

Ticker: LGD CN	Net cash: US\$17m (+divestments)	Project: Goldstrike / Blackpine
Market cap: C\$363m	Price: C\$1.38/sh	Country: USA: ID, UT
RECOMMENDATION (unc): BUY	TARGET (unc): C\$4.35/sh	RISK RATING: HIGH

Today's maiden MRE at Blackpine of 2.08Moz @ 0.48g/t comes in 3% ahead of our 2.03Moz estimate, but at 0.48g/t against our 0.66g/t estimate. Conceptually the grade represents the profitability of the 0.2-0.5g/t material (and even lower grade), which can be seen from the higher 0.5g/t cut-off, still too high for Carlin in our view, of 1.2Moz @ 1.03g/t (Table 1). We see two critical wins from today's resource – firstly this is an **extremely robust** and highly profitable resource as it stands, with low 2.4:1 strip and high recovery given ore is entirely oxide. In fact, adjusting for ~5-8% Nevada royalties, Blackpine has similar margins to Cortez, a flagship asset for Barrick. The second most material take home is **ounce upside**; firstly given 1.5Moz comes from 1.8km², the 14km² license has a 'very prognostic' (ie entirely speculative) pro-rata potential for 12Moz. Of course not everywhere will be mineralized – conversely, we would suggest investors can be very sure that more is mineralized than is currently drilled. In fact, even the 14km² area could double given multiple semi-regional satellites (Figure 1). Herein lies the most simple of investment cases – next year we are entirely convinced that Blackpine will be bigger than this year, with cream coming from economic studies being run in parallel. We maintain our 2.4Moz mine plan given our confidence in resource growth, but lower our grade to 0.5g/t. Lifting from 8Mt to 10Mtpa drives our NPV_{5%-1850} of US\$793m for Blackpine with AISC of US\$923/oz. Adding in Goldstrike, cash and from options, and sale proceeds from Turkey, **we maintain our BUY and 0.6xNAV_{5%-1850} C\$4.35/sh PT**. Looking forward, two critical pieces of upside in our model are grade scheduling – we conservatively model flat forward grades for now – and an increase in the ROM throughput. Whilst we don't expect everything to come at once in the upcoming PEA, Liberty is a great name to own in our view given the 0.28xNAV at spot, a resource that will be bigger next year, and a scarcity / M&A premium deserved of the ~3.3Moz of undeveloped high-margin oxide gold between Blackpine and Goldstrike.

Table 1. (A) MRE by cut-off, and against SCP estimates with old/new inventory, and (B) by zone

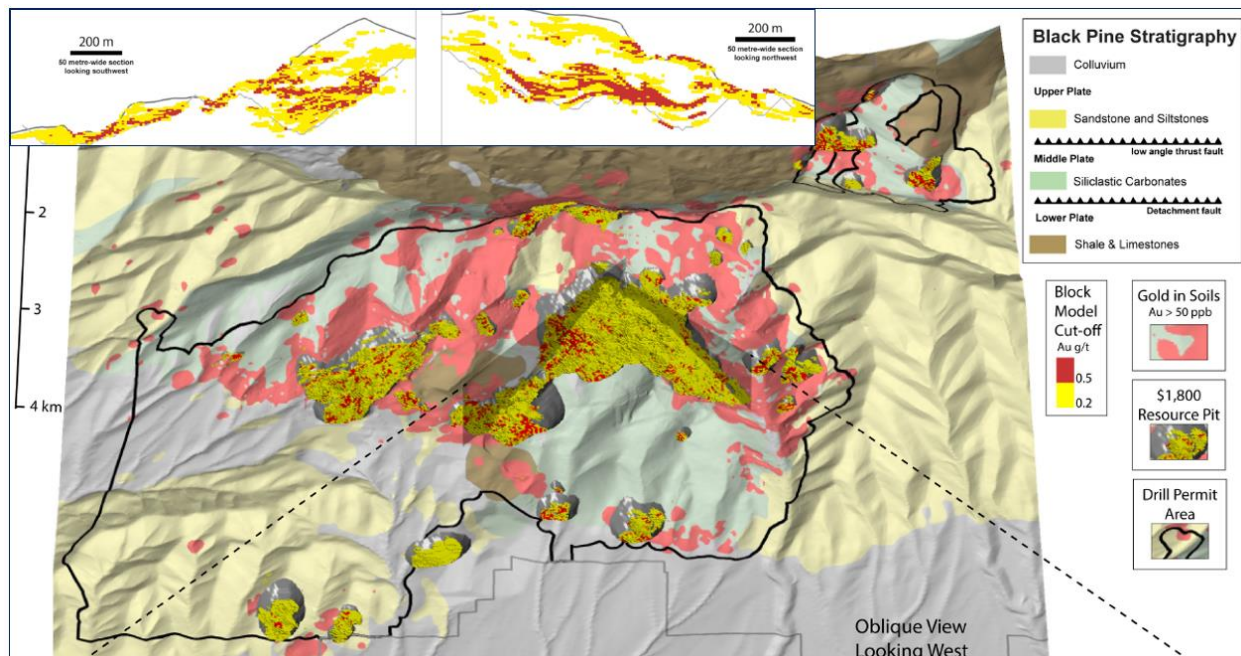
Black Pine 100%	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)	M&I (%)	Black Pine 100%	Tonnes (Mt)	Grade (g/t Au)	Ounces (000oz)	M&I (%)	Blackpine (100%) Modelling parameters in 3Q21 MRE
TOTAL 0.2g/t cut-off	136	0.48	2,085	82%	CD Zone	16.2	0.37	194	94%	Method 0.2g/t cut-off ID3
TOTAL 0.3g/t cut off	68	0.71	1,556	89%	Range front	6.5	0.37	78	68%	Parent block (m) 10x10x5m
TOTAL 0.5g/t cut off	35	1.03	1,154	89%	E Zone	6.0	0.38	73	74%	Drill holes 2,149 incl 42 DD
TOTAL 0.7g/t cut off	21	1.31	890	86%	J Zone	3.1	0.43	43	77%	Mining cost US\$2.3/t
SCPe	112.0	0.66	2,031.0	-	Back Range	3.4	0.54	60	28%	Processing + G&A US\$2.39/t
Δ SCPe	22%	39%	3%		M Zone	2.6	0.62	51	65%	Process method Heap leach
SCPe inventory: old	112.5	0.66	2.37	-	Leach Pad	5.8	0.28	52	0%	Whittle constraint US\$, 1800/oz
SCPe inventory: new	112.5	0.66	2.37	-	Satellite tot.	43.6	0.39	551	75%	Prod'n asmt'ns 82% recov., 10Mtpa
Δ (%)	0%	0%	0%		Discovery	92.7	0.51	1,533	88%	
					TOTAL	136.3	0.48	2,084	82%	

Source: Liberty Gold, SCP, totals may not sum due to rounding

Maiden Black Pine MRE of 2.1Moz @ 0.5g/t beats SCPe, PEA coming this quarter

Liberty's maiden Black Pine resource came in at 2,085koz @ 0.48g/t (1.7Moz @ 0.51g/t indicated, 370koz @ 0.37g/t inferred), with 1.2Moz @ 1.0g/t at a higher 0.5g/t cut-off. The resource is pit constrained at US\$1,800/oz using a 0.2g/t cut-off for heap leaching, and is based on 2,149 holes (42 diamond), of which 275 were drilled by Liberty Gold for US\$18m, driving a US\$9/oz discovery cost. Ahead of a PEA targeted for the current quarter, 82% recovery from prior testing sees a newly published processing rate of 10Mtpa and a 2.42:1 strip ratio. Around 75% (1.5Moz @ 0.51g/t) comes from 1.8km² (of 14km²) Discovery Zone, with the residual 551koz @ 0.39g/t split between seven satellites, three of which came from historical drilling only (Back Range, CD, Leach Pad) with drilling only recently restarting on fourth satellite E Zone four weeks ago. Of note, the Leach Pad resource of 52koz comes from historic condemnation drilling, similarly the 51koz @ 0.62g/t is based on single-digit drill holes by Liberty only. Liberty has three RC rigs with a fourth diamond rig schedule to arrive in August.

Figure 1. (A) Black Pine plan map showing resource (yellow), soils (pink) and cover (grey)



Source: Liberty Gold, LHS inset shows cross section looking SW, RHS looking NW

Our view

Today's resource has come in precisely in line with our forecast, a testament more to the simple ore body than our rough polygonal estimate. The simple biggest take home from this is that Blackpine joins Goldstrike as one of the highest margin Carlin assets bar none. In fact, adjusting for extremely high Nevada royalties (~5-8%), Blackpine has similar margins to well known Cortez, a flagship asset for Barrick. The next most material take home is upside – Figure 1 shows the small area of the modelled resources against soil anomalism (pink), and potential blind deposits (under grey cover). One could suggest that with 1.5Moz from 1.8km², the 14km² license has a 'very prognostic' (ie entirely speculative) potential of 12Moz. Of course not everywhere will be mineralized – conversely, we would suggest investors can be very sure that more is mineralized than is currently drilled. Looking at the scale of Figure 1, there is potential to even double the mineralized area beyond the existing drill permit area too, creating some very large blue sky potential. Stepping back, the 'issue' with developers this year is that 'just existing' won't triple your share price like it did last year. Rather, patience, and very simply more ounces, are required, yet precious few assets are still growing at pace. If Liberty booked +1Moz in the next 12M, and simply 'rinsed and repeated' in coming years, we see good per share returns, which should be bulked out by progressing engineering streams in parallel.

Valuation

We previously modelled a mining inventory of 112Mt @ 0.66g/t for 2.4Moz mined, being 2Moz from the drilled areas and nominal +500koz. The current resource is already over 80% of the way there albeit a bit lower once reserve conversion is factored in. While our mining inventory is well over the existing resource, this reflects our conviction in ounce growth. As such, we maintain that endowment, but lower the grade to 0.50g/t for a 150Mt inventory, but also lower the strip from SCPe 2.6 to 2.4 published today. In addition, we lift our throughput from 8Mtpa to 10Mtpa, lifting capex from US\$150m to US\$175m with a 15% lift given economies of scale. Even this throughput appears to be a base case which could well be beaten if not in the PEA, in the coming 1-2Y with resource growth. We also lift our opex toward published

assumptions behind the resource (US\$2.30/t mining, US\$2.59/t processing including trucking and water, US\$0.80/t G&A). This takes our LOM production from 134koz pa to 131koz pa at AISC of US\$923/oz, a figure we do see as beatable given the high grade compared to peers booking lower costs. This lowers our NPV from US\$1bn to US\$880m, although continues to show an IRR >50% at US\$1,850/oz. A critical delta is scheduling of grade – we conservatively model flat-forward 0.5g/t for now, but expect scheduling (of higher grade early in the mine life) to improve the NPV. The camp now appears to have the potential to lift from a 100-150koz pa into the premium 150-200koz pa category, which typically trade at C\$500-1bn valuation with DFS in hand.

Table 2. SCP old and new inputs for DCF valuation

Black Pine (100%)	SCP old	SCP new	Δ%	Black Pine (100%)	SCP old	SCP new	Δ%
Mine life (years)	15.0	15.0	0%	G&A + site cost (US\$/t milled)	0.94	0.80	-15%
Pit inventory (000oz)	2,371	2,379	0%	Royalty (%)	0.5%	0.5%	0%
Avg ore leached (Mtpa) ¹	8.0	10.0	25%	Capex (US\$m)	113.2	113.2	0%
Strip (x)	2.6	2.4	-8%	Sustaining capex (US\$m)	128	133	4%
Pit grade (g/t Au)	0.66	0.50	-24%	C1 cost (US\$/oz)	614	810	32%
Recovery (LOM, %)	82%	82%	1%	AISC (US\$/oz)	680	878	29%
Production (avg, 000oz pa)	134	131	-2%	Project NPV5%- 1850 (US\$m)	1046	880	-16%
Mining cost (US\$/t mined)	2.09	2.15	3%	Project IRR (%)	69%	58%	-15%
Proc. cost (US\$/t milled)	1.98	2.50	26%	Source: Liberty, SCPe			

Recommendation: maintain BUY rating and C\$4.35/sh PT

With the resource now booked, we lift our NAV multiple from 0.6x to 0.7x, which effectively offsets the higher opex from our revised model. The most likely delta to our forecast is throughput, where we already have a 15 year life at 10Mtpa, hence see good potential to expand this. We hold back on that for now until we get more visibility on the timing (when not if, in our view) of the next +1Moz. Adding cash and ITM options we also apply a nominal \$15m for exploration upside, adding US\$10/oz for Turkey and proceeds from recent asset sales. Diluting for options but not for mine build, **we maintain our BUY rating and C\$4.35/sh PT**. As a close analogue, SSR's Marigold mine (acquired in 2014 for US\$275m, ~\$56/oz reserves) is guided to produce between 235-236koz at an AISC between US\$1,250-1,290/oz this year. Producing at ~0.3g/t in 2020 based on implied 3.2 LOM strip, this mine averages >20Mtpa from reserves of 3.7Moz @ 0.49g/t using 0.065 g/t cut-off payable (break-even 0.151 g/t) for <10 year mine life. Black Pine has higher grade, without the heavy Nevada royalties. Interestingly, Marigold mining costs of ~US\$1.50/t, processing of US\$1.22/t and G&A of US\$0.67/t is some ~35% under Liberty's resource assumptions, reaffirming the conservatism in Liberty's resource.

Table 3 (A) SOTP valuation and (B) sensitivities

Group-level SOTP valuation					Asset value: 1xNPV project @ build start (US\$m, ungeared)*					
	US\$m	O/ship	NAVx	C\$/sh*	NPV Blackpine (US\$m)					
Goldstrike (build start)	469	100%	0.7x	1.35	9% discount	563	640	717	794	871
Black Pine 2.5Moz (build start)	880	100%	0.7x	2.53	7% discount	660	748	836	924	1,011
Nominal exploration upside	15	100%	1.0x	0.06	5% discount	779	880	981	1,082	1,183
Cash @ 1Q21	17.5	100%	1.0x	0.07	Ungeared project IRR:	0%	0%	0%	0%	0%
Halliga: proceeds	12	-	1.0x	0.05	NPV Goldstrike (US\$m)					
Kinsley / Regent NPI: shares + future cash	6.7	-	1.0x	0.03	9% discount	327	369	412	454	497
Turkey @ US\$10/oz AuEq	45.9	-	1.0x	0.19	7% discount	369	415	462	509	555
Cash from ITM options	16.4	-	1.0x	0.07	5% discount	418	469	520	571	623
	1,463		PT:	4.35	*Project level NPV, excl finance costs and central SG&A, discounted to build start					
*Diluted for options but not mine build equity					Market P/NAV5%					
					0.35x					

Source: SCP estimates

Why we like Liberty Gold

1. Industry-leading metallurgical results on pure oxide asset: *no roasting, no transition*
2. Black Pine already has SCPe 1.7Moz drilled +500koz around old pits
3. Black Pine D3, F Zone Range Front and new targets all support continued ounce growth
4. 1Moz high-margin Goldstrike project, plus >4.5Moz AuEq in Turkey, bulk value out
5. Cash from asset sales funds drilling on undiluted basis

Catalysts

1. 3Q21: Phase three metallurgical results
2. 3Q21: PEA for Blackpine
3. 2H21: Results from three RC drill rigs (+1 diamond in Aug) at Black Pine

Research

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Ticker: LGD CN	Price / mkt cap: C138c/sh, C\$364m	Market P/NAV today: 0.32x	Assets: Goldstrike, Black Pine
Author: B Salier	Rec/O.5xNAV PT: BUY, C\$4.35/sh	1xNAV_{Y1} FF FD: C\$5.68/sh	Country: Utah, Idaho, USA

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Cash from ITM options	16.4	-	1.0x	0.07
	1,462			PT: 4.34

*Diluted for options but not mine build equity Market P/NAV5% 0.28x

Asset value: 1xNPV project @ build start (US\$m, ungeared)*					
NPV Blackpine (US\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	563	640	717	794	871
7% discount	660	748	836	924	1,011
5% discount	779	880	981	1,082	1,183
Ungeared project IRR:	0%	0%	0%	0%	0%
NPV Goldstrike (US\$m)	\$1750oz	\$1850oz	\$1950oz	\$2050oz	\$2150oz
9% discount	327	369	412	454	497
7% discount	369	415	462	509	555
5% discount	418	469	520	571	623

*Project level NPV, excl finance costs and central SG&A, discounted to build start

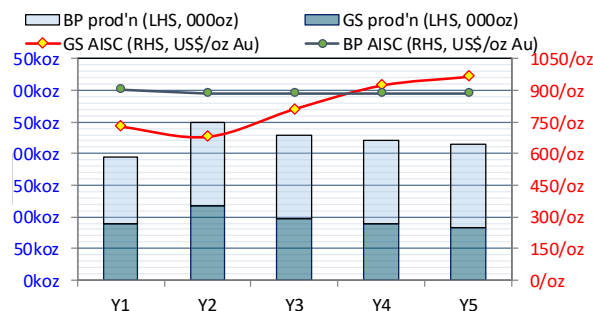
Goldstrike value over time^	Y-2	Y-1	Y1	Y2	Y3
Goldstrike - group level (US\$m)	418	510	604	570	492
Black Pine - group level US\$m)	812	914	1,021	1,006	959
Net cash (US\$m)	55.3	(77.7)	(166.0)	(21.6)	168.6
Cash from options (US\$m)	16.4	16.4	16.4	16.4	16.4
Black Pine + divestments (US\$m)	64.5	64.5	64.5	64.5	64.5
Liberty NAV (US\$m)	1,366	1,427	1,540	1,636	1,701
1xNAV5%/sh FF FD (C\$/sh)	3.77	3.94	4.25	4.51	4.70
ROI (% pa)	65%	185%	75%	48%	36%

Liberty: 1xNAV/sh @ first prod'n (US\$m, geared)^					
1xNAV mine start (C\$/sh)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	2.71	3.09	3.47	3.84	4.22
7% discount	3.00	3.41	3.82	4.24	4.65
5% discount	3.34	3.80	4.25	4.70	5.16
Geared project IRR:	36%	39%	43%	46%	49%
1xNAV mine start (US\$m)	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
9% discount	982	1,119	1,256	1,393	1,529
7% discount	1,087	1,236	1,386	1,535	1,685
5% discount	1,211	1,375	1,540	1,704	1,869

^Project NPV less grp SG&A & fin. cost, +net cash, 50% equity at 25% prem

Goldstrike production	Y1	Y2	Y3	Y4	Y5
Goldstrike production (000oz)	89	117	98	89	82
Black Pine production (000oz)	105	132	132	132	132
GS C1 cost (US\$/oz)	621	599	714	817	850
GS AISC cost (US\$/oz)	727	680	811	923	965
BP C1 cost (US\$/oz)	814	814	814	814	814
BP AISC cost (US\$/oz)	904	886	886	886	886

AIsc = C1 + sustaining capex, GS = Goldstrike, BP = Black Pine



Source: SCP estimates

Commodity price	Y-2	Y-1	Y1	Y2	Y3
Gold price	1,850	1,850	1,850	1,850	1,850
Resource	Au (koz)	Au (g/t)	SCPe:	Au (koz)	Au (g/t)
Goldstrike global resource	1,221koz	0.49g/t	Inventory:	916koz	0.48g/t
Blackpine global resource	2,085koz	0.48g/t	Inventory:	2,379koz	0.50g/t
Turkey M&I&Inf AuEq	4,589koz	0.61g/t			
Share data	Basic (m)	FD with op. (m)	FD with build (m)		
Basic shares (m)	263.4	304.3	362.3		

Goldstrike financing		Company financing	
Min capex (US\$m)	US\$113m	Mine equity (US\$m)	US\$70m
G&A + finance in build (US\$m)	US\$30m	Spot share price (C\$/sh)	C\$1.38
Total build finance (US\$m)	US\$143m	20% prem. raise price (C\$/sh)	C\$1.66
Debt (US\$m)	US\$65m	Debt IRR (%)	8%

Black Pine financing		Company financing	
Min capex (US\$m)	US\$173m	Mine equity (US\$m)	US\$50m
G&A + finance in build (US\$m)	US\$12m	Spot share price (C\$/sh)	C\$1.38
Total build finance (US\$m)	US\$184m	20% prem. raise price (C\$/sh)	C\$1.66
Debt (US\$m)	US\$65m	Debt IRR (%)	8%

Ratio analysis	Y-2	Y-1	Y1	Y2	Y3
FD shares out (m)	304	304	304	304	304
EPS (US\$/sh)	(0.03)	(0.17)	0.47	0.62	0.55
CFPS before w/c (US\$/sh)	(0.42)	(0.45)	0.45	0.64	0.57
EV (US\$m)	568.5	705.0	588.5	400.4	224.7
FCF margin (%)	-	-	26%	37%	33%
PER (x)	-	-	3.6x	2.8x	3.1x
P/CF (x)	-	-	3.8x	2.7x	3.0x
EV/EBITDA (x)	-	-	2.9x	1.5x	0.9x

Income statement	Y-2	Y-1	Y1	Y2	Y3
Revenue (US\$m)	-	-	359.8	461.2	424.3
COGS (US\$m)	-	-	136.1	171.0	171.2
Gross profit (US\$m)	-	-	223.8	290.2	253.0
Admin (US\$m)	2.5	2.5	2.5	2.5	2.5
Finance cost (US\$m)	6.5	10.4	10.4	7.8	2.6
Expln, royalty, min. (US\$m)	-	40.0	5.1	6.7	5.7
D&A (US\$m)	-	-	21.7	30.2	28.8
Tax (US\$m)	-	-	40.0	52.9	46.4
Net income (US\$m)	(9.0)	(52.9)	144.2	190.1	167.0

Cash flow statement	Y-2	Y-1	Y1	Y2	Y3
EBITDA (US\$m)	(9.0)	(12.9)	205.8	273.2	242.2
Less working capital (US\$m)	-	-	(20.0)	(5.5)	1.4
Less finance costs (US\$m)	(6.5)	(10.4)	(10.4)	(7.8)	(2.6)
Less tax paid (US\$m)	-	-	(40.0)	(52.9)	(46.4)
Cash flow ops (US\$m)	(15.5)	(23.3)	135.5	207.0	194.6
PP&E - build (US\$m)	(113.2)	(113.2)	(19.0)	(19.0)	(19.0)
Capitalised interest (US\$m)	-	-	-	-	-
Cash flow inv. (US\$m)	(113.2)	(113.2)	(19.0)	(19.0)	(19.0)
Share issue (US\$m)	-	-	-	-	-
Debt draw (repay) (US\$m)	130.0	-	-	(65.0)	(65.0)
Cash flow fin. (US\$m)	130.0	-	-	(65.0)	(65.0)
Net change in cash (US\$m)	1.3	(136.5)	116.5	123.1	110.7

Balance sheet	Y-2	Y-1	Y1	Y2	Y3
Cash (US\$m)	86.4	(50.1)	66.4	189.5	300.2
Inventories (US\$m)	-	-	16.8	21.1	21.1
PPE (US\$m)	155.1	268.3	265.6	254.4	244.5
Acc rec. (US\$m)	-	-	14.8	19.0	17.4
Total assets (US\$m)	241.5	218.2	363.5	483.9	583.2
Debt (US\$m)	130.0	130.0	130.0	65.0	-
Other (US\$m)	7.2	7.2	7.2	7.2	7.2
Accnts payable (US\$m)	0.4	0.4	12.0	15.0	15.0
Total liabilities (US\$m)	137.6	137.6	149.2	87.2	22.1
Shareholders equity (US\$m)	306.6	306.6	306.6	306.6	306.6
Contributed surplus & other (US\$m)	29.4	29.4	29.4	29.4	29.4
Retained earnings (US\$m)	(232.0)	(255.3)	(121.5)	60.8	225.2
Liabilities + equity (US\$m)	241.5	218.2	363.5	483.9	583.2

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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

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Summary of recommendations as of July 2021	
BUY:	44
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	44

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