

**Ticker:** FFX AU

**Net cash:** A\$67m

**Project:** Morila

**Market cap:** A\$357m

**Price:** A\$0.40/sh

**Country:** Mali

**RECOMMENDATION (unc):** BUY

**TARGET (unc):** A\$0.80/sh

**RISK RATING:** HIGH

Morila is tracking well relative to our modelled ramp up, with June quarterly production of 12.6koz (above prior SCPe 11.3koz), and 13-15koz guided for Q3. The operational details in the release show consistent progress, with mining at Viper due to commence in the coming weeks and plant gold recoveries trending as expected after the introduction of mined ore. Stepping back, with the equity financing completed and operations ramping up, Firefinch is a very attractive risk-reward opportunity and we expect the shares to re-rate as production ramps up to 60-80koz run rate from satellite ore in H2, SCPe 120koz in 2022 with first mining of Morila main pit in 1H22, and >160koz run rate from 2023 onwards. **Updating for the quarter and the recently completed equity financing we reiterate our BUY recommendation and A\$0.80/sh price target based on 0.9x NAV<sub>5%-1850</sub>.**

### Quarterly production shows ramp up trending well with a further production step up in Q3

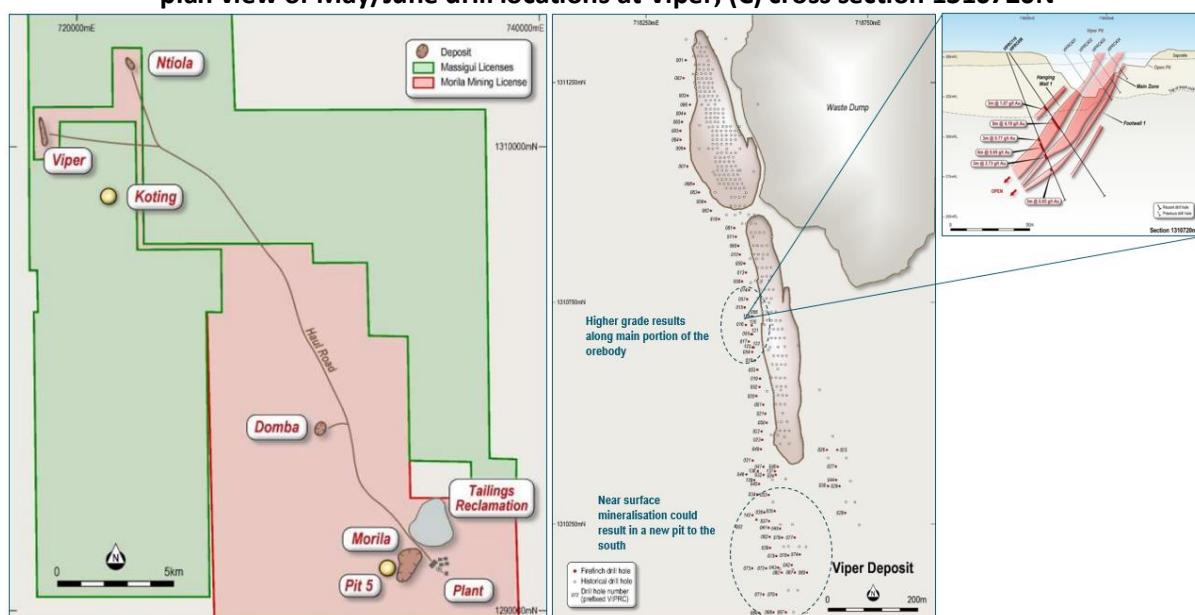
**Production update:** Firefinch announced Q2 production of 12.6koz (prior SCPe 11.3koz, prior guidance 11-13koz) including 5.02koz in June. Guidance for the September quarter is 13-15koz with mining ramp up at the Viper satellite due in the coming weeks. ROM ore processing commenced in early May and reported recoveries increased to 75% attributed to the introduction of ROM ore. Average throughput since recommissioning averaged 3Mt/qa with rates up to 4.5Mt/qa over short intervals.

**Equity transaction:** On 28 June Firefinch completed an A\$47m private placement at A\$0.40/sh.

### Our View

Today's production is mainly indicative, given the size of the eventual >160koz/qa operation vs the current ~50-60koz/qa production levels. With that said, the operational update is positive. Most importantly, the circuit recoveries and throughput are trending up nicely and we expect recoveries to increase from 75% to the high 80s once ~1.0-1.1g/t ore is introduced, and up to ~90-91% from main pit ore of 1.3-1.5g/t. Finally, 13-15koz guidance for Q3 appears conservative in our view noting June's 5koz production, and that higher grade ore from the northern satellites should be ramping up over the quarter, albeit offset by the completion of tailings processing. Currently we forecast 15.4koz for Q3, just above the guided 13-15koz.

**Figure 1: (A) Map of Viper and other planned satellite pits relative to Morila site infrastructure; (B) plan view of May/June drill locations at Viper; (C) cross section 1310720N**



## Why we like Firefinch

1. 160-200kozpa production profile to 2030 for lower capex than similar-sized projects
2. High-grade drilling potential could take production >200kozpa with further upside on 685km regional tenements
3. 20-year operating history at Morila with team, systems and infrastructure in place

## Catalysts

- 2022: SCPe 120kozpa run rate
- Mid-2022: Re-commencement of mining from the Morila Main Pit
- 2023: SCPe 160kozpa run rate

## Research

**Justin Chan** (London) M: +44 7554 784 688 [jchan@sprott.com](mailto:jchan@sprott.com)

**Brock Salier** (London) M: +44 7400 666 913 [bsalier@sprott.com](mailto:bsalier@sprott.com)

**Brandon Gaspar** (Toronto) M: +1 437 533 3142 [bgaspar@sprott.com](mailto:bgaspar@sprott.com)

**Eleanor Magdzinski** (Toronto) M: +1 705 669 7456 [emagdzinski@sprott.com](mailto:emagdzinski@sprott.com)

<b>Ticker:</b> FFX AU	<b>Price / mkt cap:</b> A\$0.40/sh, A\$357m	<b>Market P/NAV:</b> 0.44x	<b>Assets:</b> Morila
<b>Analyst:</b> J Chan / B Gaspar	<b>Rec / PT:</b> BUY / A\$0.80	<b>1xNAV<sub>2020</sub> FD:</b> A\$0.90/sh	<b>Country:</b> Mali

Group-level SOTP valuation					Resource / Reserve					
	4Q20	1Q21E			MT	000oz	EV/oz			
	A\$m	O/ship	NAVx	A\$/sh						
Morila NPV 1Q21E	660	80%	0.90x	0.63	Measured, ind. & inf.	51	2,433	97		
Central SG&A & fin costs 1Q21E	(87)	-	0.90x	(0.08)	SCPe Mine Inventory	42	1,819	130		
Ounces outside mine plan (\$25/oz)	20	100%	0.90x	0.02	<b>Commodity price</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Cash and restr. cash 4Q20	65	-	0.90x	0.06	Gold price (US\$/oz)	1,631	1,793	1,821	1,850	1,850
Cash from options	3	-	0.90x	0.00	<b>Share data</b>					
Debt 4Q20	(10)	-	0.90x	(0.01)	Basic shares (m): 902.9	FD + options (m): 939.0			FD/FF	939.0
Exploration	25	-	0.90x	0.02	<b>Ratio analysis</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Goulamina	173	-	0.90x	0.17	FD shares out (m)	782	903	903	903	903
<b>1xNAV5% A\$1850/oz fully diluted, pre-funded</b>	<b>850</b>			<b>0.81</b>	EPS (A\$/sh)	0.00	(0.01)	(0.01)	0.05	0.10
Assumed equity component of project	-	-	0.90x	-	FCF yield pre growth (A\$/sh)	(0.01)	0.03	0.01	0.06	0.14
<b>1xNAV5% A\$1850/oz fully funded</b>	<b>850</b>			<b>0.81</b>	FCFPS pre growth (A\$/sh)	(0.02)	0.03	0.01	0.05	0.14
<b>1x fully funded NAV5% sensitivity to gold price and discount / NAV multiple</b>										
<b>1xNAV asset (US\$m)</b>	<b>\$1500oz</b>	<b>\$1700oz</b>	<b>\$1850oz</b>	<b>\$2000oz</b>	<b>\$2200oz</b>					
8% discount	304	458	572	684	835					
7% discount	321	481	599	717	873					
6% discount	339	505	629	751	914					
5% discount	358	532	660	788	958					
4% discount	378	559	694	827	1,004					
<b>Valuation (A\$/sh)</b>	<b>\$1500oz</b>	<b>\$1700oz</b>	<b>\$1850oz</b>	<b>\$2000oz</b>	<b>\$2200oz</b>					
0.50xNAV	0.36	0.46	0.53	0.59	0.68					
0.75xNAV	0.46	0.60	0.71	0.81	0.94					
0.90xNAV	0.52	0.69	0.81	0.94	1.10					
1.20xNAV	0.64	0.87	1.03	1.19	1.41					
<b>Valuation over time</b>	<b>1Q21E</b>	<b>1Q22E</b>	<b>1Q23E</b>	<b>1Q24E</b>	<b>1Q25E</b>					
Mines NPV (A\$m)	622.1	687.9	764.1	705.2	585.1					
Cntrl G&A & fin costs (A\$m)	(84.8)	(88.2)	(63.9)	(10.4)	4.6					
Net cash at 1Q (A\$m)	41.2	(20.0)	26.3	149.5	226.0					
1xNAV (US\$m)	579	580	726	844	816					
P/NAV (x)	0.48x	0.48x	0.38x	0.33x	0.34x					
1xNAV share px FD (A\$/sh)	0.82	0.82	1.03	1.19	1.15					
ROI to equity holder (% pa)	107%	44%	38%	32%	24%					
1.2xNAV share px FD (A\$/sh)	0.98	0.98	1.23	1.43	1.38					
ROI to equity holder (% pa)	149%	58%	46%	38%	29%					
<b>Morila 1xNAV sensitivity to grade and strip ratio</b>										
<b>Morila NPV5% (US\$m)</b>	<b>SR: 6.0x</b>	<b>6.5x</b>	<b>7.0x</b>	<b>8.0x</b>	<b>9.0x</b>					
Grade: 1.30g/t	411	389	367	323	279					
Grade: 1.40g/t	498	476	454	410	365					
Grade: 1.45g/t	541	519	497	453	409					
Grade: 1.50g/t	584	562	540	496	452					
Grade: 1.60g/t	671	649	627	582	538					
<b>Morila 1xNAV sensitivity to gold price and mining cost per tonne</b>										
<b>Morila NPV5% (US\$m)</b>	<b>\$1500oz</b>	<b>\$1700oz</b>	<b>\$1850oz</b>	<b>\$2000oz</b>	<b>\$2200oz</b>					
Mining: US\$2.50/t	269	400	497	593	721					
Mining: US\$2.75/t	269	400	497	593	721					
Mining: US\$3.00/t	269	400	497	593	721					
Mining: US\$3.25/t	269	400	497	593	721					
Mining: US\$3.50/t	269	400	497	593	721					

Year	Morila (000oz)	Morila AISC (US\$/oz)
CY20E	11	1,401
CY21E	52	1,628
CY22E	121	1,582
CY23E	174	1,247
CY24E	211	1,050

Production (100%)	CY20E	CY21E	CY22E	CY23E	CY24E
Morila (000oz)	11	52	121	174	211
Morila cash cost (US\$/oz)	1,202	1,455	1,440	1,109	916
Morila AISC (US\$/oz)	1,401	1,628	1,582	1,247	1,050
Group (000oz)	11	52	121	174	211
Group cash cost (US\$/oz)	1,128	1,618	1,549	1,219	1,027
Group AISC (US\$/oz)	1,600	1,758	1,645	1,290	1,086

	CY20E	CY21E	CY22E	CY23E	CY24E
<b>Cash flow</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Profit/(loss) after tax (A\$m)	0	(8)	(6)	43	88
Add non-cash items (A\$m)	35	12	28	40	49
Less wkg cap / other (A\$m)	(42)	27	(12)	(31)	(7)
<b>Cash flow ops (A\$m)</b>	<b>(6)</b>	<b>31</b>	<b>10</b>	<b>53</b>	<b>130</b>
PP&E (A\$m)	(0)	(45)	(71)	(6)	(6)
Other (A\$m)	(46)	--	--	--	--
<b>Cash flow inv. (A\$m)</b>	<b>(49)</b>	<b>(45)</b>	<b>(71)</b>	<b>(6)</b>	<b>(6)</b>
Debt draw (repayment) (A\$m)	--	15	10	(12)	(12)
Equity issuance (A\$m)	69	47	--	--	--
Other (A\$m)	--	--	--	--	--
<b>Cash flow fin. (A\$m)</b>	<b>69</b>	<b>62</b>	<b>10</b>	<b>(12)</b>	<b>(12)</b>
Net change post forex (A\$m)	14	49	(51)	35	112
<b>FCF (A\$m)</b>	<b>(9)</b>	<b>(13)</b>	<b>(61)</b>	<b>46</b>	<b>123</b>
<b>Balance sheet</b>	<b>CY20E</b>	<b>CY21E</b>	<b>CY22E</b>	<b>CY23E</b>	<b>CY24E</b>
Cash (A\$m)	17	66	15	49	161
Accounts receivable (A\$m)	14	10	15	35	43
Inventories (A\$m)	37	24	35	46	47
PPE & exploration (A\$m)	60	93	136	102	59
Other (A\$m)	11	11	11	11	11
<b>Total assets (A\$m)</b>	<b>139</b>	<b>203</b>	<b>212</b>	<b>244</b>	<b>321</b>
Debt (A\$m)	10	25	35	23	12
Other liabilities (A\$m)	30	39	44	44	45
Shareholders equity (A\$m)	134	181	181	181	181
Retained earnings (A\$m)	(37)	(44)	(50)	(6)	81
Minority int. & other (A\$m)	2	2	2	2	2
<b>Liabilities+equity (A\$m)</b>	<b>139</b>	<b>203</b>	<b>212</b>	<b>244</b>	<b>321</b>
Net cash (A\$m)	8	41	(20)	26	149
<b>Net debt to NTM EBITDA (x)</b>	<b>(0.8x)</b>	<b>(1.2x)</b>	<b>0.1x</b>	<b>(0.1x)</b>	<b>(1.3x)</b>

Source: SCP estimates

## DISCLOSURES & DISCLAIMERS

This research report (as defined in IIROC Rule 3400) is issued and approved for distribution in Canada by Sprott Capital Partners LP (“SCP”), an investment dealer who is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and the Canadian Investor Protection Fund (“CIPF”). The general partner of SCP is Sprott Capital Partners GP Inc. and SCP is a wholly-owned subsidiary of Sprott Inc., which is a publicly listed company on the Toronto Stock Exchange under the symbol “SII”. Sprott Asset Management LP (“SAM”), a registered investment manager to the Sprott Funds and is an affiliate of SCP. This research report is provided to retail clients and institutional investors for information purposes only. The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of SCP’s research department. The information in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does SCP and/or affiliated companies or persons assume any responsibility or liability whatsoever. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. SCP accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein. Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Furthermore, the securities discussed in this research report may not be liquid investments, may have a high level of volatility or may be subject to additional and special risks associated with securities and investments in emerging markets and/or foreign countries that may give rise to substantial risk and are not suitable for all investors. SCP may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivatives instruments thereon, and may, as a principal or agent, buy or sell such products.

**DISSEMINATION OF RESEARCH:** SCP’s research is distributed electronically through email or available in hard copy upon request. Research is disseminated concurrently to a pre-determined list of clients provided by SCP’s Institutional Sales Representative and retail Investment Advisors. Should you wish to no longer receive electronic communications from us, please contact [unsubscribe@sprot.com](mailto:unsubscribe@sprot.com) and indicate in the subject line your full name and/or corporate entity name and that you wish to unsubscribe from receiving research.

**RESEARCH ANALYST CERTIFICATION:** Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- The views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- His/her compensation is not and will not be directly related to the specific recommendations or view expressed by the Research analyst in this research report;
- They have not affected a trade in a security of any class of the issuer within the 30-day period prior to the publication of this research report;
- They have not distributed or discussed this Research Report to/with the issuer, investment banking group or any other third party except for the sole purpose of verifying factual information; and
- They are unaware of any other potential conflicts of interest.

**UK RESIDENTS:** Sprott Partners UK Limited (“Sprott”) is an appointed representative of PillarFour Securities LLP which is authorized and regulated by the Financial Conduct Authority. This document has been approved under section 21(1) of the FMSA 2000 by PillarFour Securities LLP (“PillarFour”) for communication only to eligible counterparties and professional clients as those terms are defined by the rules of the Financial Conduct Authority. Its contents are not directed at UK retail clients. PillarFour does not provide investment services to retail clients. PillarFour publishes this document as non-independent research which is a marketing communication under the Conduct of Business rules. It has not been prepared in accordance with the regulatory rules relating to independent research, nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Sprott and PillarFour consider this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. This is because the content is either considered to be commissioned by Sprott’s clients as part of their advisory services to them or is short term market commentary. Neither Sprott nor PillarFour nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where PillarFour is permitted to distribute its research.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS:** This research report was prepared by Sprott Capital Partners LP (“SCP”), a company authorized to engage in securities activities in Canada. SCP is not a registered broker/dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to “major U.S. institutional investors” in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Sprott Global Resource Investments Ltd. (“SGRIL”), a broker dealer in the United States registered with the Securities Exchange Commission (“SEC”), the Financial Industry Authority (“FINRA”), and a member of the Securities Investor Protection Corporation (“SIPC”). Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through SGRIL.

SGRIL accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not licensed, registered, or qualified as a research analyst with FINRA and may not be an associated person of SGRIL and, therefore, may not be subject to applicable restrictions under FINRA Rule 2241 regarding communications by a research analyst with a subject company, public appearances by the research analyst, and trading securities held by a research analyst account. To make further inquiries related to this report, United States residents should contact their SGRIL representative.

**ANALYST CERTIFICATION / REGULATION AC:** The analyst and associate certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers. In addition, the analyst and associate certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

**SPROTT CAPITAL PARTNERS EXPLANATION OF RECOMMENDATIONS:** Should SCP issue research with recommendations, the research rating guidelines will be based on the following recommendations:

**BUY:** The stocks total returns are expected to be materially better than the overall market with higher return expectations needed for more risky securities markets

**NEUTRAL:** The stock's total returns are expected to be in line with the overall market

**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

**UNDER REVIEW:** The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

**NOT RATED ((N/R):** The stock is not currently rated

Research Disclosure		Response
1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities <sup>1</sup>	NO
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	NO
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 July 2021	
BUY:	44
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

<sup>1</sup> 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