Ticker: PRB CN	**Cash 2Q21** C$30m	**Project**: Val d'Or East
Market cap: C$230m	**Price:** C$1.91/sh	**Country:** Canada, QC
RECOMMEND. (unc): BUY	*TARGET (up): C$3.30/sh*	*RISK RATING: HIGH*

Size, size, size. Assets capable of >200koz pa garner premiums from investors and M&A buyers alike, all the more given Probe's on-infrastructure location. Probe's PEA has cleverly optimized the "Three S's": scheduling, strip and stockpiling. ***Scheduling*** *sees SCPe 2.06g/t (vs. LOM 1.13g/t) for 229koz pa in Y1-3. The addition of UG mining and introduction of ore sorting in Y4 stabilizes production as feed grades decline thereafter.* ***Strip*** *comes concurrently with sorting – compared to treating it as waste, processing SCPe 486koz @ 0.46g/t through a sorter (vs. 1.6Moz @ 2.03g/t direct-feed) effectively drops the strip from 13:1 to 6.4:1. Even though the impact on NPV is low given lower grade, more processing and late-life, it is accretive as it removes a cost. Sorting isn't without risk, mainly the lack of common published precedents. What we like about the asset base is that sorting can easily be removed should interested parties want a simpler higher-grade, but smaller, operation (or more pits, less UG, or vice versa).* ***Stockpiling****, treating low-grade at end of life as is common in Australian pits now, (i) improves the NPV, should (ii) lower the cost of debt given the faster payback, which (iii) allows self-funding of Stage 2 capex for the sorter, UG and new fleet.* ***Staging*** *could in fact be seen as a fourth 'S' as it lowers equity dilution up front, with SCPe ~C$400m net cash in Y4 to fund the ore sorter (C$53m) and associated lift in fleet size (C$153m, staged) plus establishment of UG operations. Lifting our project NPV for improved economics, but lowering our value of resources outside of reserve from US$30/oz to US$10/oz given reserve conversion is largely complete,* ***we maintain our BUY rating and 0.4xNAV$_{5\%-1850}$ valuation, lifting our PT from C$3.00/sh to C$3.30/sh****. Exploration is dwarfed by the current value of development operations, but critically should provide good newsflow as engineering studies progress. This comes on two fronts, with the first phase of Detour drilling already complete with JV partner, while ounces at Monique in particular are continuing to grow.*

Table 1. Mining and economic parameters of PEA against SCPe, including new SCP estimates

VAL D'OR EAST SUMMARY	SCP old	PEA	Δ *to old*	SCP new
Pit inventory (000t)	33.8	57.2	69%	57.2
Pit Au grade (g/t)	1.43	1.13	-21%	1.13
Pit inventory Au (000oz)	1,549	2,077	34%	2,084
Strip ratio (x)	7.0	6.4	-8%	6.4
UG Au grade (g/t)	3.0	3.2	9%	3.2
UG inventory Au (000oz)	365	739	103%	739
Au recovery (%)	90.0%	94.7%	5%	94.7%
LOM throughput (ktpa)	3,859	3,650	-5%	3,650
Average production (koz pa)	**177**	**207**	17%	**207**
Production Au LOM (000oz)	**1,723**	**2,587**	50%	**2,583**
Pit mining cost (US$/t)	2.50	2.33	-7%	2.33
UG mining cost (US$/t)	55.50	65.25	18%	65.27
Proc. + G&A cost (US$/t)	15.50	9.95	-36%	11.99

	SCP old	PEA	Δ *to old*	SCP new
C1 cost (US$/oz)	861	786	-9%	774
AISC (US$/oz Au)	953	965	1%	940
Build capex (C$m)	300	353	18%	353
Sust capex (C$m)	76	602	691%	602
Gold price (US$/oz)	1850	1800	-3%	1850
Tax rate (%)	39%	44%	11%	42%
USD / CAD	0.74	0.75	1%	0.75
Discount (%)	5.0%	5.0%	-	5.0%
NPV post-tax (C$m)*	**777**	**1,051**	35%	**1,081**
IRR post-tax (%)	37%	52%	41%	54%
Payback (years)	2.50	1.60	-36%	2.00
Mine life (yrs)	9.75	12.50	28%	12.50
SCPe Y1-3 prod'n / grade / AISC:	229koz pa	2.06g/t	475/oz	

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

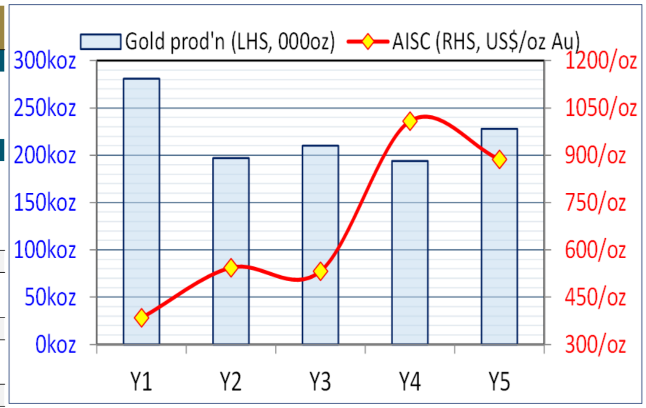
PEA 207koz pa and C$1,051m NPV$_{1800}$ firm beat on SCPe 177koz pa and C$777m NPV$_{1850}$

Probe's PEA sees 2.6Moz processed at 3.65Mt/year for an average 207koz pa production over 12.5 years from open pits. Mining of the 2.1Moz @ 1.13g/t pittable inventory direct feeds to the mill in Y1-3 (*SCPe 229koz pa @ 2.1g/t feed for US$475/oz AISC)*. Ore sorting commences in Y4; crushing capacity is lifted to 6.1Mtpa alongside a larger mining fleet to enable SCPe 486koz @ 0.46g/t to be upgraded to 402koz @ 0.91g/t at SCPe 42% mass pull and 83% recovery, while the mill continues at 3.65Mtpa. At the same time, as early pits bottom, UG mining commences on the SCPe 739koz @ 3.23g/t UG inventory. After start-up capex of C$353m, the operation self-funds the sorter (C$55m) and increased fleet (C$153m), while C$331m LOM UG capex is captured in the AISC (~C$35m pa for ~750ktpa UG across three declines), as is

C$63m of above-ground sustaining capex. This drives LOM AISC of US$965/oz for an after-tax $NPV_{5\%\text{-}1800}$ of C$1,051m with 52% IRR and a 1.6yr payback (C$598m $NPV_{5\text{-}1500}$ base case). The flow sheet sees 50% gravity recovery and 94.7% total recovery from a vanilla free milling CIP.

Figure 1. (A) SPCe inventory sorting splits and (B) production profile

Val d'Or East	Tonnes Mt	Grade (g/t Au)	Ounces koz	M&I (%)
RESOURCES				
UG resource (1.65-2.05g/t cut of	11,492	3.29	1,216	25%
OP resource (0.25g/t cut off)	62,836	1.33	2,680	56%
Total resource	74,328	1.63	3,896	49%
SCPe mining inventory				
SCPe UG inventory	7,115	3.23	739	
Resource conversion	62%	98%	61%	
SCPe pit inventory	57,172	1.13	2,073	
Resource conversion	91%	85%	77%	
SCPe inventory / reserve	64,287	1.36	2,812	
of which is OP sorter feed	32,855	0.46	486	
of which pit feed directo to mill	24,317	2.03	1,587	
Sorter performace:	Mass pull: 42%		Recovery: 83%	
Sorter product for mill:	13,766	0.91	402	
Total OP feed to mill	38,083	1.62	1,989	
TOTAL MILL FEED	45,198	1.88	2,728	



Source: SCP estimates, Probe

Our view

Size, size, size. Investors and M&A alike are paying premiums for 150koz pa assets over the traditional 100koz pa workhorse, with >200koz pa assets in stable jurisdictions increasingly rare, especially vanilla operations. In this regard Probe's portfolio benefits from all three of the Three S's: scheduling, strip and stockpiling. **Scheduling** benefits from starter pits grading at an SCPe 2.06g/t (vs. LOM 1.13g/t), driving 229koz pa (LOM 207koz pa) at SCPe US$475/oz AISC (LOM US$965/oz). Better still, having three declines allows flexibility to run declines from the bottom of starter pits, bulking up production as pit feed-grades decline. **Strip** comes concurrently with sorting – by processing 33Mt of the 57Mt reserve through a sorter (486koz @ 0.46g/t vs. 1.6Moz @ 2.03g/t direct-feed pit material), compared with treating this as waste drops the strip from 13:1 to published 6.4:1. As such, even if this material only has a marginal impact on NPV given it is lower grade, higher processing cost and coming later in the mine-life, it is removing a cost, and hence is materially accretive. Sorting doesn't come without risk, namely the lack of common, public, published precedents of it working to nameplate. However, what we like about ore sorting, especially in an M&A scenario, is that it could be easily removed should any buyer wish for a simpler, albeit smaller operation, ie it is only a marginal addition rather than 'essential'. **Stockpiling** is also factored in as low-grade is processed at the end of life to accelerate production in the early years, (i) improving the NPV, (ii) lowering the cost of debt in particular given the faster payback, which (iii) allows self-funding of Stage 2 capex for the sorter, UG and new fleet on our estimate of ~C$400m net cash ahead of funding requirements for new fleet to support over-mining for sorting (C$153m, staged), the ore sorter (C$53m, Y3), and establishment of UG operations at the same time. We estimate a peak stockpile of ~3Mt, although this and early-years grade / strip profiles are only an estimate until the full mine plan is published.

Valuation: 1x$NPV_{5\%\text{-}1850}$ C$1,088m

We model operations per the PEA, back calculating the open pit inventory and splits into direct- and sorter-feed. This gives an identical production profile, with an SCPe NPV of C$1,013m against published C$1,051m likely related to stockpiling and grade scheduling. From here we simply lift the gold price to our LT US$1,850/oz, supporting an SCP $NPV_{5\text{-}1850}$ of C$1,088m. Adding C$30m of cash and investments, we lower our value for resources outside reserves from US$30/oz to US$10/oz as a reflection of exploration upside more than anything else, given current resources have now been fully 'extracted / converted' to mining inventory. This drives our C$1.16bn NAV, putting the stock on just 0.26xNAV. A key point to note is that further de-risking the PEA through to PFS and DFS, while a traditionally slow news period, has a significant valuation gap to close, so would be very accretive as reserves, mining, geotech, and all the other 'boring' stuff is de-risked with detailed engineering work.

Table 2. SOTP valuation and sensitivities on an asset basis, diluted for options not mine build

SOTP *project* valuation*	C$m	O/ship	NAVx	C$/sh
Proj. @ build start (1Q26)	**1,088**	100%	0.40x	2.87
Cash & ivstm'ts @ 2Q21	30	100%	1.00x	0.19
Cash from options	29	100%	1.00x	0.19
Resource ex invnt'y @ US$10/oz	14	100%	1.00x	0.10
Asset NAV5% US$1850/oz	1,160		PT:	3.35
**Shares 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	$2250oz
10.0% discount	681	793	904	1,123	1,231
7.5% discount	797	926	1,054	1,305	1,429
5.0% discount	938	**1,088**	1,236	1,528	1,671
Ungeared project IRR:	49%	54%	58%	66%	70%
1xNAV5%-1850 (C$/sh)	$1750oz	$1850oz	$1950oz	$2150oz	$2250oz
8.0% discount	5.57	6.39	7.21	8.82	9.62
6.5% discount	6.08	6.98	7.88	9.63	10.50
5.0% discount	6.66	**7.65**	8.62	10.54	11.49

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

Source: SCP estimates

Recommendation: maintain BUY rating, lift PT from C$3.00/sh to C$3.30/sh

We maintain our 0.4xNAV multiple to reflect the unknown quantity of equity dilution to bring the asset into production, alongside technical risk of execution. On this basis, **we maintain our BUY rating, lifting our PT from C$3.00/sh to C$3.30/sh** on improved economics. This does come with a reduction in resources outside reserves as reserve conversion from the current resource base should be seen as exhausted now, not the least given the additional sweating of the low grade from sorting. Our valuation isn't diluted for mine build and is discounted to build start. To convert from an asset valuation to company valuation we deduct central G&A and finance costs, and discount to today for a C$897m fully-funded fully-diluted (FF FD) NAV of C$897m. We dilute based on 65% gearing for a C$229m debt package, diluting for implied C$185m equity requirement at 0.5xNAV. This is somewhat of a thumb-suck as other options include M&A to a group with lower cost of equity capital, hybrid JVs for part-own to part-fund, and non-dilutive financing options such as streaming. Nonetheless, this shows 1xNAV FF FD at first production around C$6/sh, putting the stock on a FF FD P/NAV of ~0.3x (Table 3).

Table 3. Dilution estimates and NAV (net G&A and finance costs) over time

Uses of funds (C$m)		Sources of funds (C$m)	
Pre-prod'n capex (C$m)	353	Cash + ore-Au options (C$m)	38
G&A / fin. cost to 1st Au (C$m)	39	Mine build equity (C$m)	185
Working cap (C$m)	37	Mine build debt (C$m)	229
Exploration pre-Au (C$m)	23	**Total sources (C$m)**	**452**
Peak financing (C$m)	**452**	Buffer (C$m)	1
Shares outstanding (m)			
Basic in issue (m)	130.5	Build shares @ 0.5xNAV (m)	48.7
FD with options (m)	151.8	FD mine build @ 0.5xNAV (m)	200.5

Group valuation over time^	3Q21	3Q22	3Q23	3Q24	3Q25
Val d'Or East NPV (C$m)	956.6	1,004.4	1,052.6	1,156.8	1,376.5
G&A + fin. costs (C$m)	(128.1)	(119.2)	(109.9)	(104.9)	(96.8)
Net cash prior qtr (C$m)	25.7	11.5	185.2	130.5	(31.5)
Cash from options (C$m)	28.6	28.6	28.6	28.6	28.6
Resource ex reserve (C$m)	14.4	14.4	14.4	14.4	14.4
NAV FF FD (C$m)	897	940	1,171	1,225	**1,291**
Shares in issue (m)	*130.5*	*130.5*	*200.5*	*200.5*	*200.5*
1xNAV5%/sh FF FD (C$/sh)	**6.87**	**7.20**	**5.84**	**6.11**	**6.44**
Equity ROI from spot (% pa)			73%	46%	35%

Source: SCP estimates

Why we like Probe

1. Global 4.0Moz resource in a top tier jurisdiction
2. 3Q21 PEA shows >200koz pa with scarcity value
3. 777km^2 on Detour belt offers additional upside

Catalysts

- 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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BUY:	46
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SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	46

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