

Aris Gold Corp. (TSX:ARIS) and GCM Mining Corp. (TSX:GCM) *GCM Mining and Aris Gold to Merge in All-Share Deal*

Corporate Update
July 26, 2022

Impact: Positive

Yesterday morning, Aris Gold and GCM Mining announced that they entered into a definitive agreement whereby GCM is expected to acquire all of the outstanding shares of Aris it does not already hold. The new company would be named Aris Gold Corp. and would be led by Ian Telfer as Chair and Neil Woodyer as CEO and Director. Under the terms of the agreement, all outstanding shares of Aris not already owned by GCM would be exchanged at a ratio of 0.5 of a common share of GCM for each common share of Aris. GCM would own ~74% (considers the 44.3% of Aris that GCM already holds) and Aris Gold would own ~26% of the new company on a diluted ITM basis. The transaction would require approval of at least 66.67% of Aris shareholders and 50% of GCM shareholders. Shareholder meetings are scheduled to take place in mid-Sep/22. The closing of the transaction is expected shortly thereafter. All the directors and officers of GCM and Aris have entered into binding voting support agreements. **We view this transaction positively for both GCM Mining and Aris Gold as the larger, combined company should be in a stronger position to advance its projects in the face of the current market environment and offer more opportunity over the long run for investors to realize a potential re-rating. For GCM Mining, we maintain our BUY rating and slightly lower our price target to C\$16.75/sh (was C\$17.00/sh). For Aris Gold, we move our rating to Tender (was BUY) and lower our price target to C\$4.50/sh (was C\$5.75/sh).**

Our Take:

We believe the market has consistently failed to recognize the value of GCM given its consistent and robust operational performance at Segovia and the opportunity to grow its production profile with Toroparu to +450k oz Au per year by 2024. Additionally, the company has also replaced its mined resources at Segovia for six straight years and continues to have success with the drill bit, which supports our view that Segovia's main mines remain underexplored and are potentially larger than envisioned. **We view this merger as an opportunity for this potential to be unlocked in the new Aris Gold, which would have a strong and experienced leadership team that is poised to execute and become a significant mid-tier gold producer.** Based on our estimates, GCM was trading at a discount to peers on several key metrics prior to the announcement: 1) P/NAV: 0.12x vs. peers at 0.50x, 2) 2022 EV/EBITDA: 1.4x vs. peers at 3.4x and 3) P/CF: 1.9x vs. peers at 3.9x. Also, before the announcement GCM shares were down 36% YTD; while in line with peer companies, performance was well below that of Aris shares (+9% YTD). While we view the transaction as a positive for GCM shareholders, we would also highlight some potential negatives including: 1) the new Aris Gold plans to initially stop paying a dividend (only a negative for investors seeking income) and 2) potentially significant change of control payments to GCM executives (more details to come once filings are made, but we believe potential synergies could offset this amount over time).

While we view the transaction as a positive for GCM, we believe Aris Gold comes away the winner in this deal. Aris had outlined its vision to become a mid-tier gold producer and has a goal of reaching +1M oz of Au production, which it is now well on the way to achieving – we currently estimate production of ~783k oz Au by 2026 from the New Aris Gold. This transaction should also greatly improve the company's market profile as there were concerns around the cross-ownership of Aris by GCM, which weighed on the trading liquidity of the stock. The deal would also eliminate ~US\$45M in inter-company debt that Aris owed to GCM, bolster Aris' financial position (US\$657M of cash and committed funding, of which US\$397M would be in cash) and reduce G&A expense (estimated savings of ~US\$10M annually). Given the recent political change in Colombia ([read more](#)), we believe the combined company would be in a stronger position to advance its projects given its in-country expertise along with the goodwill it has built up with local communities and various levels of government. **Although the mechanics of the deal have GCM acquiring Aris Gold, our view is that the new company would be Aris Gold through and through – management, board, strategy, and vision.**

Valuation:

We have slightly lowered our target price for GCM Mining to C\$16.75/sh (was C\$17.00/sh), which is based on our pro-forma valuation of the New Aris Gold Corp. (see Figure 1). We have also lowered our target price for Aris Gold Corp. to C\$4.50/sh (was C\$5.75/sh), which is based on current Aris Gold's ownership (26%) of our pro-forma target of New Aris Gold Corp. While investors may not have realized the full value of our prior estimates, we believe that the New Aris Gold is better suited to meet the challenges of the current market environment and that a larger and better structured company offers more opportunity for shareholders. Therefore, we maintain our BUY rating for GCM Mining and move our rating for Aris Gold to Tender (previously BUY). Given the strong support of management and the positive reaction by the market of the transaction after the first day of trading post-announcement (+9.7% and +11.5% DoD for GCM and Aris, respectively), we expect this deal to close. At this time, we do not expect a competing offer to come in for Aris Gold.

Upcoming Catalysts:

Segovia – 1) Maria Dama expansion (Q3/22), 2) Q2/22 financial results (Aug/22), 3) Drilling and assays from 91,000m drill program (ongoing), and 4) Resource update (2023); **Toroparu** – 1) Receipt of mining license (Q3/22), and 2) Delivery of a PFS (Q3/22); **Marmato** – 1) Reserve update (Q3/22), 2) Lower mine development updates (ongoing), 3) First Au production from Lower Mine (Q4/23); and **Soto Norte** – 1) Receipt of mining license extension (2022), and 2) Draft and advance of a new ESIA for Soto Norte (2022).

Changes to our model:

We have adjusted our model to reflect the acquisition of Aris' assets and now include a 100% of the Marmato mine and 20% of the Soto Norte project in Colombia. We did not make any adjustments to our previous assumptions for these assets and continue to assume that Marmato produces Au and Ag at 1,500tpd ramping up to to 5,000tpd by Q2/24, while Soto Norte comes online in Q1/27 (we continue to assume only a 20% interest in Soto Norte). We have also combined the balance sheets of the two companies and have added US\$73M in secured notes to GCM's existing US\$300M in unsecured notes and C\$18M in convertible debt. Finally, we assumed that GCM issues 38M shares to complete the transaction and takes on Aris' current liquidity which includes US\$82M in cash; however, we assume the cash balances are only amalgamated on closing of the transaction in Q3/22. Based on management guidance, we no longer assume the new company pays any dividends to its shareholders and have therefore removed this from our model. Our pro-forma valuation for new Aris therefore stands at ~C\$3.4B or C\$16.75/sh (Figure 1). We estimate that with this acquisition, new Aris is on track to produce ~800k oz Au by 2027 (Figure 2). Our estimates are predicated on Toroparu coming online in 2024; however, management may look to slow down the development of this project slightly as it gets to know the asset. Additionally, looking at new Aris' relative valuation, it is undervalued to its peer group on both a P/NAV and EV/EBITDA (2022E) basis and represents a good entry point for investors (Figure 3). A select list of financial metrics has been included in Figure 4.

Figure 1: New Aris Pro-forma NAV estimate

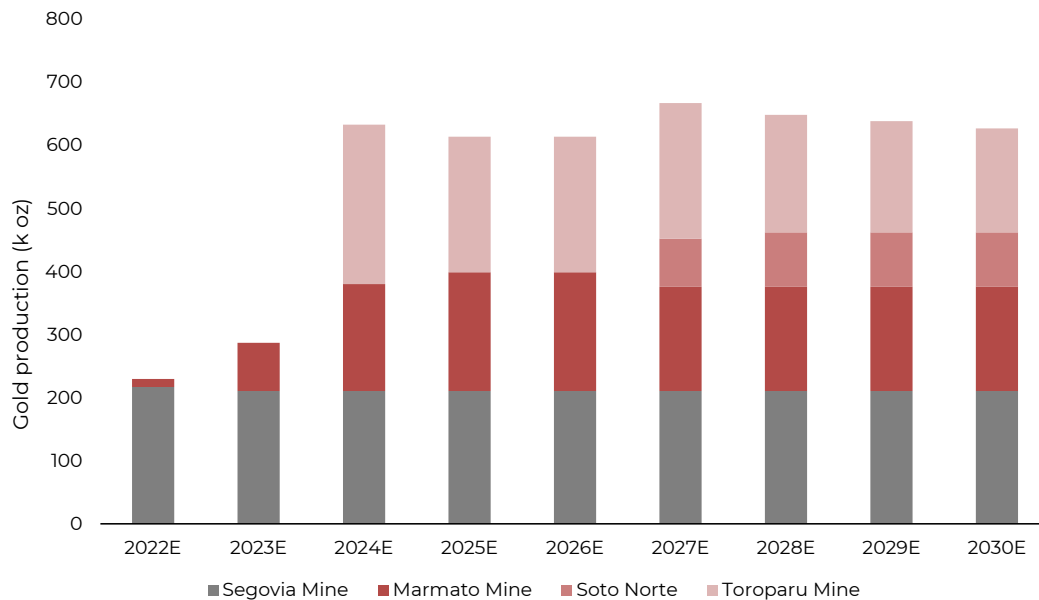
	Discount Rate	NAV (C\$M)	NAV/Share	Target Multiple	Target Derivation
Segovia (100%), Colombia	5.0%	\$1,817.3	\$12.29	0.9x	\$11.06
Marmato (100%), Colombia	5.0%	\$1,332.3	\$9.01	0.9x	\$8.11
Soto Norte (20%), Colombia	5.0%	\$965.3	\$6.53	0.6x	\$3.92
Toroparu (100%), Guyana	5.0%	\$3,593.9	\$24.30	0.6x	\$14.58
Taxes	5.0%	(\$3,840.9)	(\$25.97)	0.7x*	(\$17.65)
Other Assets	in-situ	\$88.6	\$0.60	1.0x	\$0.60
Corporate Adjustments	5.0%	(\$592.3)	(\$4.01)	1.0x	(\$4.01)
Dividend Adjustment	5.0%	\$0.0	\$0.00	1.0x	\$0.00
		\$3,364.2	\$22.75		\$16.62

	Value (C\$/sh)
5% NAV Target	\$16.75

*Multiple is a weighted average based on each asset

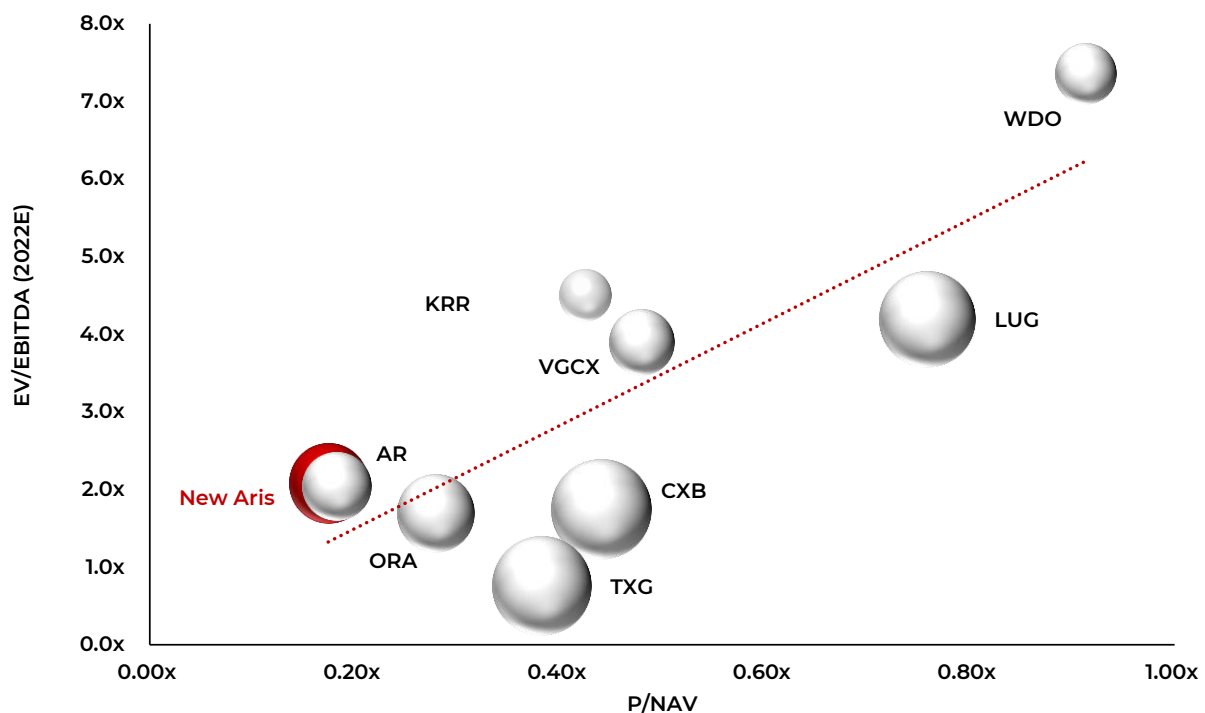
Source: RCS Estimates

Figure 2: New Aris Au Production Profile



Source: RCS Estimates

Figure 3: New Aris P/NAV vs. 2022E EV/EBITDA vs. Production (bubble size)



Source: RCS Estimates, S&P Capital IQ Pro

July 26, 2022

GCM Mining and Aris Gold to Merge in All-Share Deal

Figure 4: New Aris select financial metrics

Year-end Dec 31st	2021A	2022E	2023E	2024E	2025E	2026E
Shares O/S (M)	98.0	135.9	135.9	135.9	135.9	135.9
EBITDA (\$M)	\$175	\$218	\$280	\$745	\$659	\$659
FCF (CFO+CFI) (\$M)	-\$149	\$93	-\$128	\$460	-\$184	-\$241
EPS (\$/sh)	\$2.61	\$0.65	\$0.88	\$3.07	\$2.59	\$2.59
CFPS (\$/sh)	\$1.11	\$1.25	\$1.31	\$4.61	\$2.97	\$3.23
EV/EBITDA	2.7x	2.1x	1.6x	0.6x	0.7x	0.7x
P/CFPS	2.7x	2.3x	2.1x	0.6x	0.9x	0.9x
Income Statement (\$M)						
Revenue	382.7	451.8	559.9	1218.1	1184.6	1184.6
Operating Expenses	193.0	205.5	263.5	436.2	490.3	490.3
Depreciation	31.4	29.7	36.4	69.8	80.2	91.5
General & Admin	18.3	24.2	16.8	36.6	35.6	35.6
Net Income	180.0	87.3	120.1	417.4	351.4	351.9
Balance Sheet (\$M)						
Cash & Equivalents	323.6	475.1	346.9	788.4	603.8	63.0
Debt	0.3	373.8	373.5	373.2	373.0	73.0
Cash Flow (\$M)						
Operating CF	80.6	158.3	178.3	627.0	403.0	439.6
Financing CF	359.7	(24.9)	(0.3)	(18.3)	(0.2)	(300.0)
Investing CF	(229.7)	(65.8)	(306.2)	(167.2)	(587.4)	(680.4)
Change in Cash	201.1	69.5	(128.2)	441.5	(184.6)	(540.8)

Source: RCS Estimates

Financial and Operating Summary: GCM Mining Corp.

FINANCIAL DATA

Ticker	TSX:GCM
Current Price (C\$/sh)	\$3.73
Rating	BUY
Target Price (C\$/sh)	\$16.75
Return to Target	349%
52 Week Low / High (C\$/sh)	\$3.13 / \$6.13
Shares Outstanding (M)	97.9
Market Capitalization (C\$M)	\$365.2
Cash & Cash Equivalents (C\$M)	\$420.1
Total Debt (C\$M)	\$420.3
Enterprise Value (C\$M)	\$365.4

FINANCIAL DATA

Capital Structure	Shares
	Millions
Shares Outstanding	97.9
Options	2.5
Warrants	27.0
Convertible Debentures	3.79
Fully Diluted Shares	131.2

Ownership	Shares O/S (M)	% O/S
Management	3.0	3.0%
MM Asset Management Inc	10.7	11.0%
Van Eck Associates Corporation	4.4	4.5%
Ruffer LLP	4.2	4.3%
Invesco Ltd.	1.3	1.4%

Financial Summary

Year-end Dec 31st	2021A	2022E	2023E	2024E	2025E	2026E
Shares O/S (M)	98.0	97.9	97.9	97.9	97.9	97.9
EBITDA (\$M)	\$175	\$197	\$207	\$575	\$465	\$465
FCF (CFO+CFI) (\$M)	-\$149	\$4	-\$58	\$438	\$198	\$251
EPS (\$/sh)	\$2.61	\$0.74	\$0.89	\$3.40	\$2.61	\$2.64
CFPS (\$/sh)	\$1.11	\$1.50	\$1.17	\$4.98	\$2.75	\$3.19
EV/EBITDA	1.7x	1.4x	1.3x	0.5x	0.6x	0.6x
P/CFPS	2.7x	1.9x	2.4x	0.6x	1.0x	0.9x

Income Statement (\$M)

Revenue	382.7	416.1	412.1	891.7	822.2	822.2
Operating Expenses	193.0	190.1	187.9	278.6	322.4	322.4
Depreciation	31.4	28.4	26.3	44.3	49.0	56.8
General & Admin	18.3	25.7	17.6	38.1	35.1	35.1
Net Income	180.0	72.1	87.5	332.6	255.6	258.1

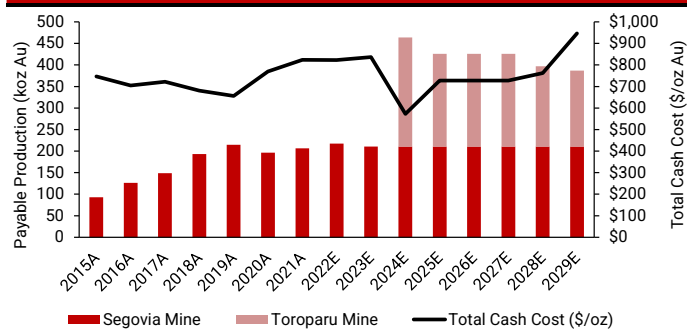
Balance Sheet (\$M)

Cash & Equivalents	323.6	303.4	231.4	638.2	823.1	760.6
Debt	315.4	314.3	314.0	300.2	300.0	0.0

Cash Flow (\$M)

Operating CF	80.6	141.1	114.1	487.9	268.8	312.3
Financing CF	359.7	(25.6)	(13.5)	(31.5)	(13.4)	(313.2)
Investing CF	(229.7)	(137.6)	(172.6)	(49.6)	(70.6)	(61.6)
Change in Cash	201.1	(20.2)	(72.0)	406.8	184.8	(62.5)

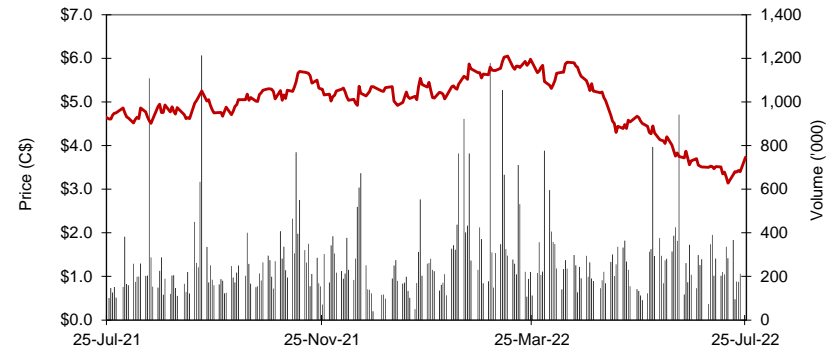
PRODUCTION PROFILE



Priced as of market close on July 25, 2022.

Source: RCS Estimates, Company Reports, S&P Capital IQ, S&P Capital IQ Pro

STOCK CHART



TECHNICAL ASSUMPTIONS

	2021A	2022E	2023E	2024E	2025E	2026E
Gold Price (\$/oz)	\$ 1,799	\$ 1,888	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
Silver Price (\$/oz)	\$ 25.18	\$ 25.69	\$ 28.00	\$ 28.00	\$ 28.00	\$ 28.00
Copper Price (\$/lb)	\$ 4.24	\$ 4.22	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00
Canadian : US\$ exchange rate	\$ 0.80	\$ 0.77	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75

RESOURCE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	9.93	10.41	3,324
Toroparu	198.76	1.62	11,407
Global Resource	208.70	2.04	14,731

RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	2.29	10.10	745
Toroparu	NA	NA	NA
Global Reserves	2.29	10.10	745

RCS MINE MODEL	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	6.86	10.31	2,273
Toroparu	107.30	1.89	6,528

NET ASSET VALUE

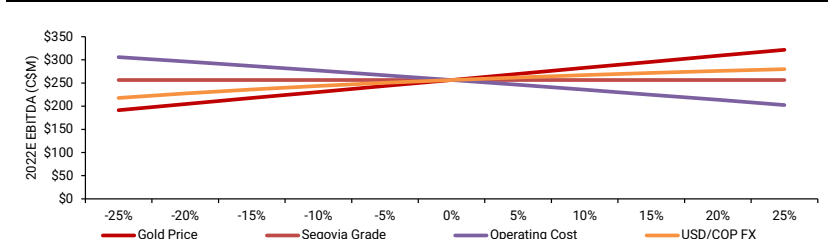
	Discount Rate	(C\$M)	(C\$/Sh)	Multiple	Target (C\$/Sh)
Segovia (100%), Colombia	5%	\$ 1,832	\$ 16.67	0.9x	\$ 15.01
Toroparu (100%), Guyana	5%	\$ 3,594	\$ 32.71	0.6x	\$ 19.63
Taxes	5%	\$ (1,749)	\$ (15.92)	0.7x*	\$ (11.15)
Other Assets	in-situ	\$ 192	\$ 1.75	1.0x	\$ 1.75
Corporate Adjustments	5%	\$ (958)	\$ (8.72)	1.0x	\$ (8.72)
Dividend Adjustment	5%	\$ 119	\$ 1.08	1.0x	\$ 1.08
Total NAV		\$ 3,030	\$ 27.57		\$ 17.59

*Weighted average of multiples on taxes for Segovia (0.9x) and Toroparu (0.6x)

COMPARABLES

Company	Ticker	Price C\$	EV/EBITDA FY2022E	FY2023E	P/NAV
Calibre Mining Corp.	TSX:CXB	\$1.00	1.8x	1.3x	0.44x
Karara Resources Inc.	TSX:KRR	\$2.75	4.5x	2.4x	0.42x
Wesdome Gold Mines Ltd.	TSX:WDO	\$9.15	7.4x	5.0x	0.91x
Lundin Gold Inc.	TSX:LUG	\$7.94	4.2x	4.5x	0.76x
Torex Gold Resources Inc.	TSX:TXG	\$8.85	0.8x	0.9x	0.38x
Victoria Gold Corp.	TSX:VGCX	\$9.13	3.9x	3.2x	0.48x
Aura Minerals Inc.	TSX:ORA	\$6.75	1.7x	1.4x	0.28x
Average			3.3x	2.5x	0.48x
GCM Mining Corp.	TSX:GCM	\$3.73	1.4x	1.4x	0.14x

EBITDA (2022E) SENSITIVITIES



Financial and Operating Summary: Aris Gold Corporation

FINANCIAL DATA

Ticker	TSX:ARIS
Closing Price (C\$/sh)	C\$1.84
Rating	TENDER
Target (C\$/sh)	C\$4.50
Return to Target	145%
52 Week Low / High (C\$/sh)	\$1.21 / \$2.25
Shares Outstanding (M)	137.8
Market Capitalization (C\$M)	C\$253.6
Enterprise Value (C\$M)	C\$254.0
Cash (C\$M)	C\$109.7
Debt (C\$M)	C\$110.2

FINANCIAL DATA

Capital Structure	Shares Millions
Shares Outstanding	137.8
Options	7.4
Warrants	87.4
Fully Diluted Shares	232.7

Ownership	Shares O/S (M)	% O/S
Management	11.7	8.50%
GCM Mining Corp.	61.0	44.3%
Orion Resource Partners	8.7	6.3%
Other	56.2	40.9%

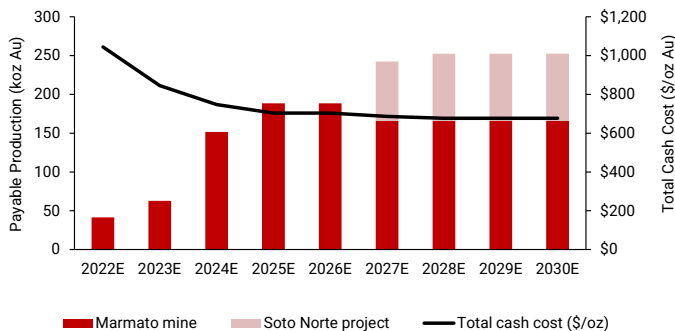
Financial Summary (\$)	2021A	2022E	2023E	2024E	2025E	2026E
Year-end December 31st						
Shares O/S (M)	137.8	137.8	160.8	160.8	160.8	160.8
EBITDA (US\$M)	-\$2	\$25	\$58	\$167	\$217	\$217
FCF (CFO+CFI) (US\$M)	-\$23	-\$130	-\$155	\$73	\$35	\$18
EPS (US\$/sh)	-\$0.02	\$0.06	\$0.14	\$0.55	\$0.74	\$0.73
CFPS (US\$/sh)	\$0.08	\$0.09	\$0.20	\$0.69	\$0.93	\$0.94
EV/EBITDA	(130.9)x	7.8x	3.3x	1.1x	0.9x	0.9x
P/CFPS	17.4x	14.9x	6.9x	2.0x	1.5x	1.5x

Income Statement (\$M)	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	48.9	81.5	121.4	291.8	362.4	362.4
Operating Expenses	40.9	48.2	55.2	117.1	137.0	137.0
Depreciation	2.0	3.7	8.0	22.4	30.3	33.4
General & Admin	7.7	7.9	8.0	8.0	8.5	8.5
Net Income	(1.6)	8.2	20.4	87.9	118.7	118.2

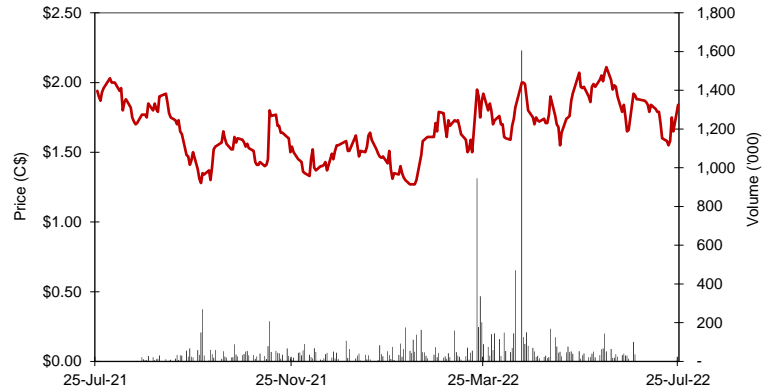
Balance Sheet (\$M)	2021A	2022E	2023E	2024E	2025E	2026E
Cash & Equivalents	110.1	56.5	31.1	72.2	84.8	75.7
Debt	86.6	117.2	178.5	160.6	142.1	112.5

Cash Flow (\$M)	2021A	2022E	2023E	2024E	2025E	2026E
Operating CF	11.0	12.2	28.4	110.3	149.0	151.6
Financing CF	128.6	66.5	122.3	(17.9)	(18.5)	(29.6)
Investing CF	(33.9)	(142.4)	(183.6)	(37.6)	(113.7)	(134.1)
Change in Cash	106.0	(63.6)	(32.9)	54.7	16.8	(12.1)

PRODUCTION PROFILE



STOCK CHART



TECHNICAL ASSUMPTIONS

	2021A	2022E	2023E	2024E	2025E	2026E
Gold Price (\$/oz)	\$ 1,799	\$ 1,895	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
Silver Price (\$/oz)	\$ 25.18	\$ 27.03	\$ 28.00	\$ 28.00	\$ 28.00	\$ 28.00
Canadian : US\$ exchange rate	\$ 0.80	\$ 0.76	\$ 0.75	\$ 0.75	\$ 0.75	\$ 0.75

RESOURCE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Juby	68.40	1.03	2,258
Marmato	87.60	3.05	8,593
Soto Norte	75.41	5.69	13,802
Global Resource	231.41	3.31	24,653

RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Juby	0.00	0.00	0
Marmato	19.70	3.28	2,004
Soto Norte	24.77	7.00	5,575
Global Reserves	44.47	5.35	7,654

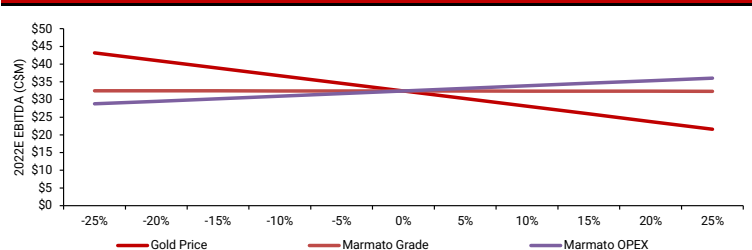
NET ASSET VALUE

	Discount Rate	(C\$M)	(C\$/Sh)
Marmato (100%), Colombia	5%	\$ 1,633	\$ 6.58
Soto Norte (20%), Colombia	5%	\$ 965	\$ 3.89
Taxes	5%	\$ (795)	\$ (3.20)
Other Assets	in-situ	\$ 75	\$ 0.30
Corporate Adjustments	5%	\$ 100	\$ 0.40
Total NAV		\$ 1,979	\$ 7.97

COMPARABLES

Company	Ticker	Price C\$	EV/EBITDA FY2022E	EV/EBITDA FY2023E	P/NAV
Calibre Mining Corp.	TSX:CXB	\$1.00	1.8x	1.3x	0.44x
Karara Resources Inc.	TSX:KRR	\$2.75	4.5x	2.4x	0.42x
Wesdome Gold Mines Ltd.	TSX:WDO	\$9.15	7.4x	5.0x	0.91x
GCM Mining Corp.	TSX:GCM	\$3.73	1.6x	1.7x	0.24x
Lundin Gold Inc.	TSX:LUG	\$7.94	4.2x	4.5x	0.76x
Torex Gold Resources Inc.	TSX:TXG	\$8.85	0.8x	0.9x	0.38x
Victoria Gold Corp.	TSX:VGCX	\$9.13	3.9x	3.2x	0.48x
Argonaut Gold Inc.	TSX:AR	\$0.39	2.0x	1.1x	0.18x
Aura Minerals Inc.	TSX:ORA	\$6.75	1.7x	1.4x	0.28x
Average			3.1x	2.4x	0.46x
Aris Gold Corporation	TSX:ARIS	\$1.84	8.0x	3.4x	0.23x

EBITDA (2022E) SENSITIVITIES



Priced as of market close on July 25, 2022

Source: RCS Estimates, Company Reports, S&P Capital IQ, S&P Capital IQ Pro

July 26, 2022

GCM Mining and Aris Gold to Merge in All-Share Deal

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Company Name	Ticker Symbol	Disclosures
Aris Gold Corp.	TSX:ARIS	3,4
GCM Mining Corp.	TSX:GCM	

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