	
Net cash/share		**0.03**	
Total NAV		**1.29**	
Shares O/S (FD) (m)		461.9	

Source: Desjardins Capital Market

- **Target price.** Our one-year-forward target price is C$1.30/share and is based on a 1.0x NAV multiple. We believe our target multiple is justified as junior producer peers have reached a peak NAV multiple of 0.9x over the past year. Moreover, we believe that our NAV itself is quite conservative and expect significant accretion as the company encounters exploration success at its properties, resulting in an expanded production scenario which we do not model currently.

Exhibit 3: Peer LTM average P/NAV multiple



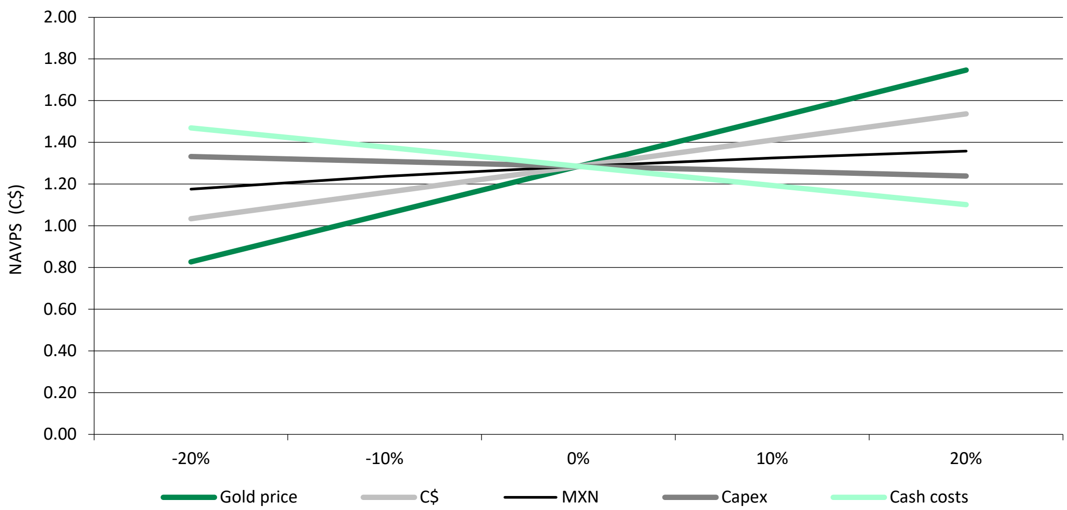
Source: Desjardins Capital Markets, FactSet

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 17.8% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ assumption given our NAV is denominated in Canadian dollars, changing by 9.8% for a 10% change; our NAV would change by 3.1% for a 10% change in the MXN/US$ rate. Our NAV would change by 7.2% for a 10% change in our opex assumptions, while it shows little sensitivity to capex estimates at 1.8% for a 10% change (see Exhibit 4).

- Our 2022 EBITDA estimate (with a full year of production from Santana) would change by 18.5%, 7.2% and 3.3%, respectively, for a 10% change in our gold price, opex and MXN/US$1 assumptions.

Exhibit 4: Minera Alamos NAV sensitivity to various assumptions



Source: Desjardins Capital Markets

Valuation comparables

- The stock is currently trading at 0.49x our NAV estimate; in terms of EV/EBITDA, we see the multiple falling steeply from 6.5x in 2022 with Santana fully ramped up, to 2.7x in 2023 with Cerro de Oro ramped up and to 1.4x in 2024 with La Fortuna online. Gold developer peers are currently trading at an average P/NAV of 0.58x, while junior producers are trading at 0.67x P/NAV and 4.9x EV/EBITDA FY2. We believe that Minera Alamos should trade at a premium to the junior producer peers, given the significant growth potential at each asset, which is far from fully defined in our NAV, and due to its clear sightline on growing to be a multi mine producer with assets in the safer states in Mexico.
- Once all three mines are running, we estimate that the company will generate ~C$150m in annual free cash flow at US$1,700/oz gold and MXN22/US$1. Based on its market cap of C$286m, this implies a free cash flow yield of 52%; to trade at the junior producer average of 5.6%, the shares would need to appreciate by ~840% or ~280% annually over the next three years.

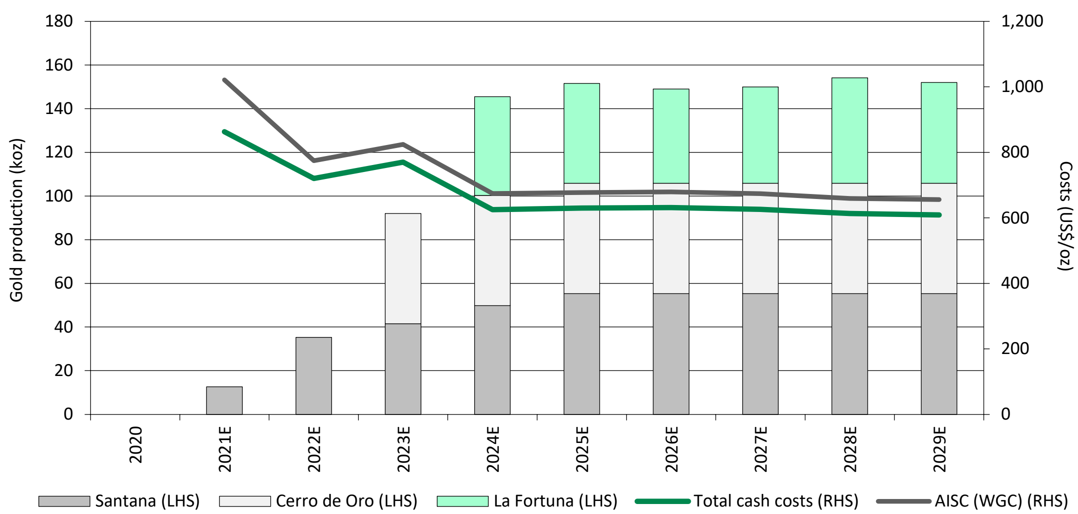
Upcoming catalysts

- First gold pour at Santana—late 2Q21/early 3Q21
- Submission of Cerro de Oro permit application—late 2Q21/early 3Q21
- Phase 3 exploration at Santana—to conclude in 3Q21
- Cerro de Oro exploration—to conclude in 4Q21
- Commencement of construction at Cerro de Oro—1Q22
- Commencement of operations at Cerro de Oro—4Q22

Company overview

Minera Alamos owns three gold projects in Mexico, all exhibiting low start-up costs and an average IRR of 115%. The company is taking a shareholder-friendly approach to development, in our opinion—rather than continuously drilling the properties to establish as big a resource as possible while adhering to NI 43-101 compliance, it has instead drilled out a starter pit area and conducted a bulk tonnage mining test at its first project, which in our view provides better resource confidence for this type of low-grade oxide gold mineralization, particularly as it pertains to the metallurgy. The Santana project is expected to pour gold around the end of the quarter. The company will then reinvest the cash flows into exploring the property further and developing the next project in the pipeline, Cerro de Oro. Once these two assets are cash flowing, it will build out the third mine in the portfolio, La Fortuna, which we model coming online in 2024. This bolt-on strategy enables the company to limit dilution for shareholders while ultimately achieving a multi mine operating platform, with exploration upside at each project. The management team had intended on executing a similar strategy when it operated Castle Gold before it was acquired by Argonaut for C$130m in late 2009 for its El Castillo mine, where management had tripled the resource to 1,200koz from 400koz and put the mine into production for US$7m.

Exhibit 5: Minera Alamos production profile



Source: Desjardins Capital Markets

Exhibit 6: Asset locations in Mexico

Source: Company presentation

Santana

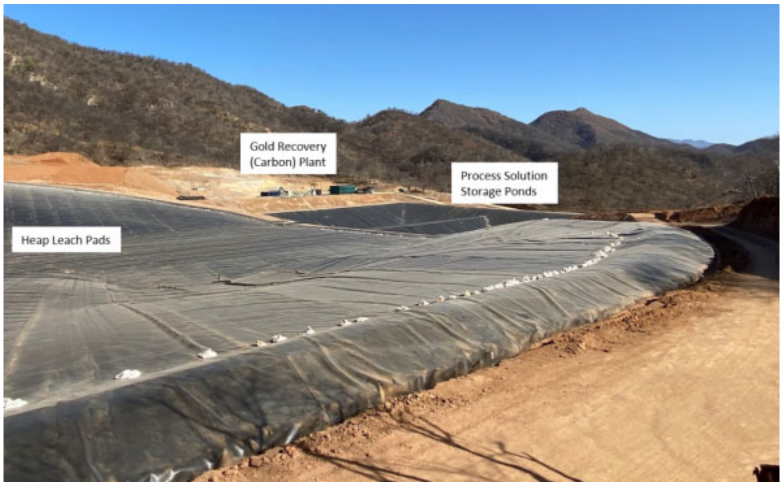
Santana is the company's first project to go into production, with first gold pour anticipated around the end of 2Q21. It is located in Sonora, Mexico, which is the best state to conduct mining in Mexico in our view given its relatively stable politics, supply of skilled mining labour and equipment; it also benefits from the short and clear permitting timelines. There are a number of operating mines nearby including Argonaut's La Colorada, Pan American Silver's Dolores and Alamo Dorado mines, Alamos Gold's Mulatos mine and Agnico Eagle's Pinos Altos mine, among others.

The company has not released an NI 43-101–compliant resource at the property; however, more than 30,000m of drilling has been completed, with a Phase 3 program currently underway. We derive our confidence in the mineral endowment from the bulk test which saw 50,000t mined, crushed and stacked on the leach pad. Based on the production of 1.1koz of gold, the average grade stacked was estimated at 0.80g/t Au with an implied recovery of over 80%.

The company's Manifestación de Impacto Ambiental (MIA), the equivalent of an environmental impact statement has been approved, allowing permitting to now focus on securing the water use and explosives permits in advance of commercial production. The company has a 25-year surface access agreement in place with the local ejido.

The company provided a status update on Santana development in late January 2021. At that point, the solution ponds were lined, plant foundations were completed and structure installations were underway. By the March 31 update, the gold recovery plant and initial heap leach pad area had both been completed (see Exhibit 7). The company also announced that it had selected a mining contractor, the same one responsible for the construction and operations of El Castillo.

Exhibit 7: Heap leach pad and solution ponds with recovery plant in background



Source: Company press release

Our model

We take a conservative approach to our mine model and estimate a resource based on a 500m strike length, with the deposit extending 150m deep and 150m wide. We assume the same density as the nearby La Colorada mine of 2.68, which generates a 30mt resource estimate. We conservatively model a 0.65g/t grade, which yields 630koz of contained gold. With our recovery estimate of 72.5%, we model life-of-mine production of 454koz over a 9.5-year minelife; at a 10,000tpd throughput, this would result in average annual production of ~55koz and we model a gradually increasing production rate from our 35koz in 2022. Our resource estimate factors in limited exploration success beyond the starter pit; however, there are another six breccia pipe targets, and if the company has success testing these targets, we would expect to see an expanded throughput scenario and an extended minelife.

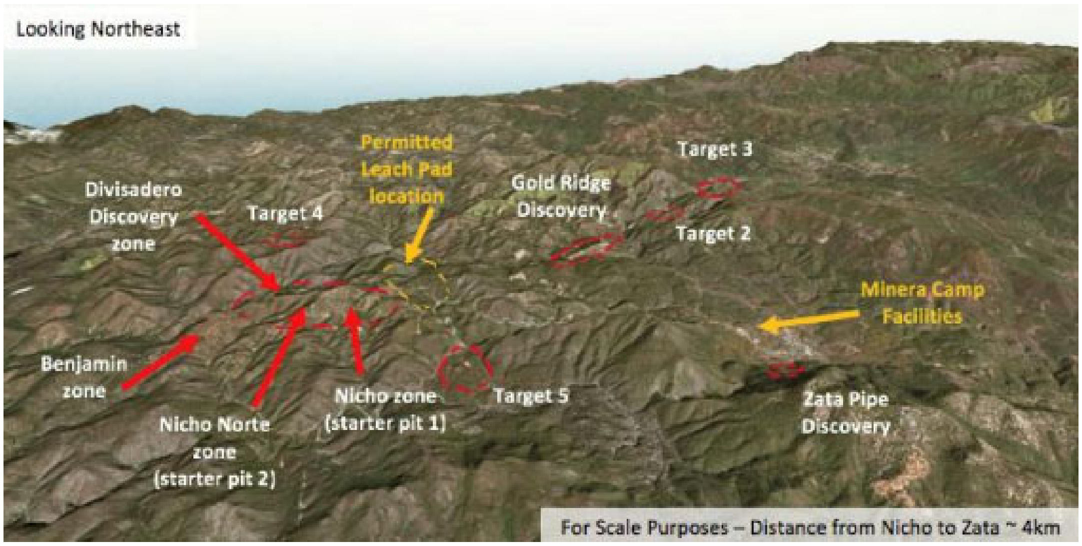
We view Argonaut's Mexican heap leach operations as suitable benchmarks on which to base our cost assumptions. We assume average life-of-mine operating costs of US$9.75/t, which compares with 2019 production costs of US$8.19/t at El Castillo, US$10.58/t at La Colorada and US$7.06/t at San Agustin (we use 2019 as a reference to avoid production impacts from COVID-19). This drives our life-of-mine average cash cost estimate of US$691/oz and average AISC of US$736/oz; we expect that our opex/tonne estimates could prove conservative, with inflation factors partially offset by a weaker peso. Management expects initial capital costs to come in at C$10m, so our US$11m estimate (C$14.6m) is effectively a ~46% capex overrun, while we assume average sustaining capex of US$2.0m annually.

These assumptions drive our IRR estimate of 132% (includes sunk capital) while our current NPV estimate included in our one-year forward-looking NAV (excludes sunk capital) amounts to C$241m at a 6% discount rate.

Resource growth potential

A 55koz/yr production run rate is not going to have investors tripping over themselves to buy the shares. The real key to this story is that the proceeds from the expedited production plan will be used to explore the property; and since it is a heap leach operation, an expansion can occur with little capital requirement, unlike in a mill operation where the throughput capacity limits the production potential. Our model is based on the mining and stacking of primarily the Nicho and Nicho Norte deposits; however, there are another six mineralized intrusive breccia pipe targets already identified on the property which will be the focus of the future exploration programs. The ongoing Phase 3 drill program is focused on determining an optimized pit shell for a resource estimate and testing extensions of the main Nicho pipe. With exploration success, we expect management to develop a centralized heap leach pad area to allow for an expansion. We estimate that the development of another pit of the same size and grade as Nicho could result in our project NPV increasing by ~80% and our overall NAV increasing by ~35%.

Exhibit 8: Exploration potential at Santana—all pipes appear to be gold-bearing



Source: Company presentation

Cerro de Oro

The company acquired the Cerro de Oro project in August 2021 for just C$6.3m, exemplifying the benefits of a locally based management team. The project is in Zacatecas, Mexico, a mining-friendly state which hosts large mines including Newmont's Peñasquito mine which is ~25km away, Orla's Camino Rojo project and Fresnillo's Noche Buena mine, also nearby. The property came with a historical drilling database, which enabled the company to quickly define an NI 43-101–compliant resource estimate of 48mt grading 0.41g/t for 630koz. The resource estimate is based on a 0.18g/t cut-off grade and US$1,450/oz gold price and derived from 96 holes. Management views the project as having a number of similarities to Argonaut's El Castillo mine, with strong economic potential driven by a low strip ratio estimated at 0.25 within the pit shell to offset the low grade of the deposit.

This is an asset that can be rapidly put into production as the permitting timeline in Mexico is relatively quick at ~12 months. With a resource already defined and advanced metallurgical studies already completed, the company views the project as an open pit, heap leach operation, which is its development and operational expertise. The company has commenced permitting work and we see potential for it to begin construction in 2022.

Exhibit 9: Cerro de Oro project location

Source: Company press release

Our model

Our model of Cerro de Oro is based on the inferred resource estimate from November. We assume the project will be permitted this year and constructed next year for first production in 2023. With a throughput assumption of 15,000tpd, we expect the minelife to extend for nine years until 2031. Modelling an average stacked grade of 0.41g/t with a 0.50 strip ratio and average recovery of 70%, we estimate life-of-mine production of 443koz or ~50koz/yr.

Given Cerro de Oro is another open pit heap leach in Mexico, we apply recent operating costs from Argonaut as a benchmark and assume life-of-mine operating costs of US$7.72/t, lower than at Santana as it benefits from the lower strip ratio. This drives our life-of-mine average cash cost estimate of US$836/oz and average AISC of US$897/oz, higher than at Santana due to the lower stacked grade. We also base our initial capital cost estimate of US$29m on benchmarking; our estimate is 160% higher than our Santana estimate while our production rate is just 50% higher, despite Santana continuing on budget, which supports our view that we are being very conservative with our capex estimate. We estimate sustaining capital of US$3m/yr on average.

These assumptions drive our IRR estimate of 81% while our current NPV estimate included in our NAV amounts to C$156m at a 7% discount rate.

Resource growth potential

Management sees plenty of growth potential at Cerro de Oro, as it is a large disseminated gold system. The oxidized mineralization typically extends to surface, allowing for the low strip ratio. Management sees many parallels to the El Castillo mine which this management team built, growing the resource to over 1,200koz from 400koz, and which at its peak was producing over 100koz/yr. The drilling that has been completed at Cerro de Oro thus far extended to about 75m deep and often ended in oxide gold mineralization, indicating that there is significant potential to grow the heap leachable resource. Management also sees potential to extend the resource along the north–south strike with gold mineralization traced over 1,000m. An exciting idea involves looking at the potential leachability of the sulphide material which was ignored by previous owners but which preliminary metallurgical testing has shown to be amenable to leaching; further follow-up test work will need to be completed to confirm this.

La Fortuna

The La Fortuna project was in the Castle Gold portfolio when it was acquired by Argonaut in late 2009. The Minera Alamos management team liked the project and reacquired it in 2016. The project already has a mill that is containerized in the US, which significantly reduces the initial capital required. The project completed a PEA in July 2018 which conceives of an initial milling operation with a throughput of ~1,100tpd generating average annual production of 45koz Aueq (43koz Au, 220koz Ag, 2.2mlbs Cu) at AISC of US$440/oz (net of by-products) over a five-year minelife. The technical report estimates 2.0mt processed at an average grade of 3.68g/t Au, 20g/t Ag and 0.27% Cu for life-of-mine production of 215koz Au, 1,100koz Ag and ~11mlbs Cu. The company intends for the project to be the third to come online, boosting its overall production over the 100koz/yr threshold.

The project is located in Durango near the Sinaloa state border. The company reached a surface access agreement with the local ejido which allows for 25 years of access and its MIA has been approved (this is the most significant permit required).

Our model

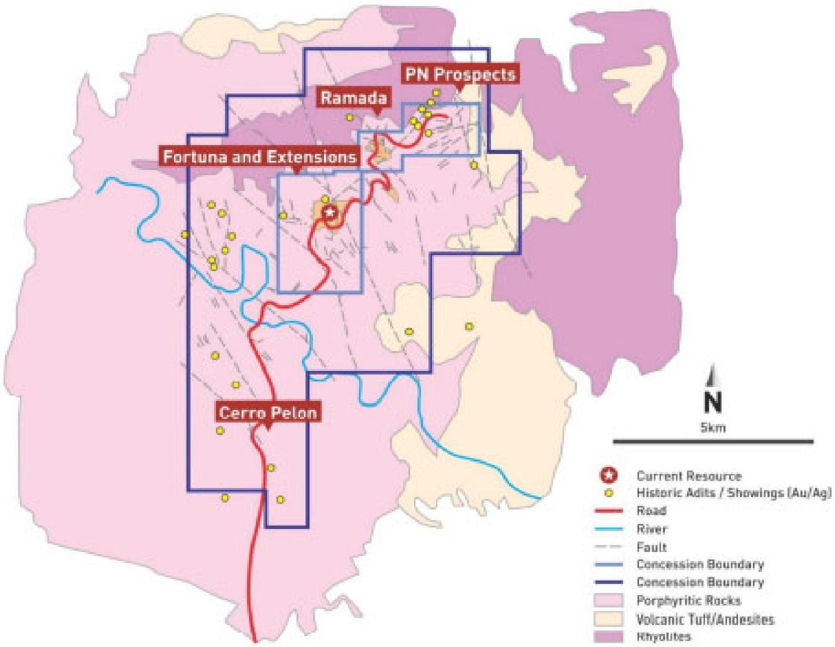
Our La Fortuna model is based on the 2018 PEA while assuming 25% resource growth potential, 36% higher opex, 10% higher initial capex and 40% higher average annual sustaining capex; our grade and recovery estimates are in line with the study. We assume throughput of 1,100tpd, in line with the study; however, the over-capacity 2,000tpd mill could prove beneficial in the event of exploration success and allow for an expanded production scenario without additional growth capital. We model 2.5mt mined and milled at an average gold grade of 3.68g/t and average recovery of 90%, which would see life-of-mine production of 266koz or 283koz Aueq. This would equate to average annual production of ~43koz Au or ~45koz Aueq over a 6.25-year minelife. We estimate opex of US$46/t (vs PEA at US$33/t), which generates a life-of-mine cash cost estimate of US$303/oz and AISC of US$355/oz, both benefiting from higher by-product metals prices and our weaker MXN/US$ assumption (PEA assumed US$16/oz Ag, US$2.60/lb Cu and MXN19/US$1 vs our estimate of US$24/oz Ag, US$3.50/lb Cu and MXN22/US$1). We estimate initial capex of US$30m and average annual sustaining capex of US$2.2m.

These assumptions drive our IRR estimate of 132% while our current NPV estimate included in our NAV amounts to C$182m at a 6% discount rate.

Resource growth potential

This high-grade project has a number of attractive exploration targets with wide swaths of mineralized breccias. This is a historical mine and similar mineralization to the high-grade resource has been identified, often accompanied by historical adits including at the Ramada target which has a strike length of over 600m and is located ~2km north of the La Fortuna deposit, and the PN prospect which has a 1.5km strike length and is also over historical mine workings (see Exhibit 10).

Exhibit 10: La Fortuna exploration targets



Source: Company presentation

Financial state

The company ended the year with a cash balance of C$19.9m, no debt and 440m shares outstanding. It has 29m options outstanding, with 21m in the money, and 0.7m warrants outstanding and in the money, bringing our modelled fully diluted share count to 461.9m.

We see the company being free cash flow positive in 2H21 and expect the proceeds to be used to continue to explore the properties in the portfolio and grow the resource base. In 2022, we see it being free cash flow neutral, with cash from operations used to build Cerro de Oro. We expect the cash generated from the two operations to be more than sufficient to fund the development of La Fortuna in 2023. Once all three mines are running, we estimate that the company will generate ~C$150m in annual free cash flow at US$1,700/oz gold and MXN22/US$1.

Potential risks

There are numerous risks to investing in a mining company, particularly one that does not have operating cash flows; we have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Technical risk.** There is no NI 43-101–compliant resource estimate at the Santana project so there is additional risk that the grade, recoveries and tonnage are less than what we currently estimate in our model. However, as we stated above, we believe that the bulk test mining actually provides greater confidence in these areas than a drill program would. The company has also conducted extensive drill programs and is currently putting this data into a compliant resource estimate.

- **Financing risk.** Based on our current estimates, we view the company as fully funded to deliver the three projects in its portfolio. There is a possibility that the company could require additional funding if the gold price falls, and there is also the potential that it could identify another acquisition opportunity that may require additional financing.

- **Jurisdictional risk.** All of the company's mining assets are in Mexico and it faces heightened risk if the country increases tax rates or royalties, permitting requirements or timelines. Our valuation would be adversely impacted if the Mexican peso strengthens.

- **Social risk.** The company has agreements in place with the local ejido to access land for its Santana project; land and water access is necessary to operate the project, so positive relations with the local ejido are essential. There is also risk that the ejidos and local communities surrounding its other projects do not allow the company to operate mines nearby, which would have a material negative impact on our current valuations.
- **Market risk.** The company will generate nearly all of its revenue from the sale of gold, so a decline in the gold price would have a significant impact on our valuation of the company. Other market risks, including input costs, wage costs and exchange rates, could also impact our valuation.

Management and board

Many key members of the management team previously worked together at Castle Gold before its acquisition by Argonaut Gold. Management and insiders currently own ~2.8% of the shares outstanding while Osisko Development Corp. owns another 17.2%, based on FactSet data.

- **Darren Koningen, CEO.** Mr Koningen brings more than 25 years of experience in the mining industry and is one of the best heap leach developers and operators in the world, in our view. His track record includes bringing three gold mines online in the past 12 years, including the El Castillo mine which was acquired by Argonaut for C$130m in 2009. Mr Koningen holds a BSc in mineral process engineering from Queen's University and is a professional engineer.
- **Doug Ramshaw, President.** Mr Ramshaw has more than 20 years of experience in the mining industry, primarily in business development and M&A activities. He previously worked as a mining analyst for an independent brokerage based in London, England. Mr Ramshaw holds a BSc in mining geology from the Royal School of Mines and sits on the board of Great Bear Resources.
- **Chris Chadder, CFO.** Mr Chadder has more than 20 years of experience in financial management, with many of those in senior roles with mining companies, including involvement in bringing three mines online in the last 12 years. He holds a BBA from Brock University and is a CA and CPA.
- **Federico Alvarez, COO.** Mr Alvarez has more than 30 years of experience in the mining industry, academia and government including 10 years as director of mining affairs for the state of Guanajuato. He previously worked as vice-president, operations, for Castle Gold and Argonaut. He holds a bachelor's degree in mining engineering from Guanajuato University and a master's degree in mining engineering from McGill University.
- **Chris Sharpe, Vice-President, Project Development.** Mr Sharpe is a mining engineer with more than 15 years of experience, the last five of which were with Centerra Gold. Prior to that, his career spanned time with Aurvista Gold, AuRico Gold and Wardrop Engineering. Mr Sharpe holds a bachelor of mining engineering degree from Dalhousie University.
- **Carolina Salas, Vice-President, Technical Services.** Ms Salas brings more than 15 years of experience in the mining industry in Mexico, six of which were with Industrias Peñoles. She holds an MSc degree in metallurgical science from the University of Sonora.
- **Miguel Cardona, Vice-President, Exploration.** Mr Cardona brings more than 20 years of experience in mineral exploration including at Castle Gold, where he oversaw the increase of estimated resources at El Castillo to 1,200koz from 400koz. He holds a bachelor's degree in geological engineering and a master's degree in planning and systems from San Luis Potosi University.
- **Victoria Vargas, Vice-President, Investor Relations.** Ms Vargas has more than 18 years of experience in the mining sector. She worked in similar roles at Sierra Metals, Alamos Gold and Kinross Gold. She holds a BSc in economics as well as an MBA.
- **Board of directors.** Bruce Durham, Darren Koningen, Ruben Padilla, Doug Ramshaw, Kevin Small.

Minera Alamos Inc.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**MAI, TSX-V**
Current price (C$)	**0.65**
Stock rating	**Buy**
Target price (C$)	**1.30**
Potential total return (%)	**100**
Risk rating	**Speculative**
Shares outstanding (m)	**439.5**
Market capitalization (C$m)	**285.7**

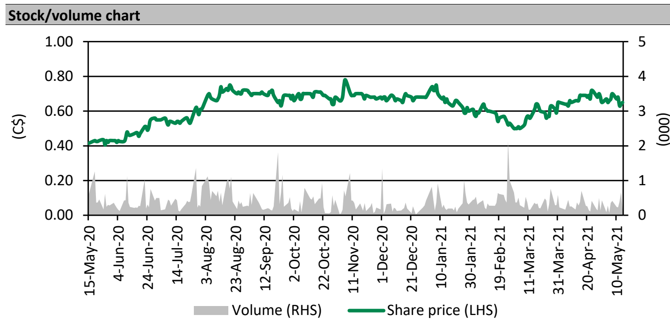
Fiscal year-end	**December 31**
52-week high (C$)	**0.78**
52-week low (C$)	**0.40**
P/NAV (x)	**0.49**
NAV target multiple (x)	**1.00**
EV/NTM EBITDA (x)	**29.2**
EBITDA target multiple (x)	**NM**
FCF yield FY1 (%)	**NM**

Financial data

Assumptions	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Gold (US$/oz)	1,392	1,770	1,780	1,775	1,700
C$/US$	1.33	1.34	1.25	1.25	1.26
MXN/US$	19.25	21.49	20.09	20.00	22.07

Financial forecasts	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Balance sheet (C$m)					
Cash & equivalents	5	23	28	27	65
Working capital	1	23	27	26	64
Total debt	2	0	0	0	0
Income statement (C$m)					
Revenue	0	0	28	78	194
Cost of sales	0	0	14	32	89
G&A expense	3	3	3	3	3
EBITDA	**-4**	**-2**	**9**	**41**	**100**
Depreciation, depletion & amortization	0	0	1	3	10
Net income	-4	6	6	28	66
Cash flow (C$m)					
Operating CF (bef chgs in WC)	-3	0	8	33	82
Capital expenditure	0	7	10	34	44
Net proceeds from equity	5	22	0	0	0
Net proceeds (repayment) from debt	2	1	0	0	0
Free cash flow	-3	-8	-2	-1	39
Per share data (C$/FD share)					
EPS FD	**-0.01**	**0.01**	**0.01**	**0.06**	**0.15**
Adjusted EPS	**0.01**	**0.01**	**0.01**	**0.06**	**0.15**
CFPS (bef chgs in WC)	**-0.01**	**0.00**	**0.02**	**0.08**	**0.19**
FCFPS	**-0.01**	**-0.02**	**0.00**	**0.00**	**0.09**
Weighted avg basic shares O/S (m)	357	418	440	440	441
Weighted avg diluted shares O/S (m)	357	435	440	440	441

Stock/volume chart

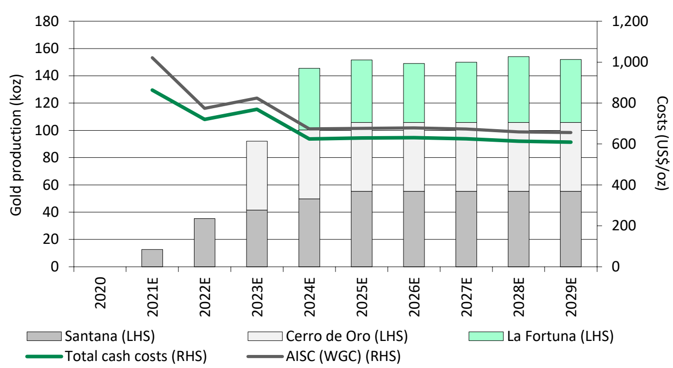


NAV summary

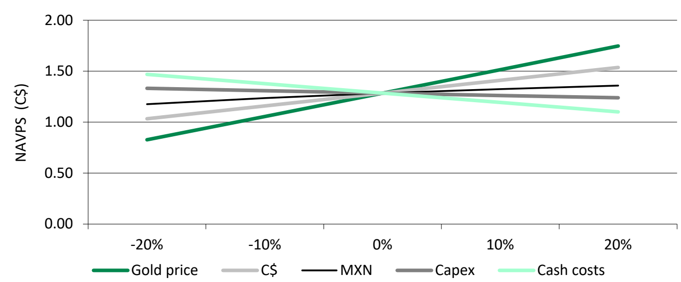
Asset	**Ownership (%)**	**NAVPS (C$)**
Santana (6% DR)	100	0.52
La Fortuna (6% DR)	100	0.39
Cerro de Oro (7% DR)	100	0.34
Project NAVPS		**1.25**
Cash & ST investments		0.05
In-the-money options & warrants		0.01
Marketable securities		0.00
Corporate G&A (5 years @ 5% DR)		-0.03
ST & LT debt		0.00
Total NAVPS		**1.29**
P/NAV (x)		**0.49**
Shares outstanding (FD) (m)		462

Operational data

Consolidated production profile	**2019**	**2020**	**2021E**	**2022E**	**2023E**
Gold production (koz)	0	0	13	35	92
Total cash costs (US$/oz)	0	0	863	720	770
WGC all-in sustaining costs (US$/Aueq)	0	0	1,021	774	825



NAV sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		440.0
Exercisable options	0.32	29.0
Warrants	0.00	0.0
Fully diluted shares		461.9

Top ownership	**% outstanding**	**Shares (m)**
Osisko Gold Royalties Ltd.	17.2	76.1
Aegis Financial Corp.	4.3	19.0
Invesco Advisers, Inc.	1.7	7.3
Koningen Darren M	1.6	6.9
Ramshaw Douglas W	1.0	4.3
Commodity Capital Ag	0.8	3.6
Ci Investments, Inc.	0.7	3.2
Gr Asset Management Gmbh	0.4	1.6
Durham Robert Bruce	0.2	0.7
Incrementum Ag	0.1	0.6

Reserves & resources

As at November 2020	**Tonnes (m)**	**Au grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	0.0	0.00	0
M&I resources (incl reserves)	3.5	2.78	310
Inferred resources	48.2	0.41	639

Source: Desjardins Capital Markets, FactSet, company reports

ESG overview

MAI is a junior Canadian gold development company with three projects in Mexico: Santana in Sonora state, Cerro de Oro in Zacatecas state and La Fortuna in Durango state. Owing to the nature of its business, the company is inherently exposed to significant environmental, social and governance risks. However, MAI has a strong track record of successful mine development and is currently developing in a mining-friendly jurisdiction with a history of mining activity. Similar to many junior producers, the company does not publish an annual sustainability report, so there is scope to improve on an ESG reporting basis. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics. We note that the management team is largely based in Mexico and we have seen firsthand that it is well-established in the local community.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• All three projects are expected to be open pit operations with a sizeable footprint on surface. • MAI has an environmental policy in place to ensure that employees operate in an environmentally friendly manner that complies with all regulations. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – MAI received key environmental approvals in late 2020 for construction of the La Fortuna project.	• **Neutral** – There is scope for the company to improve disclosure on the area of land disturbed.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• MAI is committed to maintaining compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on GHG and other gas emissions.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• MAI is committed to maintaining compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• MAI is monitoring the COVID-19 situation in both Canada and Mexico to protect the health of its employees and stakeholders. • **Metric** – No significant fines or violations related to occupational health and safety.	• **Neutral** – There is scope for the company to improve disclosure on its level of compliance with safety and health standards.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• MAI hires local labour wherever possible for its operations. • The company currently maintains an office in Mexico which manages administrative and accounting functions. • **Metric** – No significant fines or violations related to employment practices.	• **Positive** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• MAI has initiated discussions with landowners and other stakeholders near its mining operations to ensure that land access and surface use agreements are in place before development. • **Metric** – No recent issues involving community relations have been identified.	• **Positive** – The company continues to respect and support local communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• MAI has not yet reported a formal diversity or inclusion policy. • **Metric** – None of the board directors and two of the eight management team members (25%) are women.	• **Neutral** – There is scope for the company to improve disclosure on diversity in its workforce.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• MAI adopted a code of business conduct and ethics and implemented a whistleblower policy in 2007. • **Metric** – No indication of fraud, corruption or bribery. – Three of the five board members (60%) are independent.	• **Neutral** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption policies as well as the relevant training programs for employees.

Osisko Development Corp.

Getting the band back together—initiating coverage with a Buy rating and C$10.75target

- ***Osisko Development has largely the same team that developed Canadian Malartic and will try to repeat that success***
- ***The company will get operating cash flows from smaller assets to fund the development of the prize, namely the Cariboo project***
- ***At production of over 300koz/yr once the Cariboo mine is ramped up, the company will be firmly entrenched among intermediate producers and should re-rate accordingly***

Highlights

Osisko Development was formed on November 25, 2020 through a spinout of the mining assets that were previously held within Osisko Gold Royalties. The assets now held by Osisko Development include the Cariboo gold project in BC, the Bonanza Ledge II project which is part of the Cariboo property, the San Antonio gold project in Sonora, Mexico, an exploration land package in the Guerrero gold belt of Mexico, as well as a package of exploration properties in the James Bay area of Canada; it also holds a portfolio of publicly traded equities. The company will transition to producer status later this year after it restarts operations at Bonanza Ledge. These cash flows will then be reinvested to permit and construct the San Antonio mine, with the increased cash flows used to fund the development of the long-life cornerstone asset in the Cariboo gold project. The company is targeting a feasibility study on the project in 2H of this year and is hoping to receive permits to allow for construction to commence in 2022, with first gold anticipated in 2023. Once the project is ramped up, we expect the company to produce over 300koz/yr of gold, elevating itself to a mid-tier North American producer with further resource growth potential.

Valuation

Our one-year-forward target price is C$$10.75/share and is based on a 0.85x NAV multiple. We apply a discounted NAV multiple as we believe the shares will be challenged to realize their intrinsic value while the float is limited, with Osisko Gold Royalties owning the majority of the shares outstanding. As the float increases, we believe the shares will begin to trade closer to our NAV estimate and should ultimately fetch a premium valuation once the company becomes an intermediate North American producer. In 2024, when Cariboo is fully ramped up, we see the stock trading at 1.5x EV/2024 EBITDA, with a free cash flow yield of 29%. Osisko Development should be considered an intermediate producer in 2024 and that group averages 4.7x EV/EBITDA FY1, with an average FCF FY1 yield of 5.2%; to trade in line with the group on an EV/EBITDA basis, Osisko Development would need to outperform by 128% or a CAGR of 43%, and to trade in line on an FCF basis, it would need to outperform by 452% or a CAGR of 113%.

Recommendation

We are initiating coverage of Osisko Development with a Buy–Speculative rating and C$10.75/share 12-month target, which implies a potential return of 51%. Investors have an opportunity to participate in the Osisko team’s most advanced mining project as it looks to repeat the success it had at Canadian Malartic with another brownfield project in Canada. We like its approach of getting cash flowing from smaller mines first, which will both help fund development but also potentially allow for a higher valuation when funding is needed to build the prize that is the Cariboo project. The Cariboo project is a district play with potential to develop into a long-life mining camp, as numerous exploration targets have already been identified on the extensive, highly prospective land package.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Reinterpreting a misunderstood asset.** The Osisko team is getting the band back together and looking to repeat the success at Canadian Malartic. This time it is reinterpreting the Cariboo mining district in BC, which has historically been misunderstood as a deposit, and the management team believes it has cracked the code. Similar to Canadian Malartic, Cariboo is a brownfield site which hosts a multi-million-ounce deposit, with further growth potential.

- **The team to deliver.** The management team was not content to rest on its laurels and simply reap the windfall from the most valuable royalty in the world after the sale of Osisko Mining 1.0. The team is made up of mine builders and having identified the potential at Cariboo, it is intent on utilizing its skill set for maximum value creation by drilling the well-endowed mining district at Cariboo and building another high-margin operation.

- **A playbook that works.** The company intends to bring Bonanza Ledge II online later this year, followed by production from San Antonio, which should deliver annual production of ~75koz. The cash flows from these operations will then be reinvested to develop the long-life cornerstone asset that is the Cariboo gold project. The transition to producer status in the near term should allow for a re-rate as well as better financing terms to fully fund the development of Cariboo, while also lowering the financing hurdle.

- **Future mid-tier North American producer.** Once the company has ramped up Cariboo, we see potential for production of 300koz/yr. Between now and then, the company will aggressively drill the property and early indications show a mineralized trend with additional potential deposits, which should allow for an expanded production scenario. We also believe that the market will grow to like the San Antonio project, which is not a well-known asset as it had been privately held.

- **Ultimately, we see these assets producing much more.** The company has already identified a number of deposits along the Cariboo trend and this should justify the construction of a larger processing facility (parts of which are already purchased). Like management, we see potential for an expansion to 6,000tpd from 4,750tpd at Cariboo; this would bring production to more than 300koz at AISC of ~US$900/oz and represents upside to our NAV estimate. Given a North American production base with growth potential, the stock should fetch a premium valuation multiple in the market once it has an expanded float.

- **Numerous catalysts this year.** The company has a slew of meaningful catalysts lined up this year that should offer consistent support as the projects are derisked and as they advance toward cash flow generation, including gold pour announcements, permitting milestones and a steady stream of exploration results (see list below).

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Osisko Development of C$12.48/share, comprised of C$11.35/share for mining assets and C$1.14/share of net cash (see Exhibit 1 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards since our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **Cariboo.** The bulk of our NAV estimate is in the Cariboo asset in BC, which we value at C$1,343m or C$9.46/share at a 7% discount rate, representing 83% of our NAV for mining assets. This includes the near-term production from Bonanza Ledge II and is impressive value compared with the C$242m acquisition cost, even after applying the 5% NSR royalty.

- **San Antonio.** We value San Antonio at C$268m or C$1.89/share, representing 17% of our NAV for mining assets. We apply a 7% discount rate since the project is not yet fully permitted or constructed at this point, although we view it as fully funded. This is also impressive value vs the US$42m acquisition cost, even after factoring in the 15% precious metals stream.

- **Exploration properties.** We do not attribute value to the exploration properties given the early stage and the fact that the company is currently focused on exploration at Cariboo and San Antonio.
- **Net cash.** Included in our net cash estimate is our estimated cash balance required to fully fund our discounted cash flow models at Cariboo and San Antonio, which totals C$340m and after a quarter of capital spending at Cariboo, C$262m or C$1.84/share. This includes an estimated additional equity financing of C$75m at C$8.50/share and a C$75m debt issuance in 4Q21. The options and warrants are currently out of the money so they do not factor into our net cash or share count estimate. We assume that the equity portfolio is sold over the course of this year so this is included in our net cash number. We deduct our estimated G&A spending over the next five years, discounted at a 7% rate, which amounts to C$25.0m or C$0.18/share. Our C$75m debt assumption takes C$0.53/share off our net cash estimate of C$1.14/share.
- **Target price.** Our one-year-forward target price is C$10.75/share and is based on a 0.85x NAV multiple. We apply a discounted NAV multiple as we believe the shares will be challenged to realize their intrinsic value while the float is limited, with Osisko Gold Royalties owning the majority of the shares outstanding. As the float increases, we believe the shares will begin to trade closer to our NAV estimate and should ultimately fetch a premium valuation once the company becomes an intermediate North American producer.

Exhibit 1: Osisko Development NAV breakdown by asset

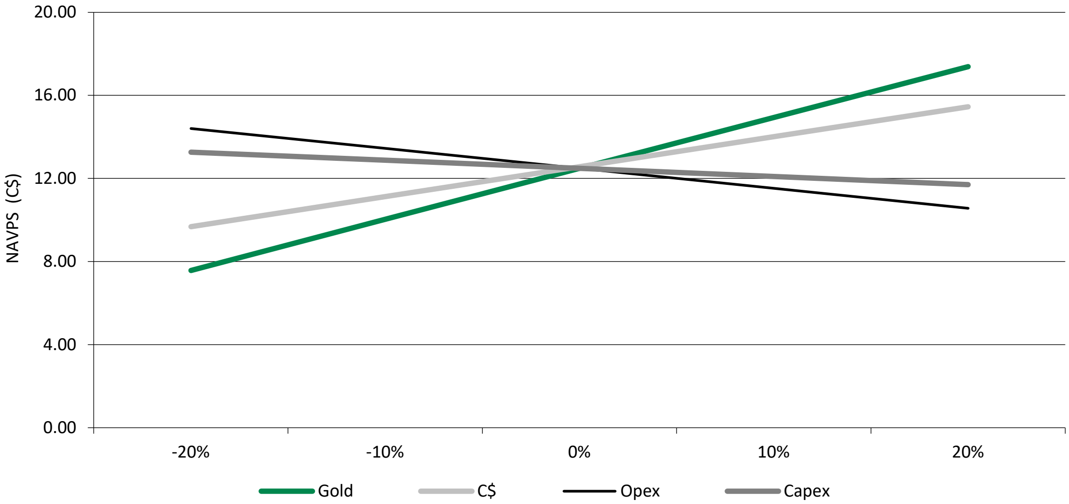
	Jurisdiction	Per share (C$)	% of DCF
Cariboo (7% DR)	British Columbia	9.46	83
San Antonio (7% DR)	Mexico	1.89	17
Total mining assets		**11.35**	
Cash & ST investments		1.84	
Equity portfolio		0.00	
In-the-money options & warrants		0.00	
Corporate G&A (5 years @ 7% DR)		-0.18	
ST & LT debt		-0.53	
Net cash/share		**1.14**	
Total NAV		**12.48**	
Shares O/S (FD) (m)		142.0	

Source: Desjardins Capital Markets

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 20.4% for a 10% change in the gold price. Our NAV is next most sensitive to our C$/US$ assumption at an 11.5% change, given the bulk of our NAV is in the Cariboo project in Canada. Our NAV estimate would change by 8.0% for a 10% change in our opex assumptions while it shows little sensitivity to capex estimates at a 3.6% change (see Exhibit 2).

Exhibit 2: Osisko Development NAV sensitivity to various assumptions



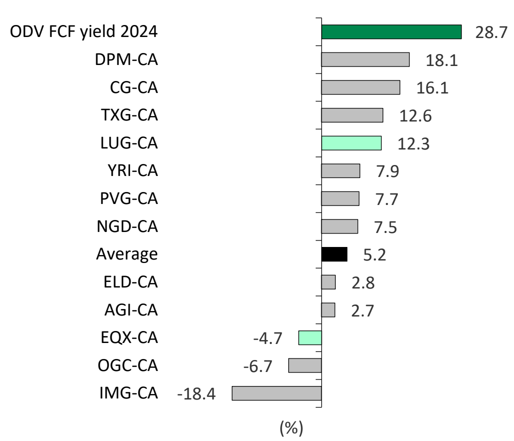
Source: Desjardins Capital Markets

Valuation comparables

- Osisko Development trades at 0.57x our NAV estimate while junior producers trade at an average of 0.67x and covered developers trade at 0.58x. In our view, the shares should begin to break out from the developer group and trade closer to the junior producer group as the company approaches production milestones this year. However, we expect the tight share structure and float to make it challenging for the stock to trade at its intrinsic value, although we prefer this liquidity challenge over the more common challenge in the junior gold mining sector of a sloshy float.

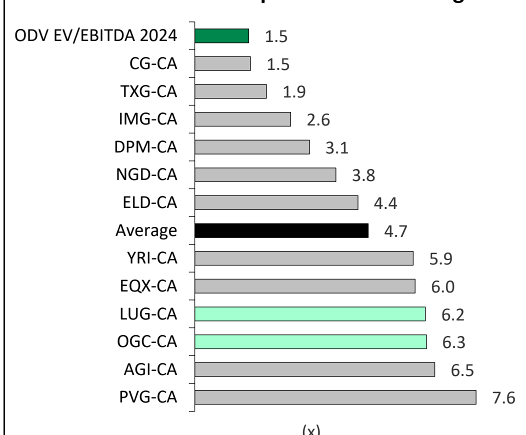
- In 2024, when Cariboo is fully ramped up, we see the stock trading at 1.5x EV/2024 EBITDA, with a free cash flow yield of 29%. Osisko Development would be considered an intermediate producer in 2024 and that group averages 4.7x EV/EBITDA FY1, with an average FCF FY1 yield of 5.2%; to trade in line with the group on an EV/EBITDA basis, Osisko Development would need to outperform by 128% or a CAGR of 43%, and to trade in line on an FCF basis, it would need to outperform by 452% or a CAGR of 113%.

Exhibit 3a: Osisko Development estimated 2024 FCF yield vs intermediate producer FY1 average



Note: Figures for ODV, LUG and EQX based on Desjardins estimates; all other figures based on consensus
Source: Desjardins Capital Markets, FactSet

Exhibit 3b: Osisko Development estimated EV/2024 EBITDA vs intermediate producer FY1 average



Note: Figures for ODV, LUG and EQX based on Desjardins estimates; all other figures based on consensus
Source: Desjardins Capital Markets, FactSet

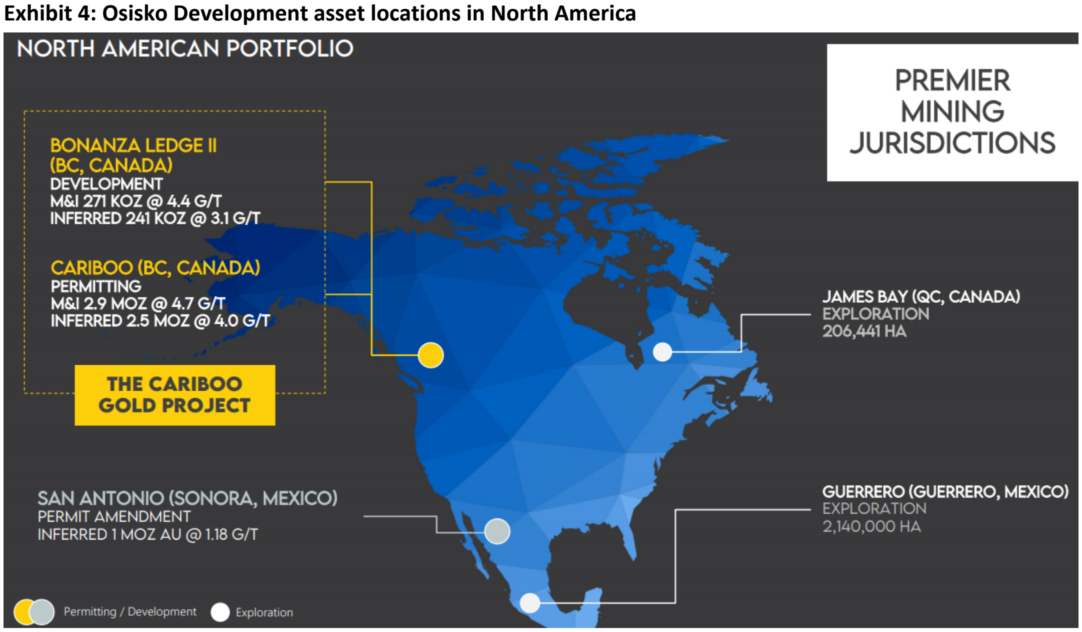
Upcoming catalysts

- Gold pour at Bonanza Ledge II—2Q21
- Resource update at San Antonio—4Q21/1Q22
- Bulk sample of Cow deposit at Cariboo—4Q21
- Cariboo feasibility study results—2H21
- Permitting updates at Cariboo and San Antonio—throughout 2021
- First gold pour from San Antonio stockpiles—late 2021

Company overview

Osisko Development was formed on November 25, 2020 through a spinout of the mining assets that were previously held within Osisko Gold Royalties. The assets now held by Osisko Development include the Cariboo gold project in BC, the Bonanza Ledge II project which is part of the Cariboo property, the San Antonio gold project in Sonora, Mexico, an exploration land package in the Guerrero gold belt of Mexico, as well as a package of exploration properties in the James Bay area of Canada; it also holds a portfolio of publicly traded equities. Going back to Osisko Gold Royalties is a 5% NSR royalty on the Cariboo property (including Bonanza Ledge), a 15% gold and silver stream on the San Antonio project and a 3% NSR on the Guerrero and James Bay exploration properties. In addition, Osisko Gold Royalties has a right of first refusal on all future royalties and streams from those properties.

Exhibit 4: Osisko Development asset locations in North America

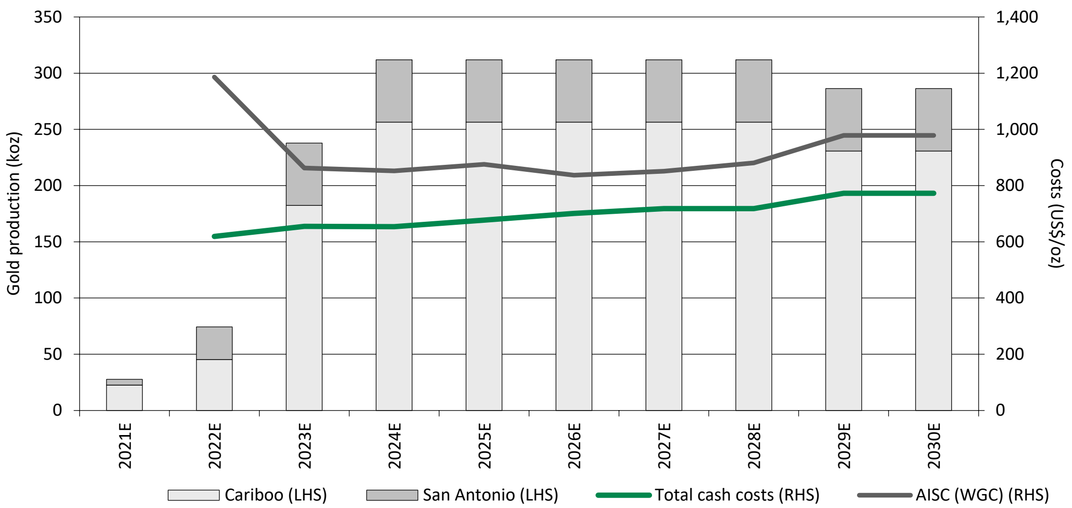


Source: Company presentation

The company will transition to producer status later this year after it restarts operations at Bonanza Ledge; it also expects gold production from the stockpiled material at San Antonio in 2H21. These cash flows will then be reinvested to permit and construct the San Antonio mine, with the increased cash flows used to fund the development of the long-life cornerstone asset in the Cariboo gold project. The company is targeting a feasibility study on the project in 2H of this year and is hoping to receive permits to allow for construction to commence in 2022, with first gold anticipated in 2023. At that point, we expect the company to produce nearly 300koz/yr of gold, elevating itself to a mid-tier North American producer with further resource growth potential.

John Sclodnick
Amanda Lewis, Associate

Exhibit 5: Osisko Development production profile



Source: Desjardins Capital Markets

Cariboo gold project

The Cariboo gold project was previously held within a company called Barkerville Gold Mines. Osisko Gold Royalties acquired the company on November 21, 2019 for a total purchase price of C$241.7m (including the shares it already held). The project is located in central BC and is comprised of the Mosquito and Shaft deposits at Island Mountain; the Valley, Cow and Lowhee deposits at Cow Mountain; and the BC Vein, Bonanza Ledge ll and KL Zone deposits at Barkerville Mountain; all of these host M&I or inferred resources. The company has also identified an exciting new exploration target called Proserpine, which is located ~6km southeast of Barkerville Mountain.

The property had historically produced more than 4.5moz of gold, and Osisko Development will benefit from 148,000m of underground development as well as a 6,000-drill-hole database. The project also comes with the 1,000tpd QR mill, which is a 120km drive from the mine sites. The company is applying to amend the permit to allow processing of 215kt/yr from 150kt/yr currently.

Production will begin at Bonanza Ledge later this year, where the major permits are already in place as the mine was operating as recently as 2018. The initial resource plan will allow for production of 62koz over two years, with ore first concentrated at the mine site via ore sorting and then trucked to the QR mill for processing. Approximately half of the mined material will be ore sorted, which will remove about half of the material as waste. This will allow for improved throughput at 1,000tpd as the material will see about double the grade post ore sorting while about 500tpd of the material sent to the QR mill will be further concentrated through flotation; this should enhance the grade by ~4.5x, reducing the trucking requirements and the immediate need for a mill expansion. We believe that the exploration potential should eventually justify the construction of an expanded processing facility at the mine site.

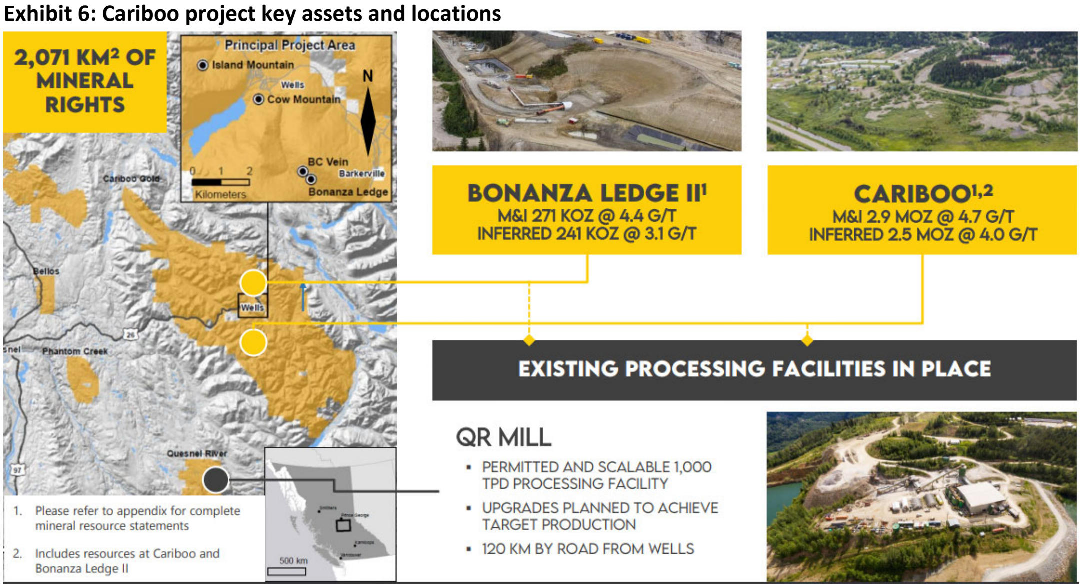
A PEA of the Cariboo project was released in August 2019 by Barkerville Gold Mines but we view this as out of date. It conceived of a 4,000tpd throughput scenario, but the new management team is looking to develop the project with an initial throughput plan of 4,750tpd that is easily expandable to a 6,000tpd scenario.

Given it is easier for projects that operate below 5,000tpd to receive provincial permitting in BC as they are only required to go through provincial regulations instead of federal, the project will be initially permitted as a 4,750tpd operation. An application for a permit amendment to operate at 6,000tpd would then be required for an expansion. In late 2020, a life-of-project agreement was reached with the Lhtako Dené Nation (LDN) for development of the Cariboo project, setting a framework for the LDN and Osisko Development to work together and provide training, employment and business opportunities for the LDN as well as stipulating financial compensation. The company is in the process of negotiating an impact benefit agreement with the Xatśūll First Nation which is located near the QR mill.

The company has reinterpreted the historical high-grade narrow-vein mineralization and wireframed a number of these veins together into a single stope. These vein corridors will be mineable using bulk mining methods, namely long hole longitudinal retreat stoping. This will add about 50% mining dilution to the stopes and dilute the vein grades from ~10g/t to the current planned mined grade of 4.7g/t. However, this will lower the mining cost by over 50% and also significantly reduce the mining risk associated with narrow-vein mining.

The mined material will be ore sorted, then milled and floated, with the sorter and floated concentrate trucked to the permitted QR mill for additional milling, gravity recovery and leaching in a CIP circuit; an ADR circuit will produce gold doré bars.

Exhibit 6: Cariboo project key assets and locations



Source: Company presentation

Our model

Our model is based on the defined M&I resources at the project which currently total 19.5mt grading 4.66g/t for 2,929koz, which we believe will prove to be very conservative given the numerous targets along the Cariboo Gold trend, with drill results so far supporting our view (more on this in the *Resource growth potential* section below). The grade of the M&I resource is already diluted to the mineable grade with the vein corridor approach. We also expect to see an expansion once exploration has validated additional resources but we currently take a conservative approach and simply model a 4,750tpd operation, which should see the minelife extend to 2034.

Excluding Bonanza Ledge production, we estimate average annual production of ~240koz at total cash costs of US$720/oz and AISC of US$830/oz. We look to the August 2019 PEA for guidance on operating costs and add in some inflation. We estimate mining costs of C$70/t (8% higher than the C$65/t in the PEA) and total opex of C$112/t, which includes transport costs to the QR mill (7% higher than the C$105/t in the PEA).

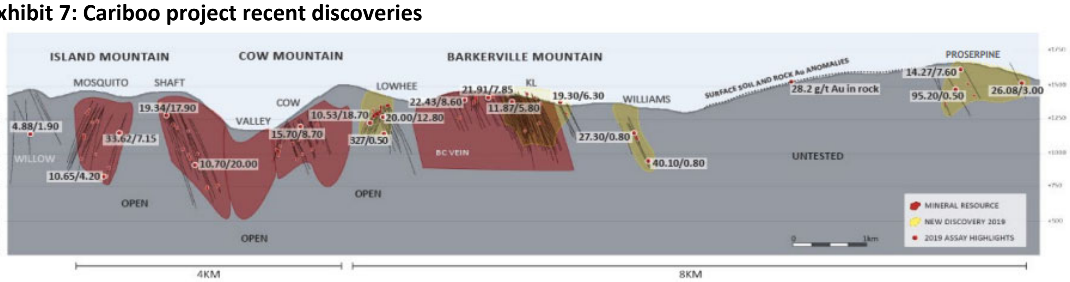
We estimate initial capital costs of US$409m, which equates to US$86,000/tpd at a 4,750tpd throughput capacity, 46% higher than the US$59,000/tpd for the 4,000tpd from the PEA study. We estimate average annual sustaining capital costs of US$25m, which is 19% higher than the US$21m annual estimate in the PEA.

We estimate an IRR of 55% and a one-year-forward NPV of C$1,343m at a 7% discount rate (which we currently apply in our NAV estimate) or an NPV of C$1,559m at a 5% discount rate (which we will apply when the main Cariboo project is in production).

Resource growth potential

Osisko Development holds 2,071km of mineral rights in central BC, which hosts the Cariboo Gold Trend where the project area is located but also a newly identified parallel trend called the Lightning-Yanks trend; these combine to extend over a total strike length of 83km and will provide exploration targets for decades. In the near term, the current exploration is over a 12km strike area with 7km drill tested. Within this area are newer discovery zones such as Lowhee (highlight drill results include 20.7g/t over 12.8m, 10.5g/t over 18.7m and 327g/t over 0.5m) and KL (highlights include 11.9g/t over 5.8m and 9.5g/t over 5.8m). However, the exploration area that we are most excited about is ~6km southeast of Bonanza Ledge called the Proserpine zone, with highlights including 17.8g/t over 5.6m at 50m depth; the company will follow up with a 6,000m program here this year.

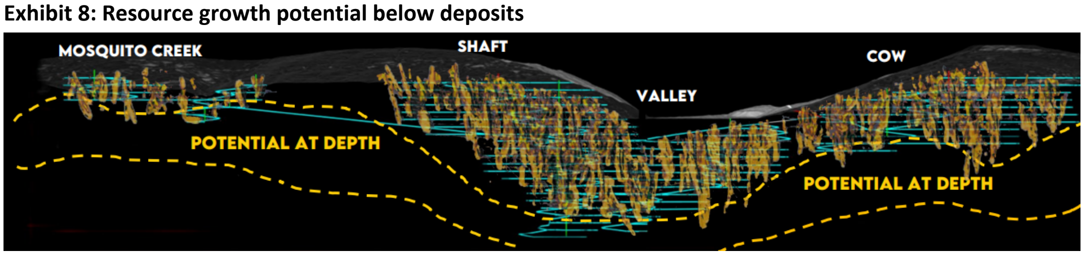
Exhibit 7: Cariboo project recent discoveries



Source: Company presentation

The lowest-hanging fruit exists below the currently defined deposits which already host 2.9moz of M&I resources and 2.5moz of inferred resources but have an average depth of just 350m. We expect that drilling below the Cow, Lowhee, Valley, Mosquito and Shaft deposits will see the resources continue to extend at depth.

Exhibit 8: Resource growth potential below deposits



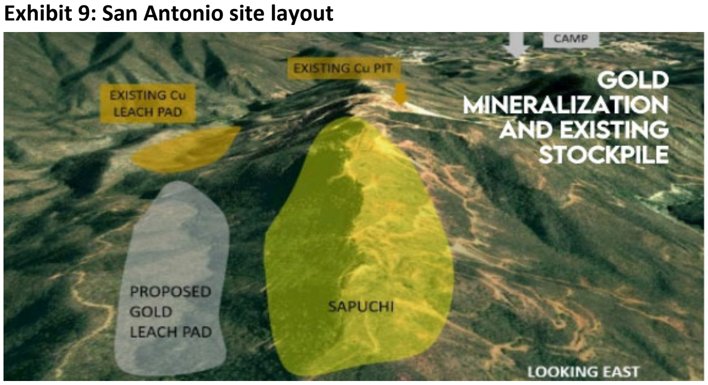
Source: Company presentation

San Antonio

Osisko Gold Royalties acquired the San Antonio project in Sonora, Mexico, in August 2020 for US$42m before transferring it to Osisko Development. The market is not very familiar with the San Antonio asset, which was previously held privately, but we believe it is going to like this asset for its high-grade heap leach operation, with a stockpile of material that will allow for early cash flows. The project is a brownfield restart with a substation, leach pad, camp and crushing equipment already at site. The project hosts an inferred resource of 28mt grading 1.18g/t for 1,049koz, which includes a stockpile of ~1mt grading ~0.5–0.9g/t for 15–30koz.

The project was permitted as a copper operation before it went into receivership and was subsequently acquired by Osisko Gold Royalties. It will thus need an operating permit amended through SEMARNAT to operate as a gold mine; the company is hopeful that it will receive this permit around mid-year, which should allow for the processing of stockpiles in 2H21. Baseline environmental studies will be filed in order to mine the Sapuchi deposit, which is currently the bulk of the resource area; the company will also need an explosives permit in order to develop Sapuchi. Management is targeting all permits to be in hand in 1H22 for first gold from the deposit later that year. The company has reached an operating agreement with the ejido, which is experienced with mining operations as the San Antonio mine was operated as recently as 2018.

Exhibit 9: San Antonio site layout



Source: Company presentation

Our model

While there is no economic study currently, we value the project on a DCF model which assumes a 7,500tpd stacking rate, a life-of-mine strip ratio of 4.3 and a recovery rate of 70% based on the early metallurgical test work done, which is relatively in line with other heap leach operations in the area. We also look to these other nearby operations for our operating cost estimate of US14.08/t; we estimate initial capital costs of US$30m, which we believe could prove conservative given the infrastructure that is already at site. We assume a diluted life-of-mine grade of 1.06g/t, which drives our average annual production estimate of 63koz, or 53koz on an attributable basis after netting the 15% precious metals stream. Factoring in the gold stream, we estimate life-of-mine total cash costs of US$851/oz and AISC of US$1,005/oz. We estimate an NPV of C$268m at a 7% discount rate and C$299m at a 5% discount rate, and an IRR of 233% which benefits from the early processing of stockpiled material, nearly offsetting the initial capex.

Resource growth potential

The San Antonio project covers a 11,300ha land package in a highly prospective mining area and is near Agnico Eagle's La India, Alamos Gold's Mulatos, Minera Alamos' Santana and Argonaut's La Colorada operations. With gold mineralization already identified over a 5km by 7km area, we see significant potential to increase resources. Currently, the company has inferred resources at three deposits—Golfo de Oro, California and Sapuchi, where the bulk of the resource is hosted and which will be the focus of near-term exploration.

Financial state

The company ended 1Q21 with a strong balance sheet including a cash balance of C$201m with no debt, and another C$98.5m on the balance sheet in investments (primarily publicly traded equities). It has 1.2m options outstanding, exercisable at C$7.62/share, and 14.8m warrants outstanding, exercisable at C$10.00 and expiring December 2023.

We assume the company will dispose of the remaining equity holdings and also raise C$150m with a 50/50 debt-to-equity split (equity raised at C$8.50/share) in order to fully fund the development of the Cariboo project to commercial production. This leaves the company with an estimated fully funded share count of 142.0m shares outstanding, on which we base our fully funded NAV per share estimate.

Potential risks

There are numerous risks to investing in a mining company, particularly one that does not have operating cash flows. We have outlined the most significant risks to our investment thesis below (note that this is not an exhaustive list).

- **Technical risk.** There is potential for mining dilution to be higher than expected when the Cariboo project is mined due to the greater complexities in the orebody, while larger sublevels could increase mining costs. There is also the risk that ground conditions are less stable than planned, which could result in higher-cost mining methods being used.
- **No economic study.** There is no economic study at San Antonio, increasing the likelihood of significant variance when the deposit is mined vs what we currently model. At Cariboo, the planned operations will deviate from the latest study, which also increases the risk that our modelled estimates could prove to be aggressive and result in a lower valuation when improved information is available.
- **Exploration risk.** Included in our base-case estimates is the assumption of resource-to-reserve conversion at both Cariboo and San Antonio. There is a risk that further drilling will see less resources converted than we currently model, which could reduce our modelled minelife and valuation.
- **Permitting risk.** There is a risk that the company is unable to secure the required permits to operate its mines or that the permits are not secured within the timeline we model, which could have a negative impact on our valuation.
- **Liquidity risk.** Osisko Gold Royalties owns 75% of the outstanding shares; the smaller float potentially increases volatility while the lower liquidity inhibits the ability of the stock to trade at our NAV estimate until the float is expanded, in our view.
- **Financing risk.** We see the company requiring external financing to develop the projects in our model and there is a risk that the financings are completed on less favourable terms than we estimate, which could increase share dilution and negatively impact our valuation.
- **Social risk.** The company requires agreements from local populations, including First Nations groups, to access the land for mining, and there is a risk that its social licence to operate is not maintained or secured.
- **Market risk.** The company will generate nearly all of its revenue from the sale of gold, so a decline in the gold price would have a significant impact on our valuation. Other market risks, including input costs, wage costs and exchange rates, could also impact our valuation.

John Sclodnick
Amanda Lewis, Associate

Management and board

The Osisko Development management team are members of the Osisko group, many of whom developed the Canadian Malartic mine from exploration to production. Others bring experience working at the Cariboo project for a number of years. Management and insiders currently own 0.1% of the shares outstanding directly and 0.9% indirectly through their ownership of Osisko Gold Royalties.

- **Sean Roosen, CEO & Chair.** Mr Roosen has more than 30 years of experience in the mining industry, including as president and CEO of Osisko Mining Corp. where he was responsible for discovering, financing and developing the Canadian Malartic mine through to production and eventual acquisition for C$3.9b. He is the executive chair of Osisko Gold Royalties and previously served as its president and CEO. He also serves on the board of Osisko Mining and Victoria Gold and is a graduate of the Haileybury School of Mines.

- **Chris Lodder, President.** Mr Lodder has more than 30 years of experience in the mining industry, primarily in exploration and development. He was president and CEO of Barkerville Gold Mines from 2016 until its acquisition in 2019 by Osisko Gold Royalties. He is also the president of Talisker Exploration, and served as South American exploration manager and then Americas exploration manager for AngloGold Ashanti, leading teams responsible for discovering in excess of 34moz of gold.

- **Luc Lessard, COO.** Mr Lessard has more than 30 years of experience building and operating mines and was the senior vice-president, engineering & construction, at Osisko Mining Corp., where he designed, constructed and commissioned the Canadian Malartic mine; he then became COO of the Canadian Malartic Partnership. Mr Lessard has worked on many open pit and underground mines and was vice-president, engineering & construction, at IAMGOLD, and general manager, projects, at Cambior. He is currently president and CEO of Falco Resources, where he also sits on the board; he is also on the board of Osisko Metals and Nighthawk Gold.

- **Alexander Dann, CFO & Vice-President, Finance.** Mr Dann has more than 25 years of experience in financial operations and most recently served as CFO of The Flowr Corporation, which he led to a public listing. He was previously CFO of Avion Gold and Era Resources before they were acquired. He holds a Chartered Accountant designation as well as a BBA.

- **Maggie Layman, Vice-President, Exploration.** Ms Layman has 14 years of experience in mineral exploration, focused on Canada. She was exploration manager at Barkerville Gold Mines, prior to which she worked as a drill manager and project geologist for Vale and Independence Gold. She is a professional geologist and holds a BSc from Memorial University.

- **Jean-François Lemonde, Vice-President, Investor Relations.** Mr Lemonde has 20 years of experience in capital markets, most recently as a managing director at Desjardins Capital Markets. He previously worked at Dundee Capital Markets, GMP Securities, TD Securities and Goldman Sachs. He graduated from HEC Montréal with a degree in business administration.

- **Chris Pharness, Vice-President, Sustainable Development.** Mr Pharness has 25 years of environmental and resource management experience, focused in BC, and had worked at Barkerville Gold Mines since 2013. He has built strong relationships with Indigenous groups, local communities and regulatory agencies in BC.

- **François Vézina, Vice-President, Technical Services.** Mr Vézina has 20 years of experience in the mining industry. He worked with the Osisko group as mine operations manager for the Canadian Malartic mine; prior to that, he was the technical services manager for Agnico Eagle and worked on the LaRonde 2, Pinos Altos and Kittila operations. He holds a bachelor's degree in mining engineering and an MBA, and is a Professional Engineer recognized in Quebec, Ontario and BC.

- **Board of directors.** Sean Roosen (chair), Charles Page (lead director), John Burzynski, Joanne Ferstman, Michèle McCarthy, Duncan Middlemiss, Éric Tremblay.

Osisko Development Corp.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**ODV, TSX-V**
Current price (C$)	**7.13**
Stock rating	**Buy**
Target price (C$)	**10.75**
Potential total return	**51%**
Risk rating	**Speculative**
Shares outstanding (m)	**133.2**
Market capitalization (C$m)	**949.7**

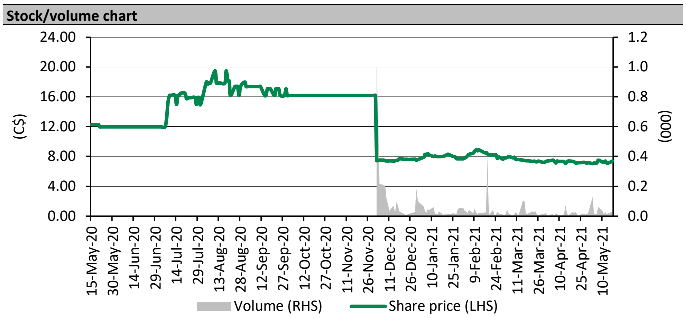
Fiscal year-end	**December 31**
52-week high (C$)	**20.10**
52-week low (C$)	**6.95**
P/NAV (x)	**0.57**
NAV target multiple (x)	**0.85**
EV/NTM EBITDA (x)	**210.2**
EBITDA target multiple (x)	**6.0**
FCF yield FY1 (%)	**NM**

Financial data

Assumptions	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gold (US$/oz)	1,780	1,775	1,700	1,700	1,700
C$/US$	1.25	1.25	1.26	1.26	1.26
MXN/US$	20.09	20.00	22.07	22.07	22.07

Financial forecasts	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Balance sheet (C$m)					
Cash & equivalents	339	78	193	380	672
Working capital	321	60	175	362	655
Total debt	75	75	75	-25	-25
Income statement (C$m)					
Revenue	61	165	506	662	662
Cost of sales	25	59	198	257	265
G&A expense	6	6	6	6	6
EBITDA	**4**	**76**	**278**	**375**	**366**
Net income	-24	33	132	182	183
Cash flow (C$m)					
Operating CF (bef chgs in WC)	14	68	240	325	325
Capital expenditure	133	329	122	34	34
Net proceeds from equity	114	0	0	0	0
Net proceeds (repayment) from debt	75	0	0	-100	0
Free cash flow	-132	-261	119	291	292
Per share data (C$/FD share)					
EPS FD	**-0.18**	**0.23**	**0.93**	**1.28**	**1.29**
Adjusted EPS	**-0.15**	**0.26**	**0.96**	**1.31**	**1.31**
CFPS (bef chgs in WC)	**0.10**	**0.48**	**1.69**	**2.29**	**2.29**
FCFPS	**-1.00**	**-1.84**	**0.84**	**2.05**	**2.05**
Weighted avg basic shares O/S (m)	132	142	142	142	142
Weighted avg diluted shares O/S (m)	132	142	142	142	142

Stock/volume chart



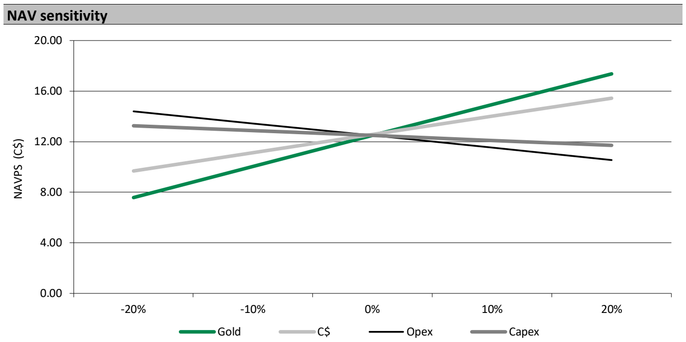
NAV summary

Asset	**Ownership (%)**	**NAVPS (C$)**
Cariboo (7% DR)	100	9.46
San Antonio (7% DR)	100	1.89
Project NAVPS		**11.35**
Cash & ST investments		1.84
In-the-money options & warrants		0.00
Corporate G&A (5 years @ 7% DR)		-0.18
ST & LT debt		-0.53
Total NAVPS		**12.48**
P/NAV (x)		**0.57**
Shares outstanding (FD) (m)		142

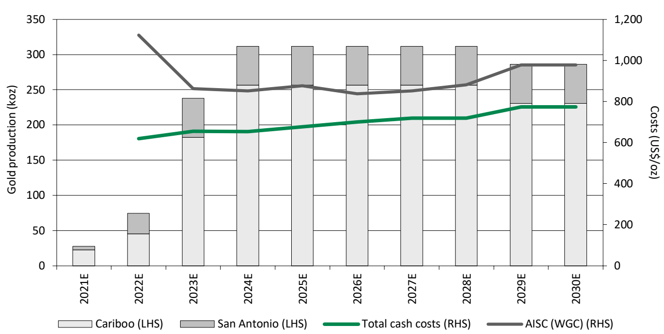
Operational data

Consolidated production profile	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gold production (koz)	28	74	238	312	312
Total cash costs (US$/oz)	0	619	655	654	677
All-in sustaining costs (US$/oz)	0	1,123	863	852	876

NAV sensitivity



Production profile



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		119.0
Exercisable options	7.62	1.2
Warrants	0.00	0.0
Fully diluted shares		120.1
Top ownership (last reported)	**% outstanding**	**Shares (m)**
Osisko Gold Royalties Ltd.	75.1	100.0
Sprott Asset Management LP	1.0	1.3
Franklin Resources	0.7	0.5
GAMCO Investors Inc	0.2	0.3
Sean Roosen	0.1	0.1
Value Intelligence Advisors GmbH	0.0	0.3

Reserves & resources (100% basis)

As at December 2019	**Tonnes (m)**	**Grade (g/t)**	**Contained Au (moz)**
Proven & probable reserves	0.0	0.0	0.0
M&I resources	21.4	4.6	3.2
Inferred resources	49.3	2.4	3.8

Source: Desjardins Securities, FactSet, S&P Global, company reports

ESG overview

ODV is a Canadian gold development company with two development projects—Cariboo in BC, Canada, and San Antonio in Sonora, Mexico. The company also has exploration projects in Canada and Mexico. Owing to the nature of its business, ODV is inherently exposed to significant environmental, social and governance risks. However, the company prides itself on proactively managing these risks, with particular focus on its Cariboo gold project where it aspires to build a modern, safe and sustainable operation. The company has an environmental and sustainability committee composed of three board members. In addition, it has strong policies in place on topics including diversity and workplace harassment. Similar to many junior producers, the company does not publish an annual sustainability report, so there is scope to improve on an ESG reporting basis. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• ODV is committed to maintaining compliance with environmental systems and policies. • Wherever possible, the company plans to avoid land disturbances by reusing existing infrastructure or locating new infrastructure on brownfield sites. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – The Cariboo gold project is expected to result in total land disturbances of 49.4ha (38.7ha of existing and 10.7ha hectares of new land disturbances).	• **Neutral** – The company has indicated that it works diligently to meet all environmental monitoring and protection requirements under its permits.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• ODV will consider opportunities to reduce GHG emissions in BC to contribute to the province's commitment under the Climate Change Accountability Act. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – ODV estimates that its Cariboo gold project will generate direct emissions of 25,500 tCO_2e/yr.	• **Neutral** – There is scope for the company to improve disclosure on GHG and other gas emissions at all mine sites and to implement GHG reduction activities.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• A water treatment plant is being built at Bonanza Ledge II to treat contact water and effluents. • **Metric** – No significant fines or sanctions related to environmental non-compliance. – The company is remediating a 300,000t PAG pile from historical mining activity on its property.	• **Positive** – The company is continuing to focus on operational controls and environmental management. – There is scope for the company to improve disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• ODV is monitoring the COVID-19 situation in both Canada and Mexico to protect the health of its employees and local communities. • **Metric** – No significant fines or violations related to occupational health and safety.	• **Neutral** – There is scope for the company to improve disclosure on its safety management systems and safety performance.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• ODV hires local labour wherever possible. • **Metric** – No significant fines or violations related to employment practices. – The company estimates a requirement of 460 direct employees and 50 contractors for its Cariboo gold project over the LOM.	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• ODV has published an engagement plan for its Cariboo gold project outlining a framework for interactions with all stakeholders. • At the Cariboo project, ODV is engaged with local Indigenous communities including the Lhtako Dené Nation, Xatśūll First Nation and Williams Lake Indian Band. • ODV and the Lhtako Dené Nation have signed an engagement protocol agreement, relationship agreement and life-of-project agreement. • ODV is highly involved in the Wells community and provides annual funding for various initiatives and events. • **Metric** – ODV employs 10 members of the Lhtako Dené Nation and four members of the Xatśūll First Nation. – The company has provided more than C$1.2m in funding for community initiatives and programming.	• **Positive** – The company prioritizes the prosperity of local and regional communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• ODV has two diversity policies in place—diversity in corporate talent and diversity on the board of directors. • The company aspires to have and maintain at least 30% representation by women on its board and 25% in senior management. • **Metric** – Two of the seven board directors (29%) and one of the eight management team members (13%) are women.	• **Positive** – The company has clear diversity policies and targets in place. – There is scope for the company to improve disclosure on diversity within its workforce.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• ODV has a code of ethics and whistleblower policy in place. • **Metric** – No indication of fraud, corruption or bribery. – Six of the seven board members (86%) are independent.	• **Neutral** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption policies as well as the relevant training programs for employees.

Pure Gold Mining Inc.

Expected participant in Red Lake consolidation—initiating coverage with a Hold rating and C$1.80 target

- ***The PureGold mine is Canada's newest gold mine in the heart of the Red Lake district of Ontario, a focus area of acquisitions lately***
- ***The company had a recent stumble in its ramp-up, as the head grade came in lower than expected and while it looks like the operation is turning a corner, this uncertainty is what drives our Hold rating***
- ***Management has identified potential solutions and once expected grades are consistently delivered to the mill, we believe Pure Gold could be involved in the ongoing consolidation at Red Lake***

Highlights

Pure Gold is Canada's newest gold producer after it restarted the PureGold mine in Red Lake, Ontario. The PureGold mine complex includes the Main deposit that hosts more than 1moz of gold reserves at a grade of 9.0g/t and is the formerly producing Madsen mine, on which the Phase 1 development plan is based. The complex also hosts the Russet South, Fork and Wedge deposits, which have M&I resources delineated; in total, the company hosts more than 2.5moz of defined resources. The property is directly next door to Evolution Mining's Red Lake complex which is currently mining below 2km; in comparison, the resources delineated at the PureGold mine extend to 1.3km, indicating that there is potentially a long minelife at the asset with further exploration at depth, supported by the high-grade interval discovered at the 2km level. With successful exploration along strike and at depth, we see potential for the company to expand throughput.

Valuation

Our one-year-forward target price is C$1.80/share based on a 0.90x NAV multiple. We believe our target multiple is justified as junior producer peers have reached a peak NAV multiple of 0.89x over the past year, and Pure Gold itself has traded as high as 1.54x. Pure Gold currently trades at 0.75x our NAV estimate while junior producer peers trade at an average of 0.67x consensus estimates. We believe that a premium valuation on a NAV basis is warranted for its high-grade growth potential in a favourable jurisdiction—which could result in its being a clear takeout candidate—but we believe a premium should be accorded only when concerns on grade are resolved. On an EV/EBITDA basis, Pure Gold trades at 7.2x 2022 estimates while junior producer peers trade at an average consensus EV/EBITDA 2022 of 4.9x.

Recommendation

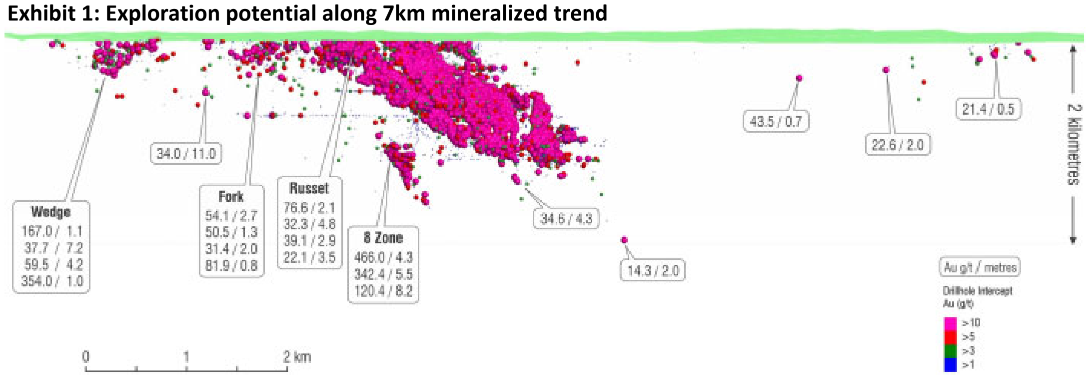
We are initiating coverage of Pure Gold with a Hold–Speculative rating and C$1.80/share 12-month target, which implies a potential return of 18%. The Red Lake mining district has been undergoing a wave of consolidation driven by Australia-based Evolution Mining after it acquired Newmont's Red Lake complex in late 2019 for US$375m and then added Battle North Gold's Bateman gold project in the Red Lake district earlier this year for US$275m, representing US$201/oz of resources and 1.02x its feasibility study NPV (at US$1,700/oz Au, C$1.25/US$1 and a 5% DR). If Pure Gold were acquired at 1.02x NAV, this would translate to C$2.06/share or a 36% premium to Friday's (May 14) close, and if it were acquired at US$201/oz of resources, this would translate to C$1.59/share or a 5% premium to Friday's close. Our Hold rating is driven by early ramp-up issues, namely a mill feed grade well below expectations in 1Q due to unexpected mining dilution. While the company has reported improvements over the last few weeks, we would like to see more consistency. If realized head grades meet expectations in the coming quarters, we believe that the stock should regain its premium multiple but the current valuation does not offer sufficient upside considering the ramp-up risk in our view.

John Sclodnick
Amanda Lewis, Associate

Investment thesis

- **Growth potential from high-grade targets.** Pure Gold has a number of near-mine targets at depth and along the 7km strike where exploration has shown high-grade structures. With more drilling success, the company could bring these zones into a mine plan, increasing production and margins. We are most excited by the 8 Zone target, where the company encountered 466g/t over 4.3m, 342g/t over 5.5m and 120.4g/t over 8.2m, and with underground development being accelerated in 2021, it should reach this target sooner than initially expected. The 8 Zone remains open both up and down plunge and has the potential to transform the company into an intermediate producer.

Exhibit 1: Exploration potential along 7km mineralized trend



Source: Company presentation

- **Long minelife potential in the right location.** The company hit 14g/t over 2m in a step-out hole at 2km depth, closer to the level where Evolution Mining's Red Lake mine complex has seen the highest-grade zones. This mine is operating directly next door and has produced more than 27moz at an average grade in excess of 21g/t, which clearly increases the prospectiveness of the geology of the 47km^2 land package owned by Pure Gold. At the current 800tpd production rate, gold production increases 133% to 187koz/yr with a 21g/t head grade, and at a 1,200tpd production rate, it increases 250% to 281koz/yr with a 21g/t head grade, compared with 80koz of gold production from its current 9.0g/t reserves.

- **Operational opportunities to improve margins.** We see potential for nearer-term value creation opportunities with the Phase 2 optimization plan, which could significantly reduce life-of-mine operating costs. The mine plan was designed at a US$1,275/oz gold price; increasing this assumption to allow a higher cut-off grade to be applied to the reserves calculation would in turn allow for larger stopes to be mined as well as greater use of lower-cost mining methods (more long hole over cut-and-fill). Reducing operating costs by 10% could add 7.5% (~C$70m) to our NAV estimate and ~15% to our annual EBITDA estimate.

- **Red Lake is a desirable area code.** The Red Lake mining district has been undergoing a wave of consolidation driven by Australia-based Evolution Mining after it acquired Newmont's Red Lake complex in late 2019 for US$375m and then added Battle North Gold's Bateman project in the Red Lake district earlier this year for US$275m, representing US$201/oz of resources and 1.02x its feasibility study NPV (at US$1,700/oz Au, C$1.25/US$1 and a 5% DR). If Pure Gold were acquired at 1.02x NAV, this would translate to C$2.06/share or a 36% premium to Friday's (May 14) close, and if it were acquired for US$201/oz of resources, this would translate to C$1.59/share or a 5% premium to Friday's close.

- **Why Hold-rated?** Pure Gold has encountered issues early in the mine plan and we believe that investors should wait for a satisfactory resolution before establishing a position. While it is early in the mine plan, the company realized a significantly lower-than-expected head grade in the first stopes mined as a result of external dilution from overbreak, internal dilution from unmineralized dykes, ore sourced from sill development instead of stopes and, due to these issues, a greater use

John Sclodnick
Amanda Lewis, Associate

of low-grade stockpiles to supplement the mill feed. The company is addressing these issues by optimizing long hole mining techniques, resequencing stopes to prioritize those with the highest confidence, increasing definition drilling in certain areas and potentially converting a portion of long hole stopes to cut-and-fill. So far, since the changes were implemented, the results have shown an improvement on the mined grades, which are more in line with expectations. Production from the second ramp access this quarter should bolster mining productivity with increased working faces and flexibility; however, we believe it would be prudent for investors to wait for more consistent operating results to ensure that these early issues are satisfactorily resolved (see *Current status* section for more details). The company recently completed a financing to help get it through these challenges but other missteps or other cost pressures could strain the balance sheet (see *Financial state* section for more details).

Valuation overview

Net asset value and target methodology

We estimate a net asset value (NAV) for Pure Gold of C$2.02/share, comprised of C$2.16/share for mining assets and -C$0.14/share of net cash (see Exhibit 2 for breakdown). Our mining asset valuations are based on discounted cash flow models from 1Q22 onwards since our target prices are one-year forward-looking. We provide details on the assets beyond valuation in the *Company overview* section below.

- **PureGold mine.** We value the PureGold mine at C$985m or C$2.16/share based on a 5% discount rate as the mine is ramping up, with commercial production expected to be declared in 2Q21/3Q21. As we see significant exploration upside, we base our model on 100% of M&I resources and model an expansion to commence in 2025, increasing throughput by 50% to 1,200tpd for a cost of C$75m.
- **Net cash.** Included in our net cash estimate is our estimated C$41m (C$0.09/share) cash balance as of 1Q22, one year from the last reported quarter, as well as the assumed exercise of C$34m (C$0.07/share) of in-the-money options and warrants. We then deduct our estimated G&A spending over the next five years at a 5% discount rate, which amounts to C$27m (C$0.06/share), and we model C$113m in debt, which takes C$0.25/share off our NAV estimate. The company ended 1Q21 with 400.8m in shares outstanding and has added another 11.3m with its recent financings; combined with the 43.8m of dilution from in-the-money options and warrants, we model a fully diluted share count of 455.9m, on which we base our NAV per share estimate.
- **Target price.** Our one-year-forward target price is C$1.80/share, based on a 0.90x NAV multiple. We believe our target multiple is justified as junior producer peers have reached a peak NAV multiple of 0.89x over the past year, and Pure Gold itself has traded as high as 1.54x. If the company is able to show consistency in delivering expected grades to the mill, we believe it should regain its premium multiple—in which case our target multiple will look overly conservative.

Exhibit 2: Pure Gold NAV breakdown by asset

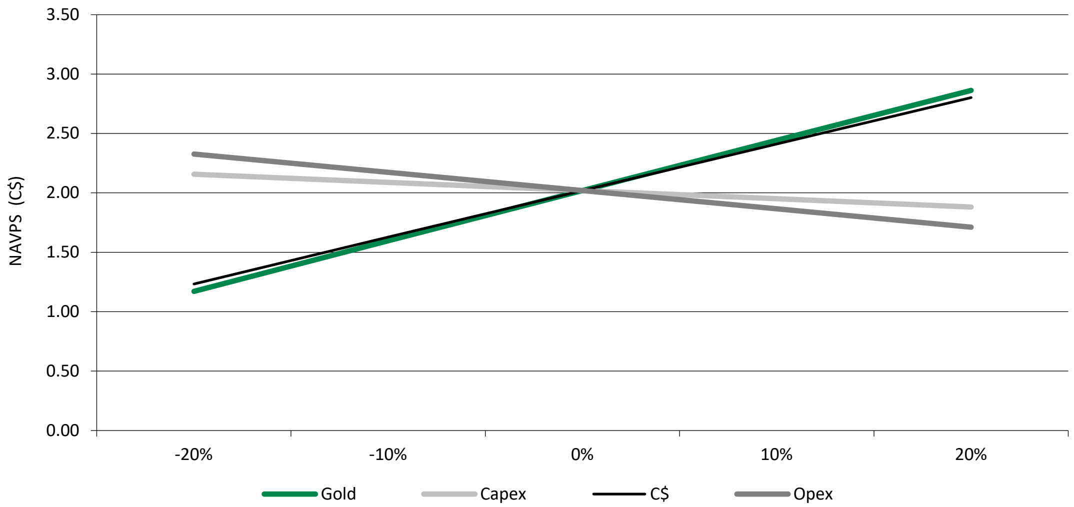
	Jurisdiction	Per share (C$)	% of DCF
PureGold mine (5% DR)	Ontario	2.16	100
Total mining assets		**2.16**	
Cash & ST investments		0.09	
In-the-money options & warrants		0.07	
Corporate G&A (5 years @ 5% DR)		-0.06	
ST & LT debt		-0.25	
Net cash/share		**-0.14**	
Total NAV		**2.02**	
Shares O/S (FD) (m)		455.9	

Source: Desjardins Capital Market

NAV sensitivity

- Our NAV estimate is most sensitive to changes in our gold price assumption, changing by 20.9% for a 10% change in the gold price. Our NAV is nearly as sensitive to changes in our C$/US$ assumption, changing by 19.4% for a 10% change in the C$/US$ rate. Our NAV estimate would change by 7.6% and 3.4%, respectively, for a 10% change in our opex and capex assumptions (see Exhibit 3).

Exhibit 3: Pure Gold NAV sensitivity to various assumptions

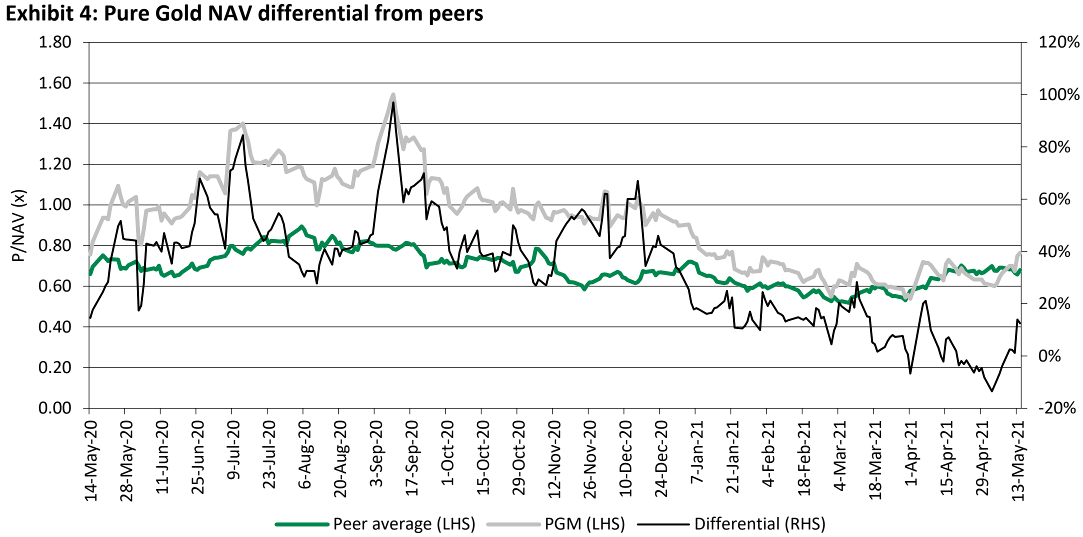


Source: Desjardins Capital Markets

Valuation comparables

- Pure Gold trades at 0.75x our NAV estimate while junior producer peers trade at an average of 0.67x. Based on consensus estimates, Pure Gold has held an average premium of 33% vs peers over the past year, while it is currently trading at a 12% premium. We believe a premium valuation on a NAV basis is warranted for its high-grade growth potential in a favourable jurisdiction—which could result in its being a clear takeout candidate—but we believe that a premium should be accorded only when concerns on grade are resolved. On an EV/EBITDA basis, Pure Gold trades at 7.2x 2022 estimates, while junior producers trade at an average EV/EBITDA 2022 of 4.9x.

Exhibit 4: Pure Gold NAV differential from peers



Source: Desjardins Capital Markets, FactSet

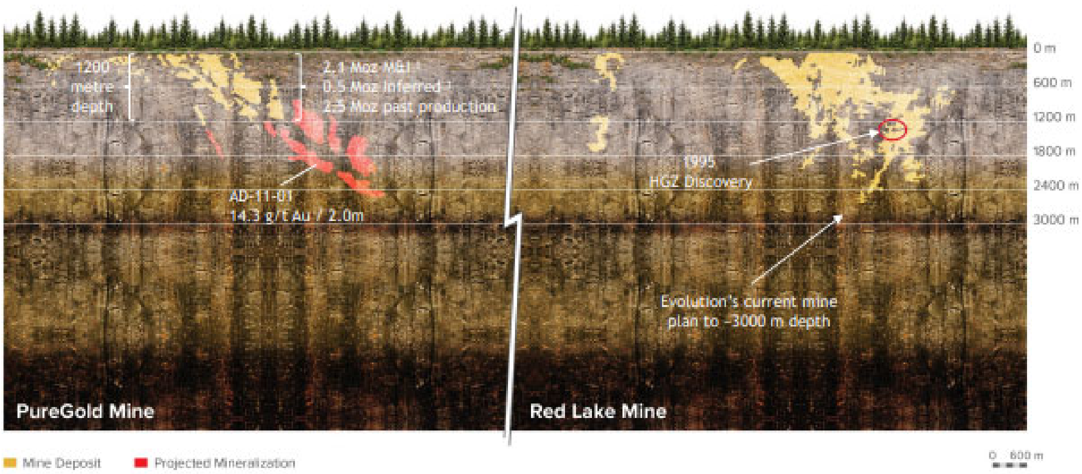
Upcoming catalysts

- Declaration of commercial production—2Q21/3Q21
- Maiden guidance—2Q21/3Q21
- Updated mineral resource estimate—2Q21/3Q21
- Phase 2 mill and mine plan optimizations—ongoing
- Commencement of Phase 3 expansion studies to increase throughput to 1,200tpd+—2H21
- Exploration results—ongoing

Company overview

Pure Gold is Canada's newest gold producer after it restarted the PureGold mine in Red Lake, Ontario. The PureGold mine complex includes the Main deposit that hosts more than 1moz of gold reserves at a grade of 9.0g/t and is the formerly producing Madsen mine, on which the Phase 1 development plan is based. The complex also hosts the Russet South, Fork and Wedge deposits, which have M&I resources delineated; in total, the company hosts more than 2.5moz of defined resources. The Madsen deposit historically produced more than 2.5moz at an average grade of 9.7g/t, and the mine restart took advantage of the existing infrastructure that remained, including a shaft, portal and processing plant. The property is directly next door to Evolution Mining's Red Lake complex which is currently mining below 2km while the resources delineated at the PureGold mine extend to 1.3km.

Exhibit 5: PureGold Mine deposit vs Red Lake mine deposit



Source: Company presentation

PureGold mine

A feasibility study of the underground project was released in February 2019 which highlighted total production of 970koz over a 12-year minelife at an average head grade of 9.0g/t, with average annual production of 80koz at AISC of US$787/oz from an 800tpd operation. The study assumed a gold price of US$1,275/oz and a C$/US$1 exchange rate of C$1.33 and showed an after-tax $NPV_{5\%}$ of C$247m and an IRR of 36%. However, with the significant exploration success since the release of the study, including a PEA based on the M&I resources at the Russet South, Fork and Wedge deposits, we view the feasibility study to be already out of date and include an expansion scenario in our base-case estimates.

The Main deposit will be mined primarily with conventional cut-and-fill, which will comprise 59% of the 3.5mt mine plan, with long hole stoping covering 25% and mechanized cut-and-fill 16% based on the 800tpd throughput rate. The orebody will be accessed via two ramps until the shaft is refurbished and ready for use, which is expected in 2024. The East ramp is a secondary access point to the orebody and first production from here is expected this quarter; this additional flexibility and productivity were not included in the feasibility study. The feasibility study estimates mining costs of C$169/t, which is considerably lower vs the Red Lake mine at well over C$250/t although this is expected given the Red Lake mine is operating at a considerably greater depth. Overall, the mining cost estimate is relatively in line vs other high-grade underground mining operations in Ontario.

We see a meaningful opportunity to lower operating costs by using more long hole stoping methods instead of cut-and-fill; long hole mining is estimated to cost ~C$70/t, about 40% less than mechanized cut-and-fill at an estimated C$115/t and ~60% less than conventional cut-and-fill at an estimated C$175/t. By lowering the cut-off grade and expanding the stope sizes, we expect that the company should be able to use more long hole stoping than conceived in the feasibility study.

Processing will use a new crusher and a refurbished SAG mill with a new ball mill; gravity concentration will be followed by CIP leaching, where the refining will produce a gold doré with 96% of gold recovered. Processing costs are estimated at C$32.30/t in the feasibility study while total opex including G&A are estimated at C$223/t.

Current status

The company delivered first ore to the mill on December 15, 2020 and poured its first doré bar on December 29, 2020 (see Exhibit 6). Currently, the team at site is focused on ramping up operations to the planned 800tpd throughput rate, and mill performance and gold recovery have met or exceeded targets thus far. The mill feed grade came in at 2.8g/t in 1Q21, well below expectations due to external dilution from overbreak, internal dilution from unmineralized dykes, ore sourced from sill development instead of stopes and, due to these issues, a greater use of low-grade stockpiles to supplement the mill feed and continue commissioning the mill. The company is addressing these issues by optimizing long hole mining techniques, resequencing stopes to prioritize those with the highest confidence, increasing definition drilling in certain areas and potentially converting a portion of long hole stopes to cut-and-fill. Management’s revised strategy should help improve head grades going forward, and it has shown success so far with an average processed grade of 6.3g/t from April 20–May 10.

However, in our view, it could potentially reduce mine productivity and put additional pressure on the mine ramp-up to avoid reliance on the low-grade stockpiles, which have already been depleted more than expected. Longer-term, management is hoping for the opposite outcome—ie to convert more cut-and-fill mining areas to long hole given cut-and-fill accounts for 75% of the mine plan. Our concerns on mine productivity are assuaged by ore production from the East ramp starting this quarter, which should help to improve stope availability and mining flexibility with increased working faces. As a result, we hope this will boost mining productivity, resulting in improved head grades. The main ramp has been developed to 335m as of the latest update, and advancements in the East ramp have exceeded expectations. We like how management has pivoted to addressing the issues witnessed in 1Q; we are encouraged by the early results to resolve the head grade issue and look forward to seeing improved results from operations in 2Q and 3Q.

Exhibit 6: First gold pour from the PureGold mine

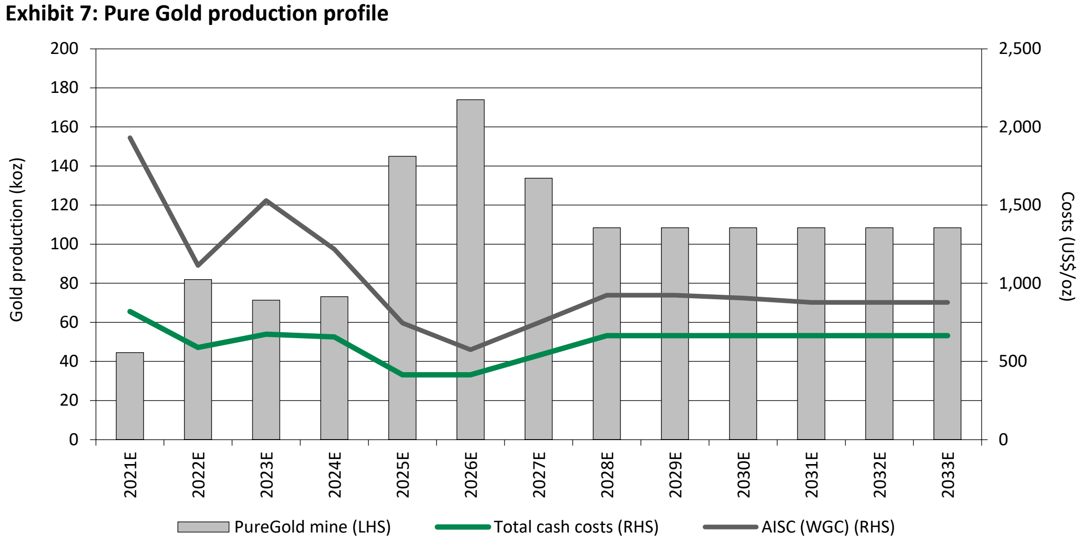
Source: Company press release

Our model

Our model of the PureGold mine is based on the mining and milling of 100% of the M&I resource, which is about double the reserve ounces at a similar grade. About 90% of the M&I resources are at the Main deposit and we expect continued reserve replacement given the nature of the underground deposit, which limits reasonable exploration reach at depth due to costs; however, we believe that the company will continue to convert resources to higher confidence levels. With a number of exploration targets along the 7km strike length, we expect Pure Gold should be able to expand throughput and include a 50% expansion to 1,200tpd in 2025, at which point the company should have access to the deposit through the refurbished shaft. Based on these assumptions, we model an 18-year minelife, with production of 1,960koz of gold at a 95% recovery rate and an 8.9g/t head grade after mining and milling 7.2mt.

We model a life-of-mine average mining cost of C$150/t vs C$169/t in the feasibility study, with the assumption that the company will apply a slightly lower cut-off grade to allow for a lower cost mining method later in the mine plan to offset some of the inflationary pressures. We model slightly higher processing and G&A costs, and our overall life-of-mine opex estimate is C$207/t, 7% below the C$223/t feasibility study estimate. We estimate average annual sustaining cost of C$23m, which is 24% higher than the C$18m annual estimate in the feasibility study; combined with our lower opex estimate, this drives our LOM AISC estimate of US$816/oz, which is 4% above the US$787/oz in the feasibility study. Our estimate is also based on a stronger C$/US$ exchange rate of C$1.25 vs the C$1.33 assumed in the feasibility study. Based on these assumptions, we estimate an $NPV_{5\%}$ of C$985m or C$2.16/share at our US$1,709/oz gold price estimate over the 18-year operating life.

Exhibit 7: Pure Gold production profile

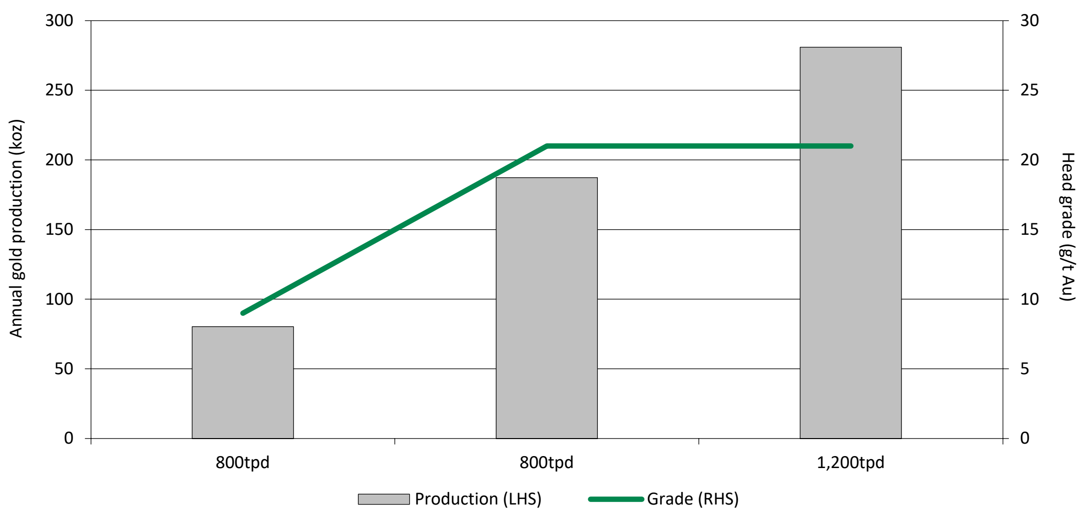


Source: Desjardins Capital Markets

Resource growth potential

There is significant exploration potential both at depth and along the 7km strike length, and the company will continue to employ an aggressive exploration strategy and take advantage of flow-through funding. It will look for near-mine opportunities to convert resources into the mine plan, but will also look to continue its success with step-out drilling. We are most excited about the 8 Zone target, where the company has intersected 466g/t over 4.3m, 342g/t over 5.5m and 120g/t over 8.2m; it will prepare to drill this target from underground this year. Adding this grade of material to the mill feed could instantly boost the company to intermediate producer status. For example, at the feasibility study average grade of 9.0g/t at 800tpd, the operation would produce 80koz/yr. If just 20% of the 9.0g/t mill feed is displaced with 100g/t feed, the head grade would increase to 27g/t and the operation would produce 243koz/yr at an 800tpd throughput. If this head grade can be sustained at a 1,200tpd throughput, annual production would reach 364koz. In the exhibit below, we show the impact of operating at 800tpd and 1,200tpd with the average grade of mined material from the Red Lake complex at 21g/t. At an 800tpd production rate, gold production increases 133% to 187koz/yr, and at a 1,200tpd production rate, gold production increases 250% to 281koz/yr vs 80koz at its current 9.0g/t reserve grade.

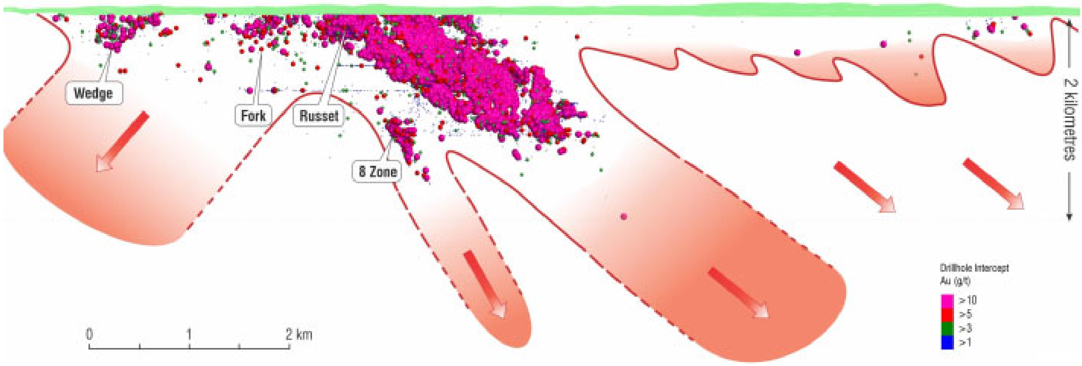
Exhibit 8: Production sensitivity to throughput and grade



Source: Desjardins Capital Markets

Beyond the 8 Zone, the company has defined a mineral resource estimate at its Russet South, Fork and Wedge deposits, which host a combined 431koz of mineral inventory. However, we believe that the best area for resource growth is to follow the Main deposit down plunge as intersections of 34.6g/t over 4.3m at the 1.4km level and 14.3g/t over 2.0m at the 2.1 km level indicate that the high-grade shoots continue. We also expect the company to identify more exploration targets on the 47km^2 property in the highly prospective Red Lake district.

Exhibit 9: Exploration potential along 7km mineralized trend



Source: Company presentation

Financial state

The company ended 1Q21 with a cash balance of C$11.6m, negative working capital of C$6.0m and debt and lease obligations on the books totalling C$96.5m. The company completed a C$15m equity financing which enabled it to access an additional US$18.5m on an amended credit facility from Sprott Resource Lending, and it completed a flow-through financing to raise C$17.3m in 2Q21. We see it ending the quarter with C$31.7m in cash and positive working capital of C$14.5m. The company has C$27m of in-the-money warrants priced at C$0.85 but these do not expire until July 2022, at which point we expect the company to be on more solid financial footing. We model a fully diluted share count of 455.9m, including the recent financings and in-the-money options and warrants.

We model the company turning free cash flow positive in 4Q21, assuming that it mines and mills planned grades, and we see a number of beneficial uses. Sprott owns a gold stream on the PureGold mine and is entitled to receive 5% of gold production until 50koz is delivered and 2.5% thereafter, with Pure Gold receiving 30% of the spot price. The company has an option to buy back the stream by paying US$35m on June 30, 2021 or US$38m on June 30, 2022. We believe that the company may consider taking advantage of the second repurchase date if operations are on track. The next priority is to pay down debt in the form of the costly credit facility, which bears interest at 5.5% plus 2.5%; we believe the company may look to pay down the credit facility before the August 2026 maturity date but after August 2022, at which point there is no penalty. However, the company will need to improve the performance of the PureGold mine before it can consider shedding these financial encumbrances, in our view.

Potential risks

The company has done considerable work to derisk the PureGold mine now that it is in production, but there are still risks inherent to all mining operations. We highlight the most notable risks for Pure Gold below (note that this is not an exhaustive list). The primary concern for investors is whether the mined grades will reconcile with the block model given the high-grade narrow-vein deposit.

- **Geotechnical risk.** Ground conditions could be less stable than expected and require a greater use of cut-and-fill or other higher-cost mining methods, and potentially slow development rates or require more ground support than initially expected.
- **Mining dilution risk.** There is additional risk of excess mining dilution with a high-grade narrow-vein orebody typical in the Red Lake mining camp. This risk could manifest if the orebody is more complex than originally understood, which could impact our head grade, throughput and opex estimates.
- **Mineral reserves and resource risk.** The company has intensely drilled the orebody but it is worth noting that there is a risk of negative reconciliation. Additionally, we assume that the company

will be able to convert M&I resources to minable reserves in our base-case model; however, there is a risk that this will not occur, which could impact our assumed minelife, throughput rates and overall NPV estimate for the PureGold mine.

- **Financing risk.** The company may look to repurchase the gold stream on the property or pay down debt, while maintaining a robust exploration program. It may consider an equity financing to complete this, which could potentially be a dilutive event for shareholders. Operational missteps could also require another capital infusion.

- **Market risk.** The company will generate all of its revenue from the sale of gold, so a decline in the gold price would have a significant impact on our valuation of the company. The company is also sensitive to changes in the Canadian dollar, and strength in the local currency would have a negative impact on our valuation.

Management and board

Pure Gold is supported by Oxygen Capital, which has a very successful history of mine development. The group backed True Gold, which was acquired by Endeavour Mining for C$240m in 2016 (representing a 43% premium to the closing price). The management team has many years of experience operating in the Red Lake mining camp. Management and insiders currently own ~3.9% of the shares outstanding while strategic shareholders Anglogold Ashanti and Eric Sprott own another ~27.5%, based on FactSet data.

- **Darin Labrenz, President & CEO.** Mr Labrenz brings more than 30 years of experience in the mining industry, including as chief geologist of the Campbell mine, now part of Evolution Mining's Red Lake mine complex next door to the PureGold mine. He was previously vice-president, corporate development, for Terrane Metals and has significant experience in exploration with Placer Dome. Mr Labrenz is a professional geologist.

- **Sean Tetzlaff, CFO & Corporate Secretary.** Mr Tetzlaff has more than 20 years of experience in financial management within the mining industry. He was CFO of both the predecessor company to True Gold and Fronteer Gold. Mr Tetzlaff is a chartered accountant.

- **Chris Haubrich, Vice-President, Business Development.** Mr Haubrich brings more than a decade of mining industry experience in capital markets, operations and engineering consulting. He most recently worked in investment banking, gaining experience in M&A and corporate financings; prior to that, he worked as an underground mining engineer. Mr Haubrich holds a BSc in mining engineering and an MSc in mineral and energy economics, and is a CFA charterholder.

- **Ken Donner, Vice-President, Operations.** Mr Donner has more than 30 years of experience in the mining industry—specifically, operations and development, with a focus on high-grade deposits. He is a geological engineer and holds an MBA and a project management certificate.

- **Phil Smerchanski, Vice-President, Exploration.** Mr Smerchanski has more than 15 years of experience in the mining industry. He worked as a geologist for Falconbridge, Inco and Anglo American, as well as a consultant for Goldcorp as a technical advisor on its HG Young discovery in Red Lake. He is a professional geologist and holds a master's degree in economic geology.

- **Christopher Lee, Chief Geoscientist.** Mr Lee brings more than 25 years of mineral exploration and resource estimation experience, having worked for SRK, with a focus on structural geology in the Red Lake camp. He worked as the chief geoscientist for True Gold and Fronteer Gold, and is a professional geologist.

- **Board of directors.** Graeme Currie (chair), Maryse Belanger, Len Boggio, Troy Fierro, Darin Labrenz, Mark O'Dea, Rob Pease.

Pure Gold Mining Inc.

Analyst: John Sclodnick • (416) 607-0199 • john.sclodnick@desjardins.com

Ticker	**PGM, TSX-V**
Current price (C$)	**1.52**
Stock rating	**Hold**
Target price (C$)	**1.80**
Potential total return	**18%**
Risk rating	**Speculative**
Shares outstanding (m)	**401**
Market capitalization (C$m)	**609**

Fiscal year-end	**December 31**
52-week high (C$)	**3.08**
52-week low (C$)	**1.12**
P/NAV (x)	**0.75**
NAV target multiple (x)	**0.90**
Cash (C$m)	**57**
EV/oz current (US$)	**193**
FCF yield FY1 (%)	**NM**

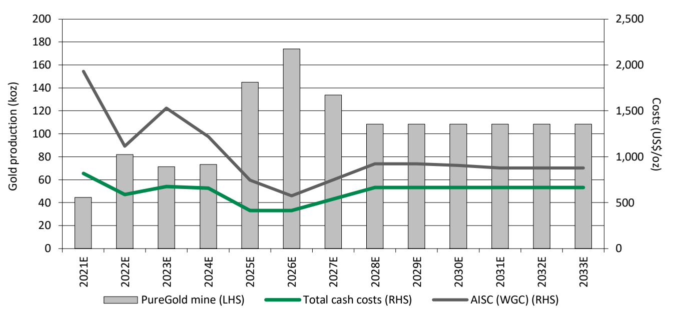
Financial data

Assumptions	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Gold (US$/oz)	1770	1780	1775	1700	1700
C$/US$	1.34	1.25	1.25	1.255	1.255

Financial forecasts	**2020**	**2021E**	**2022E**	**2023E**	**2024E**
Balance sheet (C$m)					
Cash & equivalents	46	26	82	85	106
Working capital	19	8	64	68	88
Total debt	92	109	102	88	75
Income statement (C$m)					
Revenue	0	86	174	146	150
Cost of sales	0	41	60	60	60
G&A expense	7	8	8	5	5
EBITDA	**-11**	**23**	**96**	**75**	**79**
Depreciation, depletion & amortization	0	19	39	34	35
Net income	-27	0	35	25	28
Cash flow (C$m)					
Operating CF (bef chgs in WC)	-13	19	91	67	64
Capital expenditure	114	74	25	50	30
Net proceeds from equity	36	20	0	0	0
Net proceeds (repayment) from debt	0	-2	0	0	0
Free cash flow	-132	-57	66	17	34
Per share data (C$/FD share)					
EPS FD	**-0.07**	**0.00**	**0.09**	**0.06**	**0.07**
Adjusted EPS	**-0.06**	**0.01**	**0.10**	**0.06**	**0.07**
CFPS (bef chgs in WC)	**-0.03**	**0.05**	**0.22**	**0.16**	**0.16**
FCFPS	**-0.35**	**-0.14**	**0.16**	**0.04**	**0.08**
Weighted avg basic shares O/S (m)	377	406	412	412	412
Weighted avg diluted shares O/S (m)	377	406	412	412	412

Operational data

Consolidated production profile	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Gold production (koz)	45	82	71	73	145
Total cash costs (US$/oz)	820	589	674	657	415
WGC all-in sustaining costs (US$/oz)	1,931	1,114	1,529	1,218	746

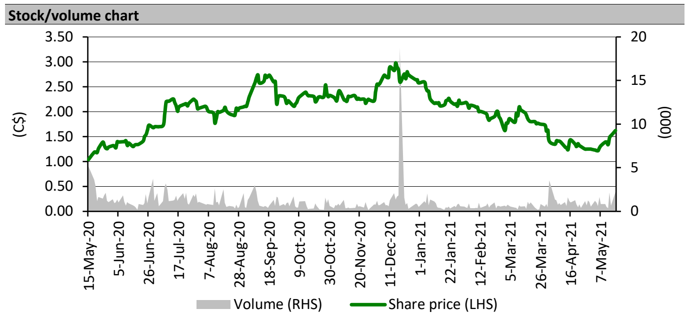


Reserves & resources

As at February 2019	**Tonnes (m)**	**Au Grade (g/t)**	**Contained Au (koz)**
Proven & probable reserves	3.5	8.97	1,013
M&I resources (incl reserves)	7.2	8.92	2,063
Inferred resources	1.9	7.71	466

Source: Desjardins Capital Markets, FactSet, company reports

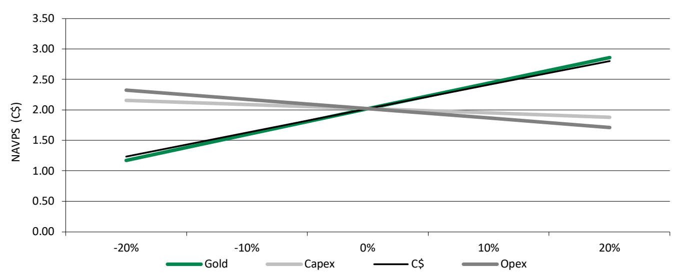
Stock/volume chart



NAV summary

Asset	**Ownership (%)**	**NAVPS (C$/sh)**
PureGold mine (5% DR)	100	2.16
Non-modelled resources		0.00
Project NAVPS		**2.16**
Cash & ST investments		0.09
In-the-money options & warrants		0.07
Corporate G&A (5 years @ 5% DR)		-0.06
ST & LT debt		-0.25
Total NAVPS		**2.02**
P/NAV (x)		**0.75**
Shares outstanding (FD) (m)		456

NAV sensitivity



Market data

Capital structure	**Weighted avg strike (C$)**	**Shares (m)**
Shares outstanding		412.2
In-the-money options	0.77	11.4
Warrants	0.85	32.4
Fully diluted shares		455.9

Top ownership (last reported)	**% outstanding**	**Shares (m)**
Anglogold Ashanti Ltd.	15.6	62.3
Sprott Eric Steven	11.9	47.9
Van Eck Associates Corp.	8.5	34.1
Invesco Advisers, Inc.	5.0	19.8
Fidelity Management & Research Co. Llc	2.4	9.5
Pko Tfi Sa	1.6	6.4
Odea Mark G	1.4	5.5

ESG overview

PGM is a junior Canadian gold mining company with one producing mine in Red Lake, Ontario, Canada. The mine is a high-grade, underground operation using a combination of long hole stoping and cut-and-fill mining methods. The PureGold mine poured its first gold bar in December 2020. Owing to the nature of its business, PGM is inherently exposed to significant environmental, social and governance risks. However, the company has demonstrated its commitment to ESG risk management with a board-level health, safety & sustainability committee dedicated to implementing and monitoring sustainable development practices. Similar to many junior producers, the company does not publish an annual sustainability report, so there is scope to improve from an ESG reporting perspective. However, as it grows in production and size, we would expect an improvement in reporting and tracking ESG metrics.

Materiality issue	Management process, controls and measurement	Momentum
Environment		
• **Ecological risk.** Material risks associated with developing, operating and decommissioning of mining facilities that could have an adverse impact on wildlife, land and water bodies.	• The PureGold mine is an underground operation with surface disturbances expected on only 5% of PGM's 47km^2 land package. • Mine closure plans include remediation not only to PureGold's surface disturbances but also to legacy site disturbances from predecessor companies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Positive** – The company maintains a strong focus on minimizing its impact on wildlife, land and water bodies.
• **Emissions.** Material risks associated with GHG emissions and other significant air emissions related to physical or chemical processing, transportation, generation of electricity and fugitive emissions (intentional or unintentional releases, such as leaks, emissions from mines and venting).	• The mine site is powered by renewable energy sourced from Hydro One's Ear Falls hydroelectric generating station. • The company plans to transition to electric-powered mining equipment as the mine progresses to lower both emissions and operating costs. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on GHG and other gas emissions.
• **Effluents and waste.** Material risks associated with the amount and quality of water discharged as well as the disposal of other waste materials, including overburden, waste rock, tailings, sludges and other residues.	• The company has built new water and sewage treatment plants to reduce its environmental impact from effluents and waste. • PGM is committed to maintaining compliance with environmental systems and policies. • **Metric** – No significant fines or sanctions related to environmental non-compliance.	• **Neutral** – There is scope for the company to improve disclosure on its waste management plans.
Social		
• **Occupational health and safety.** Material risks associated with mining activities and processes, which require appropriate controls, processes and training to prevent on-the-job injuries and fatalities. Examples of potential hazards include ground instability and rockfall, mobile equipment, worker fatigue, occupational disease hazards and handling of hazardous chemicals such as cyanide.	• PGM aims to be a zero-harm workplace, with the health and safety of employees, contractors and visitors taking precedence over project objectives. • Audits of health and safety performance are completed regularly to ensure that the company's health, safety & sustainability policy is being adhered to. • **Metric** – No significant fines or violations related to occupational health and safety.	• **Neutral** – There is scope for the company to improve disclosure on its safety management systems as well as safety performance.

Materiality issue	Management process, controls and measurement	Momentum
• **Labour practices.** Given mining companies operate in a variety of jurisdictions, some of which have less stringent labour laws, it is important that they promote a stable and constructive labour relations climate which is inclusive and diverse and fosters productive workplace relationships. Failure to comply with the appropriate institutional and legal frameworks could lead to workplace disruption and increased turnover.	• PGM is committed to providing training, good salaries and benefits for its more than 300 employees. • The company hires local labour wherever possible for its operations. • **Metric** – No significant fines or violations related to employment practices. – PGM has projected C$450m in life-of-mine local salaries (over initial 12-year minelife).	• **Neutral** – Key areas where the company can improve disclosures are labour practices, employee training and employee turnover.
• **Community relations and Indigenous rights.** Material risks associated with a company's exposure in operating on or near territory claimed by Indigenous communities. Approaches to community relations are of particular importance as mining companies can often become a significant presence in economic, social and environmental terms in communities that may otherwise be poor, small, remote or under-developed.	• In 2019, PGM signed project agreements with local Indigenous communities, including Wabauskang First Nation and Lac Seul First Nation, establishing agreement on matters such as permitting activities, community financial contributions, employment and contracting, and support for education. • The company has engaged local stakeholders by hosting community meetings and mine property tours. • **Metric** – No recent issues involving community relations have been identified.	• **Neutral** – The company continues to respect and support local communities. – There is scope for the company to improve reporting on its impact on local communities.
Governance		
• **Diversity.** Risk that the company does not appropriately support diversity within the organization.	• PGM addresses diversity considerations for its board of directors in its management information circular. • The company has not adopted diversity targets for its board or management teams at this time. • **Metric** – One of the seven board directors (14%) and none of the management team members are women.	• **Neutral** – There is scope for the company to improve disclosure on diversity within its workforce as well as to increase diversity within the organization.
• **Anti-bribery and anti-corruption.** Mining companies may operate in a variety of remote jurisdictions that require large volumes of cash to pay for goods and services. Lack of adequate systems to record the movement of cash can result in corruption scandals, which can have an adverse impact on companies and their investors.	• Ontario is a stable mining jurisdiction, with little indication of corruption or bribery. • PGM has an anti-bribery and whistleblower policy in place. • **Metric** – No indication of fraud, corruption or bribery. – Six of the seven board members (86%) are independent, including an independent chair, and there is separation of the chairperson and CEO roles.	• **Positive** – There is scope for the company to improve disclosure on its anti-bribery and anti-corruption policies as well as the relevant training programs for employees.

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Average Risk	Above-average Risk	Speculative
Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability	Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability	High degree of risk represented by the stock, marked by an exceptionally low level of predictability

* Peer group refers to all of the companies that an analyst has under coverage and does not necessarily correspond to what would typically be considered an industry group. Where an analyst's coverage universe is such that 'relative' performance against a 'peer group' is not meaningful, the analyst will benchmark the rating against the most appropriate market index

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Sell	Sell/Tender	2	1	0	0
Total		**167**	**100**	**123**	**100**

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