

Ticker: BNKR US/CN
Market cap: C\$34m

2Q21 Cash: C\$2.4m
Price: C\$0.21/sh

Project: Bunker Hill
Country: USA, Idaho

RECOMMEND. (unc): BUY

TARGET (up): C\$0.70/sh

RISK RATING: HIGH

Today's PEA update is simple in its shift to longhole from hybrid with cut-and-fill for a +38% after-tax NPV given higher productivity and lower unit costs. Long-holing typically risks higher dilution, but the average ~6m wide stopes, combined with short ~15m sub-levels, offsets this with less 'chance' for ore to move away from its expected location. Some additional dilution is incurred, but this is more than offset by the +38% lift in NPV resulting from 29% lower mining costs at \$41/t. Adjusting for this, **we maintain our BUY rating and lift our PT from C\$0.60/sh to C\$0.70/sh** based on 0.5xNAV_{7%} of the PEA mine plan at 127c/lb Zn, 104c/lb Pb and US\$24/oz, net of option payments, holding resources outside inventory at 120c/oz AgEq. With US\$44m capex, we expect a ~US\$60-70m finance package, a key hurdle given the current cash and market cap. We see three opportunities to mitigate this; (i) we would like to think the EPA would accept rescheduled ~US\$15m trailing payments given BNKR backfill 'plugs' the source of AMD in the region (flooded open stopes, to be backfilled); (ii) as a polymetallic, streaming and offtake finance options bulk out debt flexibility, and (iii) if these are booked, we see a more liquid listing as achievable. None of these are a given, hence the ball is in management's court to do a financial 'clean up'. The added advantage of debt coming before equity is further de-risking of technical aspects given the build is proposed to be done from a PEA. That risk is offset by a long history of production, but a 'second set of eyes' on proposed mining method, resource conversion and UG plant would benefit equity holders in our view.

Table 1. Bunker Hill Mine previous 2Q21 PEA vs 3Q21 PEA update

Bunker Hill (100%)	June PEA	Sept PEA	Δ to old	Bunker Hill Mine (100%)	June PEA	Sept PEA	Δ to old
UG inventory (Mt ore)	5.0	5.8	17%	UG mining cost (US\$/t)^	58.0	41.0	-29%
Grade (% Zn)	5.5%	5.0%	-9%	Processing cost (US\$/t)^	15.0	15.0	0%
Grade (% Pb)	2.9%	2.8%	-3%	G&A cost (US\$/t ROM)^	6.0	6.0	0%
Grade (g/t Ag)	52.2	51.4	-1%	AISC (US\$/lb Zn payable)	0.65	0.47	-28%
Zinc mined (000t Zn)	274	289	6%	Initial capex (US\$m)	42.0	44.0	5%
Lead mined (000t Pb)	144	162	13%	LOM sust. capex (US\$m)	73.5	63.1	-14%
Silver mined (000oz)	7401	9568	29%	LOM FCF (US\$m)	196	278	41%
LOM avg ROM (Mt pa)	0.5	0.5	0%	Discount rate (%)	8%	8%	0%
Zn Recovery (LOM, %)	92%	92%	0%	Project NPV (US\$m)	78.4	107.8	38%
Prod'n (000t pa ZnEq)	41	41	-1%	Asset IRR (%)	46.0%	35.2%	-23%
Mine life (years)	10	11	10%				
Zinc price (US\$000/t)	2,535	2,535	0%				
Lead price (US\$000/t)	1,984	1,984	0%				
Silver price (US\$/oz)	20	20	0%				

Source: Bunker Hill, SCP

Lifting our PT to C\$0.70/sh as updated PEA NPV improves +38% with shift to longhole mining

Today's PEA update lifts **after tax NPV_{8%} from US\$78m (2Q21) to US\$108m** as mining method shifts to longhole from primarily cut & fill, diluting head grades slightly and adding 5% to upfront development costs but offset by reduced **mining costs** from US\$58/t to US\$41/t. **Sustaining capex** fell from US\$73m to US\$63m to drive a 28% reduction in US\$/lb Zn AISC costs. All else remains largely unchanged including the development / mining schedule and metal price assumptions.

Valuation update: maintain our BUY rating and lift PT to 70c/sh from 60c/sh

We are updating our assumptions (Table 2) for the updated PEA: (i) updated mine plan / scheduled tonnes and grade, (ii) reduced operating and sustaining costs and lastly (iii) modest 5% lift in build capex for a +37% lift in after-tax NPV to US\$175m and 52% IRR (+7% lift) using our metal prices and 7% discount rate.

Leaving all else unchanged, we **maintain our BUY rating and lift our C\$0.60/sh PT to C\$0.70/sh** based on 0.5xNAV_{7%} of the PEA mine plan at 127c/lb Zn, 104c/lb Pb and US\$24/oz, net of option payments, adding resources outside the mine plan at 120c/oz AgEq.

Table 2. SCPe old vs new inputs & economics

Bunker Hill (100%)	BNKR		SCP		Δ to old	Bunker Hill (100%)	BNKR		SCP		Δ to old
	Sept PEA	Old	New				Sept PEA	Old	New		
UG inventory (Mt)	5.8	5.0	5.8	17%	UG mining cost (US\$/t)^	41.0	61.6	41.4	-33%		
Grade (% Zn)	5.0%	5.5%	5.0%	-9%	Processing cost (US\$/t)^	15.0	15.5	15.5	0%		
Grade (% Pb)	2.8%	2.9%	2.8%	-4%	G&A cost (US\$/t ROM)^	6.0	6.2	6.2	0%		
Grade (g/t Ag)	51.4	52.2	50.6	-3%	TC + Transport (US\$/t con)	na	286.8	286.8	0%		
Zinc mined (000t Zn)	289	274	291	6%	AISC (US\$/lb Zn payable)	0.47	0.59	0.36	-38%		
Lead mined (000t Pb)	162	144	161	12%	AISC (SCP, US\$/lb ZnEq) ⁺	na	0.71	0.61	-14%		
Silver mined (000oz)	9568	7401	8418	14%	Initial capex (US\$m)	44	42	44	4%		
LOM avg ROM (Mt pa)	0.5	0.5	0.5	-4%	LOM sust. capex (US\$m)	63	74	63	-14%		
Zn Recovery (LOM, %)	92%	92%	92%	0%	LOM FCF (US\$m)	278.0	197.9	288.4	46%		
Prod'n (000t pa ZnEq)	41	42	39	-8%	Discount rate (%)	8.0%	7.0%	7.0%	0%		
Mine life (years)	11	10	12	17%	Project NPV (US\$m)	108	128	175	37%		
Zinc price (US\$000/t)	2,535	2,800	2,800	0%	Asset IRR (%)	35%	49%	52%	7%		
Lead price (US\$000/t)	1,984	2,000	2,000	0%	<i>Source: 2Q21 PEA, SCPe; *BNKR AISC Zn only, incl. smelter costs, net by-product, +SCP AISC ZnEq mine gate, cash break even US\$0.61/lb; ^Small deltas due to rounding</i>						
Silver price (US\$/oz)	20	24	24	0%							
Zinc Payability (%)	82%	82%	82%	0%							

Why we like Bunker Hill

- Ex Barrick operating and leadership team take over from prior promoters
- 5Mt @ 9% ZnEq provides starter-mine under PEA
- Reinterpretation of 180km of drilling with 95yrs data digitised to open Ag potential
- Consolidation opportunities around four operating mills in Silver Valley

Catalysts

- 2H21: Potential re-profiling of EPA payments
- 2H21: Project financing including debt / offtake / streaming options
- 2H21/CY22: Potential TSX-V listing
- Year end 2021: Construction decision
- 2H23: First production

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

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

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

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

Ticker: BNKR CN	Price / mkt cap: C\$0.21/sh, C\$34m	P/NAV today: 0.25x	Country: USA, Idaho
Author: B Salier / B Gaspar	Rec / PT: BUY, C\$0.70/sh	1xNAV7%: C\$1.12c/sh	Asset: Bunker Hill Mine

Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E
Zn price (US\$/t)	1.27	1.27	1.27	1.27	1.27
Pb price (US\$/t)	0.91	0.91	0.91	0.91	0.91
Ag price (US\$/oz)	24.0	24.0	24.0	24.0	24.0

SOTP project valuation*	US\$m	o/ship	NAVx	C\$/sh
Bunker Hill NPV (build start 4Q22)	175	100%	0.50x	0.38
Option / EPA payments	(22)	100%		(0.05)
Resor. ex rsv @ 5% (120c/oz AgEq)	28	100%	1.00x	0.12
Net cash 2Q21	2.4	100%	1.0x	0.01
Cash from ITM options	53.2	100%	1.0x	0.23
NAV @ 4Q22	237	292.1		0.70

*Build start, ex fin. cost + G&A, dll. for optns not build P/NAV today: 0.20x

Sensitivities to discount and zinc price (US\$m, ungeared)*						
Group NAV (US\$m)	1.08/lb	1.18/lb	1.27/lb	1.37/lb	1.50/lb	
9.0% discount	168	192	217	241	276	
7.0% discount	185	211	238	264	302	
5.0% discount	206	234	263	292	332	
Price target (C\$/sh)	1.08/lb	1.18/lb	1.27/lb	1.37/lb	1.50/lb	
9.0% discount	0.54	0.59	0.65	0.71	0.79	
7.0% discount	0.57	0.64	0.70	0.76	0.84	
5.0% discount	0.62	0.68	0.75	0.82	0.91	

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

Group valuation over time^	3Q21	3Q22	3Q23	3Q24	3Q25
Project NPV (US\$m)	159	172	212	229	222
Centra G&A/fin. cost (US\$m)	(32)	(23)	(22)	(18)	(15)
Net cash prior qtr (US\$m)	2.4	(2.1)	(19.9)	(27.0)	(11)
Cash from ITM options	53.2	53.2	53.2	53.2	53.2
Option / EPA payments	(22)	(22)	(22)	(22)	(22)
NAV (US\$m)	161	178	202	215	228

FD share count (m) 284 284 319 319 319

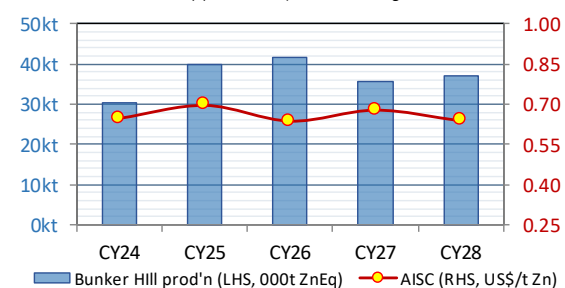
1xNAV7%/sh FF FD (US\$/sh)	0.57	0.63	0.63	0.67	0.71
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1xNAV/sh over time (US\$, geared)^						
1xNAV (US\$/sh)	1.08/lb	1.18/lb	1.27/lb	1.37/lb	1.50/lb	
9.0% discount	0.45	0.54	0.62	0.71	0.83	
7.0% discount	0.50	0.59	0.68	0.77	0.89	
5.0% discount	0.55	0.65	0.74	0.84	0.97	

*Diluted for options under PT but not mine build; ^ Fully diluted for mine build

SCPe Production	CY24	CY25	CY26	CY27	CY28
Production (000kt ZnEq)	30.3	39.8	41.8	35.5	37.1
AISC BNKR (US\$/t Zn)*	0.73	0.70	0.69	0.79	0.64
AISC SCP (US\$/t ZnEq)^	0.65	0.70	0.64	0.68	0.64
Production (000kt AgEq)	3.1	4.1	4.3	3.6	3.8
AISC SCP (US\$/t AgEq)^	9.35	10.61	9.29	9.97	9.41

*deductions as cost, net by-product; ^Eq, costs to mine gate ex. deductions



Source: SCP estimates

Resource/Inventory	Mt	Zn %	Mt	Zn %
	0.2766	4Q20 MRE		SCP inventory
Indicated	4.0	5.52%	5.8	5.03%
Inferred	5.1	4.88%		
Total	9.1	5.16%	Total	5.8

Funding: uses		Funding: sources	
Mine build capex (US\$m)	43.8	Cash+ITM options (US\$m)	45.0
SCPe pre-prod'n expl'n	12.1	SCPe debt @ 65% (US\$m)	28.4
SCPe work cap(US\$m)	5.4	SCPe DFS equity (US\$m)	6.0
SCPe G&A+fin cost (US\$m)	8.1	Total sources (US\$m)	79.4
Total uses: group (US\$m)	69	Buffer	C\$10m

Share data (m)	Basic	FD	FF FD
Shares (m)	163.7	283.79	319

Ratio analysis	CY20E	CY21E	CY22E	CY23E	CY24E
Shares out (m)	114.3	163.7	163.7	163.7	163.7
EPS (C\$/sh)	22.6	0.1	-	4.3	14.9
CFPS before w/c (C\$/sh)	-	-	-	-	2.4
EV (C\$m)	65.1	39.6	43.3	72.0	60.6
FCF yield (%)	-	-	-	-	33%

Income statement	CY20E	CY21E	CY22E	CY23E	CY24E
Revenue (US\$m)	-	-	-	23.3	69.3
COGS (US\$m)	-	-	-	13.4	38.9
Gross profit (US\$m)	-	-	-	9.9	30.3
G&A (US\$m)	2.1	3.3	2.0	2.0	2.4
Exploration (US\$m)	13.0	11.2	4.0	-	-
Finance costs (US\$m)	1.6	0.1	-	1.7	2.1
Tax (US\$m)	-	-	-	-	1.7
Other (US\$m)	(37.6)	(14.7)	0.5	0.5	4.4
Net income (US\$m)	20.9	0.1	(6.5)	5.7	19.8

Cash flow statement	CY20E	CY21E	CY22E	CY23E	CY24E
EBITDA (US\$m)	(15.7)	(15.6)	(6.5)	7.4	27.4
Add share based (US\$m)	2.3	1.1	0.5	0.5	0.5
Net change wkg cap (US\$m)	7.7	(1.8)	-	-	8.2
Cash flow ops (US\$m)	(21.2)	(12.5)	(6.0)	6.3	15.9
PP&E: build + sust (US\$m)	2.7	0.1	8.7	35.0	4.5
PP&E - expl'n (US\$m)	-	-	-	-	-
Cash flow inv. (US\$m)	(2.7)	(0.1)	(8.7)	(35.0)	(4.5)
Share issue (US\$m)	(59.4)	(12.0)	(11.0)	-	-
Debt draw (repay) (US\$m)	-	-	(28.4)	-	7.1
Cash flow fin. (US\$m)	58.3	11.9	39.4	-	(7.1)
Net change in cash (US\$m)	34.4	(0.7)	24.7	(28.7)	4.3

Balance sheet	CY20E	CY21E	CY22E	CY23E	CY24E
Cash (US\$m)	3.6	2.9	27.6	(1.1)	3.2
Acc rec. + invet. (US\$m)	2.7	2.5	2.5	2.5	11.0
PP&E & expl'n (US\$m)	0.4	0.6	9.2	44.2	44.9
Total assets (US\$m)	6.7	5.9	39.3	45.6	59.0
Debt (US\$m)	0.1	-	28.4	28.4	21.3
Accounts payable (US\$m)	2.4	3.0	3.0	3.0	3.2
Others (US\$m)	4.0	3.3	28.0	(0.7)	12.1
Total liabilities (US\$m)	38.2	27.7	56.1	56.1	49.2
Shareholders' equity (US\$m)	0.0	6.3	17.8	18.3	18.8
Reserves (US\$m)	34.6	37.8	37.8	37.8	37.8
Retained earnings (US\$m)	(66.1)	(66.0)	(72.5)	(66.7)	(47.0)
Liabilities + equity (US\$m)	6.7	5.8	39.3	45.5	59.0

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SELL:	0
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TENDER:	0
NOT RATED:	0
TOTAL	46

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