Sprott | Equity Research

Nighthawk Gold (NHK CN)

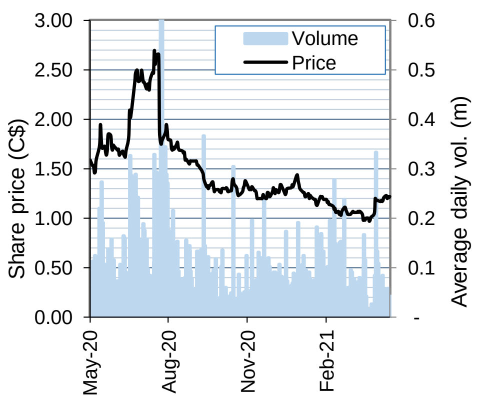
Initiation: New CEO & strategy marks turning point for 3Moz in NWT

RECOMMENDATION: **BUY** *TARGET:* **C$2.55/sh** *RISK RATING:* **SPECULATIVE**

SHARE DATA	
Shares (basic, FD, FF FD)	54 / 63 / 100
Share price (C$/sh)	C$1.25/sh
52-week high/low	C$2.7 / C$0.97
Market cap (C$m)	68
Net cash 4Q20 (C$m)	15.9
1.0xNAV5% @ US$1850/oz (C$m)*	537
1.0xNAV5% FD (C$/sh)*	2.57
Project P/NAV today (x, FD)	0.15x
Average daily value (C$000, 3M)	100

FINANCIALS	CY25E	CY26E	CY27E
Gold sold (000oz)	116	129	129
Revenue (C$m)	298	298	298
AISC (US$/oz)	969	969	969
Income (C$m)	70.6	72.4	75.0
EPS (C$)	130.2	133.7	138.4
PER (x)	1.0x	0.9x	0.9x
CFPS (C$)	185	190	196
FCF yield (%)	148%	152%	157%
EBITDA (C$m)	142	142	142
EV/EBITDA (x)	0.5x	0.3x	0.1x

TIME VALUE: 1850/oz	1Q22	1Q23	1Q24
1xNAV5% FF FD (C$m)	395	434	460
1xNAV5% FF FD (C$/sh^)	5.63	5.26	5.58



*Source:Fidessa; *diluted for options only ^plus mine build*

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New CEO and strategy on NWT explorer approaching critical mass

Nighthawk's 3Moz @ 1.9g/t in the NWT comes after ~10 yrs of steady but slow drilling. Of this, 974koz @ 1.6g/t sits in newly whittle constrained pittable resources. The prior strategy of add, add, add did see 2Moz @ 2g/t of deeper material too, including the Zone 1.5 discovery. The new strategy sees drilling speed up (185,000m in last 10Y, 200,000m in next 2Y) and shift to shallow targets. Critical to this is new CEO Keyvan Salehi (Mountain Province, KL) and VPX Richard Roy (Semafo), as is cash of ~C$16m. With 930km^2 belt-control (3x Timmins), targets to test, and attractive valuation, we see this reset as an opportune moment for investors to put Nighthawk back in the portfolio.

Our thesis: base-load in place, satellites for critical mass

Just looking at the ~974koz of pittable material, Nighthawk's C$73m market cap is on par with peers with potentially similar resources, but is compliant, and benefits from 'belt control' for higher satellite potential. Taking that and nothing more makes the stock look cheap, but like peers, pittable critical mass isn't in place. This is where the C$16m working capital, new VPX and belt full of targets comes in. We see 1.5Moz pittable as a very achievable short-term target as it would only require converting the 250koz @ 2.7g/t historic Cass and recently optioned Kim resources plus 150koz from satellites.

What's different this time: analogies to Marathon

Three aspects of legacy strategies drew investor scepticism: hard-boundary modelling, weak resource constraining as was standard practice at the time, and Kalgoorlie analogies. 'Internal hard boundaries' have been removed, while the shift from low-margin high-ounce to shallower ore is seen in whittle-constrained pits now, with exploration targeting shallow satellites over 'big bang' Kalgoorlie analogies. We see parallels to Marathon, both on early estimation methods being remedied, and YoY ounce growth rewarding patience looking forward. We provide a detailed review of historic resources here, not to dwell on the past, but to assuage investor concerns that this really is 'different this time'.

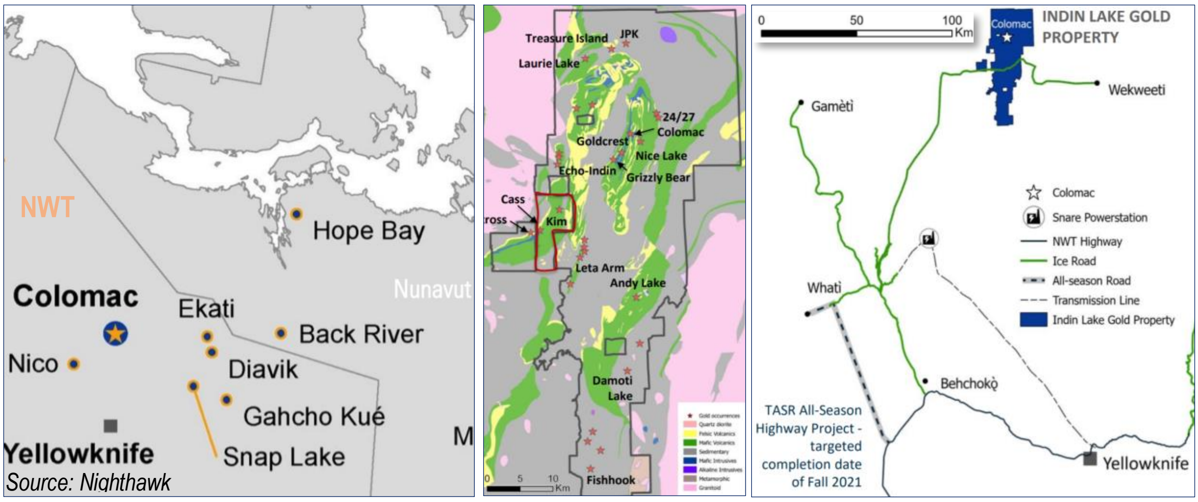
Initiate coverage with BUY rating and C$2.55/sh PT

This is a drill bit story, but the advantage over pre-critical-mass peers is the data to model a base-case DCF. EV/in-situ valuations have no value in our view, exemplified by QPs modelling 0.6g/t material in pits as deep as 550m. We model a mining inventory of 1.1Moz @ 1.6g/t, conservatively taking the *open-pittable resource only*, adding 245koz @ 2.7g/t historic Cass, and diluting by 10%. This drives a C$500m NPV @ US$783/oz AISC. As such, **we initiate coverage with a BUY rating and C$2.55/sh PT** based on 0.25xNAV$_{5\%\text{-}1850}$, adding only a nominal C$10m to exploration. We get excited because the potential for even 100-200koz at 2-3g/t or even 5-6g/t in BIF hosted material is high, and very material. There is real UG potential too, if not 2Moz, given **56m @ 13.5g/t** drill highlights at Zone 1.5. With the cash, the team and a 'reset strategy' in place, Nighthawk offers a compelling investment thesis in our view.

NWT explorer with dolerite-hosted core seeking to grow

Post-1938 discovery, mining at Colomac from 1990-1997 extracted ~600koz @ 1.7g/t before closure in 1997 at ~US$300/oz. Nighthawk acquired the property from the federal government, consolidating 930km^2 with pegging. An initial 1.4Moz @ 1.1g/t grew to the current 3Moz @ 1.9g/t, comprising 1Moz @ 1.6g/t pittable and 2Moz @ 2g/t UG. Minimal satellite drilling has led to only ~360koz (166koz pittable) in satellites (targets outside Colomac Main Sill). In 4Q20, the direction shifted from drilling out roots and known satellites to focussing on highest-margin nearest-mine shallow satellites, driven by new CEO Keyvan Salehi, ex VP Corp Dev and Tech Services for Mountain Province and Kirkland Lake before that. VPX Richard Roy joined in 1Q21 to do precisely what he did at Semafo – add ounces on a hub-and-spoke basis. We agree with Roy's synopsis that the belt has *"all the key ingredients typically seen in world-class gold mining camps…regional-scale structures, pervasive and widespread hydrothermal alteration, and a variety of mineralization styles".* To test this thesis, the company is drilling ~200km in the next 2Y vs. ~185km to date, creating 'new Nighthawk'.

Figure 1. (A) Regional location in the NWT, (B) Indin Lake greenstone belt and (C) logistics / access



Focus shifts from adding roots to bolting on profitable, shallow near-mine ounces

Nighthawk's staked vacant land pre-2011 as the foundation to move to 90% of the belt with the 2012 acquisition of old mining areas from the feds at reclamation-only cost. Historic data allowed a quick 1.4Moz @ 1.1g/t, lifting to 2.1Moz @ 1.6g/t by 2013 with only 11km of new drilling. Drilling slowed before picking up with the ECM recovery in 2016, with ~42,000m drilled from 2014-2018, adding 513koz @ 1.5g/t for a global 2018 MRE of 2.2Moz @ 2.1g/t as Zone 1.5 grew at depth. By 2H19, the company was drilling increasingly deep holes such as 55m @ 1.9g/t, from ~700m downhole (true thickness ~half that), leading to a maiden UG MRE in 2020, taking global resources to 2.2Moz @ 2.1g/t with grade up and some ounces removed as deeper lower-grade material was excluded.

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

Source: Bloomberg, SCP, hard-dollar amount shown for combined hard/flow, pre-1Q20 issue prices adjusted up for 1:5 consolidation

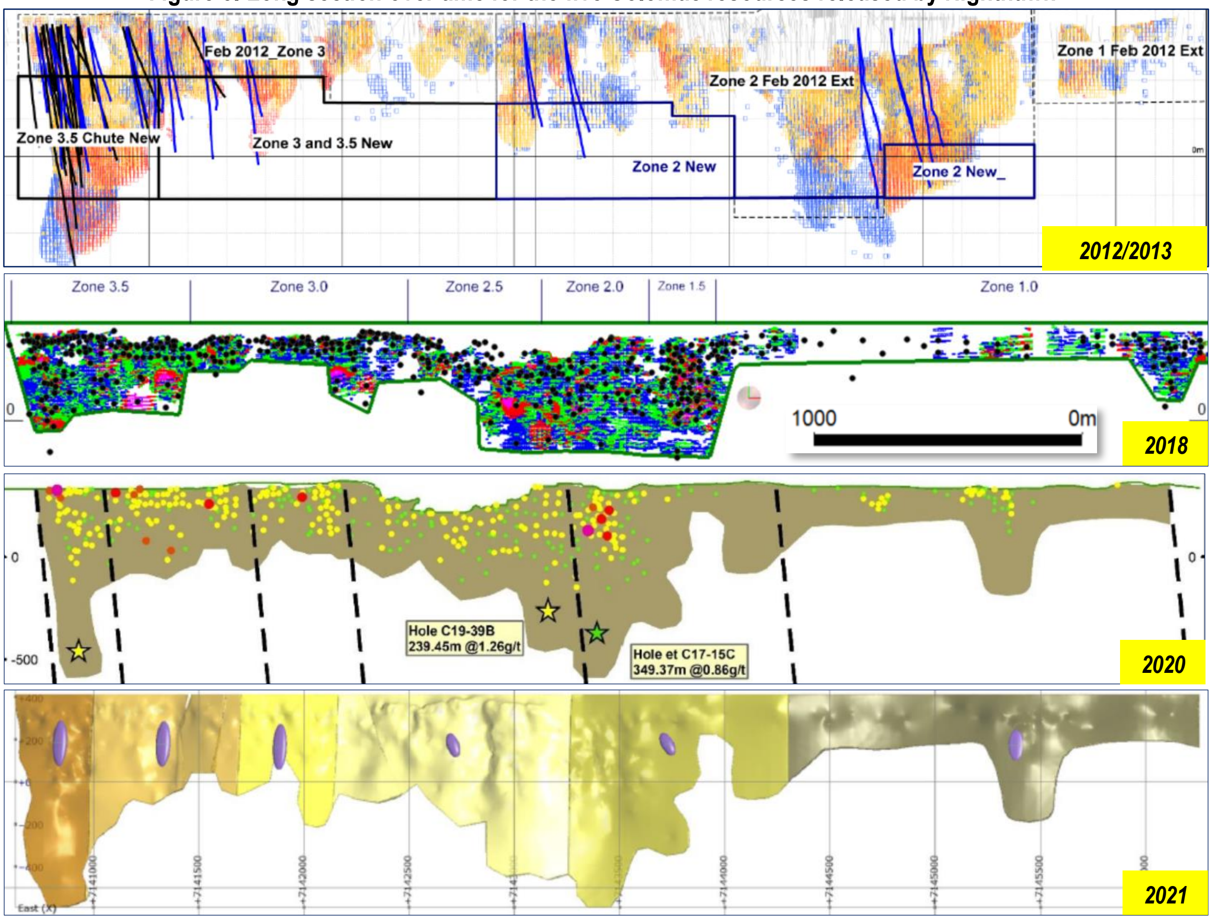
History is a lesson for the future: historic resource estimates now 'cleaned up'

1987-1997: Various pre-production reserves saw ~15% modelled dilution on simple polygonal models envisaging a ROM grade of ~2.1g/t. Ultimate production of 611koz hit the mill at ~1.68g/t, well under forecast. Little public information exists, but ultimately this is a good qualitative measure of what works: ~0.9g/t cut off with some dilution to be expected.

2012 – quick, dirty, poorly constrained: Historic production (1987-1997) used a 0.9g/t cut-off for 1.7g/t LOM grade. Post-acquisition, historical data plus 11km of drilling supported the maiden 1.4Moz @ 1.1g/t, with the key delta being a **lower 0.6g/t cut off**. The resource was not **pit constrained**, with <1g/t material as deep as 340m below surface. This was standard practice at the time as it was only later the 43-101 tightened guidance to 'reasonable prospects' of economic extraction. Another hurdle was that ACA Howe considered 'mineralised domains as **hard boundaries'**; this means samples in one domain (the low-grade external wall rock) don't influence another (the mineralised sill). The hurdle with this approach is that it artificially segregates the data, eliminating the low grade (outside the hard boundary) that would have lowered the grade (within the hard boundary). In short, the risk is that the 1.6g/t grade was overstated. At the time, it was noted that the resource 'had no high grade' in it anyway, but this is more about accuracy within the 1-2g/t range. Some **deep material** was added with most of the resource <300m but part of the central zone extending to 'less than 600m' below surface (Figure 3).

2013 – big bump: This lifted quickly to 2.1Moz @ 1.6g/t, entirely coming from Colomac, i.e. without satellite additions. Remaining non-pit-constrained, the resource continued to go to 500m below surface. Satellites added ~100koz, with all other parameters remaining the same except a US$100/oz lift in gold price. It is this that appears to have drawn non-core zones materially deeper. Geologically this was not a new thing given Royal Oak hit to 620m below surface, but geostatistically ACA Howe pushed the prospect of economic extraction, as was standard practice back then. This was compounded by hard-boundaries, and incorrectly modelling the lodes as sub-vertical, leading to large areas of vertical high(er) grade seen clearly in Figure 4A, later removed in 2018, Figure 4B.

Figure 3. Long section over time for the five Colomac resources released by Nighthawk



Source: Nighthawk

2018 – the tide turns: cut-off up, depth down, hard boundaries removed: ACA Howe was acquired by CSA Global. Firstly we saw ~100koz of satellite additions as that resource climbed to 243koz. No underground was modelled, hence the overall delta was +513koz @ 1.5g/t. Interestingly the cut off was lifted to 0.7g/t at Colomac, and gold price lowered to US$1,300/oz, but the overall grade actually fell by 0.2g/t. This likely came from the **hard boundary** being removed, which would have lowered the grade, offset by more conservative constraints for a net flat grade, with drilling of ~79,000m driving the ~500koz addition. In fact, the gross additions were likely far more than this as the lower gold price saw the **vertical depth dropped** back to a maximum of 450m (or maybe 500m, ambiguously reported in 43-101) on Zones 2.5 and 3.5. An element of **sub-horizontal** mineralisation was identified, with the 43-101 author suggesting prior vertical-only models were incorrect. We show this graphically in Figure 4. While rare (Bulldog at Alexandria an example), this is a major 'oopsie', which clearly compounded the hard-boundary issue above as >2g/t material running 'up and down' the margin of the dyke was essentially eliminated (Figure 4A). However, **Zone 1.5**, the discovery made in 2014, adding many ounces to offset losses from the change in modelling. We do expect a future UG there given some of the quite remarkable drill highlights such as 56m @ 13.5g/t, but perhaps more targeted than bulk.

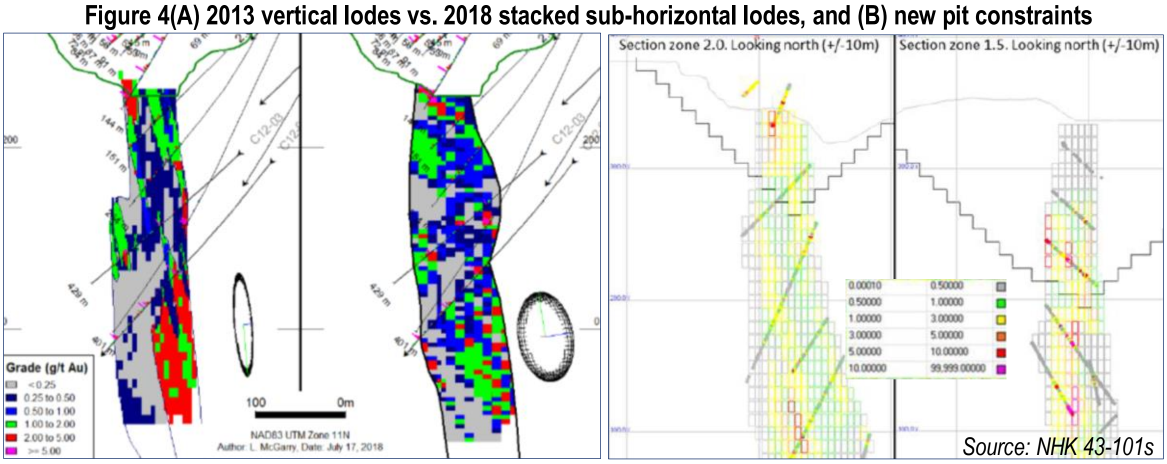
Table 1. Resources over time and key constraining parameters

Indin Lake Project (100%)	1Q12	2Q13	3Q18	3Q20	1Q21
Colomac pit (koz @ g/t)	1306koz @ 1g/t	1963koz @ 1.7g/t	2371koz @ 1.6g/t	451koz @ 1.7g/t	808koz @ 1.6g/t
Satellite pit (koz @ g/t)	140koz @ 1.1g/t	138koz @ 1.5g/t	243koz @ 1.4g/t	125koz @ 1.6g/t	166koz @ 1.6g/t
Global pit (oz @ g/t)	1446koz @ 1.1g/t	2101koz @ 1.6g/t	2614koz @ 1.6g/t	576koz @ 1.7g/t	974koz @ 1.6g/t
of which is M&I (oz @ g/t)	-	-	-	*545koz @ 1.7g/t*	*933koz @ 1.6g/t*
Colomac UG (koz @ g/t)	-	-	-	1375koz @ 2.2g/t	1864koz @ 1.97
Satellite UG (koz @ g/t)	-	-	-	207koz @ 3g/t	198koz @ 2.85
Global UG (koz @ g/t)	-	-	-	1582koz @ 2.3g/t	2062koz @ 2.03
of which is M&I (koz @ g/t)	-	-	-	*1123koz @ 2.2g/t*	*1316koz @ 2g/t*
GLOBAL RESOURCE (koz @ g/t)	**1.45moz @ 1.1g/t**	**2.1Moz @ 1.6g/t**	**2.61Moz @ 1.6g/t**	**2.16Moz @ 2.1g/t**	**3.04Moz @ 1.9g/t**
Material added:		655koz @ -7.2g/t	513koz @ 1.5g/t	-456koz @ 0.8g/t	877koz @ 1.5g/t
SCP mining inventory (koz @ g/t): 80% OP reserve conversion			**21.5Mt**	**@ 1.59g/t for**	**1097koz**
Methodology	*MIK*	*MIK / OK*	*OK / ID^3*	*OK / ID^2*	*OK / ID^2*
Parent block (m)	*3.8 x 7.6 x 6.1*	*5 x 10 x 10*	*5 x 10 x 10*	*5 x 10 x 10*	*5 x 10 x 10*
Smallest mining unit (SMU, m)	-	-	*3 x 3 x 3*	*3 x3 x 3*	*3 x3 x 3*
OP Cut-off (g/t)	*0.6*	*0.6*	*0.7 / 0.6*	*0.6*	*0.6*
UG Cut-off (g/t)	-	-	-	*1.3 / 2.0*	*1.1 / 1.65*
Whittle pit constrained:	*NO*	*NO*	*NO*	*YES*	*YES*
Constraining (US$/oz, % recovery)	*US$1400/oz*	*US$1500/oz, 90%*	*US$1300/oz, 90%*	*US$1425/oz, 97%*	*US$1650/oz,97%*
Top-cut (g/t)	*31.1*	*31.1*	*31*	*50*	*15-50*

Source: 43-101 reports, SCPe mining inventory

2020 – we have whittle; gives up deep pits: InnovExplo authored the 2020 MRE. Firstly, the **gold price** was lifted back up to US$1,425/oz, and cut-off grade lowered again back to 0.6g/t, with top cuts lifted to 50g/t. Offsetting this relaxing of constraints, the pittable material was pit-constrained for the first time albeit without ramps, removing 1.9Moz of pittable material at Colomac, which fell back to 415koz @ 1.7g/t, with a similar ~halving of the satellite material from 243koz to 125koz, in both cases with an ~0.1g/t lift in grade. **UG** ore appeared for the first time, with what we can only describe as an enthusiastic 1.3g/t bulk-ore cut off for the UG. At the same time laboratory recoveries of 97% were used, rather than a more traditional trimming of a few points to reflect operating conditions. An **exploration target** was then released of 1-1.5Moz @ 1.8-2.0g/t from drilling at depth and laterally.

Figure 4(A) 2013 vertical lodes vs. 2018 stacked sub-horizontal lodes, and (B) new pit constraints



Source: NHK 43-101s

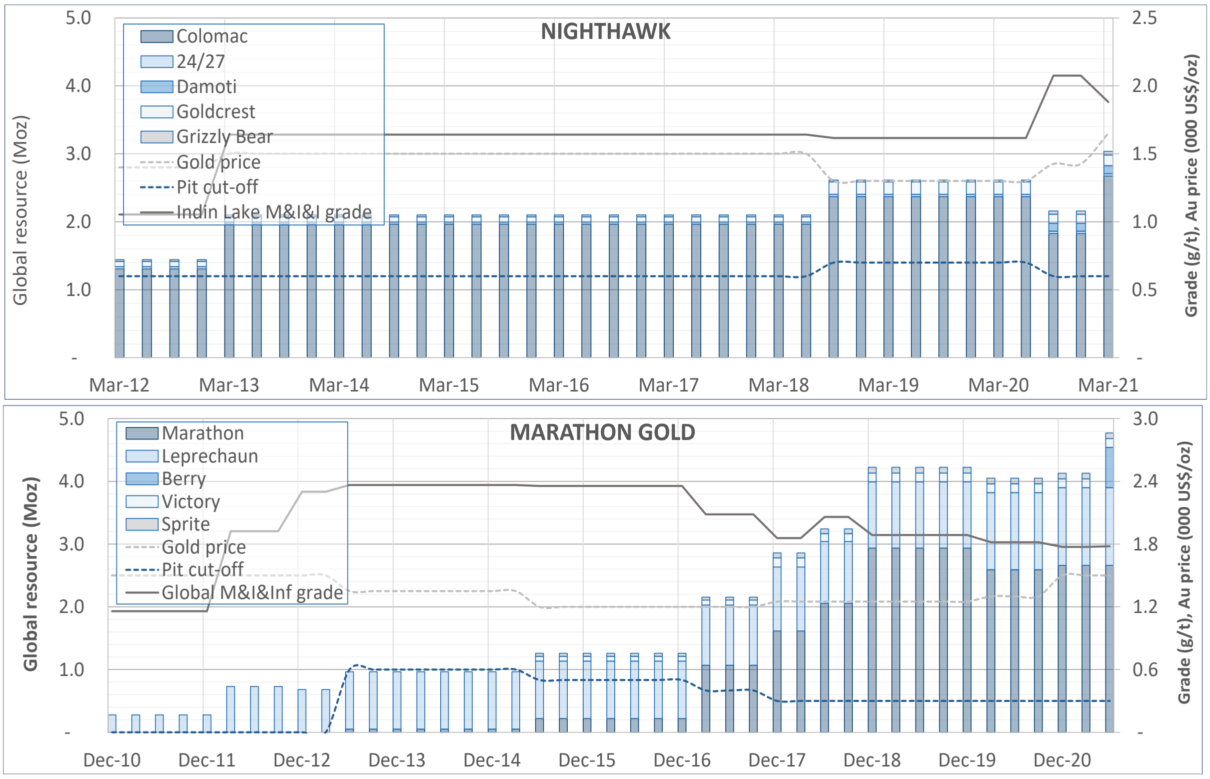
<u>2021 – not enough pit ore and lifts gold price, lowers UG cut-off to 1.1g/t:</u> InnovExplo was maintained for the current 1Q21 resource. With 'only' 451koz @ 1.6g/t pittable at Colomac in the 2020 resource, the gold price was lifted to US$1,630/oz, while the UG cut-off was lowered from 1.3g/t to 1.1g/t, a number that if raised, would increase margin, with no bulk-mining unit cost disclosed (US$65/t mining cost for selective mining at Damoti satellite). Overall, this added 877koz @ 1.5g/t, with the Colomac pit now standing at 808koz @ 1.6g/t, plus 166koz at the same grade, comprising 24/27 (~25koz), Goldcrest (~100koz) and Grizzly (~40koz). These are all close to the main Colomac resource so can be considered reasonable (i.e. truckable) satellites at minimal cost.

Putting it all together

'Learning lessons' from resource estimation over time, and issuers evolving from pure explorationists into commercial mine builders is nothing new. Figure 5 is a graphical representation of Nighthawks resource evolution over time, including input assumptions, shown against the same for Marathon. The 'ah hah' moment for Marathon, whose issue wasn't around grade / depth / hard boundaries, but around geostatistics of their stockwork, came between PEA and PFS, as the CoV (coefficient of variation) in their 4Q18 PEA of 14.4 and 8.2 across two pits was very high. This represents modelling not having the confidence required for grade and ounce estimates, and certainly not for mine economics. The solution there was drill density, which saw the CoV drop to 2.6 in the 4Q20 PFS, interestingly identical to Nighthawk's (grade variation less of an issue at Nighthawk, meaning lower drill density required). That, new management, and consistent reserve / mining inventory growth, sees Marathon a premium name now – it is precisely these ingredients that lead us to like 'new Nighthawk'.

<u>'What's different this time' critical, and real:</u> This is where strategy meets upside – under prior management Nighthawk drilled ~11,000m to book a pittable 1.4Moz immediately post-acquisition and a ~C$3.60/sh price. Eight years of tough markets added 2Moz of UG feed but also ~C$100m of equity dilution, with a pittable resource 974koz albeit a share price of C$1.20/sh. While not wanting to focus on the past, in this context, the change in strategy is critical, and we are delighted to see a move away from doing the same thing over and over and expecting different result, also reflecting a stronger gold tape. Shallow drilling on regional targets to build profitable ounces, ironically both simple, fun, and preferred by investors is the bread and butter for ex Semafo VPX Richard Roy. Similarly, the ramp up in drilling is something that can only happen because of the historic foundations that were put in place.

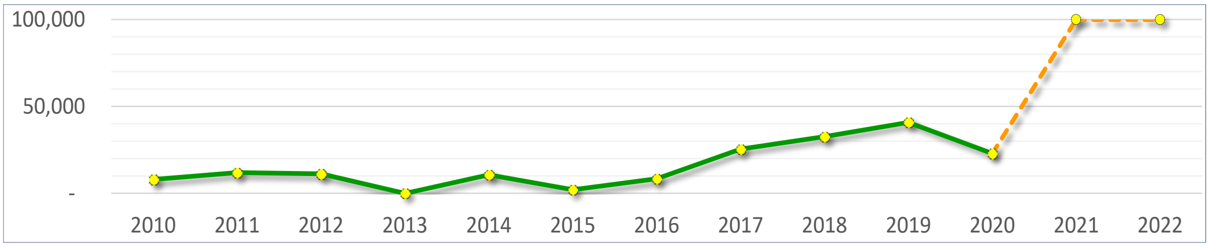
Figure 5. Nighthawk Indin Lake and Marathon Valentine Lake resource and assumptions over time



Source: SCP

Speed vs. quality: Continuing on the 'old vs. new' theme, without looking at the merits of the ore body, Nighthawk certainly is not leaving investors waiting on aggressive drill programmes. Quality is important, but ultimately exploration geology is a guessing game, so meters per annum is a key metric for investor ROI. Similarly, our macro thesis on 'small-cap land' is (1) own an issuer in Archean gold, Carlin gold, Golden Triangle, Mexican silver or Andean copper-gold, (2) with lots of cash, and thus (3) lots of drilling. The investor mentality differs from an owner mentality; owners with only one asset commonly 'eek out each hole' to avoid mistakes and dilution, achieving a higher end result (less equity dilution from mistake-holes), but taking so long to get there that the investor ROI, *per annum* is lower than a less efficient but faster drill programme. Figure 6 shows this graphically – in ten years the company drilled ~185,000m, in the next two, the plan is to drill 200,000m. The 'new strategy' is simple and should reassure investors that the change in DNA is real.

Figure 6. Drill meters over time in green, and proposed 2Y programme



Source: SCP

Where the rubber hits the road – where is all this new gold supposed to come from?

Since joining in January, new VPX Richard Roy has now put together a two-phase exploration programme (with 2021 split) broken down into expansion (Colomac / Goldcrest / Grizzly Bear / 24/27), but adding the recently acquired Cass Zone and greenfield (Lauri Lake, JPK, Nice Lake, Andy Lake, Albatross). We summarise targets and our view in Figure 7.

Existing satellites

While drill meters weren't large, the company has had a measure of success regionally with a current resource of 166koz @ 1.6g/t in satellite pits and 198koz @ 2.8g/t in satellite UG ounces. The majority of this is close to Colomac at 24/27 (~25koz), Goldcrest (~100koz) and Grizzly (~40koz). While 'resource expansion' may cause investors to worry about a harking back to the old strategy, Figure 7B (inset) shows an example of proposed drill holes for this strategy, and we are delighted to see a focus almost entirely on along-strike near-surface potential, rather than the easy, but probably uneconomic, depth extensions. Figure 7C shows precisely the same at Colomac / Goldcrest, focusing on near surface strike extensions only.

Damoti: located to the south, is different from the broader resource as mineralization is hosted in the eastern limbs / fold-noses of a tightly folded BIF unit plunging north. This offers structural targets analogous to Musselwhite or Back River, with much higher grades from brittle Fe-rich BIF units. Drilling in 2018 extended mineralized zones near surface and at depth and identified new targets within the northern portions of the synclines. While the inferred resource appears small today at 120koz @ 4.9g/t, the geological ingredients point to a potentially extensive structurally controlled high-grade gold system, amenable to selective mining. We think this is an attractive differentiated prospect that could 'sweeten' the future mine grades from Colomac.

Resource expansion targets;

Colomac: the low hanging fruit for expanding pittable resources is in strike extensions to the north, especially the southern 2km untested area where geophysics has identified favourable folded mafic host rocks. At Colomac Main, an additional deep hole is planned to explore the deep high-grade ore shoot at Zone 1.5. This isn't a 'game changing' hole in our view as it risks sending the same signals as historic drilling / resources did.

Goldcrest: Phase 1 drilling will see preliminary testing of the southern extension of the deposit to expand pittable ounces further. Historical drilling indicates that the favourable quartz diorite pinches out to the north.

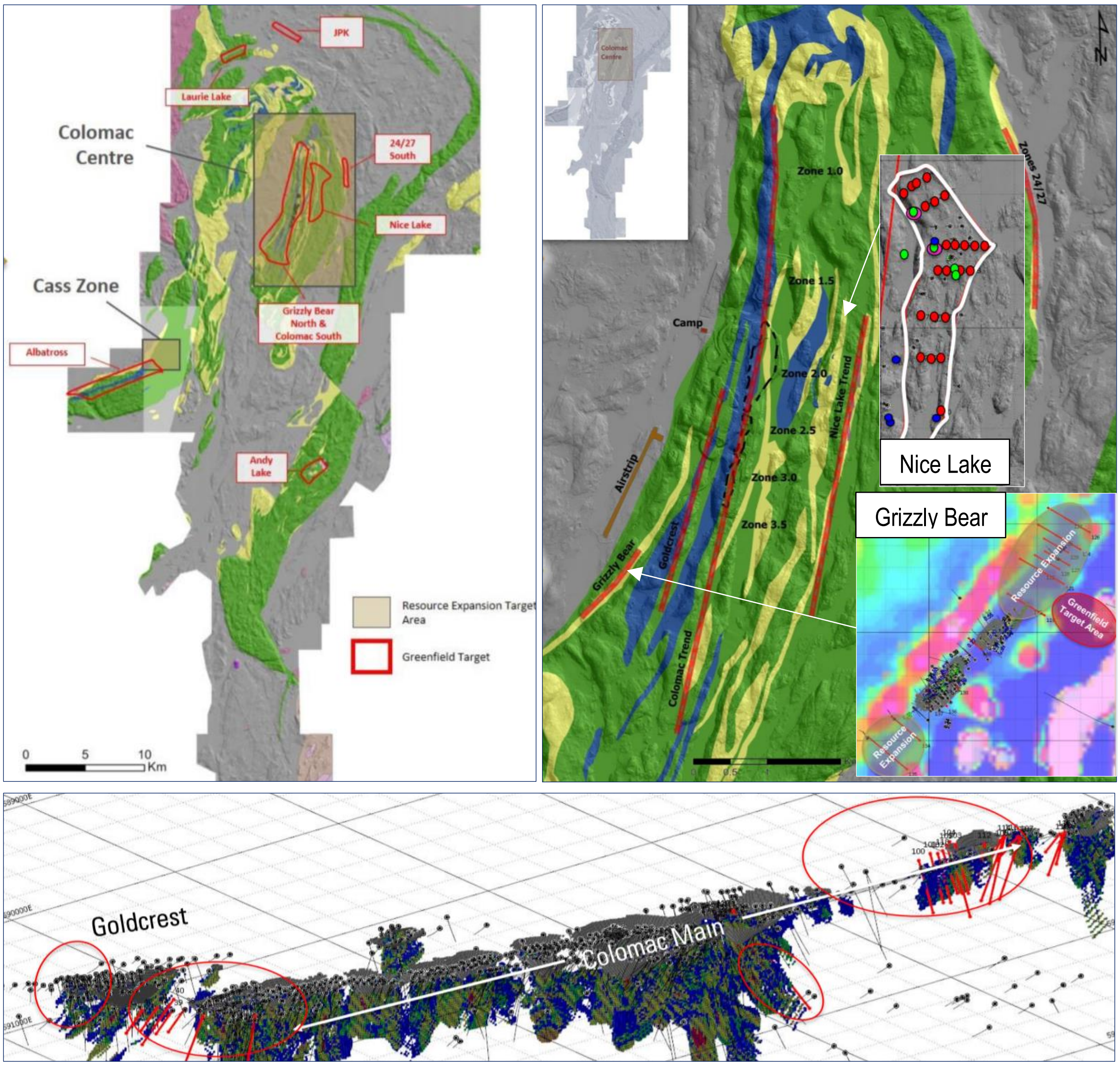
Grizzly Bear: currently only 2% of the global resource base and has limited drilling by Nighthawk. The company plans to test the northern and southern extensions of the deposit to potentially grow the in-pit resources in addition to greenfield targets to the NE to test the potential link between the Grizzly and Goldcrest deposits.

24/27: at only 1% of the global resource and still wide open along strike and at depth, the 24/27 deposits have the runway to grow with drilling this year lined up to test extensions of pittable resources >1km south along strike.

Treasure Island: was the focus of substantial drilling by Nighthawk, with highlights of 7m @ 14g/t and 20.7m @ 2.6g/t, tracing mineralization >750m along strike, 200m wide and down to 200m vertical depth within a broader mineralized corridor extending 7km to Laurie Lake South, where >95% is yet to be explored. With considerable drilling to date, the focus will be to model the economics of existing ounces first, understand what works and what doesn't, and drill only 'what works' thereafter.

Greenfield targets: the 'top three' targets are remarkably simple, one undrilled trend across strike, 600m from Colomac Main with surface grabs grading up to 41.9g/t (Nice Lake), and two target areas along strike (Kim & Cass, Albatross). Thereafter regional targets extend north to (JPK and Laurie Lake) with 12-22g/t grab samples and southern targets (Andy Lake, Fishhook) but with careful eye on the requirement for higher margins on satellites.

Figure 7(A) plan of regional exploration areas and (B) near mine targets, and (C) Colomac trend targets



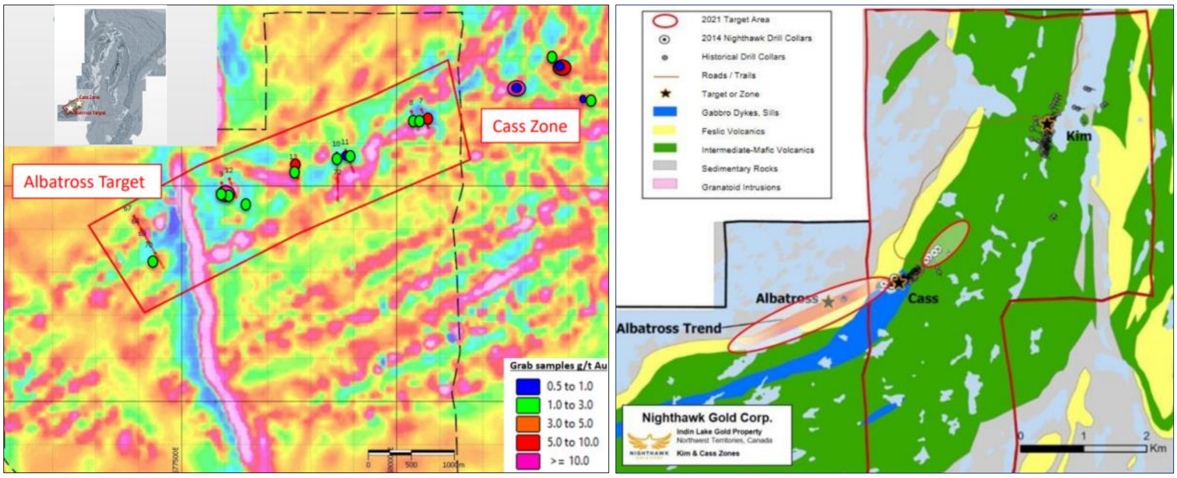
Source: Nighthawk Gold

<u>1) Nice Lake:</u> is another differentiated dolerite sill paralleling the main Colomac trend ~1.5km to the east (600m at its closest). Surface grab samples over 40g/t have encouraged the company to drill for the first time in 2021. <u>*Our view:*</u> *whilst entirely speculative at this stage, perhaps the most astonishing thing here is that this target has never been drilled, hence it is firmly one-to-watch for step change ounce growth, deserved of 'top three' status in the greenfield programme.*

<u>2) Kim and Cass:</u> is a newly optioned 31km^2 property hosting the historically drilled Kim and Cass zones, themselves along-strike from Albatross, discussed below. With historic surface samples of up to 21g/t, historic drilling has returned higher grades. The asset comes with a historic resource of 245koz @ 2.7g/t, with most of the 32,000m of historic drilling within 75m of surface. Staged payments of $700k remain, with $2.5m buyback on vendor 2.5% NSR. Historic drill highlights from Cass include **51m @ 2.25g/**t and **26.2m @ 6.5g/t, and** from Kim include **18m @ 8.2g/t**, and **29m @ 4.8g/t.** The belt potential here is excellent to, with Kim being ~3km SW to Cass, then ~2km WSW to Albatross, and continuing west from there Figure 8. <u>Our view:</u> *we see this as 'everything that is right' with new Nighthawk. This is <u>not</u> a 'Kalgoorlie sized' target, its just useful, economic ounces. Hence re-acquiring this (market cap only C$10-15m at time of first options) should drive useful low-risk wins this year, with an option on something much bigger, a no brainer in our view. Better still, Cass has road access, enabling faster and cheaper drilling.*

<u>3) Albatross:</u> is a 4km trend of folded and faulted strata, with pyrite and chalcopyrite rich gabbros mapped on surface. A 'top three' target, with potential to link this to the east to Cass, then to Kim, all the way back to Colomac. Grab samples have returned up to 4g/t at surface. <u>*Our view:*</u> *drilling on known showings, on a known trend, near surface and along strike from the main ounce centre is a delightfully simple thesis, we love it, see potential for blind / undiscovered sub-parallel trends (*Figure 8*A), and only wonder why this wasn't done before and celebrate the move to a committed growth-by-drilling strategy.*

Figure 8(A) Albatross extending to (B) Kim-Cass trend



Source: Nighthawk

<u>4) Laurie Lake:</u> is a strike extension of Treasure Island, representing a 7km long mineralized corridor with limited drilling to date. Whilst grades aren't on par with Treasure Island, the much longer strike bodes well for a great ounce endowment. In 2018, 41 additional samples collected return grades up to 22.5g/t.

<u>5) JPK:</u> is BIF hosted, offering near-surface high-grade potential. This has never been drilled, with proximity to Treasure Island indicative of resource potential.

<u>6) Andy Lake:</u> has seen grab samples of up to 42g/t.

<u>7) Fishhook</u>: has been drilled historically with highlights of 9m @ 14g/t and 14m @ 7g/t, but is the furthest away from Colomac hence lower down the order.

Valuation

Until detailed economics are released, we exclude UG material from our valuation. For an open-pit operation, we model a mining inventory of 1.1Moz @ 1.6g/t comprising the open-pittable resources only, adding 245koz @ 2.7g/t historic Kim & Cass, and diluting by 10%. 'S&S&S' is key to understanding the economics of pits – **scheduling, strip and stockpiling**, where clever scheduling can bring forward early-years cash flow. However, this requires physical access to higher-grade areas, and careful modelling of what can be stockpiled. The opportunity for Nighthawk now is to shift from ounce-addition to defining the economics of the pittable material, being schedule and stock pile trade-offs, and tighten up potential strip which is variably considered anywhere from 3:1 up to 9:1 but with no published figures. Consequently, we model flat forward grade, no stockpiling, and what visually appears to us a conservative 5:1 strip. We are again delighted to see that management are targeting a PEA to share the 3S's, which add far more value than the commonly touted 'don't want to limit my NPV' takes away, in our view. In the meantime, we note that to achieve at 50% gross margin at US$1,500/oz, any strip under 7:1 (Table 2) will be fine, so is more a trade off on maximum-profit than a risk.

Table 2. Max strip sensitised to gold price and grade

ROM grade (g/t)	1.6	Max costs 'available' (US$/t)	45.0	**Max strip**	**1.3g/t**	**1.5g/t**	**1.8g/t**	**2.0g/t**
Recovery (%)	94%	Processing and G&A (US$/t)	20.0	U$1250/oz	2.1x	4.1x	6.2x	8.2x
Gold price (US$/oz)	1,500	Royalty cost (US$/t)	6.4	U$1500/oz	4.1x	6.6x	9.0x	11.4x
Revenue (US$/t)	90	Max mining cost (US$/t)	18.5	U$1750/oz	6.2x	9.0x	11.8x	14.7x
Desired gross margin (%)	*50%*	Max strip @ US$2.50/t mining (x)	7.4	U$2000/oz	8.2x	11.4x	14.7x	17.9x

Source: SCP

We model a 2.5Mtpa mill for C$300m capex (higher given location), with mining, processing and G&A similarly higher than Abitibi peers at US$3.00/t, US$15.00/t and US$5.00/t, respectively. The NWT have a competitive 26.5% tax with no minorities, but royalties scale from 0-14% on PAT of C$0-45m, in this case we forecast a 7.2% average, noting that a royalty linked so absolute profit, not margin, will drape onto a larger project.

Table 3. Summary of SCP DCF inputs to asset NAV and to group NAV

Colomac (100%)	SCPe		SCPe
Mining inventory (Mt)	21.5	Strip ratio (x)	5.0
ROM grade (g/t)	1.59	LOM AISC (US$/oz Au)	787
Mining inventory AuEq (000oz)	1,097	Total build capex (C$m)	167
LOM recovery (%)	94%	Total sust. capex (C$m)	29
LOM throughput (Mtpa)	2,605	Gold price (US$/oz)	1,850
Prod'n Au LOM (000oz pa)	**126**	USD / CAD	0.80
ROM grade Y1-3 (g/t)	1.59	Discount (%)	5.0%
Mining cost (US$/t)	3.00	**NPV post-tax (C$m)**	**500**
Processing cost (US$/t)	15.00	IRR post-tax (%)	37%
G&A (US$/t)	5.00	Payback (years)	2.25

Source: SCP estimates

UG optionality: As noted above, we exclude UG material from our model and at this stage we don't expect all or even a majority of the ~2Moz of underground resources to convert to reserves. However, there are certainly some higher-grade areas that appeal as potential UG 'sweeteners' whether its bulk mineable Zone 1.5 or more selective high grade from Damoti. Zone 1.5 drilling shows progressive widening at depth up to 150m wide at 750m vertical depth, intercepts of **56m @ 13.5g/t** including **31m @ 22g/t**, **16.5m @ 34g/t** including **10m at 54g/t**—impressively grades and widths. In our view, it is perhaps too early to discern whether these areas could be accretive to our NPV in the later years or upfront, or potentially at all, thus leaving room for upside to our valuation.

Recommendation: initiating coverage with a BUY rating and $2.55/sh PT

We apply a conservative 0.25xNAV given our DCF is based on our own resource estimate and capital and operating inputs, with reserve conversion particularly speculative at this stage. We like open-pit gold projects because the economic inputs are extremely simple to benchmark, leaving just size and grade as key sensitivities. Adding a nominal $10m for exploration, the same for cash and options for $537m group NAV$_{5\%\text{-}1850}$, we initiate with a BUY rating and C$2.55/sh PT. We model out a production funding scenario based on 65% gearing and mine build equity at 0.5xNAV to get a rough estimate of the FD upside once in production for an estimated 100m FD-share count. This variably results in 1xNAV$_{5\%\text{-}1850}$ of ~C$5.80/sh, demonstrating LT value of what has been discovered to date, with plenty of upside from here to be unlocked.

Table 4. (A) Group NAV net of finance and central G&A costs, diluted for mine-build and (B) sensitised to gold price

SOTP *project* valuation*	C$m	O/ship	NAVx	C$/sh
Ungeared @ build start (1Q24)	500	100%	0.25x	1.99
Cash 4Q20	15.9	100%	1.00x	0.25
Cash from options	10.6	100%	1.00x	0.17
Exploration nominal	10.0	100%	1.00x	0.16
Asset NAV5% US$1850/oz	537			2.57
**Shares diluted for options mine build*		Market P/NAV5% 4Q20		0.15x

Asset value: 1xNPV project @ build start (C$m, ungeared)*					
Project NPV (C$m)	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	312	370	428	486	543
Discount rate: 7%	354	417	479	541	604
Discount rate: 5%	402	469	537	604	672
Ungeared project IRR:	0%	0%	0%	0%	0%
Project NPV (C$/sh)	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	1.68	1.91	2.14	2.37	2.60
Discount rate: 7%	1.84	2.09	2.34	2.59	2.84
Discount rate: 5%	2.03	2.30	2.57	2.84	3.11

**Project NPV, ex fin. costs and cent G&A, discounted to build start*

Risks

- **Resource / Reserve** risk is moderate to high, in our opinion, as the Indin Lake Gold Property is still in the exploration and delineation phase. We conservatively model ~1Moz in SCPe reserves from the global 3Moz as Nighthawk continues to drill towards critical mass via the expansion of near-surface resources and the establishment of high grade underground resources that will form the basis for a PEA.
- **Funding**: with C$8m (flow-through dollars) cash, the company is well funded to complete its drill programme this year. However, we anticipate the company will need additional pre-build equity to further advance greenfield targets, resource expansion / infill drilling as well as target generation.
- **Jurisdiction:** Canada is a top mining jurisdiction and the NWT is among the lowest risk jurisdictions globally for mining investment and socially.

Why we like Nighthawk Gold:

- Control of >900km^2 of underexplored Archean greenstone belt
- 200,000m drilling to take 1Moz pittable to SCPe 1.5Moz pittable quickly
- New management team and expedited timeline adds greenfield optionality
- UG resource has extremely high-grade sub-sets to be evaluated
- Maiden PEA in coming 12M to define strip, scheduling and stockpiling potential

Catalysts

- CY21-22: resource expansion & exploration drilling
- CY23: SCPe final investment decision
- CY25: SCPe first gold

Ticker: NHK CN	**Price / mkt cap:** C$1.25/sh, C$68m	**Project PNAV today:**	0.15x	**Asset:**	Indin Lake
Author: Brock Salier	**Rec/0.25xNAV PT:** BUY, C$2.55/sh	**1xNAV$_{3Q24}$ FF FD:**	C$5.58/sh	**Country:**	Canada, NWT

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E
Gold price	1,850	1,850	1,850	1,850	1,850

Share data	Basic	FD with options	FD for build
Basic shares (m)	54.2	62.9	100

SOTP *project* valuation*	C$m	O/ship	NAVx	C$/sh
Ungeared @ build start (1Q24)	500	100%	0.25x	1.99
Cash 4Q20	15.9	100%	1.00x	0.25
Cash from options	10.6	100%	1.00x	0.17
Exploration nominal	10.0	100%	1.00x	0.16
Asset NAV5% US$1850/oz	537			2.57
**Shares diluted for options mine build*		Market P/NAV$_{5\%}$ 4Q20		0.15x

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Discount rate: 7%	1.84	2.09	2.34	2.59	2.84
Discount rate: 5%	2.03	2.30	2.57	2.84	3.11

**Project NPV, ex fin. costs and cent G&A, discounted to build start*

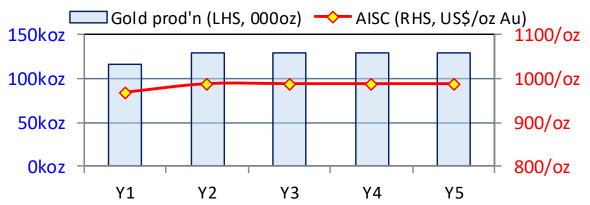
Group NAV over time^	1Q21	1Q22	1Q23	1Q24	1Q25
Colomac NPV (C$m)	-	448.9	471.4	500.2	704.5
G&A and finance costs (C$r	-	(81.2)	(73.5)	(65.5)	(61.6)
Net cash prior qtr (C$m)	8.3	6.5	15.6	4.7	(40.0)
Cash from options (C$m)	10.6	10.6	10.6	10.6	10.6
Resource / exlo nom. (C$m)	10.0	10.0	10.0	10.0	10.0
NAV FF FD (C$m)	29	395	434	460	624
Shares in issue (m)	*54*	*70*	*82*	*82*	*107*
1xNAV5%/sh FF FD (C$/sh)*	0.53	5.63	5.26	5.58	5.83

Geared NAV at first pour, diluted for build, net G&A and fin. costs					
NAV at first gold (C$m)	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	410	474	537	601	664
Discount rate: 7%	444	511	578	645	712
Discount rate: 5%	481	552	624	695	766
Geared project IRR:	0%	0%	0%	0%	0%
NAV at first gold (C$/sh)*	$1650oz	$1750oz	$1850oz	$1950oz	$2050oz
Discount rate: 9%	3.30	4.02	4.75	5.49	6.23
Discount rate: 7%	3.71	4.48	5.26	6.05	6.84
Discount rate: 5%	4.18	5.00	5.83	6.67	7.51

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

Production	Y1	Y2	Y3	Y4	Y5
Gold production (000oz)	116	129	129	129	129
AISC cost (US$/oz)	969	987	987	987	987

AISC = C1 + ug sustaining capex, Y1 from SQ25



Resource / Reserve	Tonnes	Grade	Ounces
Resource	50Mt	1.88g/t	3035koz
SCP mining inventory	21Mt	1.59g/t	1097koz

Project: USES		Funding: SOURCES	
Pre-DFS exploration / G&A:	C$40m	Cash:	C$16m
Build capex:	C$250m	DFS equity @ 30% prem.:	C$20m
Fin. cost + WC over DFS	C$21m	Build equity @ 0.5xNAV:	C$125m
TOTAL USES:	C$311m	65% geared debt @ 8%:	C$150m
Buffer / drill budget:	*C$0m*	TOTAL SOURCES:	C$311m

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Average shares out (m)	54.2	54.2	54.2	54.2	54.2
EPS (C$/sh)	-	-	-	-	0.61
CFPS (C$/sh)	-	-	-	2.94	2.08
EV (C$m)	61.2	52.1	63.1	107.7	165.6
FCF yield (%)	-	-	-	235%	166%
PER (x)	-	-	-	-	2.0x
P/CF (x)	-	-	-	0.4x	0.6x
EV/EBITDA (x)	-	-	-	-	19.2x

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Net revenue (C$m)	-	-	-	-	119.2
COGS (C$m)	-	-	-	-	57.0
Gross profit (C$m)	-	-	-	-	62.2
D&A, attrib (C$m)	-	-	-	-	13.1
G&A + sh based costs (C$m)	2.4	2.4	2.4	4.5	4.5
Finance cost (C$m)	10.3	9.0	9.0	2.4	(37.7)
Taxes (C$m)	-	-	-	-	-
Net income (C$m)	(12.7)	(11.4)	(11.4)	(6.8)	33.2

Cash flow, attrib.	CY20E	CY21E	CY22E	CY23E	CY24E
EBIT (C$m)	(2.4)	(2.4)	(2.4)	(4.5)	(4.5)
Add back D&A (C$m)	-	-	-	-	13.1
Less tax / net interest (C$m)	10.3	9.0	9.0	2.4	(37.7)
Net change wkg cap (C$m)	-	-	-	1.3	19.4
Other non-cash (C$m)	(20.1)	(17.5)	(17.5)	(6.8)	36.9
Cash flow ops (C$m)	**(12.2)**	**(10.9)**	**(10.9)**	**(7.6)**	**27.3**
PP&E - build + sust. (C$m)	-	-	-	(166.7)	(85.2)
PP&E - expl'n (C$m)	-	-	-	-	-
Cash flow inv. (C$m)	**-**	**-**	**-**	**166.7**	**85.2**
Share issue (C$m)	10.4	20.0	-	125.0	-
Debt draw (repay) (C$m)	-	-	-	100.0	50.0
Cash flow fin. (C$m)	**10.4**	**20.0**	**-**	**225.0**	**50.0**
Net change in cash (C$m)	(1.8)	9.1	(10.9)	384.0	162.5
EBITDA (C$m)	(12.7)	(11.4)	(11.4)	(4.5)	57.7

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (C$m)	6.5	15.6	4.7	60.0	52.2
Acc rec., inv, prepaid (C$m)	0.2	0.2	0.2	0.2	32.1
PP&E + other (C$m)	16.7	16.7	16.7	178.7	250.8
Total assets (C$m)	**23**	**33**	**22**	**239**	**335**
Debt (C$m)	-	-	-	100.0	150.0
Accounts payable (C$m)	1.6	1.6	1.6	0.3	12.8
Others (C$m)	4.5	4.5	4.5	4.5	4.5
Total liabilities (C$m)	6.1	6.1	6.1	104.9	167.3
Issued capital (C$m)	133.9	154.4	154.9	280.3	280.8
Retained earnings (C$m)	(116.6)	(128.0)	(139.4)	(146.2)	(113.0)
Liabilities + equity (C$m)	**23**	**33**	**22**	**239**	**335**

Source: SCP estimates

APPENDIX 1: Caution required with Golden Mile analogy, excitement for simple hub-and-spoke

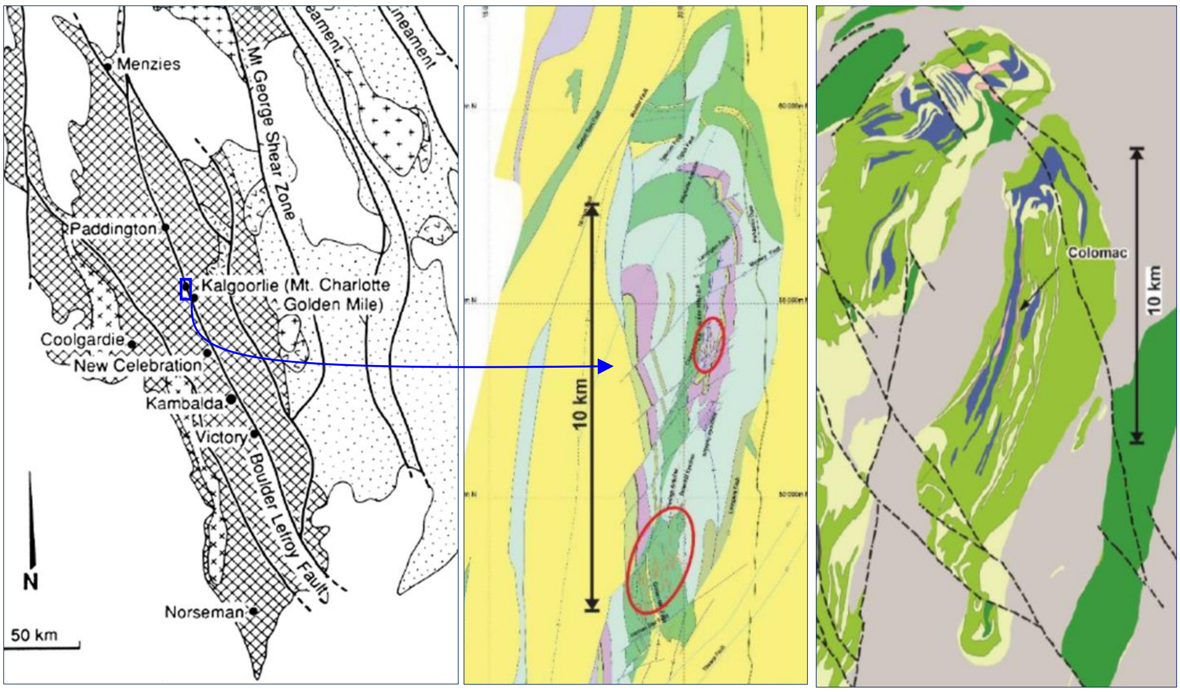
Kalgoorlie's Golden Mile is hosted in a differentiated sequence of dolerite sills, and is broadly fishhook shape. So is Colomac. Unfortunately, that is where the analogy ends, although there are valuable lessons to be learned from the comparison, and critically, the advantages to the current exploration programme for *not* chasing this analogy.

Kalgoorlie has large slate and BIF sequences demonstrative of depositional breaks, overlying mafic and ultramafic volcanism at ~2692Ma. The intra-arc rifting from 2681-2670Ma introduced felsic plutonium, followed by <2655Ma rift basin formation, with final gold mineralisation coming at the classic ~2655Ma window (likely mantle overturn), with post-folding granitoids from 2650Ma onward and nice big shears through the hinges of folds, duplex thickening, lots of fluid conduits in faults and with the pressure-shadow environment around granitoids. In fact, its tectonically so complex as to likely represent sedimentary recycling of volcanic arcs, uplifted basin floors, dissected arcs and cratonic basins ('geo babble' for messed up). All this occurred at the centre of a 200km wide greenstone, including 100km of basin association (super pit in the middle) and 100km of volcanic arc, extending over 300km strike.

Indin Lake's 'fishhook' is the entire belt, while Kalgoorlie's fishhook is just the core 10km slice, given being at the core of a wider belt is the reason Kalgoorlie is where it is, a Golden Mile analogy isn't appropriate. Similarly, the extensive sedimentary sequences of Kalgoorlie aren't present, nor is the regional folding demonstrative of a multi-tectonic-event history required for >20Moz deposits. Similarly, one would look for an up thrust basement with adjacent 2680Ma gneiss's rather than the old basement at Indin Lake. Finally, the belt as a whole extends over ~27km strike belt (Spider Lake to Indin Lake / Leta Arm group extends) or 46km from Treasure Island / Spider Lake to bottom of Damoti / Ranji Lake). Geochronologically, the Chalco Lake Group is 2650-2640, a little younger than peak global gold at 2660-2650Ma (likely mantle overturned). That said, most of the greenstones are Leta Arm and Hewitt Lake Groups, which are >2665Ma so comfortably the right age.

Learnings / targets / analogies: Indin Lake is a classic orogenic greenstone belt. There is no 'one type' of mineralisation, with classic targets of dilatant jogs in regional structures coincident with some kind of competency contract (differentiated dyke contacts) key here. That said, the prevalence of BIFs is a key positive, commonly hosting smaller higher-grade deposits in fold hinges, thrust duplexes and other structural traps. Similarly, there is no reason not to expect pressure-shadow targets around pre-gold granitoids, which are driving discovery after discovery in younger 1.8Ga Birmian rocks of West Africa, and host many Archean deposits in the Abitibi. Put more simply, Indin Lake is a classic Archean greenstone belt, with demonstrated prospectivity and no reason not to expect classic Archean gold deposits in the 1-5Moz range.

Figure 9. (A) Kalgoorlie at core of large greenstone, (B) Kalgoorlie core mine-area, (C) Colomac greenstone



Source: SEG, Nighthawk

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2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	**NO**
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	**NO**
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	**YES**
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	**NO**
6	SCP is making a market in an equity or equity related security of the issuer	**NO**
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	**NO**
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	**YES**
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	**NO**

Sprott Capital Partners Equity Research Ratings:

Summary of recommendations as of May 2021	
BUY:	39
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	39

[1] As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month