

Winds of Change in Mexico's Mining Industry — Positioning for Success in 2025

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Claudia Sheinbaum is an improvement, and industry dialogue is picking up. Since the election of AMLO in 2018, Mexico's mining industry has faced increasing uncertainty, with the former President creating and proposing policies that have deterred and dramatically slowed the pace of investment in the country. His successor, Claudia Sheinbaum, who took office on October 1, is already showing she is more open to constructive dialogue. However, she has inherited a regulatory and permitting system that is now backlogged and without clear guidelines on how to proceed.

Our take: As Mexico's economy and standards improve, **we expect an approach more similar to that applied in countries like Canada will develop, where more consultation with local stakeholders is required and strict environmental safeguards are to be met — a positive change, but one that will take some time for both miners and regulators to adjust to.** Throughout 2025, we expect uncertainty to reduce, the pace of business in the mining industry to improve, and market valuations of several Mexican-focused companies to notably improve.

In this report, we delve into some changes taking place within Mexico and its mining industry, and highlight the importance of mining to the country:

- ▶ Mining policies under AMLO and next steps for President Sheinbaum; The future of open-pit mining in the country;
- ▶ Judicial reform — an important, but potentially overlooked factor impacting the pace of change;
- ▶ Mining royalties, taxes, and Mexico's competitive position on the global cost curve; Investment attractiveness and the opportunity for Mexico to regain its previous appeal; The importance of mining in Mexico and its position on the global scene.

We think an outright ban on open-pit mining is extremely unlikely. Existing operations that already exemplify the social and environmental protections the government is now requiring we expect will be allowed to continue, but new mine applications are likely to be subject to a higher standard, ultimately adding time to the permitting process.

Heightened barriers to entry favour the incumbents. Until regulations improve, we view the country's policies as presenting barriers to entry for new players, but supportive of incumbents and their existing operations, which are often significant regional employers and taxpayers. **Endeavour Silver (EDR-TSX, BUY, PT C\$9.00)**, we believe, is amongst the best-positioned silver-focused producers in Mexico to benefit from these barriers to entry. With Mexico accounting for ~25% of global silver supply, restricting the production of a metal that is critical to the rapidly growing photovoltaic (solar) industry could also positively impact prices, further benefiting existing producers.

GoGold (GGD-TSX, BUY, PT C\$3.15), Vizsla (**VZLA-TSX, BUY, PT C\$4.25**), Prime Mining (**PRYM-TSX, BUY, PT C\$3.75**), and Luca Mining (**LUCA-TSXV, Not Covered**) stand out as companies with significant valuation upside. GoGold and Vizsla have projects that we believe have strong potential to make their way successfully through the permitting process, with an attractive risk/reward profile and production to be via underground mining. Prime is expanding Los Reyes' underground potential and presenting development optionality, while Luca Mining has two producing mines yet trades at a discounted valuation to its peers.

Discovery Silver (DSV-TSX, BUY, PT C\$2.20) and Silver Tiger **Metals (SLVR-TSXV, BUY, PT C\$0.70)** represent two earlier stage, more discounted opportunities that we think have substantial valuation upside but may need more patience to navigate the evolving permitting regime.

Market valuations have declined, but are poised to rebound on positive regulatory news. Considering the elevated regulatory uncertainty over the last 18-24 months, we have seen market valuations for Mexican-based companies decline and the historic premium now at a discount. Given the general lack of communication and collaboration with the mining industry prior to Sheinbaum's election, we think any positive news on permitting in Mexico could be a catalyst for the sector. Orla Mining (OLA-TSX, Not Covered) and its Camino Rojo open-pit mine layback, for

example, we believe, could be one of the earlier permits to be received, and would be a sign of support and acknowledgement of mining's positive contribution to Mexico's economy.

A New President, Improved Dialogue, but the Same Ruling Political Party

Claudia Sheinbaum is an improvement for the Mexican mining industry, but uncertainty remains. In June 2024, Claudia Sheinbaum was elected Mexico's newest President and officially assumed office on October 1. While she is generally expected to be less polarizing than her predecessor and former mentor, the outgoing President AMLO, we note that President Sheinbaum represents the same political party that AMLO formed, the National Regeneration Movement, commonly referred to as Morena. President Sheinbaum was previously the Mayor of Mexico City and an accomplished scientist, having received her PhD in energy engineering and authoring over 100 articles and two books on energy, the environment, and sustainable development.

At the heart of the Morena Party's guiding principles is the drive for better access to education and healthcare, social support, and protection of the environment. The party generally aims to expand and create social programs to reduce inequality and poverty, while also focusing on promoting investments in renewable energies, protecting the environment, and supporting sustainable agriculture and environmentally responsible development.

Open, constructive dialogue is increasing, a welcome change with Sheinbaum. When former President AMLO took office in 2018, we understand that, in general, open dialogue between the federal government agencies and many mining companies was subsequently very limited, contributing to policy uncertainty and leading to a significant decline in new investment. Since President Sheinbaum has taken the helm, however, there have been at least two meetings between agents of the Mexican federal government and several Canadian-based mining companies with operations in Mexico, a notably positive step forward in our view towards opening dialogue, clarifying the government's policies and requirements, and ultimately restarting investment in the Mexican mining industry.

Mining policies under AMLO. During AMLO's tenure from 2018 -2024, his policies and proposed reforms were typically viewed as increasingly averse to mining, with a particularly heightened awareness of the environment and prohibitions on concessions in water-scarce regions of the country. At the start of his Presidency, AMLO restricted the issuance of new mining concessions, and no new exploration concessions have been granted in the country since 2018. In May 2023, AMLO's reform proposals included numerous impacts on the mining sector including: shortening the duration of mining concessions from 50 years to 30, with a one-time renewal of 25 years (previously 50 + 50); reclassifying mining activities as non-preferential, thereby removing the concession holders' entitlement to request land access and surface rights to conduct mining activities; tightening of water use and rights in Mexico; and significantly enhancing pre-consultation requirements with communities prior to performing exploration activities, coupled with impact studies and cash bonds held as security and the potential for revoking concessions.

Exhibit 1 - Timeline of Events Affecting Mexico's Mining Industry



Source: Ventum Financial, media reports

Policies on paper, but often without the regulations to apply or enforce them. Despite the potentially negative impacts AMLO's policies may have on the mining industry, we understand that many of them have yet to be applied as the necessary regulatory framework to enforce them is not yet in place. As a result, some activities are advancing under previous rules, but overall the pace of advancing permits within the country has significantly diminished.

Lithium mining was nationalized in 2022, but we don't anticipate the same process to be applied to other metals. In a move to tighten the government's control over energy production and retain control over the resources involved in energy independence, the Mexican Congress amended the Mining Law prohibiting exploration and exploitation of lithium by individuals and/or private companies, with future activities to be conducted by a governmental body, LitoMx, which was formed later that year. Unlike other metals, such as silver, gold and copper, the lithium

mining industry in Mexico is in the early stages of development, with no commercial production of the metal to date. In addition, lithium mining (including Mexico's lithium deposits, which are primarily concentrated in Sonora and consist of clay and hard rock deposits) will be from open pits and can be very water intensive, placing a greater potential impact on the environment and water resources. With Mexico's other mining industries already well established and part of a global investor base and supply chains, we don't believe they are at risk of nationalization, nor have we seen any commentary from the government that would suggest this is under consideration.

The future of new open-pit mining permits remains a notable unknown. On February 5, 2024, AMLO announced a proposal to prohibit open-pit mining and fracking in Mexico, which was later approved by Mexico's lower house of Congress but remains unsettled and contested by many within the industry. CAMIMEX, Mexico's Mining Chamber, has cautioned the country's government that an open pit ban could lead to a 1% contraction in GDP and place approximately 200,000 jobs at risk.

We think an outright ban on open-pit mining is extremely unlikely. Open-pit mining contributes significantly to the employment, infrastructure, and tax base for some of Mexico's mining-heavy states, and in our view, banning the activity would cause significant economic and social hardship, contrary to President Sheinbaum's objectives. In the states of Sonora and Zacatecas, for example, nearly one-third of the land is covered by mining concessions, over 100,000 people are employed directly or indirectly by mining, metal exports are significant drivers of each state's economy (for e.g., copper, molybdenum and gold are the first, third and fourth largest, respectively, contributors to Sonora's exports), and schools in both regions have strong mining and geology programs, with the industry generally paying above-average wages. Additionally, copper, silver, zinc and lead are critical metals used in decarbonization/electrification efforts and cutting production could impede the Morena government's environmental initiatives. Existing operations that already exemplify the social and environmental protections the government is now requiring will be allowed to continue we believe, but new mine applications are likely to be subject to a higher standard, ultimately adding time to the permitting process.

As Mexico's economy and standards improve, we expect a new approach more similar to that applied in countries like Canada will develop, where more consultation with local stakeholders is required and strict environmental safeguards are to be met — a positive change, but one that will take some time for both miners and the regulators to adjust to.

Next Steps for Sheinbaum we think will be more “pro-business”. Following taking office on October 1, 2024, President Sheinbaum presented 100 pledges, but within them omitted any rhetoric targeting AMLO's previous policies on mining. Given her technical background (Doctorate in Energy Engineering), strong science-based principled approach to development, and stated objective to reduce Mexico's three-decade high budget deficit in 2024 of 5.9% of GDP to 3.9%, along with increasing efforts to communicate with the mining industry and understand, and potentially reverse the decline in investments, we are optimistic that favourable changes to mining policies will start to be made in 2025.

Clarity on proposed policies should be positive for the mining sector. Importantly, we believe that some of the proposed changes (increased consultation and profit sharing, for example) are positive and supported by the mining industry, but the current policy uncertainty and ambiguity are the main deterrents to new investment. In this regard, we see the new president's increased level of communication with the mining sector as a positive development that will translate into positive investment momentum in 2025.

Some permits may start to be awarded shortly. We believe preliminary talks have been favourable and point to progress being made to reduce the backlog of permit applications pending, with permit applications awaiting amendments or extensions most likely to be approved over the next few months. New mine permits, in particular those for new open pits, are likely to take more time to get through the system. With a view that Sheinbaum will continue to enhance efforts on the protection of the environment, we foresee an overlap of various parties such as the Ministry of Agriculture, Labour, Rural Development and Mining, and local communities all having input into project permitting while maintaining adequate protection of the environment and water usage.

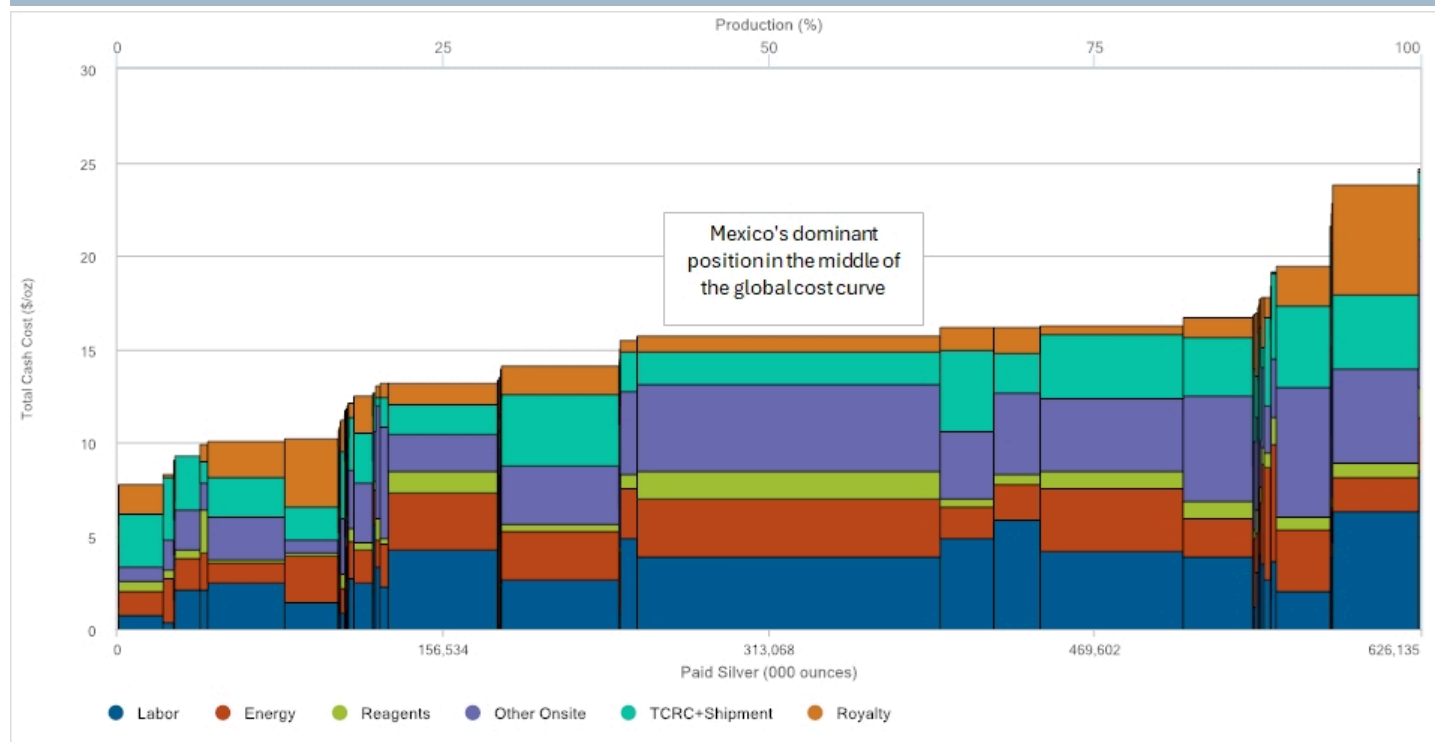
Judicial reform may slow the pace of improvements but could be a catalyst in some regions and a process to watch. As one of his final victories before leaving office, Mexico's Congress approved former President AMLO's constitutional amendment to overhaul Mexico's judiciary. The overhaul will see all of Mexico's judicial positions, between 7,000–8,000 positions, from the Supreme Court to district circuit courts, become elected rather than appointed positions. The reforms are highly controversial in Mexico and have seen thousands of judicial system workers strike with other protesters supporting their cause. The first elections will take place on June 1, 2025, when approximately 1,500 judges will be elected, with the second round in 2027 when over 5,000 judges will be elected. During this process, and potentially in advance of the elections as candidates campaign, we believe there may be a pause or reduction in activities as legal approvals and challenges to mining reforms are put aside for personal electoral ambitions.

Mining royalties are going higher on January 1, 2025, but Mexico remains competitive. On December 3, 2024, Mexico's Congress approved two increases to the country's taxes and royalties, with the special tax duty on mining increasing from 7.5% to 8.5%, and the extraordinary tax (an NSR royalty) on silver and gold sales increasing from 0.5% to 1.0%. In our view, and based on discussions we have had with companies operating in the country, the bump in taxes is in line with increases we have seen in other jurisdictions around the world, and companies are accepting and willing to pay their fair share of taxes and royalties. The approval of these higher taxes could be viewed positively as Mexico begins to complete items on their "to-do" list thus triggering a potential series of deliverables related to mining reforms. According to a study published in June 2023 by the Inter-American Development Bank, **Mexico's effective combined statutory tax rate (including royalties) was 35.3%, the third lowest**

in Latin American and Caribbean mining countries, with only Guatemala and Guyana lower. With the latest bump, we continue to believe Mexico's tax and royalty rates are competitive.

Even with the slight increase to taxes and royalties, Mexico is solidly in the middle of the cost curve (Exhibit 2). The bulk of global production to the left (lower cost than Mexico) includes production from Kazakhstan, Russia, India and China (as well as Chile, where most silver is produced as a by-product from copper mines), placing Mexico in a strong position to dominate the middle part of the cost curve and produce silver at a lower cost than most of its western peers (Australia, Argentina, US, and Peru are next up the cost curve).

Exhibit 2 - Nearly 25% of Global Silver Supply in the Middle of the Cost Curve



Source: Ventum Financial, S&P Cap IQ

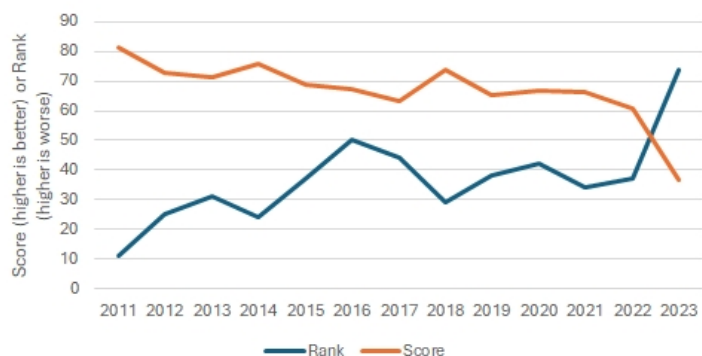
Cost curve modified from Capital IQ and recalculated at spot metal prices and currencies as of December 13, 2024.

Despite the mining reform uncertainties, Mexico still has several attractive attributes that warrant new and continued investment.

- ▶ Attractive geology with some world-class deposits and mines. As shown in Exhibits 6 and 7, Mexico holds 6% of global silver resources but accounts for 25% of global silver production. Zacatecas is one of the world's leading silver-producing regions, with world-class operations like Newmont's (NGT-TSX, Not Covered) Penasquito mine and Fresnillo (FRES-LSE, Not Covered) and MAG Silver's (MAG-TSX, Not Covered) Juanicipio mine, with Sonora hosting the world-class Buenavista and La Caridad copper operations.
- ▶ Mexico has a long history of mining, with regions like Zacatecas, Sonora, and Durango benefiting from centuries of mining activity. This has resulted in communities with well-established mining cultures that are generally supportive of mining operations, supply a skilled and experienced workforce, and serve as infrastructure hubs.
- ▶ Generally good infrastructure across the country, with a wealth of roads, railways, and ports, vital for building and operating mines as well as exporting metals. While electricity can be scarce in certain areas, ongoing improvements are addressing these challenges.
- ▶ Mining remains a meaningful contributor to Mexico's economy, providing approximately 417,000 jobs (2023, according to CAMIMEX) and representing a notable share of the government's tax base. Despite recent permitting challenges, we believe the government will not risk losing this important source of income and rural employment.

Fraser Institute rankings (Exhibit 3) show Mexico has historically been a preferred mining investment destination. According to the Fraser Institute's annual survey of mining companies (published May 2024), Mexico's ranking in the Investment Attractiveness Index prior to 2023 was consistently in the top half of preferred investment locations (Exhibit 3). In 2023, however, the country's position dropped significantly to 74 out of 86, which we expect was largely due to the mining reforms proposed by former President AMLO earlier that year. In our view, a moderation of his reforms, or at least increased clarity on their details and how they may be modified or implemented, presents a significant opportunity for improvement, incentivizing billions of dollars of potential investment return to Mexico.

Exhibit 3 - Mexico's Decline in the Rankings Leaves Ample Room to Return to its Prior Glory



Source: Fraser Institute, Ventum Financial

Julie Poirier, Trade Policy Counselor at the Canadian Embassy in Mexico, noted last month that Canadian mining companies have US\$12B to invest in Mexico if there is a favourable and stable environment for the arrival of foreign capital. For context, foreign direct investment into Mexico in 2023 was US\$30.2B, highlighting how significant mining's contribution can be to the country's economy.

Aside from political changes, the backdrop for other factors influencing attractiveness has arguably stayed the same or improved.

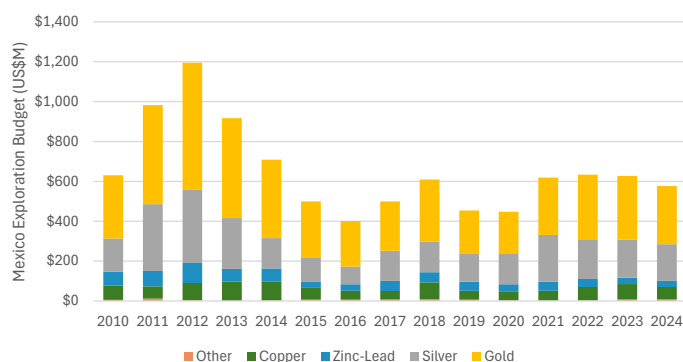
Labour availability and skills, infrastructure, and demand for the commodities Mexico produces have all held ground, presenting a big opportunity for its ranking in the annual survey to improve once/if President Sheinbaum can reduce policy uncertainty, thereby incentivizing new investment.

Mining's Contribution to the Mexican Economy

A meaningful contributor nationally, but significant in some states. Mexico's mining sector contributes 2.5% to the country's national GDP and 8.6% of its industrial GDP. Considering that most mines and projects are located in rural areas of the country and contribute significantly to local employment, infrastructure and services, we think increased communication and support by Sheinbaum (relative to AMLO) will be necessary to avoid longer-term detrimental impacts to these communities.

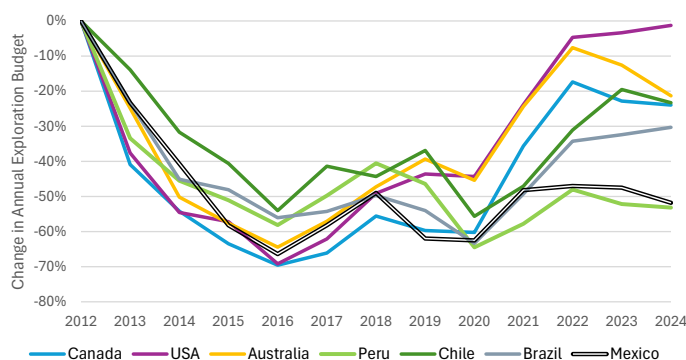
Since 2012, exploration investment in Mexico has lagged its peers. Following the introduction of new mining tax reforms in 2013 and officially establishing AMLO's Morena party on the political scene in 2014, capital injection into Mexico for mineral exploration has struggled to keep pace with its peers. Uncertainty about mining laws, including the duration of mining concessions, and a lack of issuing new exploration concessions since 2018, among other items, have compounded to incentivize many companies to invest elsewhere. In the exhibits below, we highlight that exploration investment in Mexico is down 52% from the 2012 peak, significantly underperforming exploration spending in several peer countries. We note that 2012 represented a peak investment year for many regions, including all the countries outlined in Exhibit 5. Collectively, spending on exploration in these countries is down 26% since 2012. Should Sheinbaum shift Mexico's tune on mining laws and permitting, we anticipate an influx in exploration dollars to follow, simultaneously aiding economic growth and rural development.

Exhibit 4 - Exploration Spending is Down 52% Since the Peak in 2012



Source: S&P Cap IQ

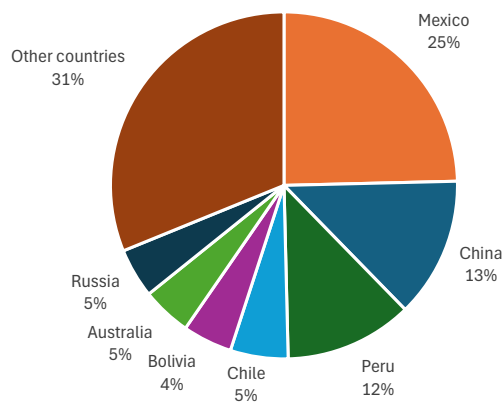
Exhibit 5 - While Most Countries Have Seen a Rebound in Exploration Spending, Mexico has Lagged



Source: S&P Cap IQ

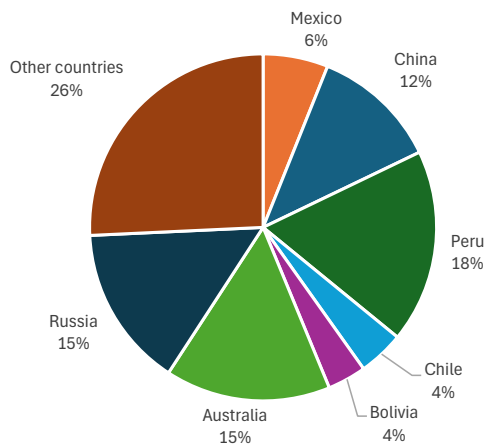
Mexico is the world's largest silver producer, accounting for an impressive 25% of the metal's output. Although several countries have larger silver resources, according to the United States Geological Survey, Mexico commands a strong lead in global production at 25%, followed by China at a distant second with 13%. In addition to silver, the country is also a significant producer of lead, molybdenum and zinc, with its copper mines in Sonora also world-class and significant mines (Exhibit 8).

Exhibit 6 - Mexico is a Dominant Silver Producer, Accounting for 25% of Global Supply



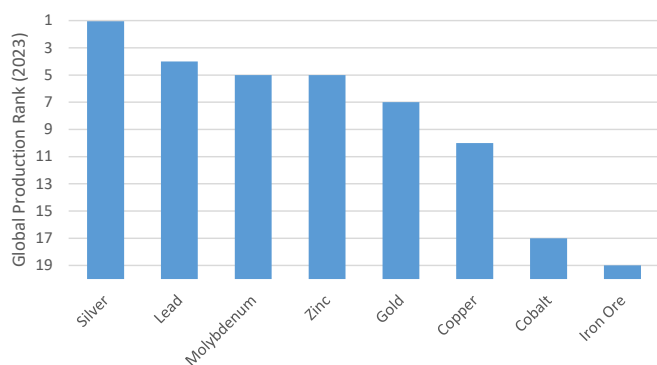
Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2024

Exhibit 7 - Mexico is Estimated to Hold 6% of Global Silver Reserves



Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2024

Exhibit 8 - Mexico is a Globally Significant Producer of Several Metals



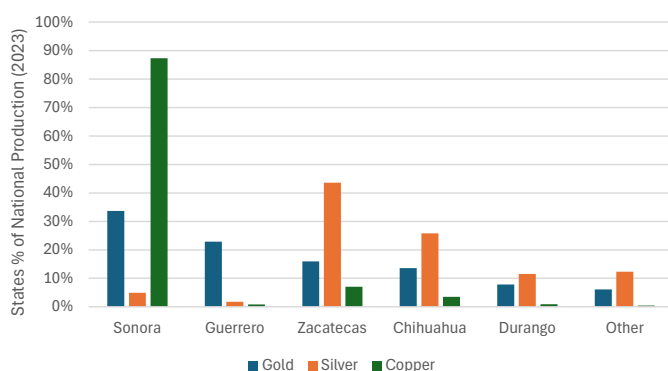
Source: Ventum Financial, S&P Cap IQ

The country is also a leading supplier of silver to the US. Considering the country's dominant position and silver's critical role in photovoltaic solar cells, which play a significant role in global decarbonization initiatives, Mexico may have a bargaining chip up its sleeve when negotiating trade deals. In 2024, The Silver Institute estimates silver's use in photovoltaics to account for 19% of the metals demand, with photovoltaics one of the fastest-growing segments of demand. For reference, the US imports approximately 75% of its annual silver consumed, with imports from Mexico accounting for 40-50% of total imports.

Federal government controls oversight of mining. The application of mining law in Mexico is the responsibility of the Federal Executive (President's Office) through the Ministry of Economy, and numerous federal laws apply to regulate the industry. That being said, there are local laws that must also be followed, but generally, laws enacted and enforced by the federal government set the framework for mining in Mexico. Regarding concession ownership, unlike the situation in Mexico during the 1960s and 1970s, foreign companies can own 100% of the rights to explore and exploit mining concessions. However, companies involved in the industry must be incorporated under Mexican law and be domiciled within the country.

Although mining is governed by the federal government, we note that within Mexico, five states dominate mining activity: Sonora, Chihuahua, Zacatecas, Durango and Guerrero. Below we summarize the impacts of mining and activities on these states.

Exhibit 9 - Five States Dominate Mexico's Mining Industry



Source: S&P Cap IQ

Sonora. Located in the northwest portion of Mexico, Sonora is the country's largest producer of copper and gold. The state's copper deposits are extensive and produce >80% of Mexico's total output. These large copper deposits occur along a trend that extends north into southwestern Arizona. Several of these large operations are owned and operated by Grupo Mexico (GMEXICOB-BMV, Not Covered) and Southern Copper (SCCO-NYSE, Not Covered). Given mining's large impact in the state, the industry is a significant employer and provides >100,000 jobs. In total, 22 municipalities have mining as their main economic driver.

Zacatecas. Zacatecas is Mexico's second-largest mining state and hosts the largest production of silver, lead, and zinc given that it hosts an abundance of carbonate replacement deposit (CRD)-style deposits. Mining provides >90,000 direct and indirect jobs and has been a staple of economic activity for centuries in the region. Fresnillo is a large operator in the state with numerous large-scale silver operations, as well as Newmont's Penasquito mine.

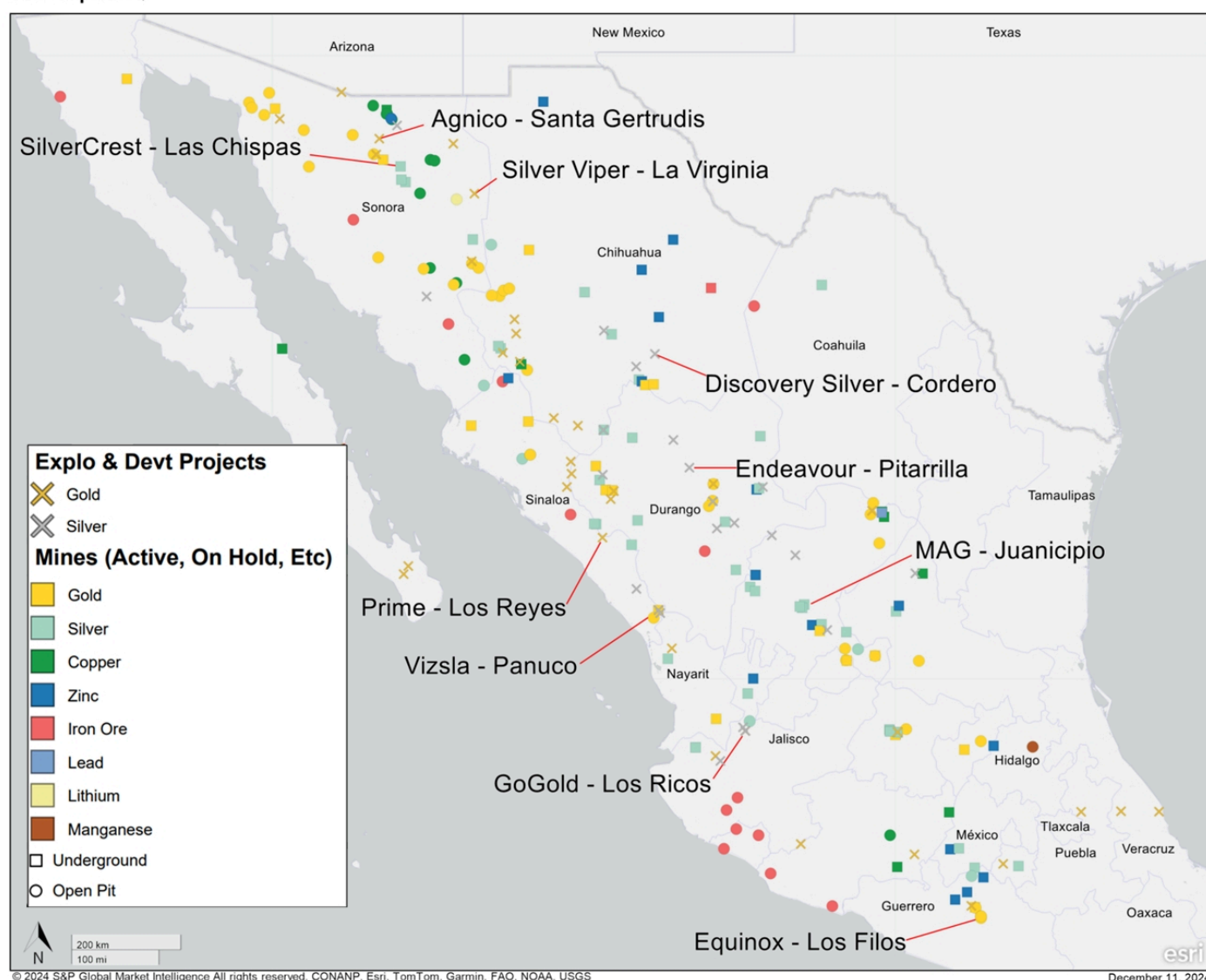
Chihuahua. Chihuahua is east of Sonora straddling the Texas border and has a >400-year mining history. Similar to Zacatecas, Chihuahua hosts an abundance of CRD-style deposits in addition to epithermal deposits providing significant production of precious and base metals. Considering the state's proximity to US infrastructure including rail and highways, Chihuahua is a centre of capital investment in mining projects.

Durango. The state of Durango is south of Chihuahua with the Sierra Madre Occidental off to the west providing ample geological settings for various types of mineral deposits. Durango is the second-largest producer of zinc in Mexico and has other heavy contributions of silver and gold from lead. The state is also a large producer of non-metallic minerals such as bentonite, perlite, marble, and fluorite.

Guerrero. Despite Guerrero having a higher risk profile due to cartel presence within the state, it has seen a surge in exploration and mining activity in the past few years. At present, there are approximately six mines in operation, but the region contains significant gold projects within the newly defined Guerrero Gold Belt. Mining is now the ninth-largest industry in terms of GDP contribution within the state.

Exhibit 10 - Mexico's Mines Canvass the Country, with Copper in the North and the Silver Belt Running from North to South

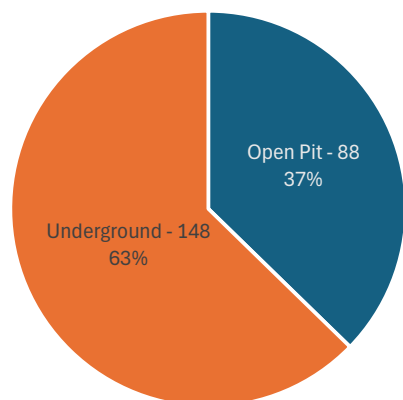
S&P Capital IQ



Source: Ventum Financial, Company reports, & S&P Cap IQ

At least 236 operating mines in Mexico today. Given Mexico's several hundreds of years of mining history, there are hundreds of current and historic mining operations in the country. According to S&P Capital IQ data, there are 236 active mining operations in Mexico, including 88 open-pit mines and 148 underground operations (Exhibit 11).

Exhibit 11 - Open-Pit Mining Accounts for Nearly 40% of the Nation's Mining Operations



Source: S&P Cap IQ

Open-pit mining plays a significant role in Mexico. While accounting for only 37% of mining operations, open-pit mining in Mexico is estimated to account for ~60% of the country's production. As we noted previously, **we are very skeptical that an outright ban on open-pit mining will be pursued by President Sheinbaum and the Morena Party, but expect more stringent (and time-consuming) consultation and environmental protection efforts will be required — in essence, the application of practices that are more in line with those of other countries, like Canada.** Earlier this month the President stated that “Open-pit mining warrants a thorough review, as activities such as sand extraction for cement production and lithium mining—critical for national development—are conducted using this method. It is vital to assess the specifics of the constitutional reform’s provisions.” President Sheinbaum continues to emphasize the importance of preserving and protecting the environment, independent of corporate interests. Her comments suggest that she will make the environment a priority, but understands the importance of the industry to Mexico, its people, and the country's ability to grow.

Our take on the permitting process is that existing mines are likely to continue to operate, getting permit extensions and amendments as necessary, as long as they comply with environmental and social protection mandates. New projects and mines, however, we expect will face more significant challenges in getting approvals. But even for new projects, a more rigorous and lengthy permitting process may ensue, placing projects like Discovery Silver's Cordero project and Silver Tiger's El Tigre project in a more prolonged state of permitting.

Underground mining is preferred, and increasingly pursued. Following the proposal in February by AMLO to ban issuing permits for new open-pit mines in the country, many project developers adjusted their exploration programs and rescoped development scenarios to include a redesign of projects into an underground scenario. Despite these initiatives, a backlog of permit applications and uncertainty of direction and responsibilities within government offices has led management teams to develop and propose projects that they believe have the best chances of getting approvals, albeit without certainty on what the government's ultimate position on requirements and regulations will be. As Sheinbaum increasingly allocates time and personnel to tackle the permitting backlog, we envision a series of underground mining permits being granted in 2025, which could spark a wave of foreign investment and capital injection into the country.

Companies and Projects of Interest Operating in Mexico

Although there are dozens of mining and exploration companies active in Mexico, in the following pages we highlight several companies and projects that are working towards a permit application or awaiting receipt of go-ahead construction permits. We highlight several companies and summarize their project exposure to a potential shift in mining laws and permit approvals.

Incumbents are the most likely to benefit in the near term. As we don't believe President Sheinbaum will ban open-pit mining or further tighten the reforms her predecessor has proposed, for the time being, we view the country's policies as presenting barriers to entry for new players, but supportive of incumbents and their existing operations, which are often significant regional employers and taxpayers. **Endeavour Silver, we believe, is amongst the best-positioned producers in Mexico to benefit from the country's barriers to entry.**

Other companies of note include:

Agnico Eagle Mines (AEM-TSX, Not Covered)/Teck Resources (TECK-NYSE, Not Covered). In April 2023, Agnico Eagle completed its 50% purchase of the San Nicolas VMS project located in the state of Zacatecas from Teck Resources for US\$580M. The open-pit project is currently the largest VMS project under development in Mexico and one of the largest undeveloped VMS copper-zinc projects globally. Under the JV partnership, the project's Environmental Impact Assessment (EIA) was submitted in early 2024 and the joint venture has since been working towards completing advanced feasibility-level work and awaiting permit approvals. If granted, we see this being a major catalyst for mining in Mexico as San Nicolas has the potential to be a significant contributor to the local economy and the process it follows to get approval could help set a benchmark for other projects to follow.

Discovery Silver (DSV-TSX, BUY, PT C\$2.20). After delivering a positive FS for its Cordero project in Q1/24 ([Discovery Solidifies Cordero With FS](#)), Discovery Silver is working through various permitting efforts to advance its large-scale Cordero project located in the state of Chihuahua. DSV has collectively improved the project's property and water access rights and submitted an Environmental Assessment (EA) for review. We see this large-scale open-pit project as a potential test case in the new permitting process under Sheinbaum. However, we note that Cordero is in a region with a local community (Parall) that has an extensive mining history dating back several centuries. Should any positive advancements be made in terms of permitting and timelines for construction, we expect a significant positive re-rating for DSV's market valuation.

Endeavour Silver (EDR-TSX, BUY, PT C\$9.00). Endeavour Silver has deep roots in Mexico, with its first mine, Guanacevi, producing silver since 2005 and Bolanitos shortly thereafter. The Company now has two operating mines (Guanacevi & Bolanitos), one nearing production (Terronera, where first production is expected around year-end), an advanced-stage silver, lead, and zinc project (Pitarrilla), and several earlier-stage exploration and development projects in the country ([2024 Rally Isn't Over - Terronera's Start-Up Will be Transformational](#)). While much of Endeavour's value is driven by its fully permitted assets, additional upside exists at Pitarrilla, where the Company is progressing toward a new Feasibility Study (FS), focusing only on an underground mining scenario, which should facilitate a simpler and faster permitting process. While several key permits for Pitarrilla are already in place, covering underground mining and development, water use, explosives, and soil use, we expect some amendments may be needed as the final development plan evolves, and a permit for a tailings facility will also need to be secured.

In our view, the Company is in a strong position to see its market valuation improve, for the following reasons:

- ▶ It is not waiting on any significant permits to operate, with Guanacevi and Bolanitos well established, and Terronera poised to produce its first concentrate shortly (while the new mine is waiting to get a new regional MIA (environmental permit) approved, the MIA enhances the Company's ability to make better use of the land surrounding the mine's infrastructure, but does not inhibit production); Pitarrilla will need some new permits, but the Company is not yet in a position or need to apply for them with a new FS anticipated at the end of 2025;
- ▶ With nearly 25% of global silver production coming from Mexico, the increased barriers to entry should remove some anticipated supply from the market, potentially putting upward pressure on the price of the metal. Silver's demand lately is being driven by increased consumption in the solar and photovoltaic industry, a key pillar of global decarbonization and electrification efforts;
- ▶ The advancement of Pitarrilla could be a positive catalyst, as the project's underground potential is realized. The most recent economic study published on the project was in 2012 by prior owner Silver Standard, which focused on a large-scale, open-pit project. Endeavour Silver, however, is reverting to an older, 2009 plan that pursued a smaller-scale, but higher-grade and metallurgically simpler underground project. As the Company clarifies its underground plan and demonstrates that Pitarrilla may ultimately be its largest, longest life and lowest cost mine, we expect its valuation to improve further.

Heliostar Metals (HSTR-TSXV, Not Covered). HSTR is a new entrant into Mexico with a series of acquisitions that has transitioned the Company into an operator with two open-pit gold mines in production. HSTR is exposed to multiple facets of permitting approvals that could be beneficial to near-term cash flow and its pipeline assets. The Company estimates that a permit application for the Corner open pit cut back at San Agustín would provide an incremental ~50 Koz of gold production to the operation. At La Colorada, a permit is required for the rehandling of the 5.2 Mt Dorado stockpile, which similarly could equate to an additional 50-60 Koz of gold production. HSTR also owns the Ana Paula project, which is permitted as an open pit but improved geologic interpretation and potential upside suggest underground mining would be more suitable for the project and an amended permit is pending. In our view, receipt of any and/or a series of permits granted to HSTR would be a positive catalyst.

GoGold Resources (GGD-TSX, BUY, PT C\$3.15). GGD has already submitted a permit application for its Los Ricos project in the state of Jalisco. The Company is aiming to commence production via underground mining initially targeting the high-grade Eagle zone, followed by open-pit mining in year 4 and beyond, which was outlined in the project's PEA in 2023 ([PEA Primes GGD For Future at Los Ricos South](#)). However, the Company is completing a DFS that will transition the project to be solely focused on underground mining, thereby simplifying and removing a potentially challenging permitting process. With Los Ricos South transitioned into an underground operation, our understanding from management is that the project is pending a final site inspection before being granted environmental and construction permits. Outside of Los Ricos South, GGD's technical team has been reviewing and remodelling resource blocks of Los Ricos North mineralization. A thorough review and revamp of mineralization at that project could result in a transition to an underground focus, which may result in a complement to Los Ricos South for a future expansion and/or mine life longevity. In our view, Los Ricos North provides deep optionality and potential upside for investors.

In summary, we foresee GGD being on a short list of pending permits being granted by Sheinbaum, and if successful, this could trigger a go-ahead construction decision for Los Ricos South. Considering the Company's discounted valuation with a P/NAV of just 0.15x, we believe GGD's share price will be the beneficiary of a substantial re-rating on the heels of positive permit momentum.

Luca Mining (LUCA-TSXV, Not Covered). Luca currently operates two underground mines: Campo Morado in Guerrero State and Tahuato in Durango, with the latter ramping up through its commissioning phase. Fortunately, the Company is not exposed to major permitting milestones and is focused on optimizing and expanding operations through various initiatives. Increased cash flow is expected to fund new exploration efforts and Luca holds all the permits required to move ahead with new drilling campaigns targeting resource and reserve growth.

MAG Silver (MAG-TSX, Not Covered). MAG Silver holds a 44% interest in the Juanicipio Mine in Zacatecas through a joint venture with Fresnillo. Juanicipio stands out as one of the largest and highest-grade operating silver mines globally, producing nearly 17 Moz of silver last year alongside significant by-product metals. The mine and its surrounding properties also host upside potential, with only ~5% of the property explored to date.

Osisko Development (ODV-TSXV, BUY, PT C\$4.75). Osisko's pipeline includes the San Antonio project located in Sonora, which has been on care and maintenance since the moratorium against new permits for open-pit mining operations and has withdrawn its permit applications for the time being. ODV intends to resubmit permit applications once more transparent procedures and policies are established to move forward with a new open-pit heap leach gold mine in Sonora. The property hosts the past-producing Luz de Cobre oxide copper mine and Osisko more recently processed stockpiled material via a heap leach between Q4/21 and Q3/23. The Company has evaluated the project's potential sale, however, with any positive sentiment and new permits granted in Mexico, we see Osisko driving increased value from the project and potentially supporting a go-ahead decision for further capital allocation for project advancement.

Orla Mining (OLA-TSX, Not Covered). At the Company's Camino Rojo gold mine in Zacatecas, Orla anticipates its permit application to mine the Layback area and extend the pit to be granted in 2025. The Camino Rojo project, as described in the 2021 Environmental Impact Statement (MIA), requires a modification of the MIA permit to allow for the additional production related to the development of a pit layback onto lands not considered in the August 2019 permit application. In March 2022, the Company submitted a second modification of the MIA permit to allow for the open pit east-west expansion, as well as waste and low-grade ore stockpiles. In 2024, both MIA modifications were not approved by SEMARNAT. The Company completed and submitted the permit application in November addressing SEMARNAT's observations to support and obtain the necessary permits or permit amendments and does not expect these delays to impact 2024 production guidance.

We think approval of the pit layback would be positively received by the investing market as future uncertainty surrounding the longer-term potential of Camino Rojo is alleviated.

Prime Mining (PRYM-TSX, BUY, PT C\$3.75). We see PRYM continuing with exploration efforts focused on resource definition and growth at its Los Reyes project in the state of Sinaloa. The recently updated resource and exploration success has introduced the first-ever underground resources on the project under Prime's ownership. Increased drilling efforts have aided Prime with enhanced geological interpretation and additional targets to build on underground optionality at Los Reyes ([Pinning Down Scope at Los Reyes](#)). Should Sheinbaum continue the Morena Party's position against open-pit mining, we see Prime being negatively impacted by the potential future development of its open-pit resources. However, with step-out drilling and interpretive improvements, we see Los Reyes hosting high-grade underground potential and resource growth which has been demonstrated in recent drilling since its updated mineral resource estimate was disclosed.

With Los Reyes still relatively early days in terms of de-risking and defining its potential path forward, we see another updated resource driving a future PEA for the project. Considering the project's multi-million-ounce potential, combined with open-pit and underground production scenarios, we expect a re-rating and increased investor sentiment in companies with open-pit dominated projects such as PRYM hinged on a potential shift in mining reforms under Sheinbaum.

SilverCrest Metals (SIL-TSX, NEUTRAL, PT C\$15.50). SIL realized tremendous success at its underground Las Chispas mine in Sonora which generated strong FCF across its ~10Moz/yr AgEq production profile leading to the Company agreeing to an acquisition by Coeur Mining (CDE-NYSE, Not Covered) for US\$1.7B or US\$11.34/shr ([Surging Silver Sentiment Triggers Acquisition of SilverCrest by Coeur Mining](#)). SilverCrest leveraged the high-grade nature of epithermal veins at Las Chispas to drive high-margin ounces and FCF resulting in robust QoQ economics and

a solid balance sheet. With efforts set to re-engage on exploration and mine life sustainability, the Las Chispas mine is poised to be a cornerstone asset for Coeur moving forward.

Silver Tiger Metals (SLVR-TSXV, BUY, PT C\$0.70). We recently resumed coverage of SLVR ([Chasing A Two-Tailed Tiger at El Tigre](#)) following the delivery of a positive PFS for its open-pit component of the El Tigre project located in the state of Chihuahua. The Company plans to move ahead with open-pit mining via an amended operating permit which it has in hand for an 800 tpd underground operation. The permit application remains pending and would trigger a go-ahead construction decision for the project and transition the Company to move ahead with construction as early as H2/25.

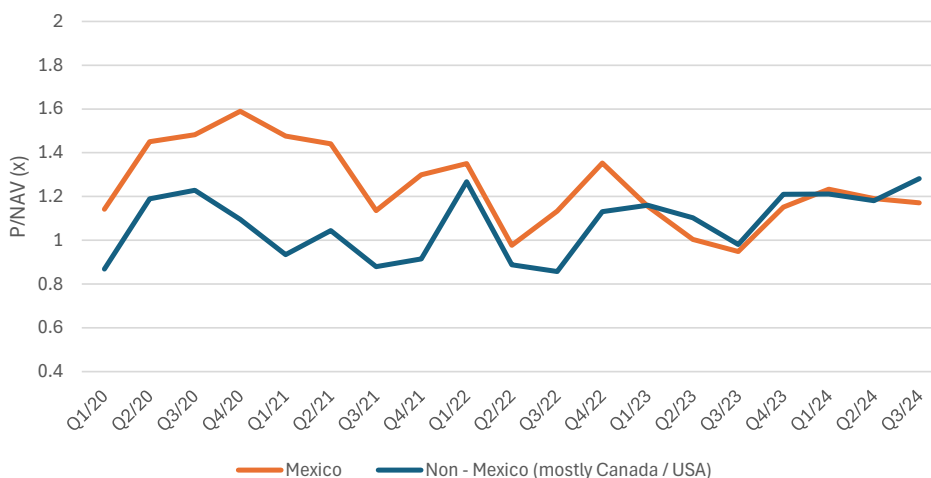
Vizsla Silver (VZLA-TSX, BUY, PT C\$4.25). VZLA is advancing its Panuco project via underground mining as outlined in its recent PEA, which returned robust economics ([PEA Solidifies Panuco With >US\\$1.1B NPV](#)). The Company recently commenced earthworks and on-site construction to complete a 10,000 t underground bulk sample that will aid in supporting metallurgical and trial mining method evaluations. This bulk sample expedites future development of the project with various site infrastructure being in place, in addition to underground portal and ramp development. The sample's primary focus will be to collect from the high-grade core of the Copala structure, which has emerged as the dominant component of the project's resource and initial production profile.

On the heels of delivering the project PEA, Vizsla has initiated environmental and site permit applications in terms of site infrastructure. We see the Company taking early initiatives to complete deliverables to meet requirements towards receipt of the necessary operating permits. With an assumption that Mexico's mining permit backlog will be alleviated, we continue to anticipate Vizsla progressing Panuco towards a construction decision and assume receipt of required permits to realize first production in mid-2027.

Valuations

Considering the ongoing permitting and regulatory uncertainty that mining companies in Mexico have faced over the past 18-24 months, we have seen some investor interest shy away from Mexico as a means to mitigate investment risk. Since 2020, the average P/NAV multiples on a basket of Mexican-focused mining companies have remained relatively flat compared to a rise in the same metric for a basket of Canadian and US-focused companies (Exhibit 13). We note that the premium has turned into a discount over the last six months. Should President Sheinbaum turn the tide of uncertainty and the country's mineral resource potential once again reassert its value, we expect the past premium could return. The most imminent permits we see impacting projects and company valuations include GGD, OLA, and SLVR, while a lift in open-pit bans would significantly improve investor sentiment on DSV and PRYM.

Exhibit 12 - P/NAV Ratios Have Remained Flat in Mexico (+3%) but Have Risen Elsewhere (+48%)



Source: Ventum Financial, S&P Cap IQ

Exhibit 13 - Silver Focused Comps

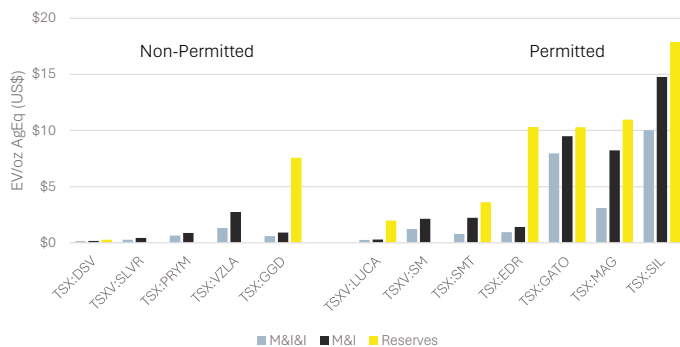
Company	Ticker	Share Price	Market Cap (\$M)	Enterprise Value (US\$M)	P/CF 2025	Metal Value as a % of Total Resources Ag / Au / Other	EV/AgEq oz (M&I Incl. Resv)	EV/AgEq oz (M&I Incl. Resv.)	EV/AgEq oz (Reserves)	P/NAV	Analyst
Producers											
Avino Silver & Gold	TSX:ASM	C\$1.50	C\$211	\$143	nm	59 / 23 / 18	\$0.4	\$0.6	\$7.2	0.33x	NC
Endeavour Silver	TSX:EDR	C\$5.57	C\$1,461	\$1,084	6.2x	69 / 13 / 18	\$1.0	\$1.4	\$10.3	0.95x	AT
First Majestic Silver	TSX:AG	C\$8.60	C\$2,595	\$1,902	8.5x	34 / 65 / 1	\$2.7	\$7.2	\$17.2	1.79x	NC
Gatos Silver	TSX:GATO	C\$22.19	C\$1,059	\$943	12.3x	42 / 5 / 53	\$8.0	\$9.5	\$10.3	1.75x	NC
GoGold Resources	TSX:GGD	C\$1.13	C\$372	\$191	11.0x	60 / 30 / 10	\$0.6	\$0.9	\$7.6	0.22x	PK
Heliostar Metals	TSXV:HSTR	C\$0.59	C\$130	\$92	nm	15 / 77 / 8	\$0.1	\$0.2	\$0.3	0.18x	NC
MAG Silver	TSX:MAG	C\$21.32	C\$2,203	\$1,434	41.6x	33 / 40 / 27	\$3.1	\$8.2	\$11.0	1.21x	NC
Luca Mining	TSXV:LUCA	C\$0.54	C\$107	\$95	nm	27 / 32 / 41	\$0.2	\$0.3	\$2.0	-	NC
Orla Mining	TSX:OLA	C\$7.99	C\$2,569	\$1,685	9.4x	8 / 77 / 15	\$1.0	\$1.8	\$5.5	0.93x	NC
Pan American Silver	TSX:PAAS	C\$31.61	C\$11,520	\$8,481	6.9x	33 / 39 / 28	\$1.4	\$2.4	\$7.3	0.99x	NC
Sierra Madre	TSXV:SM	C\$0.50	C\$77	\$59	nm	68 / 31 / 0	\$1.2	\$2.1	-	0.35x	NC
Sierra Metals	TSX:SMT	C\$0.77	C\$163	\$227	1.2x	13 / 15 / 72	\$0.8	\$2.2	\$3.6	0.72x	NC
SilverCrest Metals	TSX:SIL	C\$14.75	C\$2,193	\$1,420	8.9x	51 / 49 / 0	\$10.0	\$14.8	\$17.9	1.57x	PK
Group Avg:							\$2.6	\$4.2	\$7.3	0.88x	
Explorers & Developers											
Chesapeake Gold	TSXV:CKG	C\$0.93	C\$64	\$37	nm	24 / 77 / 0	\$0.0	\$0.0	-	-	NC
Discovery Silver	TSX:DSV	C\$0.76	C\$304	\$191	nm	41 / 9 / 50	\$0.1	\$0.2	\$0.3	0.22x	PK
Kootenay Silver	TSXV:KTN	C\$1.07	C\$66	\$41	nm	55 / 24 / 21	\$0.2	\$0.2	-	0.19x	NC
Minaurum Gold	TSXV:MGG	C\$0.22	C\$85	\$58	nm	-	-	-	-	-	NC
Prime Mining	TSX:PRYM	C\$1.63	C\$241	\$155	nm	31 / 69 / 0	\$0.6	\$0.9	-	0.23x	PK
Silver Storm Mining	TSXV:SVRS	C\$0.08	C\$35	\$25	nm	49 / 5 / 46	\$0.1	\$0.3	-	-	NC
Silver Tiger Metals	TSXV:SLVR	C\$0.24	C\$95	\$62	nm	52 / 41 / 7	\$0.3	\$0.4	-	0.14x	PK
Vizsla Silver	TSX:VZLA	C\$2.60	C\$741	\$434	nm	56 / 37 / 7	\$1.3	\$2.7	-	0.42x	PK
Group Avg:							\$0.4	\$0.7	\$0.3	0.24x	

Note: AT = Alex Terentiew, PK = Phil Ker, NC = Not Covered

Source: Ventum Financial, S&P Cap IQ

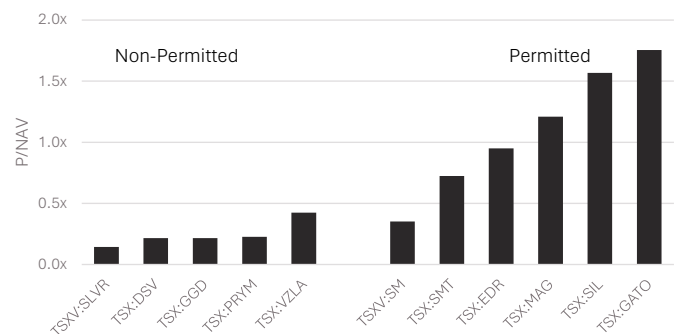
Permitted companies enjoy a significant premium. As expected, permitted and operating companies are valued in the market at a substantial premium relative to their unpermitted and/or development-stage peers. We highlight, however, that the discrepancy between permitted and unpermitted can be significant, with higher-grade underground mines valued at the highest P/NAV multiples. GGD is the notable exception, which trades in line with the unpermitted developers, despite producing from its Parral Tailings mine, with the pending permit for its Los Ricos project holding back the Company's valuation. On the producing end, we note Luca Mining as one of the most discounted companies on an EV/oz of resources and production, despite producing from two operating mines in the country. SilverCrest and Gatos Silver are two of the most highly valued companies within the sector, both of which are in the process of being acquired by larger, more diversified peers and acquired at significant P/NAV premiums in the range of 1.6-1.8x.

Exhibit 14 - Value per Ounce in the Ground is Highly Discounted for Earlier Stage Projects



Source: Ventum Financial, S&P Cap IQ

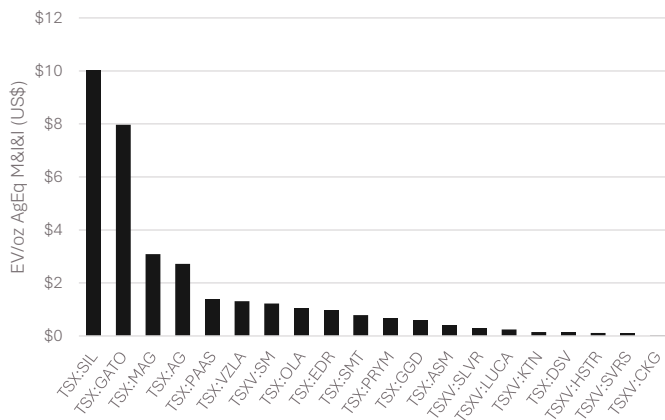
Exhibit 15 - On P/NAV, Unpermitted Companies Trade at a Substantial Discount



Source: Ventum Financial, S&P Cap IQ

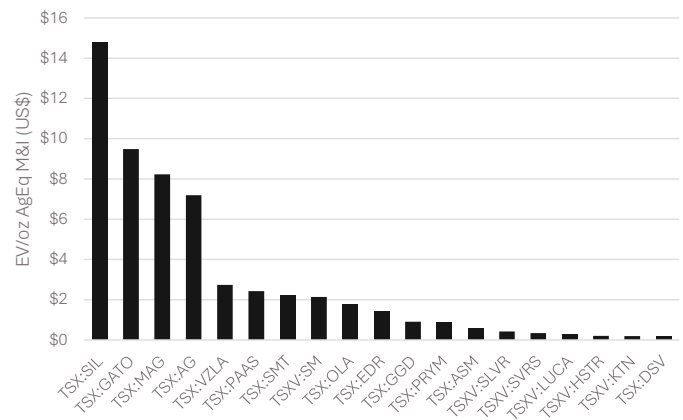
GoGold, Vizsla, Prime Mining, and Luca Mining stand out as companies with significant valuation upside. GoGold and Vizsla have projects that we believe have strong potential to make their way successfully through the permitting process, with an attractive risk/reward profile and production to be via underground mining. We see ongoing exploration and improved geological interpretation of Prime's Los Reyes project expanding on its underground potential and presenting development optionality. Luca, on the other hand, has two producing mines, yet trades at a discounted valuation to its peers, and we believe that as the Company demonstrates successful execution and delivers positive cash flow, a re-rating in the stock could follow. Overall, however, Luca's valuations based on ounces in the ground similarly show a significant gap for companies with unpermitted projects.

Exhibit 16 - EV/oz AgEq in Total Resources



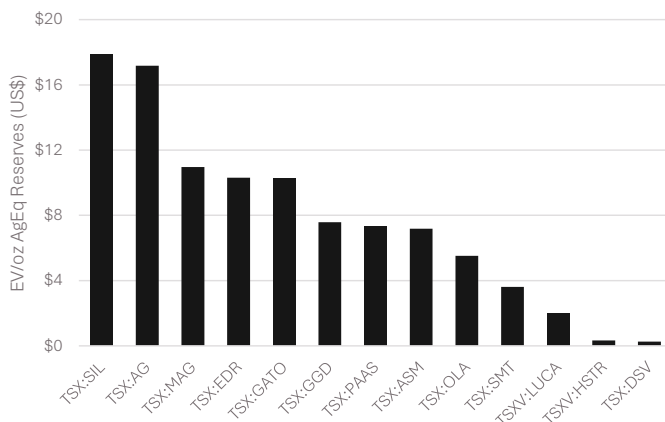
Source: Ventum Financial, S&P Cap IQ

Exhibit 17 - EV/oz AgEq in M&I Resources



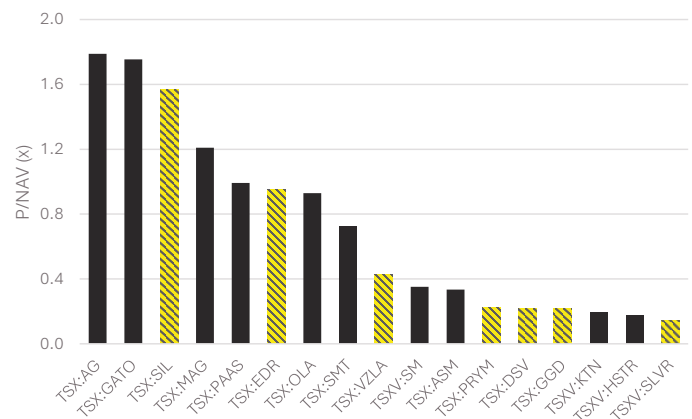
Source: Ventum Financial, S&P Cap IQ

Exhibit 18 - EV/oz Valuation Narrows on Reserves



Source: Ventum Financial, S&P Cap IQ

Exhibit 19 - P/NAV Valuation for a Wider Range of Silver Companies



Source: Ventum Financial, S&P Cap IQ

Discovery Silver Corp. (TSX-DSV)

Price (last): C\$0.76	Price Target: C\$2.20
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$1.33/C\$0.52	Return: 189.5%
Shares Out. (basic): 398.3M	Cash: C\$60M
Shares Out. (fd): 402.8M	Working Capital: C\$36M
Market Cap: C\$304M	Long Term Debt: C\$0M
	Enterprise Value: C\$202M

All figures in C\$ unless otherwise noted.

Endeavour Silver Corp. (TSX-EDR)

Price (last): C\$5.57	Price Target: C\$9.00
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$7.87/C\$1.94	Return: 61.6%
Shares Out. (basic): 191.5M	Cash: US\$108M
Shares Out. (fd): 267.2M	Debt: US\$125M
Market Cap: C\$1,459M	Enterprise Value: C\$1,561M

All figures in US\$ unless otherwise noted.

GoGold Resources Inc. (TSX-GGD)

Price (last): C\$1.13	Price Target: C\$3.15
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$1.83/C\$0.94	Return: 178.8%
Shares Out. (basic): 329.5M	Cash: US\$72M
Shares Out. (fd): 329.8M	Working Capital: C\$225M
Market Cap: C\$372M	Long Term Debt: US\$0M
	Enterprise Value: C\$94M

All figures in US\$ unless otherwise noted.

Silvercrest Metals (TSX-SIL)

Price (last): C\$14.75	Price Target: C\$15.50
Rating: Neutral	Risk: SPECULATIVE
52-week High/Low: C\$16.46/C\$6.76	Return: 5.1%
Shares Out. (basic): 148.6M	Cash: C\$122M
Shares Out. (fd): 151.7M	Working Capital: C\$190M
Market Cap: C\$2,193M	Long Term Debt: 0M
	Enterprise Value: C\$2,015M

All figures in C\$ unless otherwise noted.

Silver Tiger Metals Inc. (TSXV-SLVR)

Price (last): C\$0.24	Price Target: C\$0.70
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$0.36/C\$0.14	Return: 191.7%
Shares Out. (basic): 365.0M	Cash: C\$6M
Shares Out. (fd): 380.4M	Working Capital: C\$7M
Market Cap: C\$88M	Long Term Debt: C\$0M
	Enterprise Value: C\$75M

All figures in C\$ unless otherwise noted.

Prime Mining Corp. (TSXV-PRYM)

Price (last): C\$1.63	Price Target: C\$3.75
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$2.50/C\$1.13	Return: 130.1%
Shares Out. (basic): 147.0M	Cash: C\$21M
Shares Out. (fd): 167.6M	Working Capital: C\$21M
Market Cap: C\$241M	Long Term Debt: C\$0M
	Enterprise Value: C\$194M

All figures in C\$ unless otherwise noted.

Vizsla Silver Corp. (TSX-VZLA)

Price (last): C\$2.60	Price Target: C\$4.25
Rating: Buy	Risk: SPECULATIVE
52-week High/Low: C\$3.31/C\$1.44	Return: 63.5%
Shares Out. (basic): 242.2M	Cash: C\$126M
Shares Out. (fd): 273.4M	Enterprise Value: C\$601M
Market Cap: C\$725M	

All figures in C\$ unless otherwise noted.

Disclosure Fact Sheet

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BUY : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

NEUTRAL : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

SELL : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

U/R : Under Review

N/R : No Rating

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Research Disclosures

Company	Disclosure
Discovery Silver Corp.	4
Endeavour Silver Corp.	3, 4, 9
GoGold Resources Inc.	4
Prime Mining Corp.	4
Silver Tiger Metals Inc.	4, 9
Silvercrest Metals	4
Vizsla Silver Corp.	3, 4, 5, 9

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BUY	92	75.41%
NEUTRAL	7	5.74%
SELL	0	0.00%
UNDER REVIEW	19	15.57%
N/R	0	0.00%
TENDER	2	1.64%
RESTRICTED	2	1.64%
TOTAL	122	

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