

# Val d'Or update: a busy 12M with more to come

**Monarch Mining (GBAR CN): Reiterating our BUY rating and C\$1.45/sh PT**

RISK RATING: SPECULATIVE

**O3 MINING (OIII CN): Reiterating our BUY rating and C\$5.95/sh PT**

RISK RATING: HIGH

**Probe Metals (PRB CN): Reiterating our BUY rating and C\$3.00/sh PT**

RISK RATING: SPECULATIVE

Last week we visited Monarch, O3, Probe and Wesdome - a lot has changed in just 12M since our last Val d'Or sector note as the three issuers discussed in this report have increased their land positions to truly strategic levels, drilled and banked more ounces, executed M&A, and expanded their drill programs. Most recently, **Yamana acquired Monarch Gold** earlier this year for ~C\$200m, the **Monarch Beaufor** and **Wesdome Kiena** restarts are underway, **Eldorado acquired QMX** for C\$132m, while **O3 sold Garrison** to Moneta so focus is on Val d'Or. In case of any doubt that momentum is fading in this globally hot camp, **Eldorado acquired 11.5% of Probe Metals** in recent weeks, an interesting move ahead of Probe's PEA and maiden Detour-belt drilling to the north this year. Exploration ground is now as scarce and strategic as skilled drillers and rigs. Our original thesis – that bulk low-grade learnings from Australia are coming to Canadian juniors, is gaining momentum as juniors further north create substantial value despite inferior logistics. Looking ahead, how to play? We see three key requirements: ingredient one – opening up the 1-1.5g/t open pits as Australians move to 0.6-1.0g/t. We like Probe and O3 as they have these bulk ounces, but also have ingredient two; land and funds to bolt on higher-grade satellites. The Yilgarn and the Abitibi, alongside the Keniba Inlier of Mali and the Man Shield of Ghana were/are, and always will be the most prolifically mineralised Archean gold belts globally, and the Abitibi Gold Belt from Timmins to Val d'Or is one of the richest trends within the richest cratons, deserved of a strategic premium. Turning to exploration, ingredient three is under-cover or down-dip success, where WA / West Africa ounces and Canadian peers, respectively, are having the most success. Probe's Detour belt holdings fit the bill of under cover, while O3 and Monarch have excellent down-dip opportunities, the fuel that sent Wesdome to where it is now.

## Canadians need to take a page out of the Aussie playbook: production is coming

Western Australia's discovery rate dipped in the 2010s, but the stream of 'discoveries' from 2015-2020 invariably focussed on lower-grade assets. Quite remarkably, given the poor infrastructure and high-cost labour and electricity, 1Moz @ 1.0g/t and 5:1 is the 'new normal' in Australia. Val d'Or has eight gold plants talking M&A and consolidation, with better inter-mine infrastructure and rail links. So why own Val d'Or developers now? The ounces booked in 2015-2020 were useful but not game changing. The last two years have seen a significant ramp up in exploration to bolt on higher-grade satellites, and engineering studies, as maiden PEA's 'spring up' across the belt.

## Monarch 2.0: doing it again with Beaufor

Our visit leads us to think that Monarch's infrastructure underpins their market cap alone. With C\$30m in the treasury to restart Beaufor for an initial 30koz pa from late this year, there is good potential to see this lift to 50-100koz pa with a second decline, funding Croinor and with Mackenzie Break in the pipeline. We expect a re-rate as Monarch graduates to producer next year, with opportunities to beat the ~45koz pa 3Q23 run-rate that already underpins our C\$141m NAV.

## O3: 3.4Moz and largest land position, 120koz pa on the way

Few realise that O3 has 3.4Moz plus 27% of Moneta (8.4Moz in Timmins); 2Moz at Marban and 0.7Moz at Alpha and a massive strategic foothold along, and north of, the Cadillac Break spanning >280km<sup>2</sup>. Marban should cornerstone production with >100koz pa 'in the bag' in our view as drilling bulks this out at pace with 7-8 rigs on the current 150,000m programme. It is evident that counter-cyclical aggression that allowed O3 to peg the largest holding in one of the most prolific belts globally gives them an extreme strong hand. Our PT is based on 0.5xNAV<sup>5%-1850</sup>, comprising C\$505m Marban NPV, C\$77m in cash and a nominal C\$63m for resources outside reserves, putting the stock on just 0.26xNAV.

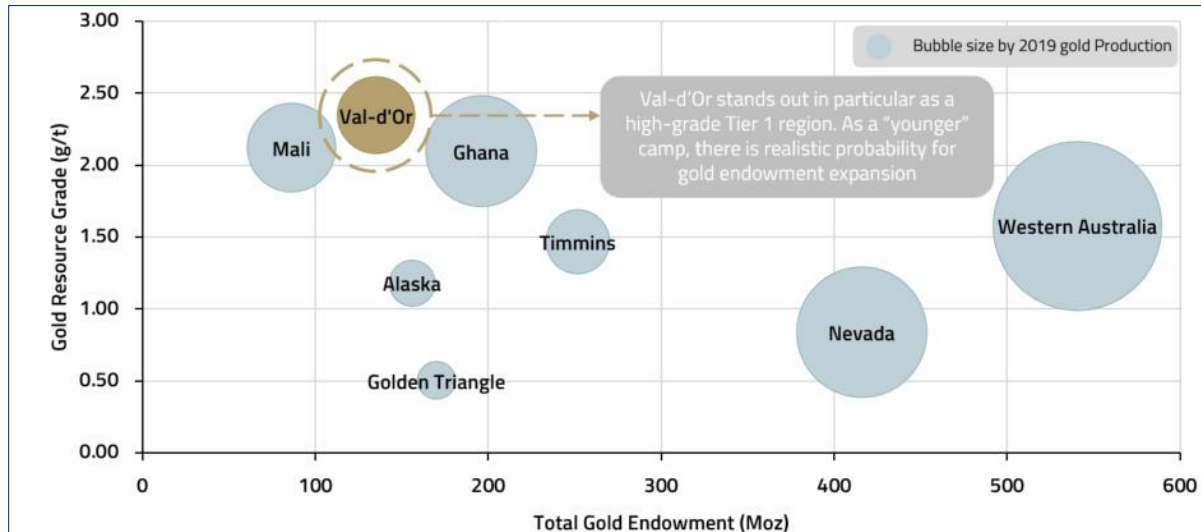
## Probe: critical mass achieved with 4Moz, PEA set for 3Q21 with blue-sky on Detour belt

Probe is the quiet achiever, growing ounces year after year in overlooked Val d'Or East. This year should see Probe wrap economics around their 4Moz (2.5Moz pitable, 1.4Moz UG) in a PEA in 3Q21 which we expect to act as a material catalyst, alongside one thing investors can relay on with Probe, more ounces. Our valuation is based on a conservative 2/3 of pitable ounces, ie 1.5Moz pitable, plus 364koz UG, ahead of the PEA to be released shortly.

## Val d'Or: lower production points to opportunity on highest-grade 'super belt'

With the exception of the Carlin trend, Archean deposits are the best mineralised as the mantle was thicker, the crust thinner and the earth tectonically active. Similarly, most ore forms at depth ('mesothermal'), with 'late and straight' orientation easier to mine than modern epizonal deposits such as Fosterville and Newfoundland. Val d'Or *currently* has a lower endowment and higher grade than peers, a consequence of near-surface deposits not being developed as deep 'main break' assets were prioritised, and for us, the opportunity is just 'that simple'.

Figure 1. Global gold camps showing total endowment, grade, and 2019 production

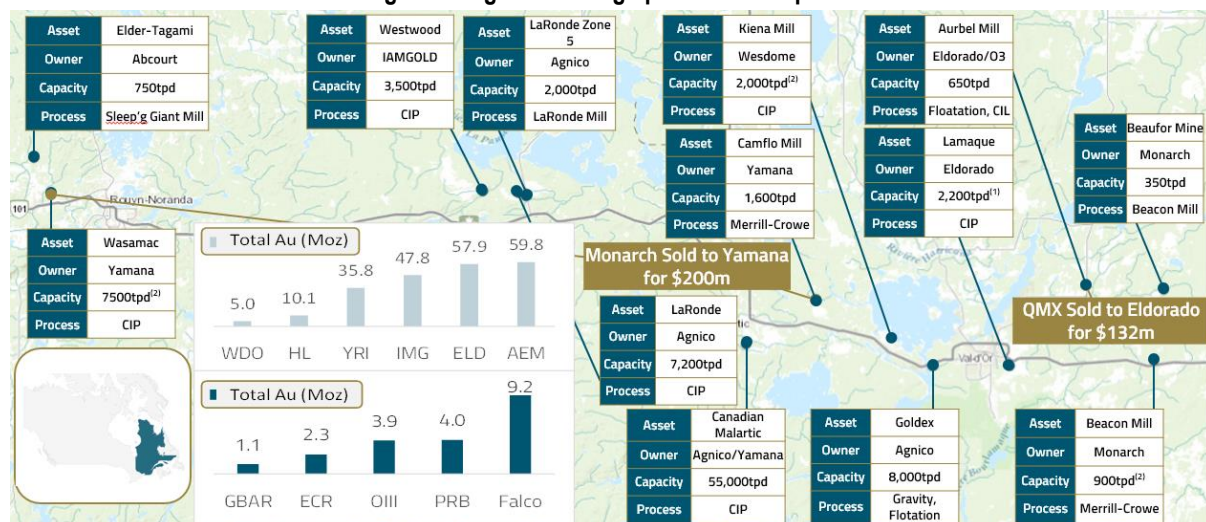


Source: Source: S&P Market Intelligence 2020; total endowment refers to current total gold resources as well as total estimated historic gold production for each jurisdiction

## Lots of mine, lots of predators, but few prey

Val d'Or is not short mines with 'predators' Agnico, Eldorado, IAMGOLD Yamana and Hecla all having >10Moz of gold. Flicking to the 'prey' Falco leads the back with 9Moz, but for vanilla pitable plays, Probe and O3 lead the pack, with Cartier and Monarch having defined UG resources. For pure M&A, in our view ounces trump grade within limits, and size of holding is genuinely important, putting Probe and O3 at the top of the list in our view. Monarch is much smaller, but the existing mill and (recently) operating mine put its destiny in its own hands, a key advantage over peer Cartier whose (in)ability to self-develop limits its options, and thus premium, in the chess game that is M&A, where we see more action on the way.

Figure 2 Regional mining operations and plants



Source: Source: company data, producer ounces are for group, Val d'Or specific ounces are WDO: 1.4Moz, IMG: 3.3Moz, HL: 3.8Moz, ELD: 3.9Moz, YRI: 81Moz, AEM: 19.6Moz.

## MONARCH MINING (GBAR CN)

# Undervalued high-grade restart with big upside

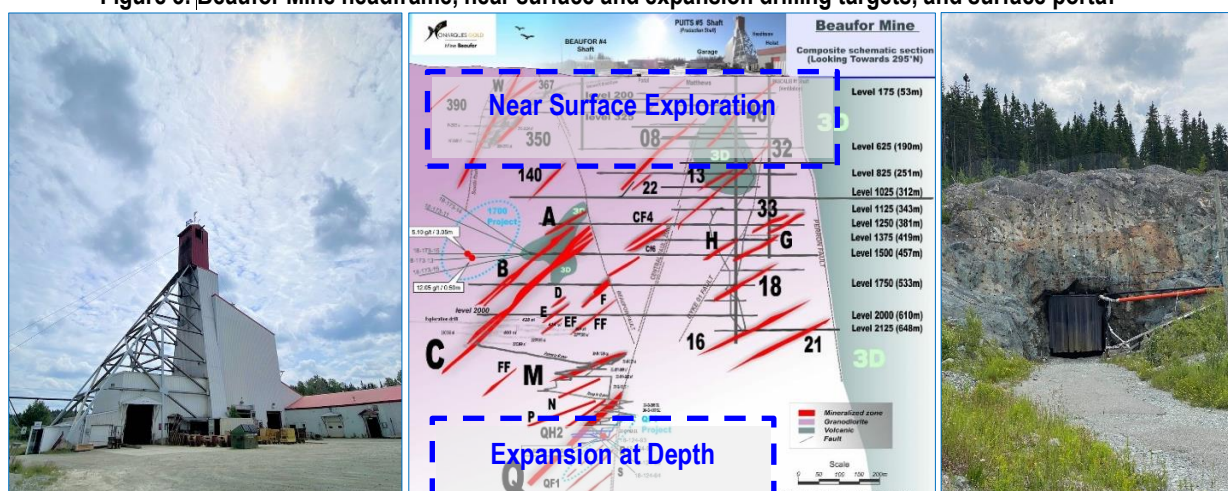
RECOMMENDATION: **BUY**

PRICE TARGET: **C\$1.45/sh**

RISK RATING: **SPECULATIVE**

We saw firsthand the ‘bee hive’ of activity at Beaufor pre year end gold. Post closure the site was left in good condition, with only modest upgrades to restart, and Monarch has an experienced team in place to make it happen, reaffirming our conviction in this stock. The operating hoist, advanced underground rehab, and mill modernizations should also unlock exploration successes under the new mine model where >75% (32km of 42.5km) of the largest exploration program conducted at Beaufor is complete. Even before that is included, this week’s MRE saw a 180% lift to 343koz @ 5.2g/t, supporting our DCF valuation already. This comes ahead of the 75%-complete 42,500m of drilling underway now. With the Beacon Mill, Monarch is a rare high-grade explorer with the infrastructure in place to ‘reap the rewards’ of its own drill success. Even better is that last week’s \$11.3m from Gold Royalty Corp lifts the treasury to \$30m to fund the Beaufor restart, and likely the second decline as well. This allows access to the high-grade W zone and opens up new drill horizons to pull the target deeper. As such, we **maintain our BUY rating and C\$1.45/sh PT** based on a 0.75xNAV multiple on Beaufor restart and expansion to 750tpd / 250koz @ 5g/t inventory, a figure we expect to be beaten in the medium-term. We only include C\$10m at Croinor based on US\$20/oz over the existing resource. Looking ahead, 2H20 will be busy with (i) Beaufor mine plan / economics, (ii) 15km MacKenzie Break drilling, (iii) 42.5km Beaufor drilling, and (iv) Beaufor restart and potential MRE adding current drilling.

Figure 3. Beaufor Mine headframe, near surface and expansion drilling targets, and surface portal



Source: Monarch

### Activity at Beaufor ramping up ahead of first gold pour in December 2021

Monarch recently incorporated 22 holes / 5,066m of surface and 131 holes / 12,729m of UG drilling since CY20 funding into an updated resource from Beaufor of 343koz @ 5.24g/t with 64% of this in the M&I category at 5.3g/t—a beat on our estimates as drilling continues. The updated model contains more than twice the ore lenses (+166 vs ~60) compared to their previous MRE. We see this as a beginning not an end with expansion drilling of the resource at depth as well as exploring other near-mine regional targets (Figure 3B). With average regional Abitibi gold mine depths hovering around 1,660m, or almost double Beaufor’s historic 900m mining horizon, the 9,950m planned program below the existing mine will continue to shed light on the extent of the mineralization at depth. On site, care and maintenance efforts notably left main infrastructure in excellent condition, while only requiring minor ramp / track rehab for ore movement to surface in preparation for a first pour in December. Recent W-Zone drilling could add tens if not hundreds of thousands of ounces to the site and the infrastructure in place will enable fast tracked production in 2022.

## Polishing Beaufor for 30koz pa production; underground and mill rehab advancing rapidly

The mine operated from 1933 to 1951 and from 1993 to 2018, producing ~15koz in FY2018 before going on care and maintenance in mid-2019. Historically >1.1Moz were produced at ~7.5g/t, with ore processed at the ex-Barrick Camflo mill at ~98% recovery since 1994, with similar recoveries expected from future processing at Monarch's Beacon mill. The Beacon mill (Figure 4) is located 10km from Beaufor, 5x closer than the Camflo. The mill flow sheet is essentially complete, requiring only the modernization of minor components such as pipe networks, transformer, furnace, instrumentation and minor upgrades to existing systems for compliance to new health and safety regulations. With 20 mechanics and two pipefitters currently on site, the company is tracking well for completion prior to the first pour targeted for year end. The mill is permitted for 900tpd even though the nameplate is 750tpd. Big picture is to 'polish' Beaufor to an initial 30koz pa and grow to 50koz pa towards the ultimate goal of 100koz of production with future drilling at Beaufor and potentially bringing Croinor online. A longer term 'blue sky' study about bringing the mill capacity up to 3000tpd is still in the works. Thus, Monarch is one of the only options for junior miners looking for local (within 100km) processing options in Val d'Or, putting them at a huge advantage for custom milling prospects in the area.

Underground rehab is well advanced, focused on restoring historic track for optimal material handling rates. Four 150t passes allow for up to 600t of material to easily be stored for movement by dual 5t skips from the loading pocket to surface. Whilst a conservative seven ore headings being required to achieve 350tpd targets looks achievable, the move to 750tpd will need to tap into the expansive W-Zone near-surface. The portal will do just that, offering additional flexibility (e.g. scheduling, material and personnel movement) that will be beneficial to achieving the 2023 750tpd production rate, and potentially beyond that if the 3.2km access ramp breaks into existing underground infrastructure.

Figure 4. (A) Beacon Mill site, (B) SAG / Ball mills, and (C) furnace

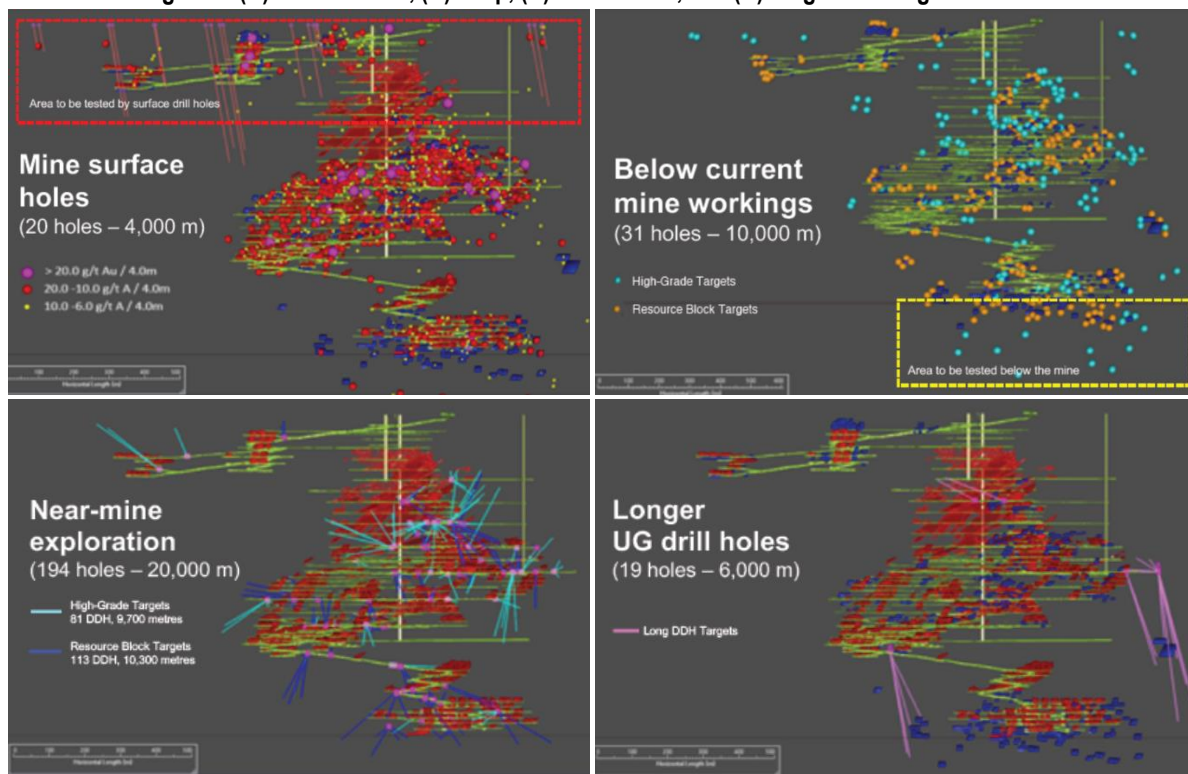


Source: Monarch

## Unlocking Beaufor: systematic drill program lifts resource 180% to 343koz @ 5.2g/t

Exploration is firing on all cylinders; with four drills underground, already 32,000m completed of the 42,500m planned—critical to the underlying thesis here. The strategy is simple, first is to systematically step out from the near-mine resource targets to add ounces that can be mined imminently. Monarch did just that in last week's updated MRE from Beaufor coming in at 343koz @ 5.24g/t with 64% of this in the M&I category at 5.3g/t. Key here is that Monarch added 22 holes / 5,066m of surface and 131 holes / 12,729m of UG drilling since CY20 funding excluding the current programme. The pathway to growth is clearly outlined below, Figure 5A shows a long section highlighting near-mine targets, and Figure 5B shows deeper targets (RHS), where remaining drilling will now focus on expanding the resource at depth in addition to exploring other regional targets.

Figure 5. (A) Near surface, (B) deep, (C) extensional, and (D) longer drill targets at Beaufor

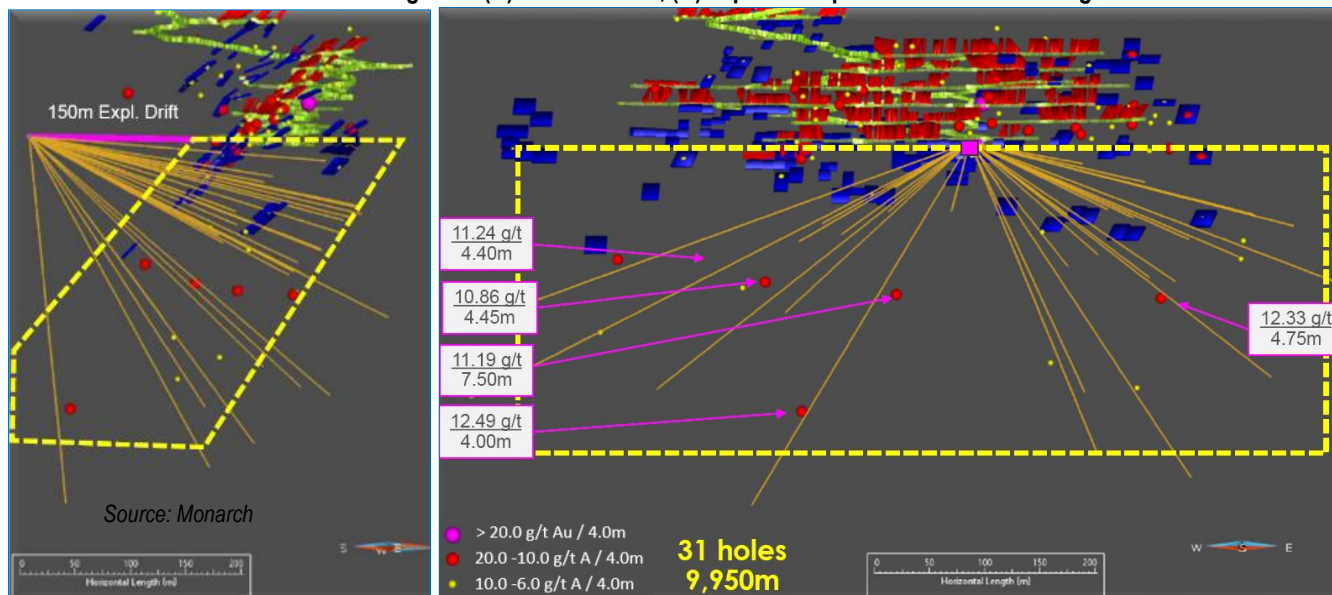


Source: Monarch

### New drill horizons via 150m hanging wall exploration drift to test down plunge extensions

With average regional Abitibi gold mine depths hovering around ~1,660m, or almost double Beaufor's historic 900m mining horizon, the current 9,950m planned program below the existing mine should continue to expand the mineralization at depth. To date, the Q-Zone marks the deepest ore body with recent highlights of **4m @ 12.5g/t** and **7.5m @ 11.2g/t** (Figure 6B) below the deepest mine workings showing just that. Looking ahead, Monarch is planning a 150m long exploration drift into the hangingwall to better intersect the down dip extensions of the P, Q, and Z-Zones (Figure 6A), which opens up opportunities for both new parallel zone horizons as well as extensions of existing zones. As exemplified by Wesdome's 1.6km deep Kiena Deeps discovery (1.1Moz @ 18g/t), there is good optionality on a bonanza high-grade lode at all times.

Figure 6. (A) Beaufor mine, (B) exploration plan below mine workings

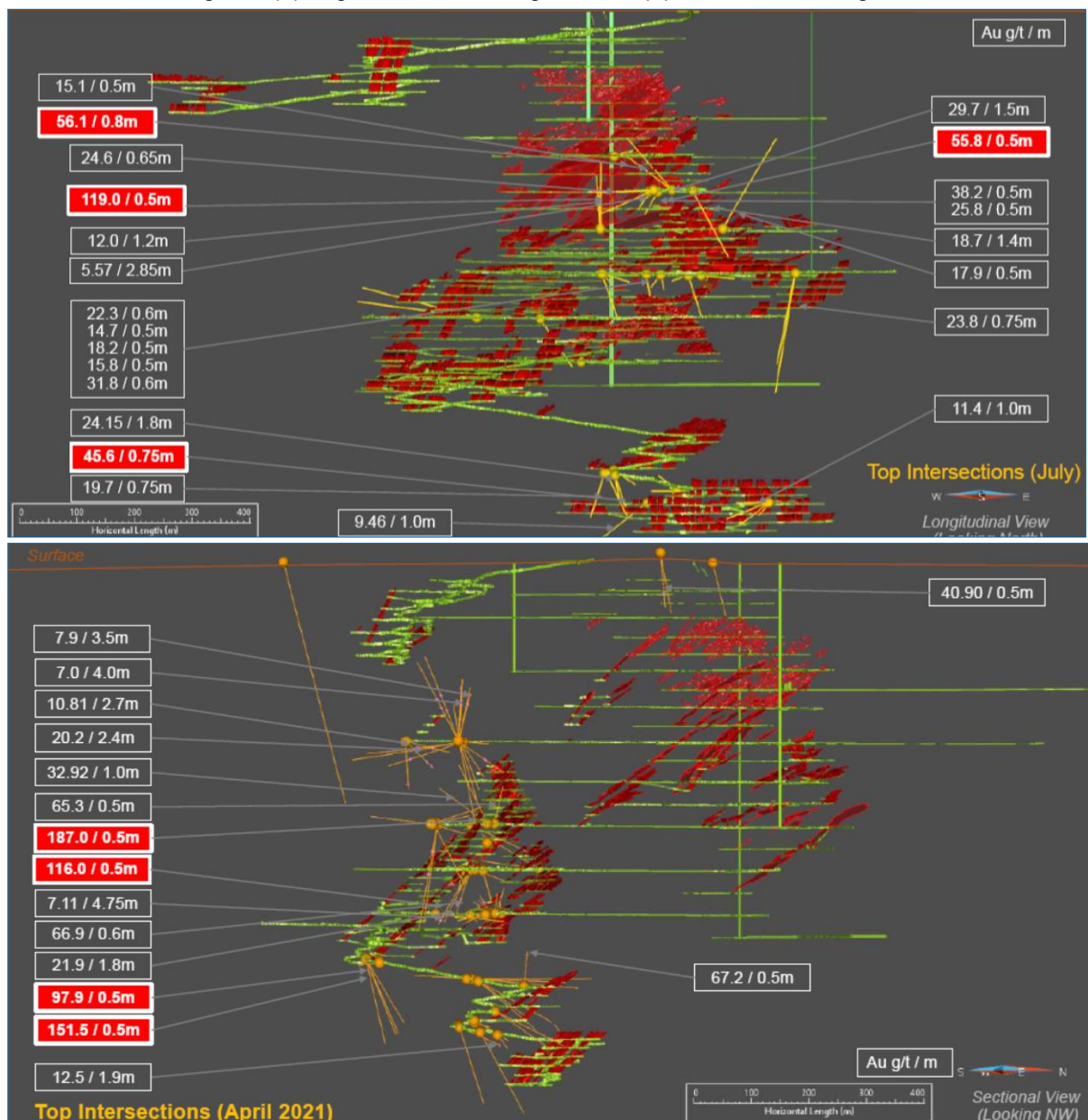


## Drilling surpasses expectations in shallow W-350 zone

Upper W-Zone: is the work-horse of near-mine discoveries, lying west of the main resource and development areas, but at surface. The area is being drilled top-down from a surface ramp and bottom up from upper underground level accesses, in both cases seeing good success. Highlights of **9.8m @ 35g/t** come from above the existing stopes and also represent a new blind 'sheet'. There are many hits in this new area, including **1.2m @ 14.6g/t**, **0.5m @ 180g/t**, **4m @ 7g/t** and **3.5m @ 7.9g/t** below these workings. Firstly, we see tens of thousands of ounces 'in the bag' already, which we note below pays for development all the way to shaft-bottom levels.

Near mine exploration: Using Monarch's new geological model, drill success continues from the near mine expansion program. Figure 7 shows highlights from July, with further intersections of 0.5-0.8m at similar grades of 45-119g/t on the back of previous highlights on A / B / C-Zone of **4.7m @ 7.1g/t**, **1.8m @ 21.9g/t**. Drilling is ongoing at ~25m centres to allow for immediate resource / reserve conversion on completion of the programme.

Figure 7. (A) longitudinal view looking north and (B) section view looking NW



Source: Monarch

## Recommendation: Reiterating our BUY rating and C\$1.45/sh PT

Big picture, we expect a Beaufor restart to FCF followed by expansion, funding McKenzie Break drilling, with blue-sky to come from regional drilling at Croinor. As such, we model Beaufor on a DCF basis, adding the 'in the bag' (in our view) 100koz @ 350tpd. We then model some of the upside with the lift to 750tpd based on a 250koz reserve, but hold back on lifting this to 500koz, something we see possible, and in fact beatable, but want to see how the rest of the 42,000m drill programme pans out first. Similarly, we hold back on 'putting McKenzie Break' through the mill, and the lift in mill capacity to 1500tpd. Rather, we add exciting McKenzie Break at a nominal US\$30/oz for C\$14m, adding US\$20/oz for Croinor for C\$10m, and US\$15/oz for Swanson for C\$4m. We model Beaufor per inputs in Table 1A. We model a 2H21 C\$12.5m debt package at 8% lender IRR, and C\$6m equity in 1Q22; thereafter, the asset becomes self-funding. We dilute for options, adding C\$30m cash, for a 1xNAV<sup>5%-1850</sup> of C\$1.45/sh, almost double the current share price. However, with unknowns to our 250koz Beaufor reserve, we apply a 0.75xNAV multiple, moderate if this is all the asset could generate, but hopefully a conservative reflection of the potential for far more than this over the LOM.

Table 1. SOTP valuation for Monarch

Beaufor Mine (100%)	Base	SCP	Upside	Commodity price	FY22E	FY23E	FY24E	FY25E	FY26E
Mining inventory (000t)	600	1,555	3,110	Gold price	1,850	1,850	1,850	1,850	1,850
Au grade (g/t)	5.5	5.0	5.0	<b>Monarch Mining SOTP valuation</b>					
Lom production (koz)	106	250	500		<b>C\$m</b>	<b>O/ship</b>	<b>NAVx</b>	<b>C\$/sh</b>	
LoM (years)	3.3	6.8	11.0	Beaufor @ 2Q21	100.5	100%	0.75x	0.88	
Peak throughput (tpd)	750	>>	>>	Central G&A and fin. costs	(23.1)	100%	0.75x	(0.20)	
Exploration spend (C\$m)	10.0	>>	>>	McKenzie break @ US\$30/oz	14.9	100%	1.00x	0.17	
Restart capex (C\$m)	20	>>	>>	Croinor @ US\$20/oz	10.3	100%	1.00x	0.12	
Sustaining capex (C\$m)	15	39	78	Swanson @ US\$15/oz	4.7	100%	1.00x	0.05	
Mining & hauling costs (C\$/t milled)	90	>>	>>	Pro forma cash (C\$m)	30.0	100%	1.00x	0.35	
Processing costs (C\$/t milled)	30	>>	>>	Cash from options (C\$m)	4.2	100%	1.00x	0.05	
G&A + TMF costs (C\$/t milled)	8.0	>>	>>	Group NAV5% C\$1850/oz	<b>141</b>	0.53		<b>1.43</b>	
AISC (US\$/oz)	1,156	1,283	1,230	*Shares diluted for options but not mine build					
Gold price (US\$/oz)	1,850	>>	>>	P/NAV5% 0.52x					
NPV5% (C\$m)	51	102	181						

Source: SCPe, net of all central G&A and finance costs of C\$15m debt

Source: SCP estimates

## Why we like Monarch

- Existing 394koz at Beaufor likely grows toward 500koz with current 42,000m drilling
- Low-cost restart at historic 350tpd / ~20-30koz pa at Beaufor using Beacon Mill
- Recent drilling 10m @ 35g/t near surface opens door to second decline / 700tpd at Beaufor
- McKenzie Break 14m @ 14g/t wide open to support resource growth

## Catalysts

- 3Q21: Beaufor restart plans and mining inventory
- 2H21: Results from 15,000m of drilling at McKenzie Break
- 2H21: Results from 42,500m of drilling at Beaufor
- 4Q21: SCPe MRE (SCPe approaching, or over, 500koz from current 397koz)
- 4Q21: SCPe Beaufor production start
- 4Q21: Croinor bulk sample

## Research

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Ticker: GBAR CN		Price / mkt cap: C\$0.9/sh, C\$70m				Project PNAV today: 0.52x		Asset: Beaufor, Mac Brk				
Author: B Salier/B Gaspar		Rec / 0.75xNAV P BUY, C\$1.45/sh				1xNAV <sub>1Q21</sub> FF FD: C\$1.72/sh		Country: Canada: QC				
Commodity price		FY22E	FY23E	FY24E	FY25E	FY26E	Global resources					
Gold price		1,850	1,850	1,850	1,850	1,850	Beaufor		2104kt	5.07g/t	343koz	64% M&I
Monarch Mining SOTP valuation						Mackenzie Break		5156kt	2.39g/t	397koz	37% M&I	
						Croinor		965kt	8.84g/t	274koz	86% M&I	
						Swanson		2071kt	1.86g/t	124koz	9% M&I	
						Total M&I resource		10297kt	3.47g/t	1138koz	42% M&I	
						Share data		FD	FF FD			
						Basic shares (m)		77.8	85.6	91.4		
						Ratios (yr to Jun)		FY22E	FY23E	FY24E	FY25E	FY26E
						Average shares out (m)		72.6	75.5	75.5	75.5	75.5
						EPS (C\$/sh)		-	0.11	0.23	0.21	0.19
						CFPS (C\$/sh)		-	0.13	0.22	0.29	0.31
						EV (C\$m)		67.3	60.1	43.2	21.2	(1.9)
						FCF yield (%)		-	14%	25%	32%	34%
						PER (x)		-	8.2x	3.9x	4.2x	4.6x
						P/CF (x)		-	7.0x	4.0x	3.1x	2.9x
						EV/EBITDA (x)		10.7x	2.9x	1.1x	0.5x	(0.0)
						Income stmt (yr to Jun)		FY22E	FY23E	FY24E	FY25E	FY26E
						Net revenue (C\$m)		25.3	42.8	79.8	79.8	79.8
						COGS (C\$m)		11.5	19.5	36.4	36.4	36.3
						Gross profit (C\$m)		13.7	23.3	43.4	43.4	43.4
						Group G&A (C\$m)		2.1	2.4	2.4	2.4	2.4
						Expensed expl'n (C\$m)		3.0	-	-	-	-
						Share based prmts (C\$m)		0.4	0.0	0.0	-	-
						Care and maintnc (C\$m)		1.9	-	-	-	-
						Depreciation (C\$m)		1.3	5.3	11.1	13.1	15.7
						Tax, fin. cost, other (C\$m)		5.51	7.31	12.67	11.82	10.73
						Net income (C\$m)		(0)	8.3	17.3	16.1	14.6
						Cash flow (yr to Jun)		FY22E	FY23E	FY24E	FY25E	FY26E
						EBIT (C\$m)		5.0	15.6	29.9	27.9	25.4
						Add back D&A (C\$m)		1.3	5.3	11.1	13.1	15.7
						Let tax (C\$m)		4.7	6.9	12.7	11.8	10.7
						Change in wkg cap (C\$m)		(4.1)	-	(3.2)	0.0	-
						Plus other non-cash (C\$m)		(22.2)	(3.9)	(8.2)	(7.2)	(7.2)
						Cash flow ops (C\$m)		(2.9)	13.57	25.16	29.21	30.32
						PP&E - build + sust. (C\$m)		(22.2)	(3.9)	(8.2)	(7.2)	(7.2)
						PP&E - expl'n (C\$m)		(4.0)	-	-	-	-
						Cash flow inv. (C\$m)		(26.2)	(3.9)	(8.2)	(7.2)	(7.2)
						Share issue (C\$m)		6.0	-	-	-	-
						Debt draw (repay) (C\$m)		10.0	(10.0)	-	-	-
						Other (C\$m)		-	-	-	-	-
						Cash flow fin. (C\$m)		16.00	(10.0)	-	-	-
						Net change in cash (C\$m)		(13.1)	(0.3)	17.0	22.0	23.1
						EBITDA (C\$m)		(4.7)	(6.9)	(12.7)	(11.8)	(10.7)
						Balance sheet (yr to Jun)		FY22E	FY23E	FY24E	FY25E	FY26E
						Cash (C\$m)		8.1	7.8	24.7	46.7	69.8
						Acc rec., inv, prepaid (C\$m)		6.6	8.9	10.4	10.4	10.4
						PP&E + other (C\$m)		66.4	62.7	62.8	57.0	48.5
						Total assets (C\$m)		81.1	79.3	98.0	114.1	128.7
						Debt (C\$m)		10.1	-	-	-	-
						Accounts payable (C\$m)		1.6	1.6	3.0	3.0	3.0
						Others (C\$m)		-	-	-	-	-
						Total liabilities (C\$m)		24.5	14.5	15.9	15.9	15.9
						Sh'hlds equity + wrnts (C\$m)		59.5	59.5	59.5	59.5	59.5
						Rt'nd earn'gs + rsvs (C\$m)		21.6	19.8	38.5	54.6	69.3
						Liabilities + equity (C\$m)		81.1	79.3	98.0	114.1	128.7

60koz

45koz

30koz

15koz

0koz

Gold prod'n (LHS, 000oz)

AISC (RHS, US\$/oz Au)

CY21

CY22

CY23

CY24

CY25

800/oz

1000/oz

1200/oz

1400/oz

1600/oz

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**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

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9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

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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

<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

## O3 MINING (OIII CN)

# Development asset with Val d'Or pipeline to grow

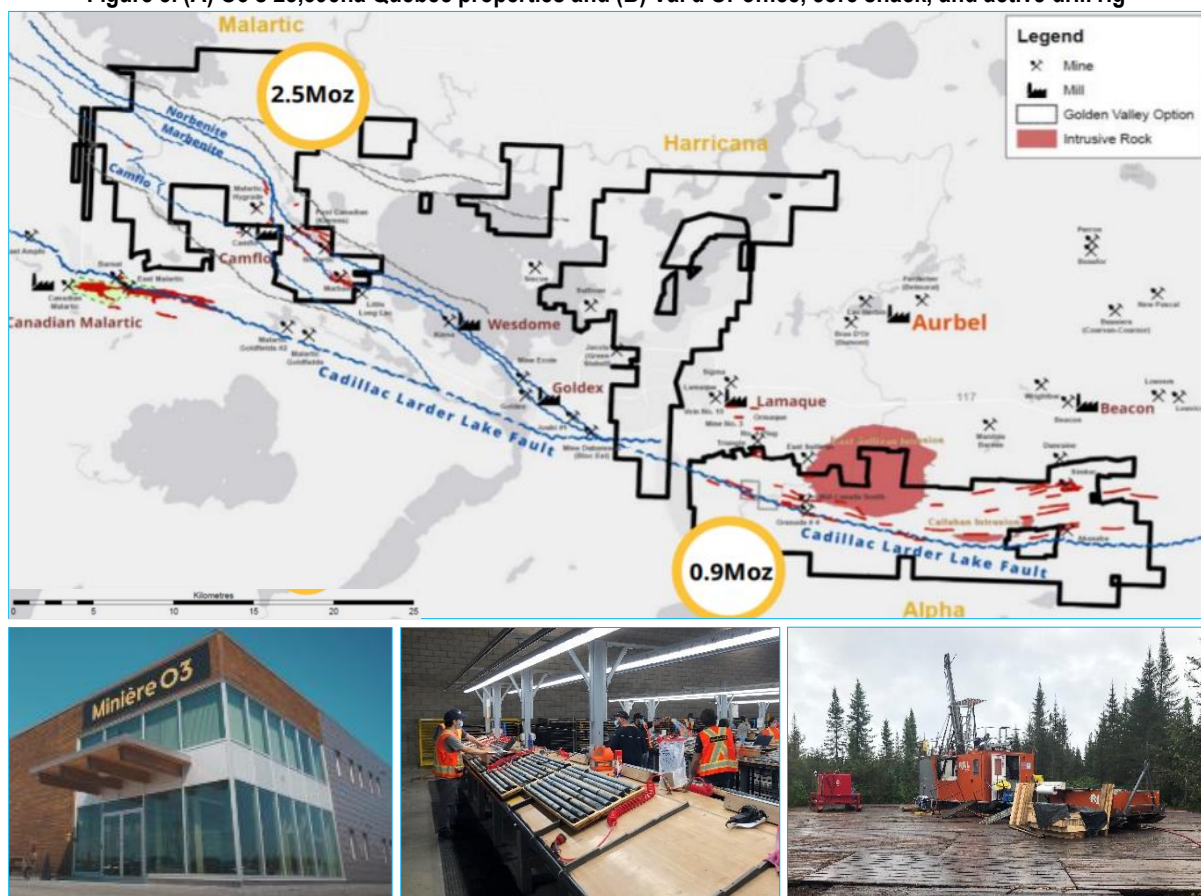
RECOMMENDATION: BUY

PRICE TARGET: C\$5.95/sh

RISK RATING: SPECULATIVE

What we like about O3 is that they are taking the path-to-production seriously – no, small-step outs and infill drilling isn't as appealing to investors as new discoveries (although both are underway), but it is what is needed if one is to take gold assets to DFS, critical for M&A in our view, or into production. Herein lies the opportunity – while the company is getting on with the business of adding value, its share price has been a laggard. We expect this gap to close once the rewards of said drilling hit the tape in the form of increased ounces and more advanced studies. The growing 3.4Moz 'base load' ahead of the PFS, and continued focus on discovery by drill rig, is the engine room of our thesis. On existing resources alone we estimate O3 is trading below the peer group at 0.26xNAV despite >3Moz on infrastructure in a world-class Archean camp. This is also before the strategic value of their 28,395ha land position in Quebec, surrounded by producers, is considered, itself likely putting the pressure on the producers seeking growth / reserve replacement. Current C\$77m cash and marketable securities leaves O3 well-funded to advance its own narrative, with a 'free ride' on its ~C\$60m investment in Moneta adding to the optionality along the belt in Timmins. As such, **we maintain our BUY rating and C\$5.95/sh PT** based on 0.5xNAV5%-1850 for Marban, including a SCPe 100koz @ 2.75g/t satellite and a conservative US\$10/oz for resources outside reserves. Locally, O3 has a significant presence in the community of Val d'Or, from the branding over the Val d'Or office and top-shelf core shack through to the local workforce. The company is operating with safety and ESG at the forefront, expecting to be the 2<sup>nd</sup> exploration / development company in Quebec to receive the ECOLOGO certification this year (first ESG certification of its kind for mineral exploration companies in Quebec).

Figure 8. (A) O3's 28,395ha Quebec properties and (B) Val d'Or office, core shack, and active drill rig



Source: O3

### Largest holding on Cadillac Break of any junior; trading at a discount with 3.4Moz and growing

O3 has built up a commanding 28,395ha (Figure 9A) landholding along, and to the north of, the Cadillac Break extending from west of Val d'Or at Marban (north of Malartic) through Val d'Or from the acquisition of Alexandria, and to the east on East Cadillac, acquired from Chalice Gold after their return to Australia. The two focus areas include 7,525ha at Marban and ~12,000ha at Alpha. Put simply, this strategic portfolio warrants a premium in our view. Additionally, the company has optioned Aurbel mill capacity from QMX (now Eldorado Gold), providing a permitted TMF for acid-forming tails as well in the event these are required in the future, another strategic puzzle piece.

### One of the largest drill programs in Canada this year; fully funded to create value

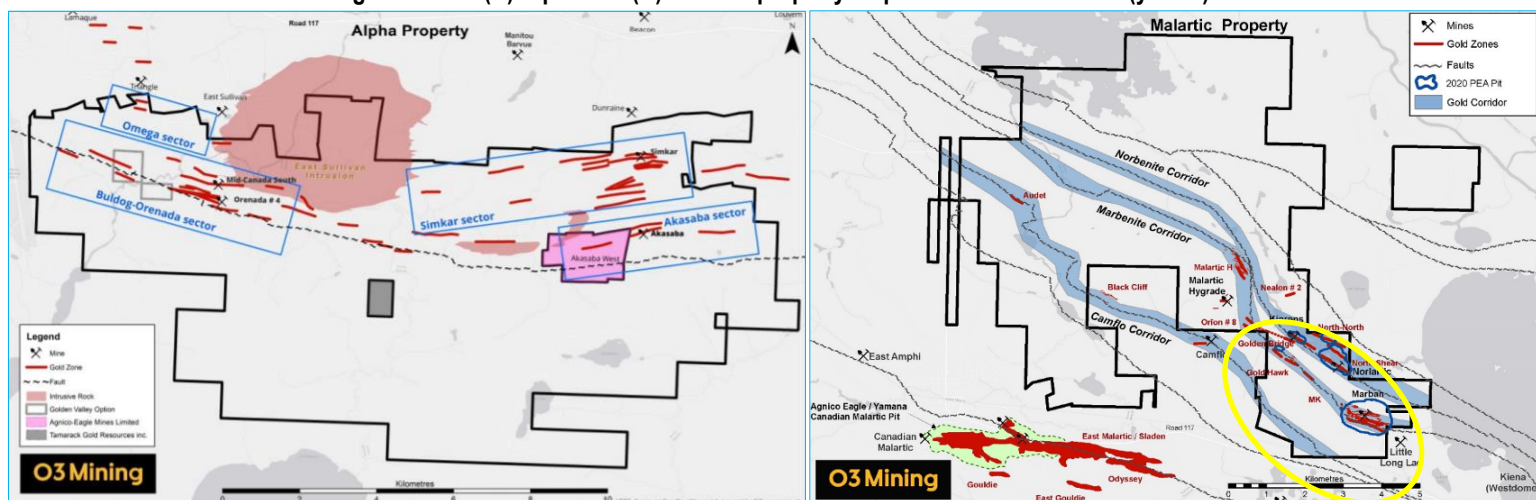
As of 1Q21, we estimate O3's treasury stands at ~C\$77m and after selling Garrison to Moneta for 27% interest. This year, O3 is drilling 150,000m, with 80,000m at Marban (27,640m completed) and 56,000m at Alpha (>38,000 completed). Drilling will continue year round ramping up to eight rigs in August. At the **Malartic** project, four drills are active with the focus currently on resource infill and expansion drilling of the PEA pit areas from Kierens > Norlartic including North Zone / Triple North as well as Marban that will ultimately form the first reserves in the PFS. More recently, near surface hits continue to demonstrate that the mineralization extends between the two Kierens and Norlartic pit shells and perhaps even connecting over the 2km strike length. In our view at the very least, we think there is an additional satellite between Kierens and Norlartic, albeit more assays are pending.

**Marban underground:** With analogies to predecessor asset Malartic mine just next door, Marban appears to be going underground. This is longer term upside as exemplified by recent UG hits at ~200m below the current PEA mine scenario including **1.2m @ 38g/t**, which is one of the very few holes drilled in this area, under the centre of gravity at Marban.

**Alpha:** strike / depth drilling at Bulldog-Omega Sector (Orenada Zone #4, Bulldog, and Pontiac Zones), the Akasaba sector, and Simkar sector—all of which could see additional new parallel zones discovered, with three parallel zones identified at Bulldog during the winter drilling. Key here is bringing Bulldog into inferred MRE next year on 50m spacing; in our view this will be aided by the good continuity at Bullfrog and consistent 3-10g/t grades.

**Alpha exploration** targeting Sigma style vein systems at Omega just a few hundred meters from Eldorado's Triangle deposit is a target. Results from the ongoing resource expansion and exploration drilling are pending. Stepping back, with 150,000m of drilling providing consistent news flow, we see iterative ounces coming from multiple directions, and it is becoming clear to us that the existing **3.2Moz @ 1.8g/t** (4Moz incl. 27% of Moneta) is set to grow ahead of the PFS mine plan coming this year.

Figure 9. O3's (A) Alpha and (B) Malartic property maps with PFS focus area (yellow)



Source: O3

## Strategic optionality with >28,000ha still wide open for new discoveries

Whilst Marban and Alpha are the engine rooms of value today, we look ahead to the large land package outside the Malartic (Figure 9) area for its strategic value. Key here is that the Marbenite and Norbenite gold-mineralisation corridors that extend even further NW towards Orion, with in our view, the same ingredients for discovery, with an even larger footprint than the current area of focus. Again, the strategic value here shouldn't be underestimated as the camp continues to heat up with pressure on producers to replace reserves. This is apparent not only in Eldorado's recent investment in Probe, but also by Yamana's acquisition of Monarch Gold for its Wassamac project and Camflo mill. Even more recently, Yamana indicated plans to develop an exploration program for the Camflo property which, given the proximity of Camflo to the Canadian Malartic mine, is being considered for inclusion in the Canadian Malartic JV. Camflo was a producing underground gold mine for 27 years, closing in 1992. What's interesting here is that the historic intrusive host (porphyritic plug) yielded 1.65Moz @ 5.8g/t mined to 1km depth (1,659oz/vm) and sits on the edge of O3's claim boundary. Based on the v/m, the plunging ore body to the north, another 1km extension could add a speculative SCPe 1Moz potential target on O3's side of the boundary. Although speculative on our part, and while Yamana is in the early stages of developing targets, O3 benefits from years of digitized and compiled data to aid exploration efforts across the belt. Key here is this is just one example of exploration targets outside the Malartic / Alpha properties that offer investors exposure to discovery upside.

## Recommendation: reiterating our BUY rating and C\$5.95/sh price target

We model O3 on a DCF basis based on a diluted pittable 29Mt @ 1.2g/t mined over 10 years, with a nominal 100koz @ 2.75g/t satellite feed. This returns a build start NPV<sub>5%-1850</sub> of C\$505m. Adding cash and investments of C\$77m, cash from options and a nominal US\$30/oz for ounces outside our mine plan drives 1xNAV<sub>5%-1850</sub> of C\$704m. As such, we maintain our BUY rating and 0.5xNAV<sub>5%-1850</sub> PT of C\$5.95/sh. At the current C\$2.49/sh, we estimate O3 is trading at just 0.27xNAV<sub>5%-1850</sub>. Stepping back, O3 is a C\$144m company, with an impressive 150,000m of planned drilling on ~50km of prolific Archean belt, and over C\$50m of cash and investments to back it up. With just 1.1Moz of production valued at 5x the current market cap, this is a conviction name for us.

SOTP project valuation*					Asset value: 1xNPV project @ build start (C\$m, ungeared)*					
	C\$m	O/ship	NAVx	C\$/sh	Project NPV (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz
Marban proj @ 2Q22 build start	505	100%	0.5x	2.96	10.0% discount	303	353	402	500	549
Cash @ 1Q21	77	100%	1.00x	0.91	7.5% discount	366	421	477	587	642
Cash from options	58	100%	1.00x	0.68	5.0% discount	442	505	568	693	755
Resource ex reserve @ US\$10/oz	63	100%	1.10x	0.82	Ungeared project IRR:	34%	37%	41%	48%	51%
O3 interest in Moneta Porcupine	51	27%	1.00x	0.60						
Asset NAV5% US\$1850/oz	704			PT: 5.96						
*Diluted for options but not mine build					Market P/NAV5% 3Q20 0.26x					

Source: SCP estimates

## Why we like O3

- Large holding on global top-three Archean belt straddling the Cadillac Break around Val d'Or
- Existing 'base load' 2.5Moz resource / 1.8Moz inventory / 134koz pa Y1-10 scenario at Marban
- 27% ownership of 8.4Moz Moneta where Garrison provides base-load while Highway lifts grade
- 'Get it done, fast' including 150km drill programme underway speeds equity ROI

## Catalysts

- CY21: 150,000m
- 2021: Marban PFS
- 2022: SCP Marban construction start
- 2024: SCP Marban commercial production

## Research

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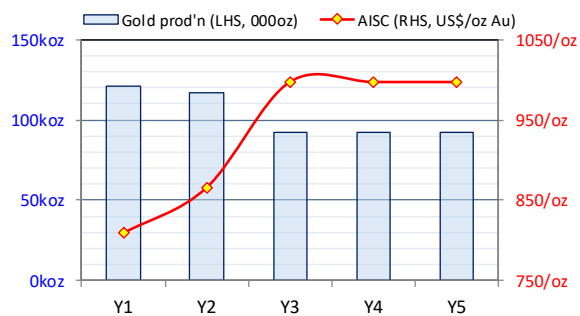
Ticker: OIII CN		Price / mkt cap: C\$2.29/sh, C\$156m				Project PNAV today: 0.26x		Asset: Marban + Val d'Or					
Author: Brock Salier		Rec / xNAV PT: BUY, C\$5.95/sh				1xNAV build start, FD: C\$8.85/sh		Country: Canada, QC / ON					
Commodity price		CY20E	CY21E	CY22E	CY23E	CY24E	Resource / Reserve		Au (koz)	Au (g/t)	Deposit	Au (koz)	
Gold price		1,768	1,863	1,857	1,852	1,850	M&I		3934koz	2.16g/t	Marban	1785koz	
SOTP project valuation*							Inferred		2118koz	0.29g/t	Akasaba	543koz	
		C\$m	O/ship	NAVx	C\$/sh		Total		6052koz	1.13g/t	Orenada	321koz	
Marban proj @ 2Q22 build start		505	100%	0.5x	2.96		SCPe Marban pit inventory		1118koz	1.21g/t	epy, E Cadillac, Simkar	3403koz	
Cash @ 1Q21		77	100%	1.00x	0.91		SCPe Marban satellite inventory		100koz	2.75g/t			
Cash from options		58	100%	1.00x	0.68								
Resource ex reserve @ US\$10/oz		63	100%	1.10x	0.82								
O3 interest in Moneta Porcupine		51	27%	1.00x	0.60								
Asset NAV5% US\$1850/oz		704			PT: 5.96								
*Diluted for options but not mine build		Market P/NAV5% 3Q20				0.26x							
Asset value: 1xNPV project @ build start (C\$m, ungeared)*													
Project NPV (C\$m)*		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	Share data						
10.0% discount		303	353	402	500	549	Basic in issue (m)		68.0		Mine build equity (C\$m)	103	
7.5% discount		366	421	477	587	642	FD with options (m)		85.3		Mine build debt (C\$m)	135	
5.0% discount		442	505	568	693	755	FD for mine build @ 0.5xNAV (n		108.5		uild shares issued @ 0.5xNAV (m)	23.3	
Ungeared project IRR:		34%	37%	41%	48%	51%	Ratio analysis		CY20E	CY21E	CY22E	CY23E	CY24E
NPV5 (C\$m) vs satellite*		Sat: 0Mt	1.1Mt	1.7Mt	3.4Mt	2.8Mt	Average shares out (m)		54.5	63.4	91.6	108.5	108.5
Satellite grade: 1.75g/t		431	461	476	504	504	EPS (C\$/sh)		-	-	-	0.15	0.69
Satellite grade: 2.75g/t		431	505	542	618	613	CFPS (C\$/sh)		-	-	-	-	0.91
Satellite grade: 3.75g/t		431	549	605	730	721	EV (C\$m)		90.6	111.6	162.0	348.2	249.3
*Project level NPV, excl finance costs and central SGA, discounted to build start							FCF yield (%)		-	-	-	-	40%
Group valuation over time^		2Q21	2Q22	2Q23	2Q24	2Q25	PER (x)		-	-	-	15.4x	3.3x
Marban NPV (C\$m)		478.0	505.0	650.6	752.6	669.9	P/CF (x)		-	-	-	-	2.5x
G&A and finance costs (C\$m)		(72.0)	(70.3)	(67.0)	(54.4)	(42.4)	EV/EBITDA (x)		-	-	-	6.9x	1.5x
Net cash prior qtr (C\$m)		62.3	24.0	10.2	(73.9)	23.8	Income statement		CY20E	CY21E	CY22E	CY23E	CY24E
Cash from options (C\$m)		58.4	58.4	58.4	58.4	58.4	Net revenue (C\$m)		-	-	-	81.2	288.0
Resource ex reserve (C\$m)		63.3	63.3	63.3	63.3	63.3	COGS (C\$m)		-	-	-	26.1	122.6
O3 interest in Moneta Porcupine		50.8	50.8	50.8	50.8	50.8	Gross profit (C\$m)		-	-	-	55.1	165.4
NAV FF FD (C\$m)		590	580	716	746	773	D&A, attrib (C\$m)		0.0	(0.0)	(0.0)	7.7	25.9
Shares in issue (m)		60.3	63.3	108.5	108.5	108.5	Group G&A (C\$m)		4.7	4.8	4.8	4.6	4.0
1xNAV5%/sh FF FD (C\$/sh)		9.78	9.16	6.59	6.87	7.12	Finance cost (C\$m)		0.1	0.0	-	9.0	10.3
Equity ROI from spot (% pa)				70%	44%	33%	Taxes (C\$m)		-	-	-	17.7	49.9
Geared company NAV diluted for mine build, net G&A and finance cost							Net income (C\$m)		(4.8)	(4.8)	(4.8)	16.2	75.2
3Q22 1xNAV FF FD (C\$/sh)^		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	EBITDA (C\$m)		3.3	22.8	(6.7)	48.6	159.5
10.0% discount		536	590	644	752	806	Cash flow, attrib.		CY20E	CY21E	CY22E	CY23E	CY24E
7.5% discount		588	647	707	825	884	EBIT (C\$m)		(4.8)	(4.8)	(4.8)	42.8	135.5
5.0% discount		650	716	781	912	978	Add back D&A (C\$m)		0.0	(0.0)	(0.0)	7.7	25.9
Geared project IRR:		31%	35%	38%	45%	48%	Less tax (C\$m)		0.1	0.0	-	26.7	60.3
2Q22 1xNAV FF FD (C\$/sh)^		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	Net change in wkg cap (C\$m)		0.8	(0.3)	0.7	21.0	(1.1)
10.0% discount		4.58	5.16	5.74	6.92	7.51	Add back other non-cash (C\$m)		(0.7)	(0.1)	(1.4)	(95.3)	(118.3)
7.5% discount		5.16	5.81	6.46	7.77	8.42	Cash flow ops (C\$m)		(4.6)	(5.2)	(5.5)	2.8	102.3
5.0% discount		5.87	6.59	7.32	8.78	9.51	PP&E - build + sust. (C\$m)		1.4	0.1	(75.0)	(150.2)	(3.4)
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity							PP&E - expl'n (C\$m)		(15.9)	(33.4)	(8.3)	-	-
Production		Y1	Y2	Y3	Y4	Y5	Cash flow inv. (C\$m)		(14.6)	(33.3)	(83.3)	(150.2)	(3.4)
Gold production (000oz)		121	117	92	92	92	Share issue (C\$m)		37.9	33.0	103.0	-	-
C1 cost (US\$/oz)		708	762	880	880	880	Debt draw (repay) (C\$m)		-	-	44.9	89.7	(22.4)
AISC cost (US\$/oz)		809	866	997	997	997	Cash flow fin. (C\$m)		37.9	33.0	147.9	89.7	(22.4)
AISC = C1 + ug sustaining capex, Y1 = 12M to Sep 2024							Net change in cash (C\$m)		18.7	(5.5)	59.0	(57.6)	76.5
							Balance sheet		CY20E	CY21E	CY22E	CY23E	CY24E
							Cash (C\$m)		34.3	33.6	92.6	35.0	111.5
							Acc rec., inv, prepaid (C\$m)		2.5	2.2	2.2	31.7	32.1
							PP&E + other (C\$m)		174.3	230.8	314.2	456.7	434.1
							Total assets (C\$m)		211.1	266.6	409.0	523.4	577.7
							Debt (C\$m)		-	-	44.9	134.6	112.2
							Accounts payable (C\$m)		3.3	5.0	4.3	12.8	14.3
							Others (C\$m)		13.1	24.1	24.1	24.1	24.1
							Total liabilities (C\$m)		16.3	29.0	73.2	171.5	150.5
							Sh'hlds equity + wrnts (C\$m)		184.2	203.7	308.6	310.5	312.4
							Retained earn'gs + rsvs (C\$m)		10.6	34.0	27.2	41.5	114.8
							Liabilities + equity (C\$m)		211.1	266.6	409.0	523.4	577.7

Gold prod'n (LHS, 000oz)

AISC (RHS, US\$/oz Au)

Year	Gold prod'n (000oz)	AISC (US\$/oz Au)
Y1	121	708
Y2	117	762
Y3	92	880
Y4	92	880
Y5	92	880

Source: SCP estimates



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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

<sup>2</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

## PROBE METALS (PRB CN)

# 3Q PEA to provide first look at Val d'Or mining hub

RECOMMENDATION: **BUY**

PRICE TARGET: **C\$3.00/sh**

RISK RATING: **HIGH**

On the back of the material ounce lift in the updated MRE last quarter, we visited Val d'Or East earlier this month to catch up with Probe's progress ahead of the upcoming 3Q21 PEA. What stood out for us was how readily accessible Probe's growing 4Moz 'base load' is, located on significant infrastructure in a tier one jurisdiction, but only trading at 0.26xNAV ahead of developing a future mining center at Val d'Or East. Most impressively is the pace at which Probe has advanced this project from consolidation, to geological 'rethink', multiple discoveries and resource growth at significantly low discovery \$/oz costs. We estimate a discovery cost of <C\$35/oz most recently – with most of the southern Detour belt, and Monique still growing. We would now look to twin-track value drivers of progressing engineering, while continuing doing what Probe does best – finding gold. As such, **we maintain our BUY rating and 0.4xNAV<sup>5%-1850</sup> PT C\$3.00/sh**. This is based on 0.4xNAV for the pre-PEA complex, adding 1Q21 cash of C\$33m, cash from and US\$30/oz for resources outside reserves, and dilution for options. While the PEA remains the key catalyst, as noted above exploration should continue at pace on new areas. M&A as a flyer remains somewhat an understatement after neighbor Eldorado recently picked up the old Goldcorp (now Newmont) block for C\$23m, taking an 11.5% stake in Probe, putting fuel on the 'be fast or be last' theme.

Figure 10. (A) Pascalis /Courvan aerial view, (B) Beliveau outcrop, E-W veins within mineralized NS dyke



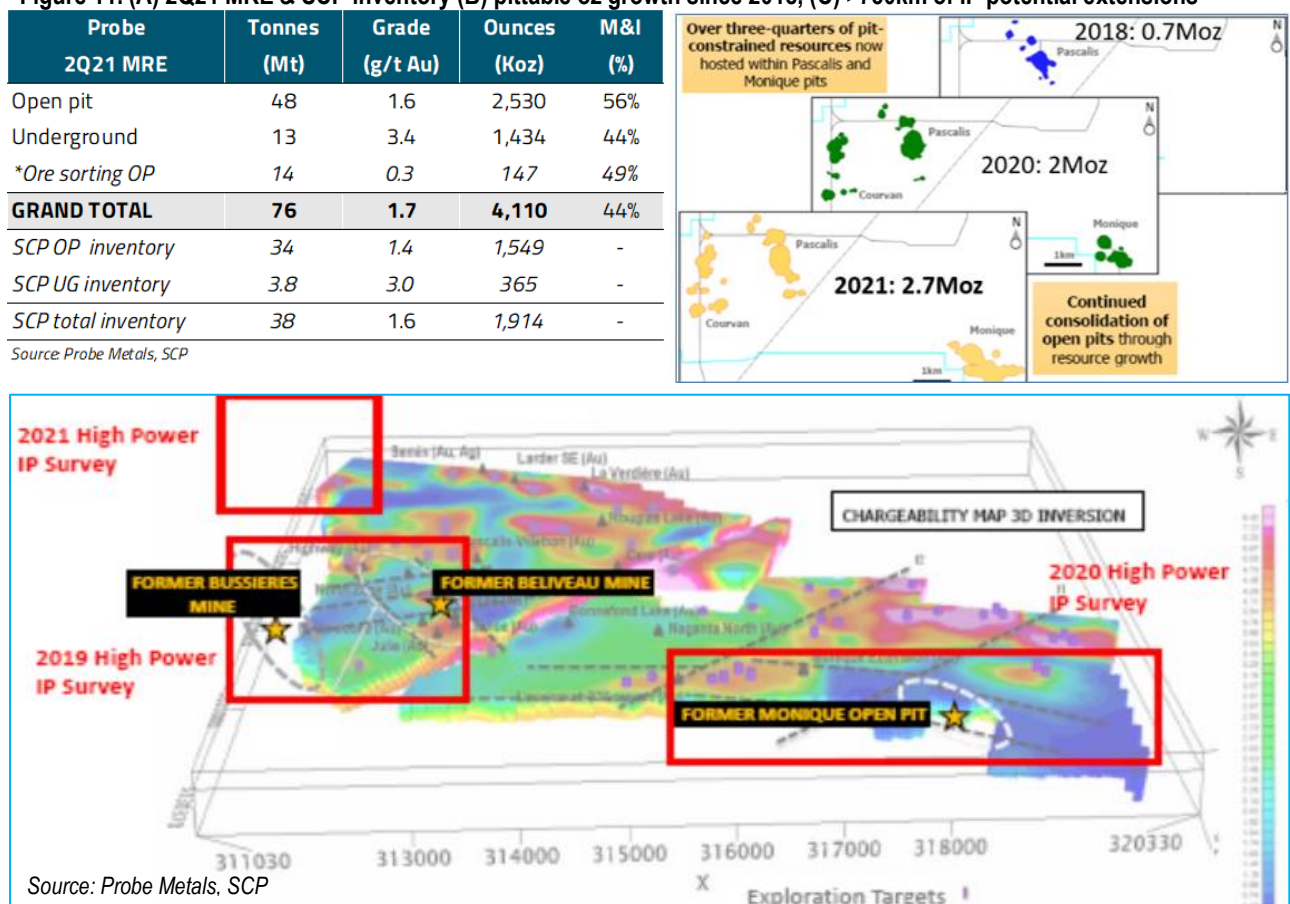
### An emerging mining center at Val d'Or East capable of SCPe 200koz pa; PEA in 3Q21

We visited Val d'Or East ahead of the 3Q21 PEA that will show the first parameters on what would be, in our view, a sizable new mining center. **Firstly**, proximity to infrastructures is a clear advantage (rail, power, natural gas) and the area is readily accessible via existing roads (Figure 10), making it clear that trucking to a centralized mill is easily achievable. **Secondly**, the deposit is still growing with 50,000m of drilling underway to convert and expand near surface mineralization as well as at depth for a future underground scenario once pits are depleted. Probe continues at a steady pace and ultra-low discovery cost at \$35/oz, among the lowest in the region and a reflection of the consistent ounce growth since first consolidating the area in 2016. Now that critical mass has been reached with 4.1Moz @ 1.7g/t globally, and while the centre of gravity shifted towards Monique at 1.3Moz (959koz in pit) on the permitted mining lease, the greatest value is still at New Beliveau by way of a higher grade starter pit to payback the mill. **Thirdly**, we remain encouraged by the 'real worlding' of the latest MRE, refining model constraints for what looks to be, in our view, very conservative and appropriate to form the basis of the PEA. **Lastly**, the clever use of ore sorting may prove useful here, targeting stockpiles below cut-off that can be ore sorted to higher grades in the later years, transforming waste / marginal material to higher value ounces entirely bonus to the mining inventory.

## Resource now more conservative and still growing ahead of the PEA

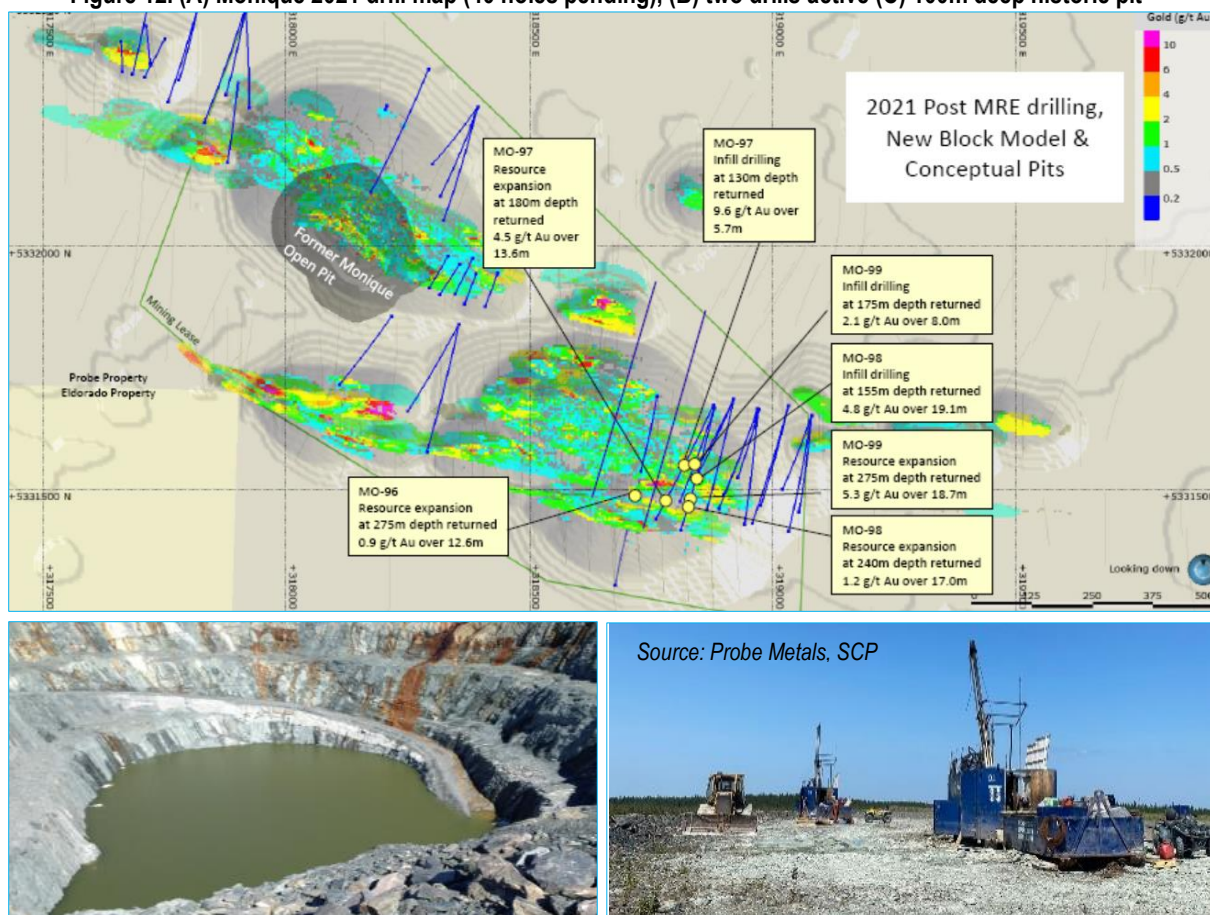
As of the December 2020 cut-off for resource inclusion, Probe has now built up 4Moz @ 1.7g/t across its commanding 436km<sup>2</sup> landholding in Val d'Or East. The centre of gravity has been the Courvan and Pascalis trends just east of the regional batholith, but drilling and ounce growth shifted to Monique, adding 652koz in the pits, and another 85koz UG in the last MRE update. The 2Q21 resource comprises 2.5Moz @ 1.6g/t of pit-constrained material, and is open to depth with 1.4Moz @ 3.4g/t UG constrained material. Stepping back, the recent MRE update was all about a cleanup as constraints were tightened up ahead of the PEA. Still, it was a delight to see that recent drill success at Monique has essentially added far more than was removed by tighter constraints. This has come coincident with M&I lifting from 27% to 44% to provide a good foundation for the 3Q21 PEA. Looking ahead, Probe is on track to complete 50,000m of drilling this year focused on infill and expansions of pit resources, UG extensions, and new discoveries regionally via demonstrated success using high-powered geophysics. Figure 11C shows >750km of IP and magnetic surveys completed over 2018-2020 which have outlined potential extensions of mineralization across the property.

Figure 11. (A) 2Q21 MRE & SCP inventory (B) pitable oz growth since 2018, (C) >750km of IP potential extensions



At **Monique**, we observed two active drills targeting UG targets from the historic ROM waste dump which is approved to be used in the future road construction—a useful savings. The advantage of this asset, other than 'still growing' is a typical vertical orientation, meaning the ore should be more amenable to UG mining. Additionally, 90% of the resources are within the active mining lease, from which Richmond historically mined >46koz @ 2.5g/t from the J and G Zones at 96% recovery down to 100m depth between 2013-2015. Approximately 23,000m of drilling has been completed along the Monique Trend, focused on resource expansion / infill with ~40 holes pending assay. Recently released highlights **13.6m @ 4.5g/t** and **18.7m @ 5.3g/t** <250m depths (Figure 12A). The softer ground here makes this a better target for winter drilling, at that time Probe will continue delineating between pits as there are notable gaps not due to discontinuity, but simply a lack of drilling.

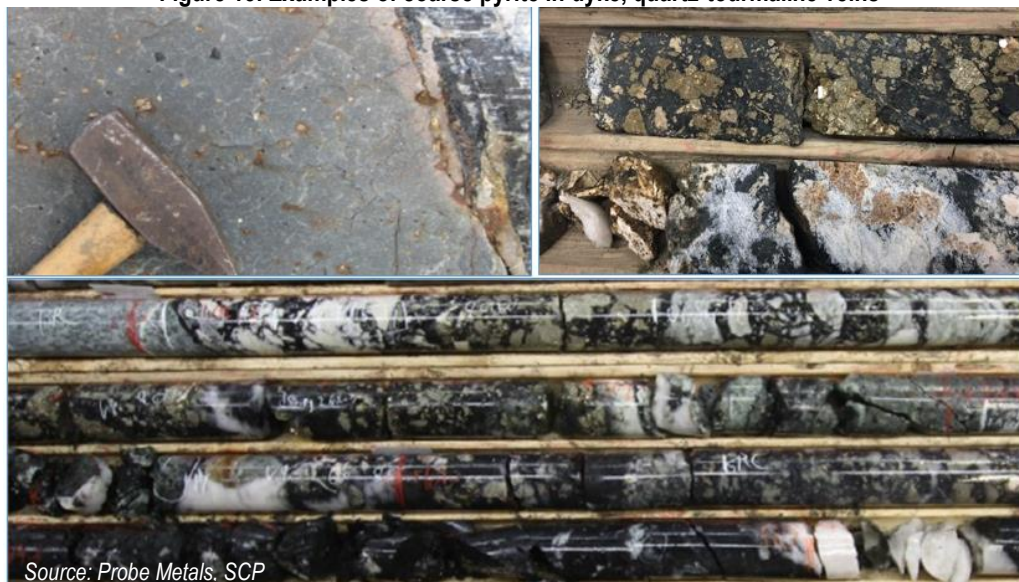
Figure 12. (A) Monique 2021 drill map (40 holes pending), (B) two drills active (C) 100m deep historic pit



### Opportunity to add higher grade ounces with ore sorting material below cut-off

Ore sorting is not critical to the PEA mine plan as the large endowment supports itself, with studies focussed on differentiating 0.25-0.42 g/t pyrite-rich mineralized material (Figure 13) into mill feed. This is different from typical 'vein vs wall rock' scenarios, with modelled 68% overall gold recovery with gravity leaching and 75% recovery from sorting seeming conservative against 95% recovery from >1.80 g/t ore feed. Adjustment to the 0.40-0.42 g/t cut-off, where >0.25 g/t material may be considered with sorting systems, could add ~75koz @ 0.31g/t. Outside this, studies indicate that >45% mass rejection rates are possible at 95% recovery, a potentially useful cost-saver on mill opex and capex to be defined in the PEA potentially having broader implications across the camp.

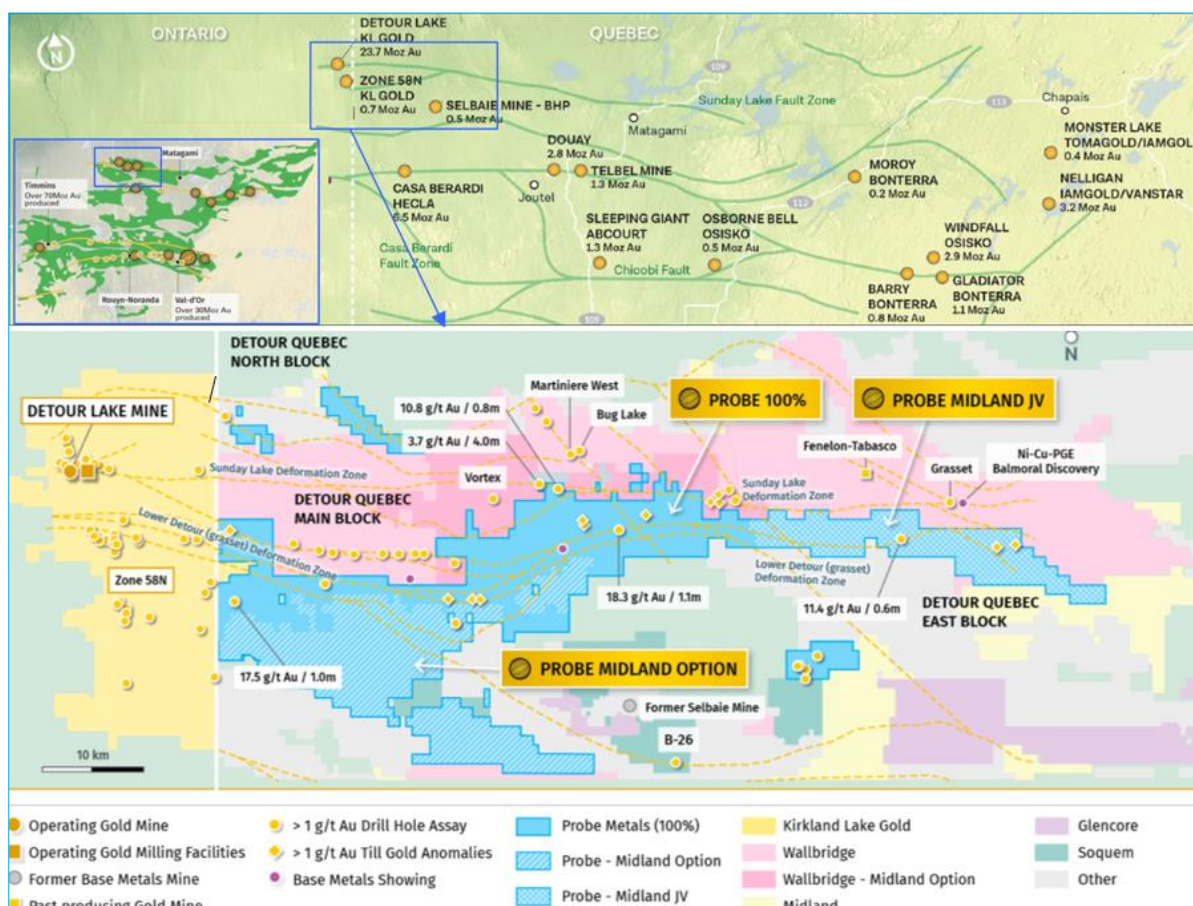
Figure 13. Examples of coarse pyrite in dyke, quartz-tourmaline veins



## Largest strike holding on Detour Gold trend 'in for free'

While Val d'Or has been the focus, Probe has recently identified numerous high-priority gold and gold-copper targets for detailed follow-up in 2021 along its large, 777km<sup>2</sup> Detour Quebec Project (90km in strike). Exploration is already underway with 20,000m planned over the next 12-18 months, including new ground geophysics, geochem, and expansion of the geophysical grid in the Gaudet-Fenelon JV area, concurrent with Probe's JV partner to form the basis for 2022 exploration programs. The belt as a whole has seen increased attention with Wallbridge's several tens of thousand of ounces 5km north of Probe and lifted their market cap to >C\$400m. Prior to that, Detour's 2019 **670koz @ 5.4g/t** on the Zone 58N satellite lies on the southern trend, 25km along strike from Probe and growing. With exploration inflows this 'sleeper' asset could add material value in coming years.

Figure 14. Exploration holdings in the Detour belt



Source: Probe Metals, SCP

## Recommendation: Reiterating our BUY rating and C\$3.00/sh target

Ahead of the PEA we maintain our conservative 0.4xNAV multiple. Adding cash and from ITM options, we also apply US\$30/oz for resources outside reserves. Diluting for options but not for mine build, we maintain our BUY rating and C\$3.00/sh PT. As noted above, we see immediate potential to (i) optimise the pit for higher grades early on, (ii) expand the underground resource, (iii) assess a larger plant, and (iv) reduce surface mining costs. At the current C\$1.70/sh, we estimate Probe is trading at just 0.28NAV5%-1850.

SOTP project valuation*					Asset value: 1xNPV project @ build start (C\$m, ungeared)*					
	C\$m	O/ship	NAVx	C\$/sh	Project NPV (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz
Ungeared proj. @ build start (1Q23)	771	100%	0.40x	2.04	10.0% discount	458	536	615	772	850
Cash & investments @ 1Q21	33	100%	1.00x	0.22	7.5% discount	554	643	731	908	996
Cash from options	29	100%	1.00x	0.19	5.0% discount	670	771	871	1,071	1,170
Resource outside reserve @ US\$30/oz	80	100%	1.00x	0.53	Ungeared project IRR:	34%	37%	40%	46%	48%
Asset NAV5% US\$1850/oz	913		PT:	2.97	Source: Probe Metals, SCP					
*Shares diluted for options but not mine build					Market P/NAV5% 3Q20 0.26x					

## Why we like Probe

- Global 4.0Moz resource in a top tier jurisdiction
- Strong pipeline of assets outside of the existing resource
- 3Q21 PEA to show constrained resource and economics
- 777km<sup>2</sup> on Detour belt offers additional upside

## Catalysts

- 3Q21: Val d'Or East PEA
- 1H22: SCPe Val d'Or East PFS
- 4Q22: SCPe Val d'Or East DFS
- 1Q23/25: SCPe build start and first pour

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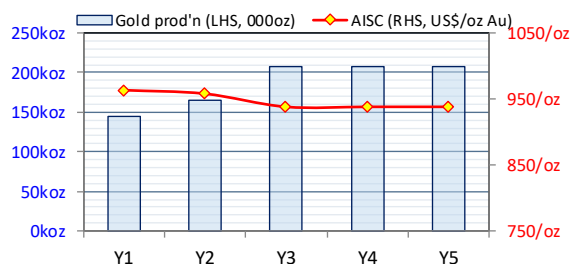
Ticker: PRB CN		Price / mkt cap:		C\$1.7/sh, C\$221m		Project PNAV today:		0.28x		Asset:		Val d'Or East						
Author: Brock Salier		Rec / xNAV PT:		BUY, C\$3/sh		1xNAV <sub>1Q21</sub> FF FD:		C\$5.97/sh		Country:		Canada, Quebec						
Commodity price		CY20E	CY21E	CY22E	CY23E	CY24E	Resource		Au (koz)	Au (g/t)	Inventory	Deposit	Au (koz)					
Gold price		1,806	1,935	1,895	1,858	1,850	Pit constrained		2530koz	1.61g/t	Pit constr.	1549koz	1.43g/t					
SOTP project valuation*							Underground		1434koz	2.98g/t	UG	365koz	2.96g/t					
		C\$m	O/ship	NAVx	C\$/sh		Shares outstanding (m)											
Proj. @ build start (1Q23)		777	100%	0.40x	2.05		Basic in issue (m)		130.2	Build shares @ 0.5xNAV (m)		23.8						
Cash & investments @ 1Q21		33	100%	1.00x	0.22		FD with options (m)		151.5	FD mine build @ 0.5xNAV (m)		175.3						
Cash from options		29	100%	1.00x	0.19		Uses of funds (C\$m)							Sources of funds (C\$m)				
Resource ex reserve @ US\$30/oz		83	100%	1.00x	0.55		Pre-prod'n capex (C\$m)		300	Cash + cash from options (C\$m)		50						
Asset NAV5% US\$1850/oz		922			PT:	3.01	G&A / fin. cost to 1st Au (C\$m)		72	Mine build equity (C\$m)		145						
*Shares diluted for options but not mine build Market P/NAV5% 3Q20 0.28x							Working cap (C\$m)		12	Mine build debt (C\$m)		195						
Asset value: 1xNPV project @ build start (C\$m, ungeared)*							Peak financing (C\$m)		383	Total sources (C\$m)		390						
Project NPV (C\$m)*		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	Buffer (C\$m)							7				
10.0% discount		461	540	619	777	855	Ratio analysis							CY20E	CY21E	CY22E	CY23E	CY24E
7.5% discount		559	648	737	915	1,002	Average shares out (m)							124.5	130.2	158.4	175.3	175.3
5.0% discount		676	777	878	1,079	1,179	EPS (C\$/sh)							-	-	-	-	-
Ungeared project IRR:		0%	0%	0%	0%	0%	CFPS (C\$/sh)							-	-	-	-	-
NPV5 (C\$m) vs UG*		Sat: 0Mt	1.0Mt	2.0Mt	3.0Mt	4.0Mt	EV (C\$m)							181.0	205.6	236.2	306.0	475.6
Satellite grade: 3.00g/t		620	648	696	743	790	FCF yield (%)							-	-	-	-	-
Satellite grade: 3.41g/t		620	662	722	783	843	PER (x)							-	-	-	-	-
Satellite grade: 4.00g/t		620	681	760	840	919	P/CF (x)							-	-	-	-	-
1xNAV5%- 1850 (C\$/sh)		\$1238oz	\$1444oz	\$1650oz	\$1850oz	\$2050oz	EV/EBITDA (x)							-	-	-	-	-
8.0% discount		1.45	2.69	3.93	5.08	6.23	Income statement							CY20E	CY21E	CY22E	CY23E	CY24E
6.5% discount		1.65	2.98	4.31	5.56	6.79	Net revenue (C\$m)							-	-	-	-	-
5.0% discount		1.88	3.31	4.75	6.09	7.42	COGS (C\$m)							4.2	-	-	-	-
*Project level NPV, excl finance costs and central SGA, discounted to build start							Gross profit (C\$m)							(4.2)	-	-	-	-
Group valuation over time^		2Q21	2Q22	2Q23	2Q24	2Q25	D&A, attrib (C\$m)							-	0.0	0.0	0.0	-
Val d'Or East NPV (C\$m)		709.2	745.1	826.4	1,025.9	1,188.9	Group G&A (C\$m)							5.6	4.9	4.9	4.7	4.0
G&A + fin. costs (C\$m)		(97.7)	(85.7)	(83.7)	(69.0)	(51.5)	Finance cost (C\$m)							0.3	0.0	-	9.8	15.6
Net cash prior qtr (C\$m)		27.7	11.8	113.7	(50.4)	(179.4)	Taxes (C\$m)							-	-	-	-	-
Cash from options (C\$m)		28.6	28.6	28.6	28.6	28.6	Net income (C\$m)							(10.1)	(4.9)	(4.9)	(14.4)	(19.6)
Resource ex reserve (C\$m)		83.1	83.1	83.1	83.1	83.1	EBITDA (C\$m)							(15.4)	(13.2)	(7.6)	(4.7)	(4.0)
NAV FF FD (C\$m)		751	783	968	1,018	1,070	Cash flow, attrib.							CY20E	CY21E	CY22E	CY23E	CY24E
Shares in issue (m)		125.8	130.2	175.3	175.3	175.3	EBIT (C\$m)							(9.8)	(4.9)	(4.9)	(4.7)	(4.0)
1xNAV5%/sh FF FD (C\$/sh)		5.97	6.01	5.52	5.81	6.10	Add back D&A (C\$m)							-	0.0	0.0	0.0	-
Equity ROI from spot (% pa)				80%	51%	38%	Less tax (C\$m)							0.3	0.0	-	9.8	15.6
Geared company NAV diluted for mine build, net G&A and finance costs							Change in wkg cap (C\$m)							(0.2)	0.2	-	3.3	-
#####		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	Plus other non-cash (C\$m)							(4.8)	(10.3)	(2.8)	(19.5)	(31.2)
10.0% discount		664	745	826	988	1,067	Cash flow ops (C\$m)							(14.5)	(15.0)	(7.6)	(11.1)	(19.6)
7.5% discount		756	847	937	1,119	1,208	PP&E - build + sust. (C\$m)							(0.0)	-	-	(150.0)	(150.0)
5.0% discount		866	968	1,070	1,274	1,375	PP&E - expl'n (C\$m)							(0.1)	-	-	-	-
Geared project IRR:		0%	0%	0%	0%	0%	Cash flow inv. (C\$m)							(0.2)	-	-	(150.0)	(150.0)
^Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity							Share issue (C\$m)							10.0	-	25.0	120.0	-
Production		Y1	Y2	Y3	Y4	Y5	Debt draw (repay) (C\$m)							-	-	-	195.0	-
Gold production (000oz)		144	165	208	208	208	Cash flow fin. (C\$m)							10.0	-	25.0	315.0	-
C1 cost (US\$/oz)		867	867	855	855	855	Net change in cash (C\$m)							(4.7)	(15.0)	17.4	153.9	(169.6)
AISC cost (US\$/oz)		963	957	937	937	937	Balance sheet							CY20E	CY21E	CY22E	CY23E	CY24E
AISC = C1 + ug sustaining capex, Y1 = 12M to Sep 2024							Cash (C\$m)							30.7	15.7	33.1	187.0	17.4
							Acc rec., inv, prepaid (C\$m)							1.8	1.9	1.9	1.9	1.9
							PP&E + other (C\$m)							5.0	6.5	5.6	155.5	305.5
							Total assets (C\$m)							37.5	24.2	40.6	344.4	324.8
							Debt (C\$m)							-	-	-	195.0	195.0
							Accounts payable (C\$m)							1.0	0.9	0.9	4.2	4.2
							Others (C\$m)							5.1	4.5	4.1	4.1	4.1
							Total liabilities (C\$m)							6.1	5.4	5.0	203.3	203.3
							Sh'hlds equity + wrmts (C\$m)							106.8	106.8	131.8	251.8	251.8
							Retained earn'gs + rsvs (C\$m)							(75.3)	(88.0)	(96.2)	(110.6)	(130.2)
							Liabilities + equity (C\$m)							37.5	24.2	40.6	344.4	324.8

Gold prod'n (LHS, 000oz)

AISC (RHS, US\$/oz Au)

Year	Gold prod'n (000oz)	AISC (US\$/oz Au)
Y1	144	867
Y2	165	867
Y3	208	855
Y4	208	855
Y5	208	855

Source: SCP estimates



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

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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

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