Sprott | Equity Research

Moneta Porcupine Resources (ME CN)

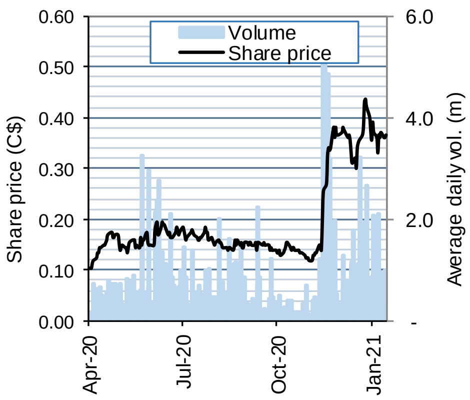
Initiation: Acquisition unleashes Timmins monster project

RECOMMENDATION: **BUY** *TARGET:* **C$0.65/sh** *RISK RATING:* **SPECULATIVE**

SHARE DATA	
Shares (basic, FD, FF FD)	554 / 585 / 751
Share price (C$/sh)	C$0.35/sh
52-week high/low	C$0.435 / C$0.11
Market cap (C$m)	191
SCPe pro forma cash 1Q21	26
1.0xNAV5% @ US$1850/oz (C$m)*	1,401
1.0xNAV5% FD (C$/sh)*	2.40
Project P/NAV today (x, FD)	0.14x
Average daily value (C$000, 3M)	250
SCP 0.25xNAV-1850-5% PT:	C$0.65/sh
Implied upside:	87%

FINANCIALS	CY22E	CY23E	CY24E
Gold sold (000oz)	-	-	18
Revenue (C$m)	-	-	43
AISC (US$/oz)	-	-	1,361
Income (C$m)	(14)	(5)	(0)
EPS (C$)	-	-	0.00
PER (x)	-	-	313.1x
CFPS (C$)	-	-	-
P/CF (x)	-	-	-
EBITDA (C$m)	(1.7)	(4.0)	17.9
EV/EBITDA (x)	-	-	25.7x

TIME VALUE: 1850/oz	2Q23	2Q24	2Q25
1xNAV5% FF FD (C$m)	1,299	1,524	1,604
1xNAV5% FF FD (C$/sh^)	2.34	2.03	2.13



Source:Fidessa

Timmins developer with 8.4Moz @ 1.2g/t and growing at pace

Moneta has twin 2.7Moz pittable and a 2.7Moz UG resource East of Timmins. PEA's cover the 1.2Moz Garrison pit and 763koz Golden Highway UG, with a historic PEA on a pit at Golden Highway for a combined long-life operation. The three assets have never been combined, which we do here for a C$1.3bn NPV on staged 250koz pa operation, while drilling for a second UG centre that could lift this over 300koz pa. With the scale and valuation to attract M&A, location on infrastructure to drive margin on low-grade pits, improved by UG operations, we see a 'diamond in the rough' with combined PEA a key catalyst.

Life started UG but new pittable 2.7Moz @ 1g/t drives options

Moneta historically focussed on UG ore, with a 760koz @ 4g/t 3Q20 PEA mine plan. While lower grade than some peers, steep sub-vertical ~8m stopes should be easier to mine than peers with sub-horizontal, narrow or >100 stacked-stope mine plans. However, a 4Q20 resource added 2.7Moz @ 1.0g/t pit-constrained ore. This provides a great combination of scale from the pit, and grade from the UG. Looking ahead, the pit has a material pre-strip, with an UG taking time to ramp up, for a strong NPV but sub-prime payback / funding schedule.

Garrison acquisition lifts scale, provides capital-friendly schedule

On face value, Garrison's 2.9Moz @ 0.8g/t takes second place to Golden Highway's higher grade 2.5Moz @ 1.0g/t. However, Garrison (i) averages 1.18g/t in Y1-3, and (ii) has a lower pre strip at C$40m. There it is – a lovely boot strap opportunity. We now see (a) a quick-start 4Mtpa pit Garrison for ~135koz pa, (b) with Golden Highway UG ramping up to +70koz pa for ~200koz pa, then stripping (c) Golden Highway pit to maintain pit grades >1g/t and 200koz pa. At this point, twin pits could see ~80Mt, hence a double to 8Mtpa is logical, as is stockpiling to speed pay back. All this is bread-and-butter for Australian miners so Canadian's may have a run for their money regarding M&A.

Ounce growth hasn't even begun to flatten out, >300koz pa potential

Moneta's 2.8Moz @ 4.2g/t global UG resources have only seen 763koz @ 4g/t convert to mining inventory, because the core 'Southwest' has hit critical mass to support its own decline, leaving regional 'orphans'. However, a second centre is emerging at Westaway where 661koz @ 4.7g/t is still growing. At 8Mtpa, twin pits would support >200koz pa, so twin UG's could lift this to >300koz pa. This still leaves ~2.9Moz @ 0.9g/t pittable that could support a 10Mtpa operation.

Initiate coverage with BUY rating and C$0.65/sh PT

We model a 4.5Mtpa Phase 1 by combining the 4Mtpa Garrison pit and 0.5Mtpa Golden Highway UG PEAs before the grade falls at Garrison then have mining shift to Golden Highway OP, with $60m pre-strip funded by FCF. Given the >15-year life at this point, we model a simple duplication to 9Mtpa for 70% of the capex, lifting production to >300koz pa. As such, we initiate with a BUY rating and C$0.65/sh PT based on $0.25xNAV_{5\%\text{-}1850}$ of the above scenario.

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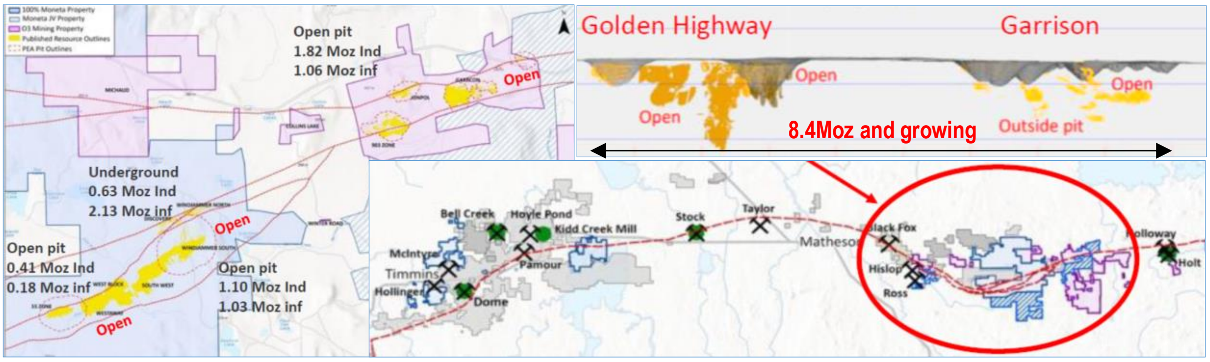
One plus one equals ten: re-imagining combined projects in a top mining jurisdiction

Moneta's Tower Gold project **Garrison** (2.9Moz @ 0.8g/t, 63% M&I, 4Mtpa pit PEA) and **Golden Highway** (5.5Moz @ 1.6g/t, 39% in M&I, PEA on 0.5Mtpa UG-only) ~95km east of Timmins, are on the prolific Destor-Porcupine Fault Zone, host to Newmont, McEwen, Pan American, and Kirkland mines (Figure 1). On a standalone basis, combined PEA production surpasses 200koz pa, excluding any Golden Highway pit (2.7Moz @ 1.0g/t). Now it gets fun; between stockpiling and scheduling Garrison can supply 1.2g/t for Y1-3, but ultimately falls after that. Meanwhile the Golden Highway pit has a pre-strip, lowering IRR / lifting capex of any Phase 1, while UG feed is higher-margin, but tonnage constrained with a ramp-up period. So – adding Garrison, the 2H21 updated PEA can integrate Garrison pit and Golden Highway UG, then add the Golden Highway pit. Thus Garrison 'unlocks' the development sequence as (i) Garrison's early FCF pays for the (ii) Golden Highway pre-strip allowing higher-grades to be sustained, and takes pressure off (iii) a large UG ramp-up. With 8Moz, our modelled 3.5Moz inventory allows for substantial top-slicing of profitable ounces against less tightly constrained inferred material. With 70,000m drilling this year, including 30,000m pit infill at GH ahead for the PEA, Moneta offers ounce upside as well – we expect a second UG mining centre – in an updated MRE in 2H21, feeding into a 2022 combined PEA.

Figure 1. (A) Plan map and (B) long section showing assets (C) on trend east of Timmins

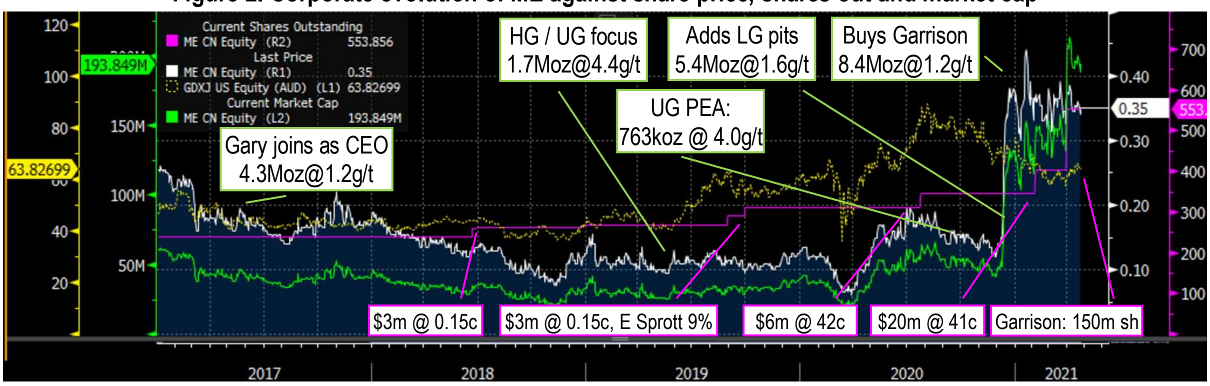


Source: Moneta

What's different this time? Garrison – and more UG feed

Moneta progressively built up a solid ounce base in Timmins, but the real step change was when they bought out their JV partner to acquire 100% of the Golden Highway property in 2009. A low-grade 4.3Moz resource and PEA contemplated combination of a large open pit supplemented with underground feed, but lost market interest during the downturn. Gary O'Connor joined as CEO in 2017, shifting focus to the underground ounces, making several discoveries to feed into a 1.3Moz @ 4.3g/t UG resource in late 2019, with a PEA in 2020. Sadly, this got a fraction of the market attention of releasing the bulk 5.4Moz in 4Q20, sending the stock up ~200% despite not being dissimilar to the historic figure. However, this did allow sensible ratios for the 1Q21 Garrison acquisition, which now comprises 34% of the ounces for 27% of current shares outstanding. Thus, unlocking the Tower Gold 'monster project' from a combined 8.4Moz global resource and de-risking the project in terms of infrastructure requirements, financing and permitting. 'CombineCo' now represents 'the' independent Timmins developer in our view. The assets have both scale and self-development ability, and a valuation attractive to buyers with respect to M&A, with interest potentially benefitting from future-empty mills in the vicinity.

Figure 2. Corporate evolution of ME against share price, shares out and market cap

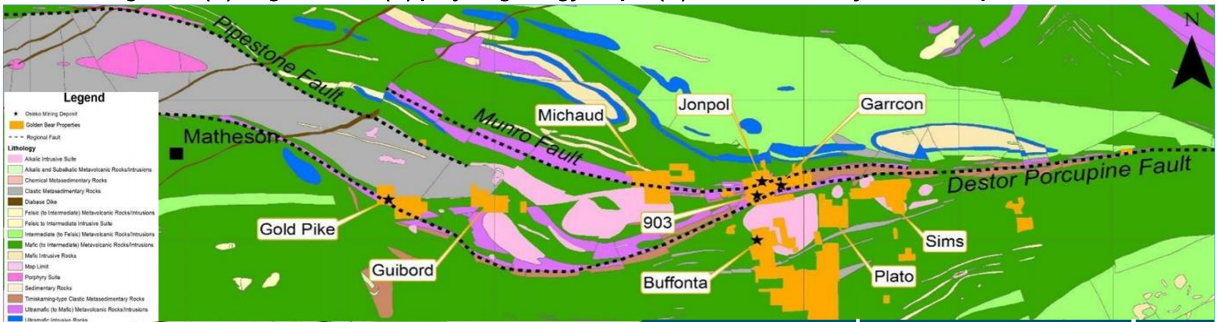


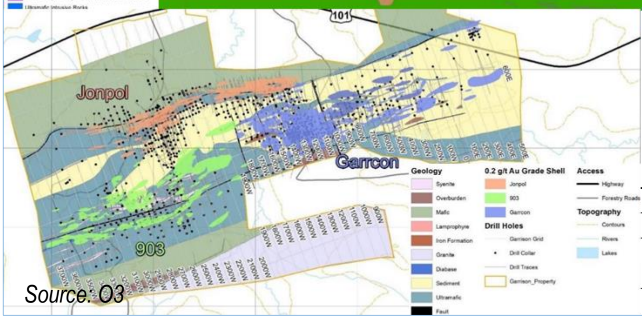
Source: Bloomberg, SCP, company data

Phase 1a: Garrison open pit – open pit start-up without significant pre-strip

Garrison's 4Q20 resource of 2.9Moz @ 0.8g/t is split between the Garcon, Jonpol and 903 (Figure 3), classic Archean orogenic derivation, associated with quartz-carbonate veining and disseminated sulphides. The property was variably optioned in the 2000s to ValGold and Northern Gold, before being acquired by Osisko predecessor Oban in 2015. Composites tested by Osisko showed an average 93% recovery via conventional CIL or 88% at 75um grind, and bulk mining by Northern Gold at Garcon saw 3.5koz @ 1.55g/t produced; that ore was free milling with 95.7% recovery at the Holt Mill. Most recently, O3's 2020 standalone PEA outlined 1.2Moz @ 0.82g/t mined from a vanilla open-pit project producing 121koz pa in Y1-8, processing stockpiles over a three-year tail for 12 years at 94koz pa LOM. Pre-production capex of C$267m includes a C$40m pre-strip, C$115m plant capex and C$38m contingency, with C$126m LOM sustaining capex. **Key here is that Garrison benefits from a quick ramp up driven by a low pre-strip, enabling early production from Y1-4 at 143koz pa with 1.16g/t.**

Figure 3. (A) Regional and (B) project geology maps, (C) table of PEA key economic parameters





GARRISON SUMMARY	PEA		PEA
Garrison inventory (000t)	47,343	G&A (C$/t)	1.0
Garrison grade (g/t Au)	0.82	AISC (US$/oz Au)	818
Garrison ounces (000oz Au)	1,248	Build capex (C$m)	267
Strip ratio (x)	2.71	Sust capex (C$m)	126
LOM throughput (Mtpa)	4.0	Gold price (US$/oz)	1,750
Recovery (%)	90.2%	CAD / USD	0.75
Production LOM (000oz pa)	**94**	**NPV5% (C$m)***	**547**
Production Y1-8 (000oz pa)	**121**	**IRR post-tax (%)**	**49%**
Mining cost (C$/t)	2.70	Payback (years)	2.30
Processing cost (C$/t)	11.20	Mine life (yrs)	12.0

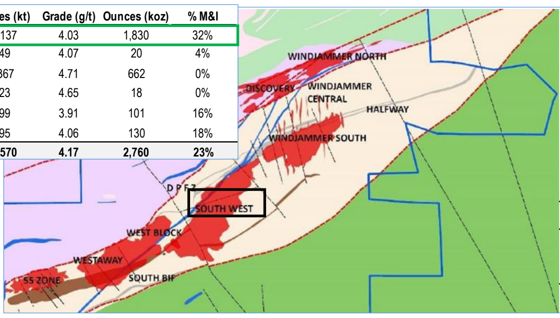
*Source: O3, *From build start, project only, excluding central G&A and finance costs*

Phase 1b: Southwest underground at Golden Highway – early pits give time to ramp up

The Southwest UG resource is located 5km off of highway 101, ~20km from Garrison and contains 1.8Moz of the global 5.5Moz defined at the Golden Highway which has been the primary focus since 2017. The 2020 PEA only focused on the underground potential at Southwest outlining 763koz @ 3.9g/t from a bulk underground mine producing 76koz pa at a low US$747/oz AISC over 11 years inclusive of a two year ramp up period. Pre-production capex of C$144m and C$136m LOM sustaining capex includes its own standalone 1,700tpd processing facility, but an alternative toll milling scenario shows a 55% reduction at C$64m. At US$1,500/oz gold, the standalone Southwest project UG project's after tax NPV$_{5\%}$ is C$197m at 44% IRR but slower payback of 3.4 years makes this a clear opportunity to compliment quicker production from Garrison pit with supplemental high-margin ounces from Southwest UG. A simple 'one plus one' look at the two standalone PEAs show combined production >200koz, that in our view, is just the start as Moneta works to evaluate and integrate these projects.

Figure 4. (A) Plan view of Golden Highway deposits (B) table of Southwest UG PEA key economic parameters

Deposit	Tonnes (kt)	Grade (g/t)	Ounces (koz)	% M&I
Southwest UG	14,137	4.03	1,830	32%
Windjammer South UG	149	4.07	20	4%
Westaway/West Block UG	4,367	4.71	662	0%
55 UG	123	4.65	18	0%
Discovery UG	799	3.91	101	16%
Windjammer North UG	995	4.06	130	18%
Total Underground	**20,570**	**4.17**	**2,760**	**23%**



SOUTH WEST UG SUMMARY	PEA		PEA
South West inventory (000t)	6,035	AISC (US$/oz Au)	747
South West grade (g/t Au)	3.93	Build capex (C$m)	144
South West ounces (000oz Au)	764	Sust capex (C$m)	136
Peak annual production (000oz)	86	Gold price (US$/oz)	1,700
LOM throughput (Mtpa)	0.6	CAD / USD	0.77
Recovery (%)	94.2%	**NPV5% (C$m)***	**288**
Production LOM (000oz pa)	**76**	**IRR post-tax (%)**	**63%**
Mining cost (C$/t)	84.62	Payback (years)	3.40
Processing cost (C$/t)	24.29	Mine life (yrs)	11.0

Source: Moneta

Source: Bloomberg, SCP, company data

Phase 2: Golden Highway pits – pre-strip paid for by Garrison, switch to Garrison keeps grade up

The 4Q20 global 5.5Moz resource at Golden Highway contains 2.7Moz @ 1.0g/t of pit constrained resources split between Windjammer South (2.1Moz) and the 55 deposit (592koz) on either side of the Southwest UG deposit (Figure 5). Previous management focused on a large 3.8Moz deposit capable of 288Koz pa over 12 years outlined by a PEA in 2012, but with 25ktpd scale and 5.6:1 strip, comes a higher capex, at that time estimated at ~US$600m. What's different today is that the integrated Garrison and Southwest UG can produce >150koz pa during the first five years that can self finance staged open-pit mining at GH to >200koz pa production. In our view, this is the ideal scenario supported by easy 20km haulage to Garrison via existing roads (or new direct SCPe 10km route, Figure 9) and comparable metallurgy. A 70,000m drill program is underway focused on resource expansion / conversion at Golden Highway ahead of the 2022 PEA that should bring further visibility on the potential pit contributions as well as new UG additions to the mine plan.

Figure 5. and (A) 4Q20 MRE summary table and (B) Golden Highway resources 3D isometric view

Deposit	Tonnes (kt)	Grade (g/t)	Ounces (koz)	% M&I
55 pit	14,975	1.23	592	70%
Windjammer South pit	69,538	0.95	2,127	52%
Total open pit	**84,513**	**1.00**	**2,719**	**56%**
Southwest UG	14,137	4.03	1,830	32%
Windjammer South UG	149	4.07	20	4%
Westaway/West Block UG	4,367	4.71	662	0%
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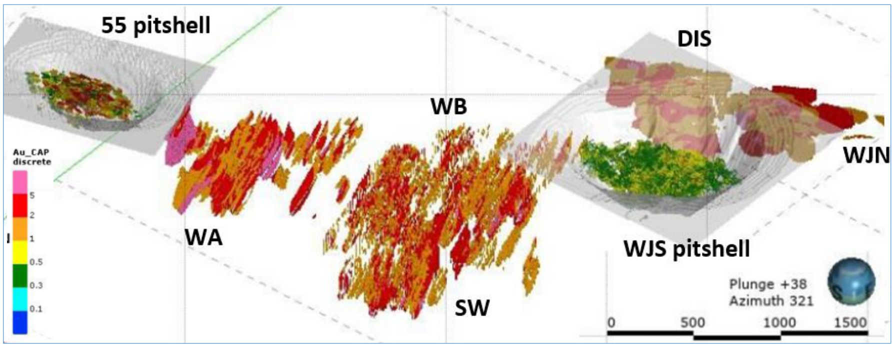
Windjammer North UG	995	4.06	130	18%
Total Underground	**20,570**	**4.17**	**2,760**	**23%**
GH GRAND TOTAL	**105,083**	**1.62**	**5,480**	**39%**

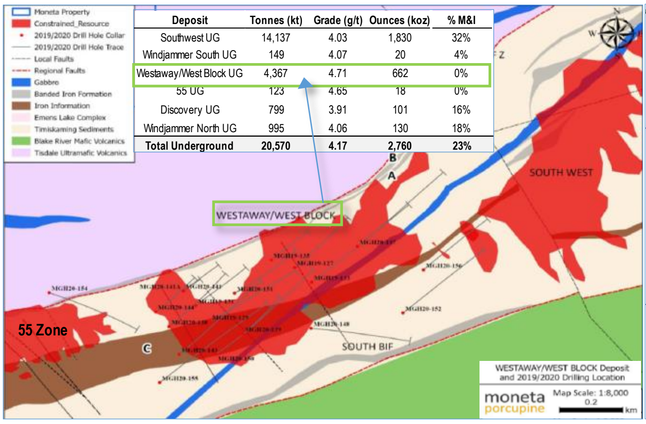


Source: Moneta, SCP

Blue Sky: second UG centre at Westaway / West Block targets could lift production over 300koz pa

Moneta's UG can be confusing – to keep it simple, most of the ounces are at Southwest with 1.8Moz of the 2.8Moz inventory *currently* the only area of critical mass to warrant its own decline. However, Westaway isn't far behind with 662koz, but put simply, it's not there yet once reserve conversion is factored in. Lying between the South West and the 55 deposit, Westaway is essentially a continuation of South West (Figure 5), west of the Main Fault. Gold falls into corridors, with Moneta's 2019-2020 drilling successful in testing the extensions of the adjacent Gap and West Block veins and delineating higher grades at Westaway to a maiden inferred 662koz @ 4.7g/t located only 1km west of the South West resource. With ~27 SE veins striking (135-145º), these extensional vein corridors associated with the Main Fault can be traced over 1.4km in strike, and remains open for testing where, in our view, is likely to see growth in future resource iterations. Just like at Southwest, and unlike some peers, the goal isn't to mine all 27 veins on a narrow basis, but to delineate the 'fatter' veins into stopes for bulk steeply-dipping, and thus low cost, mechanised mining. While plenty more drilling is needed, our thesis is simple – a second UG here is entirely achievable. While this may warrant a mill expansion, or come at a time beyond our modelled expansion to 9Mtpa, and thus simply extend the mine life. Conservatively, we don't model this UG.

Figure 6. (A) WA / WB plan and table of UG resource by area, (C) Golden Highway UG block model, UG ore in red



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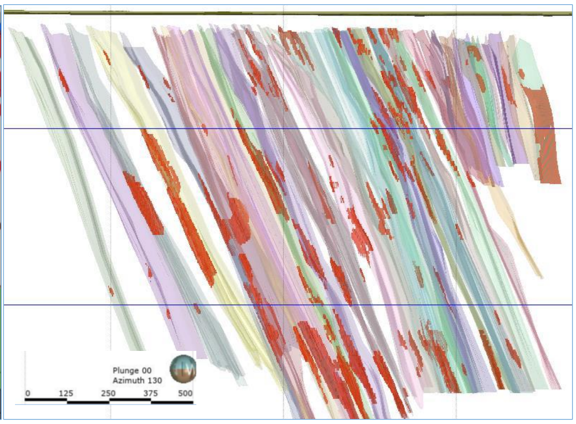
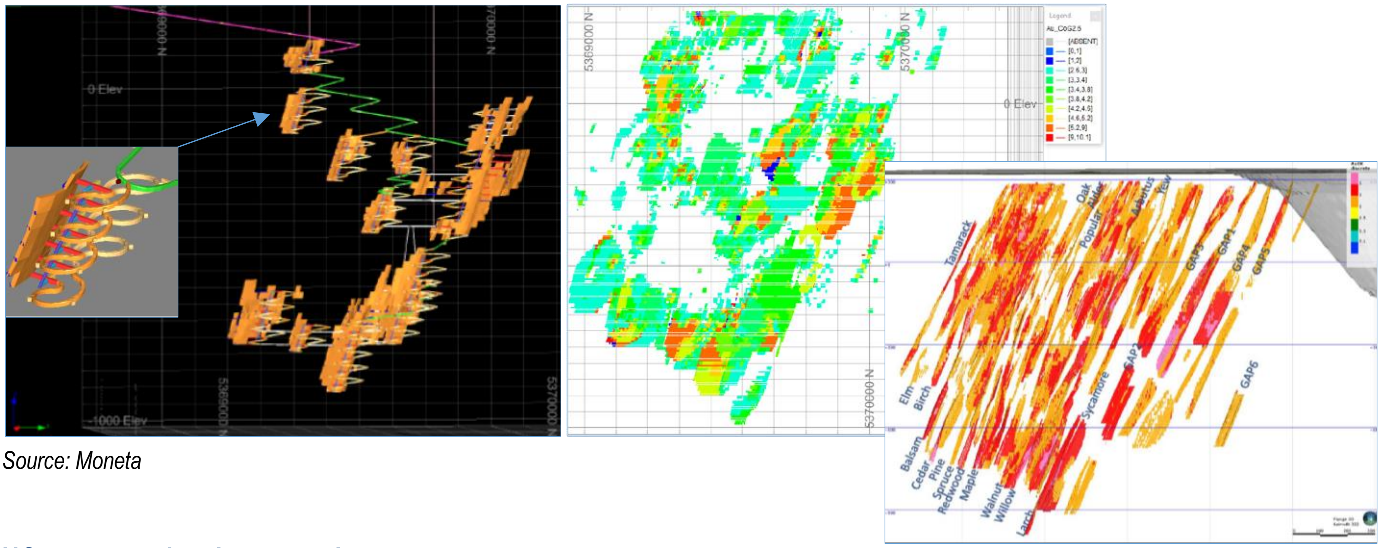


Source: Moneta

Wide stopes, sub-vertical orientation and concentrated ounces make this UG deliverable

The simple 'knock' on Timmins underground is grades of ~4g/t. We would suggest peers with in-situ grades of 7-10g/t that require hundreds of stopes to be mined, on extremely narrow widths, or more gentle dip, are no better and may even be tougher to mine. Put simply, big tonnes need big, sub-vertical stopes and few peers have those. In Moneta's case the geometry and spatial distribution at Southwest minimise development (Figure 7), which coincident with bulk long-hole mining at the estimated 1750tpd drives the low PEA cash cost of US$590/oz and AISC of US$747/oz. Specifically, the steeply dipping veins (>65º), good rock quality and significant widths ranging up to 25m support larger average mine blocks of 20m (H) x 8m (W) x 15m (L) while still honoring the cut-off grade of 2.6g/t. Even better than bulk mineable mineralization is that the spatial distribution of mining areas (Figure 7) should require less lateral development compared to peer projects in Val d'Or/ Timmins and relieve throughput constraints that often plague many UG mining complexes. With >32% of SW UG in M&I and we feel these assumptions are well supported and likely to be similar for adjacent targets, including West Block and Westaway, albeit we acknowledge that further de-risking is required including geotechnical studies and / or test mining.

Figure 7. Southwest (A) schematic stope plan, (B) resource long section, (C) x-section of individual vein targets



Source: Moneta

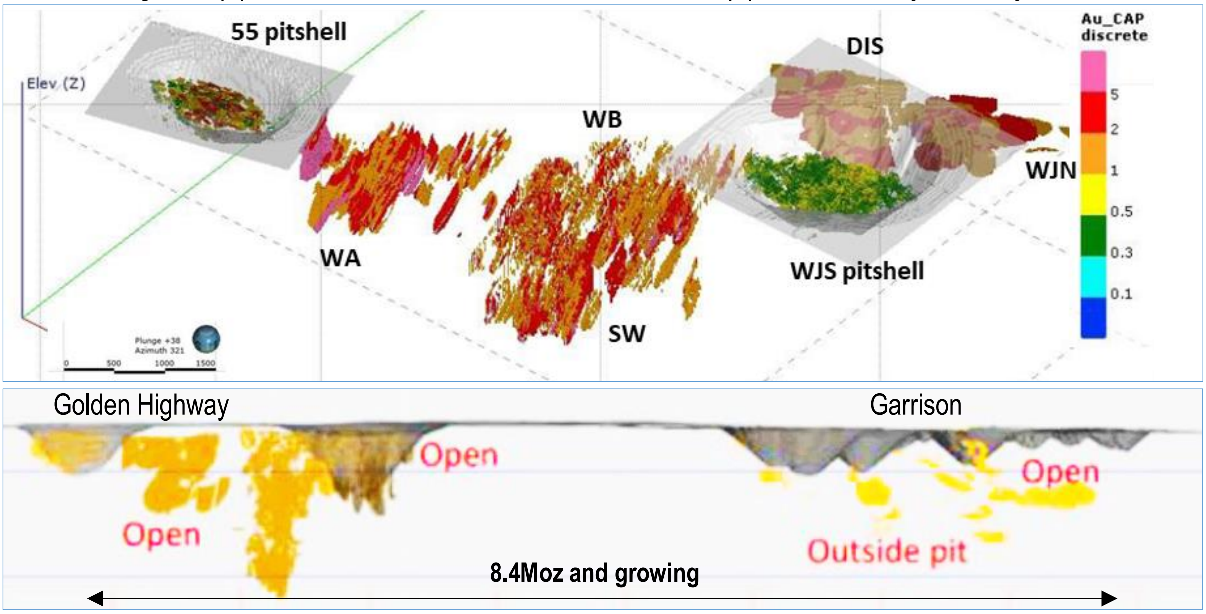
UG resources just keep growing

Moneta's drill bit / re-logging success is demonstrated through iterative resource updates that keep outlining more and more new targets. Specifically, the Golden Highway project global MRE grew from 2.1Moz in September 2020 to 5.5Moz in the December MRE with the addition of the maiden UG inferred resource at Westaway of 662koz as well as open pit resources at Windjammer South and 55. Moneta also increased Discovery and Windjammer North underground deposits with 230koz combined. This lays the foundation for Moneta's ability to continue to expand resources from its 2021 drill program, including the Westaway / West Block deposit to the south and at depth, halfway to the east of Windjammer South, the Gap area of the South West deposit to the south, and the down plunge extensions of the Discovery deposit to the west. We think the underground potential at Discovery and Windjammer North are likely to be more attractive as UG projects at this stage. Looking ahead, new targets will continue to be tested including the Halfway, Twin Creeks and South Basin targets that could see inclusion in the next MRE.

Putting it all together: SCP mega mine

Open pit inventory: We model Garrison as per the PEA, which saw a 43% conversion from global resources to the PEA inventory of ~1.3Moz. Without a recent PEA for the open pits at Golden Highway, we model 1.4Moz to be included in the combined PEA reflecting a 53% conversion factor comparable to Garrison. Outside of this, Figure 8 shows near surface mineralization unconstrained by a pit shell at Windjammer South and Southwest that not only suggests our estimate is achievable, it is there to be beaten. Our UG inventory of 763koz is based on the Southwest PEA from a global UG resource of 2.8Moz and where we see the largest value add as drilling progresses this year. Ahead of the updated 2H21 PEA, this comes to 3.5Moz in our mining inventory from the 8.4Moz total, with key delta being future UG resource additions.

Figure 8. (A) Isometric views of Tower Gold resources and(B) SCPe inventory summary table



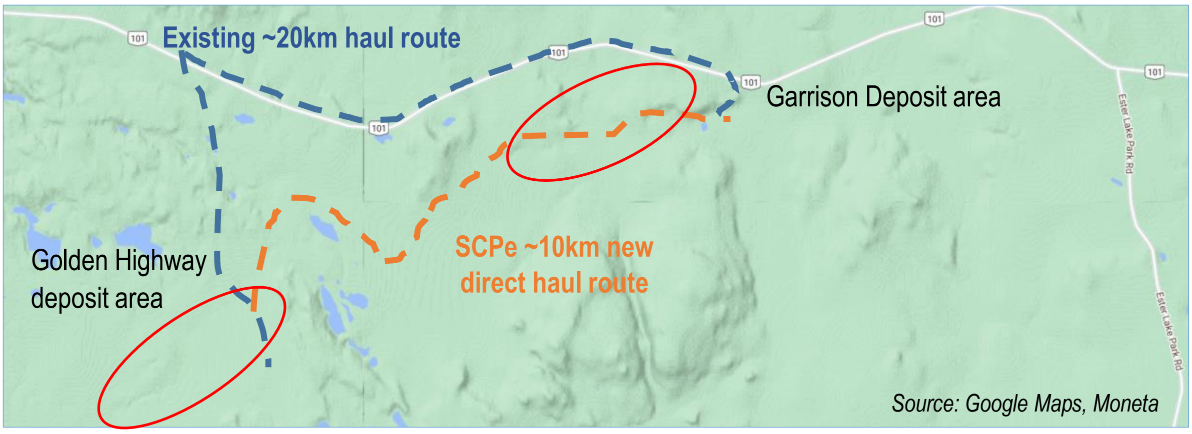
	Tonnes (kt)	Grade (g/t Au)	Ounces (Koz)	M&I (%)	Reserve conversion (%)
Garrison open pit	111,605	0.80	2,884	63%	43%
Golden Highway open pit	84,513	1.00	2,719	56%	55%
Total open pit	**196,118**	**0.89**	**5,603**	39%	49%
Golden Highway UG	20,570	4.17	2,760	23%	28%
GRAND TOTAL	**216,688**	**1.20**	**8,364**	**44%**	**42%**
Garrison PEA pit inventory:	*47,343*	*0.82*	*1,253*		
Golden Highway PEA inventory:	*6,035*	*3.93*	*763*		
SCPe Golden Highway pit inventory:	*42,257*	*1.10*	*1,496*		
SCP MODELLED INVENTORY:	***95,634***	***1.14***	***3,512***		
SCPe pittable outside inventory:	*106,519*	*0.83*	*2,855*		

Source: SCP, modified from Moneta

Metallurgy: Both Garrison and Golden Highway are free milling, with similar ~20 BWI with both assets free milling at 75um and under a range of finer and coarser grind sizes, and both have large amounts of gravity recoverable ore. Put simply, this means combining the ores should see no fatal flaws and be quite efficient, i.e. no requirement to batch or design different flow sheets for different ore sources. We don't expect any material surprises in the integrated PEA.

Connecting infrastructure: Before looking at ounces, key considerations are mill location, connecting haul road via highway 101 (~20km) and metallurgy already discussed. Logistically, we expect the mill to be located at or near Golden Highway and see the potential for a more direct haul route of ~10km (Figure 9). Given the greater ounce base. Geographically the combined projects benefit from favorable topography, generally flat ground with some nice low relief topo for basin fill TMF to save capex. This should benefit the permitting process as well.

Figure 9. (A) Terrain image of Garrison – Golden Highway showing



Valuation

We model Moneta on a DCF basis as per the two recent PEAs for Garrison and Southwest UG as well as our own assumptions. Firstly, we model a Stage 1, 4.5Mtpa operation, by combining the existing 4Mtpa Garrison pit and ~0.5Mtpa Southwest UG PEA mine plans. Mining from Garrison is supplemented by higher-grade UG over the two year ramp up period complete by Y3. Secondly, before the grade falls at Garrison we model a mining shift to Golden Highway pits in Y6, with $60m pre-strip funded by FCF. Given the >15-year life at this point, we model a simple duplication to 9Mtpa for 70% of the plant capex at C$80m that pushes production over 300koz pa there after. Sustaining capex is material in both operations – the Southwest UG sees C$120m sustaining capex or C$20/t (mainly underground development), while the Garrison PEA sees US$126m sustaining capex from the plant and associated TMF requirements. Maintaining these unit costs, we add 10% for the more complex operation, taking our LOM sustaining capex to C$394m. This drives an NPV$_{5\%\text{-}1850}$ of C$1.3bn at build start, or ~C$1.6bn at first pour, which we sensitise to gold price and discount below.

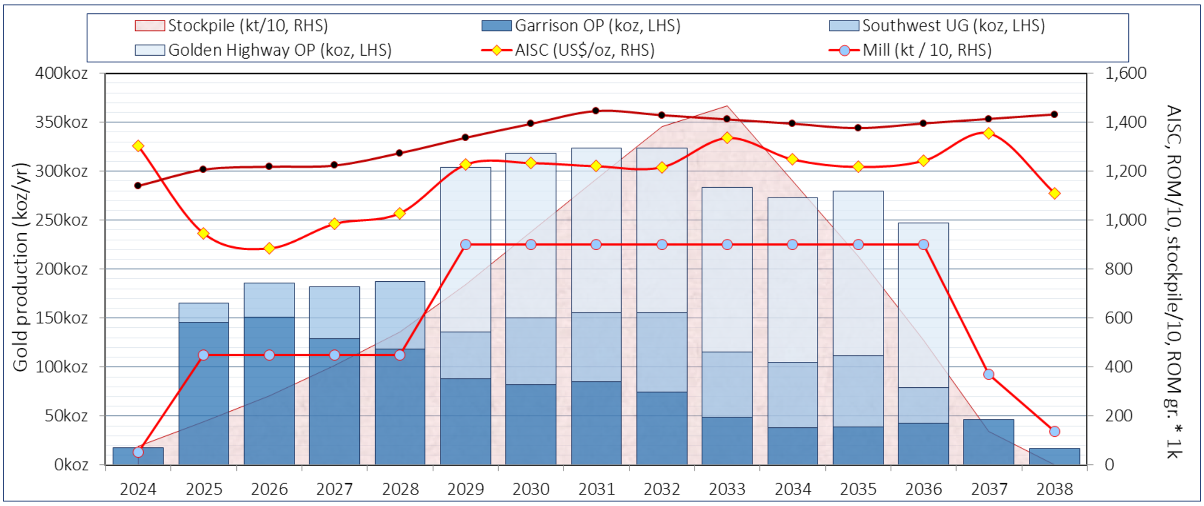
Table 1. SCPe (A) Tower Gold project inputs and economic assumptions and (B) sensitivities

Tower Gold Project (100%)	SCP		SCP
Mining inventory (000t)	95,635	LOM C1 costs (US$/oz)	804
Head grade (g/t)	1.14	LOM AISC (US$/oz)	948
Mining inventory Au (000oz)	3,520	Total build capex (C$m)	350
Au recovery (%)	90%	Expansion + pre strip capex (C$m)	140
Mine life (years)	13.8	Total sustaining capex (C$m)	394
LOM throughput (Mtpa)	7.0	**Gold price (US$/oz)**	**1,850**
Production LOM (000oz pa)	**250**	**Project NPV post-tax (C$m)**	**1,332**
Production Y1-10 (000oz pa)	230	IRR post-tax (%)	40%
Source: SCP		Payback (years)	3.5

Asset value: 1xNPV project @ build start (C$m, ungeared)*					
Project NPV (C$m)*	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	612	724	835	947	1,058
7.5% discount	786	920	1,053	1,186	1,318
5.0% discount	1,011	1,172	1,332	1,492	1,652
Ungeared project IRR:	33%	37%	40%	43%	46%
0.25xNAV PT (C$/sh) *	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	0.34	0.39	0.43	0.48	0.53
7.5% discount	0.41	0.47	0.53	0.58	0.64
5.0% discount	0.51	0.58	0.65	0.71	0.78

**Project level NPV, excl finance costs and central SGA, discounted to build start*

Table 2. SCPe Tower Gold production profile



Source: SCP estimates

Recommendation: initiating coverage with BUY rating and C$0.65/sh PT

To convert our NPV to an NAV we simple add cash, cash from options and a nominal US$10/t for the 2.9Moz of resources outside the reserve. As such, we initiate with a BUY rating and $0.65/sh PT based on 0.25xNAV$_{5\%\text{-}1850}$ of the above scenario. With additional drilling and engineering work to de-risk the project, we expect our NAV multiple to be lifted as Moneta brings more visibility to a fully integrated project. In fact, given all three of our operations have been subject to various PEAs, and thus our key opex / capex / grade / strip assumptions are well modelled by external groups, if anything this is an overly conservative multiple. Stepping back, Moneta is now positioned among the **select few Canadian developers with scale capable of producing >300koz pa** in a top tier mining jurisdiction, making this a conviction name for us. Given the 8.4Moz and growing, Moneta is positioned as a prime takeover candidate in the Timmins camp also, with Newmont trucking from its Borden mine to Dome mill in Timmins ~200km away, making the closer Tower Gold project even more attractive in our opinion.

Figure 10. (A) Group NAV net of finance and central G&A costs, diluted for mine-build and (B) sensitised

SOTP *project* valuation*					
	C$m	O/ship	NAVx	C$/sh	
Tower Gold proj @ 1Q23 build start	1,332	100%	0.25x	0.57	
SCPe pro forma cash 1Q21	26	100%	0.25x	0.01	
Cash from options	6	100%	0.25x	0.00	
2.9Moz resource ex reserve @ US$10/oz	36	100%	1.00x	0.06	
Asset NAV5% US$1850/oz	1,401		PT:	0.65	
Diluted for options but not mine build		Market P/NAV5% 1Q21		0.14x	
Asset value: 1xNPV project @ build start (C$m, ungeared)*					
Project NPV (C$m)*	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	612	724	835	947	1,058
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5.0% discount	0.51	0.58	0.65	0.71	0.78

**Project level NPV, excl finance costs and central SGA, discounted to build start*

Group valuation over time^	2Q21	2Q22	2Q23	2Q24	2Q25
Tower Gold Project NPV (C$m)	1,208.2	1,268.6	1,332.4	1,511.6	1,833.3
G&A and finance costs (C$m)	(94.4)	(90.3)	(81.1)	(81.1)	(71.7)
Net cash prior qtr (C$m)	5.9	18.7	5.1	51.2	(199.7)
Cash from options (C$m)	6.1	6.1	6.1	6.1	6.1
Resource ex reserve (C$m)	36.1	36.1	36.1	36.1	36.1
NAV FF FD (C$m)	1,162	1,239	1,299	1,524	1,604
Shares in issue (m)	*347.0*	*553.9*	*553.9*	*751.4*	*751.4*
1xNAV5%/sh FF FD (C$/sh)	3.35	2.24	2.34	2.03	2.13
Equity ROI from spot (% pa)				83%	59%
Geared company NAV diluted for mine build, net G&A and finance costs					
3Q22 1xNAV FF FD (C$/sh)^	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	813	937	1,060	1,182	1,304
7.5% discount	978	1,122	1,265	1,408	1,550
5.0% discount	1,186	1,356	1,524	1,692	1,859
Geared project IRR:	32%	35%	38%	42%	45%
2Q22 1xNAV FF FD (C$/sh)^	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	0.88	1.07	1.26	1.45	1.65
7.5% discount	1.14	1.37	1.60	1.83	2.06
5.0% discount	1.48	1.75	2.03	2.30	2.58

*^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity*

Source: SCPe

Upside: expansion beyond 9Mtpa

We fully expect more ounces to be brought to account over time from the 2.9Moz of pittable ounces outside of our mineable inventory and 9Mtpa mine plan above that could justify future expansions beyond 10mtpa especially if a potential second UG centre at Westaway / Block is delineated– this hub-and-spoke model is common in Australia and Africa but less so in Canada. Better than Australia, mines in Ontario and Quebec benefit from cheaper electricity, rail, and flow-funded drilling. In our view, expanding the mill beyond designed capacity to support the processing of additional GH pits and dual UG centers simultaneously would be transformative.

Risks

- Resource: While the total endowment contains resources at different stages, the main PEA level Garrison and Southwest UG ounces are at 63% and 23% M&I, respectively, while the Golden Highway pittable ounces are 56% M&I. Thus, we apply a conservative 0.25xNAV multiple, as well as only modelling 50% of the pittable ounces. In our opinion, the drill plans outlined by management this year should see more resources de-risked ahead of future studies.
- Reserve conversion: the PEAs have variably taken diluted / economic cuts of the resource already, with UG mining in particular focussing on wider on-infrastructure ounces only. However, BFS' rarely beat PEAs hence there is risk of reserve conversion seeing less ounces or lower grade. This is mitigated by the 'rising tide' of new ounces coming from drilling.
- Processing: Detailed metallurgical performance isn't finalised and could have an impact on the project economics. The combined met and flowsheet will be a key aspect in the updated PEA. However, ore from both Garrison and GH are free milling so we don't expect material risk here.
- Permitting: Located in on of the best mining-friendly jurisdictions, the Tower Gold Project is situated on no major lakes or rivers and could be in production earlier than our conservative 4Q24 start.
- Financing: While we apply a conservative NAV multiple, equity dilution remains a key risk. The current cash of C$26mm sees the company through to DFS just about, but drilling equity may be required on top of this. Our capex of $350m leads us to model C$160m equity / C$210m debt, a large but manageable amount. Further, we expect a far higher market cap once the DFS and regional exploration drilling is completed, hence model a fully-funded fully-diluted share count of 750m based on equity at 0.4xNAV.

Catalysts

- 1H21: 30,000m of drilling at Golden Highway
- 2H21: 40,000m drilling + combined PEA and updated MRE
- 1H22: New resource estimate for combined projects
- 2022: Feasibility for an integrated project

Ticker: ME CN	Price / mkt cap:	C$0.345/sh, C$191m	Project PNAV today:	0.14x	Asset:	Tower Gold
Author: B. Salier / B. Gaspar	Rec / xNAV PT:	BUY, C$0.65/sh	1xNAV build start, FD:	C$2.40/sh	Country	Canada, ON

Commodity price	CY20E	CY21E	CY22E	CY23E	CY24E
Gold price	1,770	1,792	1,784	1,795	1,850

SOTP *project* valuation*	C$m	O/ship	NAVx	C$/sh
Tower Gold proj @ 1Q23 build start	1,332	100%	0.25x	0.57
SCPe pro forma cash 1Q21	26	100%	0.25x	0.01
Cash from options	6	100%	0.25x	0.00
2.9Moz resource ex reserve @ US$10/oz	36	100%	1.00x	0.06
Asset NAV5% US$1850/oz	1,401		PT:	0.65
**Diluted for options but not mine build*		Market P/NAV5% 1Q21		0.14x

Asset value: 1xNPV project @ build start (C$m, ungeared)*					
Project NPV (C$m)*	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
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7.5% discount	0.41	0.47	0.53	0.58	0.64
5.0% discount	0.51	0.58	0.65	0.71	0.78

**Project level NPV, excl finance costs and central SGA, discounted to build start*

Share data	Basic	FD	FF FD
Basic in issue (m)	553.9	584.5	751.4

Group valuation over time^	2Q21	2Q22	2Q23	2Q24	2Q25
Tower Gold Project NPV (C$m)	1,208.2	1,268.6	1,332.4	1,511.6	1,833.3
G&A and finance costs (C$m)	(94.4)	(90.3)	(81.1)	(81.1)	(71.7)
Net cash prior qtr (C$m)	5.9	18.7	5.1	51.2	(199.7)
Cash from options (C$m)	6.1	6.1	6.1	6.1	6.1
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NAV FF FD (C$m)	1,162	1,239	1,299	1,524	1,604
Shares in issue (m)	*347.0*	*553.9*	*553.9*	*751.4*	*751.4*
1xNAV5%/sh FF FD (C$/sh)	3.35	2.24	2.34	2.03	2.13
Equity ROI from spot (% pa)				80%	58%

Geared company NAV diluted for mine build, net G&A and finance costs					
3Q22 1xNAV FF FD (C$/sh)^	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
10.0% discount	813	937	1,060	1,182	1,304
7.5% discount	978	1,122	1,265	1,408	1,550
5.0% discount	1,186	1,356	1,524	1,692	1,859
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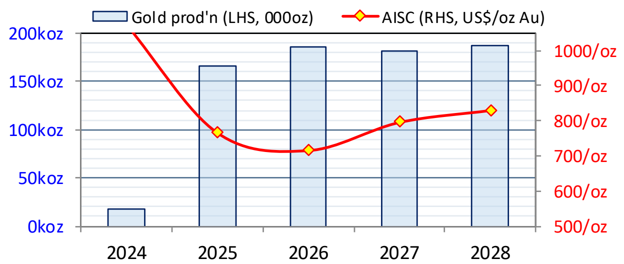
7.5% discount	1.14	1.37	1.60	1.83	2.06
5.0% discount	1.48	1.75	2.03	2.30	2.58

*^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity*

Production	2024	2025	2026	2027	2028
Gold production (000oz)	18	166	186	182	187
C1 cost (US$/oz)	931	635	589	641	680
AISC cost (US$/oz)	1,075	766	716	796	830

AISC = C1 + ug sustaining capex, Y1 = 12M to Sep 2024



Resource / Reserve	Au (koz)	Au (g/t)
M&I	3966koz	1.01g/t
Inferred	4397koz	1.44g/t
Global resource	8364koz	1.20g/t
Garrison PEA pit inventory	1248koz	0.82g/t
Golden Highway SCPe pit inv	1496koz	1.10g/t
Golden Highway PEA UG inve	761koz	3.92g/t
SCPe pittable outside invento	2855koz	0.83g/t

Funding: uses		Funding: sources	
Mine build capex	C$350m	SCPe pro forma cash 1Q21	C$26m
SCPe G&A to 1st Au	C$10m	Mine build equity (C$m)	C$160m
SCPe pre-production expl'n	C$18m	debt @ 60% of PP&E (C$m)	C$210m
SCPe finance costs + wkg cap	C$17m	Total proceeds	C$396m
Total uses	C$394m	*Buffer*	*C$2m*

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	322.2	528.1	553.9	726.7	751.4
EPS (C$/sh)	-	-	-	-	0.00
CFPS (C$/sh)	-	-	-	-	-
EV (C$m)	105.3	163.5	186.0	199.5	458.9
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	313.1x
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	25.7x

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Net revenue (C$m)	-	-	-	-	43.3
COGS (C$m)	-	-	-	-	21.4
Gross profit (C$m)	-	-	-	-	21.9
D&A, attrib (C$m)	-	-	-	-	2.5
Group G&A (C$m)	1.2	1.7	1.7	4.0	4.0
Finance cost (C$m)	-	-	-	-	9.1
Taxes (C$m)	-	-	-	-	5.5
Net income (C$m)	(1.2)	(1.7)	(1.7)	(4.0)	0.8
EBITDA (C$m)	*(4.3)*	*(9.7)*	*(14.3)*	*(5.1)*	*16.8*

Cash flow, attrib.	CY20E	CY21E	CY22E	CY23E	CY24E
EBIT (C$m)	(1.2)	(1.7)	(1.7)	(4.0)	15.4
Add back D&A (C$m)	-	-	-	-	2.5
Less tax (C$m)	-	-	-	-	14.6
Net change in wkg cap (C$m)	(1.7)	-	0.4	(0.2)	12.7
Add back other non-cash (C$	(4.2)	(6.9)	(12.2)	0.4	(54.5)
Cash flow ops (C$m)	(7.0)	(8.6)	(13.6)	(3.8)	(9.4)
PP&E - build + sust. (C$m)	-	-	-	(110.0)	(241.6)
PP&E - expl'n (C$m)	(0.0)	(0.0)	(0.0)	-	-
Cash flow inv. (C$m)	(0.0)	(0.0)	(0.0)	(110.0)	(241.6)
Share issue (C$m)	6.1	21.5	-	160.0	-
Debt draw (repay) (C$m)	-	-	-	-	210.0
Cash flow fin. (C$m)	6.1	21.5	-	160.0	210.0
Net change in cash (C$m)	*(1.0)*	*12.8*	*(13.6)*	*46.2*	*(40.9)*

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (C$m)	5.9	18.7	5.1	51.2	10.3
Acc rec., inv, prepaid (C$m)	0.2	0.2	0.2	0.2	19.9
PP&E + other (C$m)	2.2	2.2	2.2	112.2	351.3
Total assets (C$m)	8.2	21.0	7.4	163.6	381.5
Debt (C$m)	-	-	-	-	210.0
Accounts payable (C$m)	1.1	1.1	0.7	0.9	7.9
Others (C$m)	-	-	-	-	-
Total liabilities (C$m)	1.1	1.1	0.7	0.9	217.9
Sh'hlds equity + wrnts (C$m)	64.8	87.3	88.4	249.5	250.6
Retained earn'gs + rsvs (C$m)	(57.7)	(67.4)	(81.7)	(86.8)	(87.1)
Liabilities + equity (C$m)	8.2	21.0	7.4	163.6	381.5

Source: SCP estimates

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SELL: The stocks total returns are expected to be materially lower than the overall market

TENDER: The analyst recommends tendering shares to a formal tender offering

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Summary of recommendations as of April 2021	
BUY:	38
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	38

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