

Troilus Gold Corporation (TLG CN)

Initiation & site visit: Monster Au-Cu developer in Quebec >8Moz

RECOMMENDATION: **BUY**

PRICE TARGET: **C\$2.80/sh**

RISK RATING: **HIGH**

SHARE DATA

Shares (basic, FD)	200 / 211 / 317
Share price (C\$/sh)	C\$0.80/sh
52-week high/low	C\$1.29 / C\$0.66
Market cap (C\$m)	160
Est. cash @ 1Q22	30
1.0xNAV5% @ US\$1850/oz (C\$m)*	1,649
1.0xNAV5% FD (C\$/sh)*	7.73
Project P/NAV today (x, FD)	0.10x
Average daily value (C\$000, 3M)	0

FINANCIALS

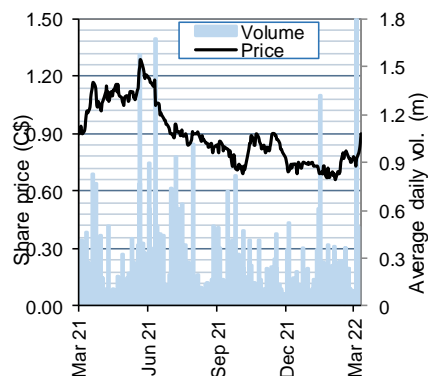
	CY22E	CY23E	CY24E
Gold sold (000oz)	-	-	-
Revenue (C\$m)	-	-	-
AISC (US\$/oz)	-	-	-
Income (C\$m)	(29)	(22)	(28)
EPS (C\$)	-	-	-
PER (x)	-	-	-
CFPS (C\$)	-	-	-
P/CF (x)	-	-	-
EBITDA (C\$m)	(7.3)	(7.3)	(7.3)
EV/EBITDA (x)	-	-	-

TIME VALUE: 1850/oz

	Apr-22	Apr-23	Apr-24
1xNAV5% FF FD (C\$m)	1,278	1,406	1,479
1xNAV5% FF FD (C\$/sh)	6.39	7.16	7.53

TIME VALUE: 2050/oz

	Apr-22	Apr-23	Apr-24
1xNAV5% FF FD (C\$m)	1,574	1,717	1,805
1xNAV5% FF FD (C\$/sh)	7.87	8.74	9.19



Source: Factset

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'King of the North': Quebec developer seeking 10Moz

The Troilus Gold Project, in northern Quebec, hosts a global **8.1Moz @ 0.9g/t AuEq** 3Q20 MRE, which saw 5.1Moz @ 0.8g/t AuEq in 4Q20 PEA inventory, supporting >210koz AuEq pa from a large 12.6Mtpa combined OP + UG for long 22-year life. Initial capex of US\$333m and US\$850/oz AISC drives a published after-tax **NPV_{5%-1950} of C\$1,156m**. The company has been aggressively drilling to expand / infill resources ahead of the 2Q22 MRE update to feed the 3Q22 PFS focused solely on pit mining. With the scale and valuation to attract M&A already, location on infrastructure to drive margin on low-grade pits, plus underground / regional upside, we see 2022 as transformative for Troilus.

Big strides over 2020-2021 to feed upcoming MRE / PFS this year

We think the upcoming PFS will reap the rewards of the 2.5% royalty buyback in late 2020 and >100km of post PEA drilling that should see (i) a lift in MRE and pit inventory, (ii) higher grades from a larger SW Zone start pit and (iii) lower LOM strip. Better still, the company strengthened its build team, adding Richard Harrison (P.Eng) as COO (ex. Director of Projects at Canadian Malartic) to lead the engineering and development.

SCPe production >230koz Au pa with copper optionality

We estimate 4.6Moz @ 0.75g/t AuEq of pittable inventory and 3.6:1 strip ahead of the PFS, for production >255koz pa AuEq at ~US\$880/oz over a 15-year mine life for C\$1.5bn NPV_{5%-1850-4.00} excluding the UG, leaving room for LT upside and net of a material lift in capital costs estimates. The 'cherry' on top is the >C\$1.5bn from copper revenue at spot >US\$4.50/lb Cu, which we think should be of interest to streamers.

Belt control (1,420km²) offers discovery upside towards 15Moz

Troilus' is 'King of the North' with 1,420km² of little-explored Archean Greenstone Belt with a pipeline of targets to see follow up this year, including Beyan (9.7-32.5g/t Au grabs), Testard (8.3-203g/t Au grabs), and our personal favourite Pallador Regnault next to Sumitomo's **8.4m @ 29.1g/t** greenfield discovery. Combined with a disciplined track record of oz growth (+195% since 2016), we think this is an overlooked growth story with no signs of slowing down.

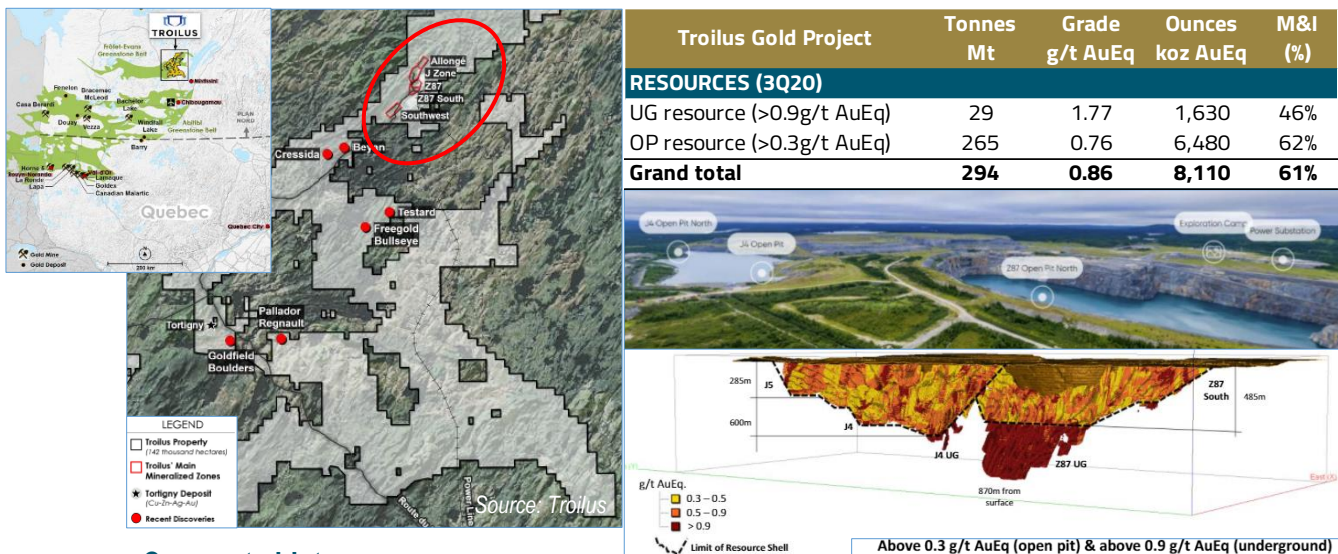
Initiate at BUY with C\$2.80/sh PT; C\$6.25/sh FD production 1xNAV

This is a drill bit story, backstopped by existing endowment, so price drivers are more ounces and re-rate to DFS / M&A / build. As such, we initiate coverage with a BUY rating and C\$2.80/sh PT based on 0.3xNAV_{5%-1850-4.00}, adding only a nominal C\$15m to exploration plus US\$25/oz to resources outside inventory. Put simply, Troilus is among the few advanced large bulk tonnage gold projects in Canada on infrastructure, not under a lake or river, located in high altitudes, or near provincial parks / major wildlife habitats. Thus, we think it will be a mine' this cycle, not the next—making this a conviction name for us.

The Troilus Gold Project Summary

Troilus has a global resource of 8.1Moz @ 0.9g/t AuEq on infrastructure in northern Quebec, including pit constrained 6.5Moz @ 0.8g/t AuEq, which fed the 4Q20 PEA for >246koz Au pa from combined OP and UG production in the first 14 years, mainly focused around / below historical pit areas, with the exception of the newly discovered Southwest Zone (SW) ~2.5km away. The large 1,420km² land package consists of several brownfield and regional exploration targets. An aggressive post PEA >100,000m drill program is nearing completion, focused on resource expansion / infill ahead of the updated 2Q22 MRE and 3Q22 PFS, while concurrently advancing permitting, geotechnical and metallurgical work. Key here is that the PFS will contemplate an open pit only scenario targeting >220koz pa Au and should benefit from higher metal prices, expanded resource base (>2 years of drilling) and the 2.5% royalty buyback. Simultaneously, higher-grade satellites common to the belt are being targeted.

Figure 1. Troilus Gold project (A) location / property map, (B) 4Q20 MRE and (C) site photos



Corporate history

Troilus, who acquired the historic Troilus Gold Project from First Quantum in 2017 for \$300k cash + 2.5% NSR, before listing on the TSXV in 2018, has been one of the most aggressive juniors out the gate. They have grown global resources by +195% to 8.1Moz AuEq (61% M&I) from 80,500m drilled over 2018-2020, and >200km to date. This attracted all the 'Quebec ink' to the register, including Investissement Quebec and FTQ. President / CEO Justin Reid pulled together today's technically driven management team, including VPX Blake Hylands, SVP Technical Services Ian Pritchard, and most recently COO Richard Harrison (ex. Director of Projects at Canadian Malartic) to lead the feasibility and development. The initial 35,000m program was proof of concept, mainly focused on expanding resources around the historic pits, but the real step change came with the higher-grade southwest satellite discovery, and J Zone pit expansions, which ignited aggressive infill for inclusion in the upcoming PFS. Last year, the acquisition of neighbour UrbanGold unlocked the district scale potential for Troilus, expanding land holdings to 1,420km², with multiple near mine satellite targets plus regional high-grade targets near Sumitomo's 5.7m @ 90.6g/t and 15.4m @ 18g/t Regnault discovery last year.

Figure 2. Troilus Gold's share price and market cap 2018-present

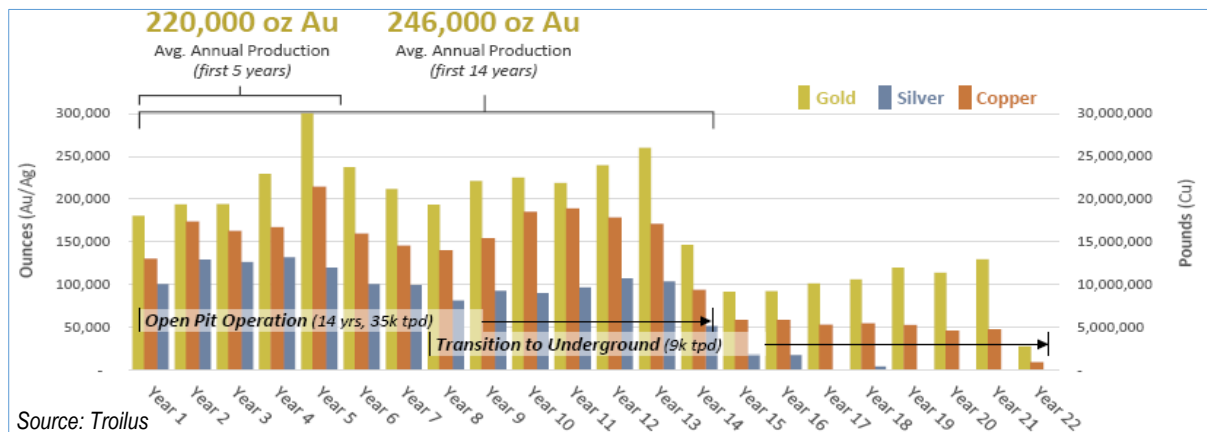


Source: Bloomberg, Factset, Troilus

2020 MRE / PEA outlines one of the largest undeveloped gold-copper deposits in Quebec

After two years of drilling, Troilus' 3Q20 MRE saw growth to 8.1Moz AuEq for PEA inventory of 5.1Moz @ 0.8g/t AuEq (64% pittable) for mid-tier scale gold production of 246koz pa in the first 14yrs from combined OP and UG (~210koz AuEq pa over 22 yrs LOM), making Troilus one of the few development projects of this scale in Canada. Whilst the UG inclusion lifts overall grade and maximizes mine life for published NPV_{5%-1950} of C\$1,156m for demonstrated LT value at conservative metal prices, the OP inventory of >3.3Moz @ 0.7g/t AuEq outlines sole pit production >220koz Au pa in Y1-5, and in our view is the driver of value in the near term. Hence, we are delighted that subsequent drilling and engineering has been focused on de-risking / optimizing the open pit potential.

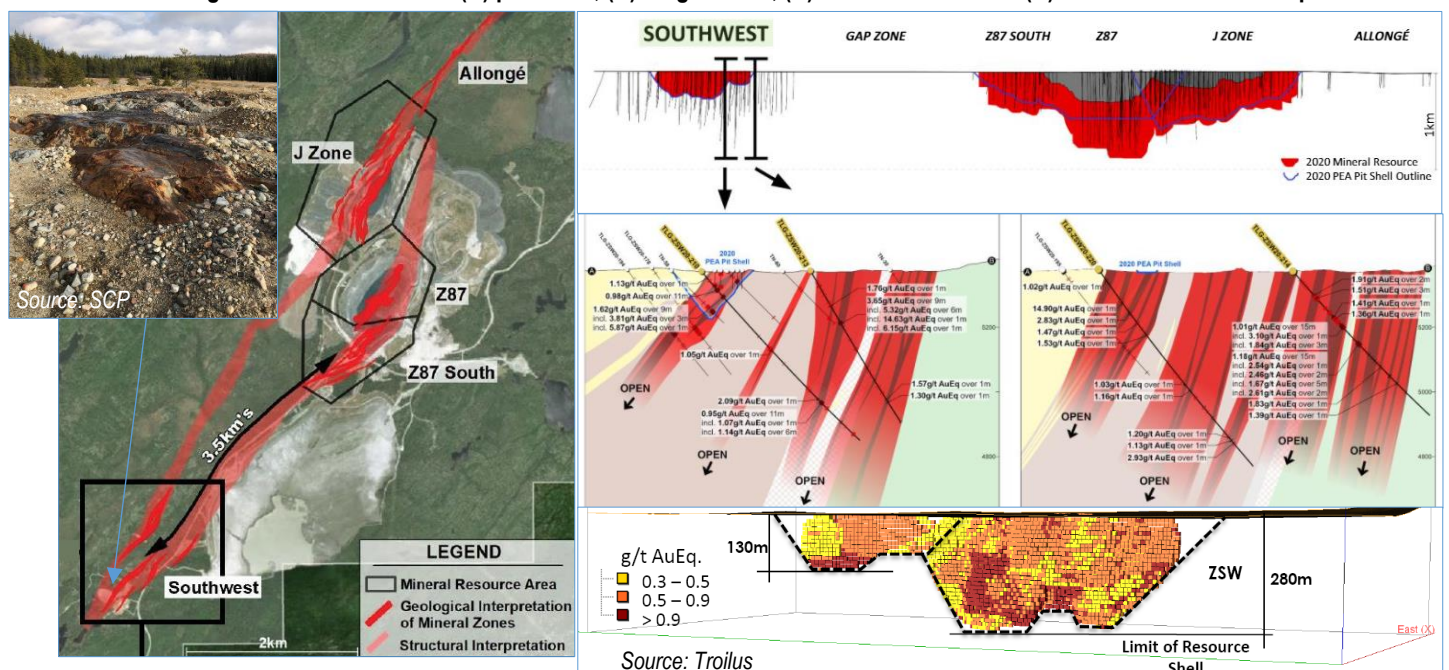
Figure 3. Troilus Gold's 4Q20 PEA base case UG + OP production profile (Au/Ag oz LHS, Cu lbs RHS)



New higher grade SW Zone expansions and starter pit a potential 'game changer'

Southwest (SW) was discovered in late 2019 and saw only 8,500m drilled for maiden **583koz @ 0.8g/t AuEq** inferred in the 3Q20 MRE, and consequently didn't see a meaningful contribution to the PEA. However, the multi-million-ounce potential was realized quickly thereafter, with the discovery of impressive parallel zones returning bulk **21m @ 1.7g/t AuEq** and **33m @ 1.7g/t AuEq**. Attractive is the >1g/t AuEq grade, higher than all other deposits in the existing MRE, prompting a more aggressive focus. Southwest has seen >40,000m drilled over 2021 and has doubled in strike to 2km, so we expect to see a lift in the upcoming MRE. Better still, mineralization outcrops for potential higher-grade starter pit and quicker payback, prompting Troilus to dedicate 5 rigs to accelerate infill for PFS inclusion. In our view, booking ~1g/t AuEq at a lower strip vs 0.6g/t in Y1-3 PEA should materially impact the NPV, if only for a few years.

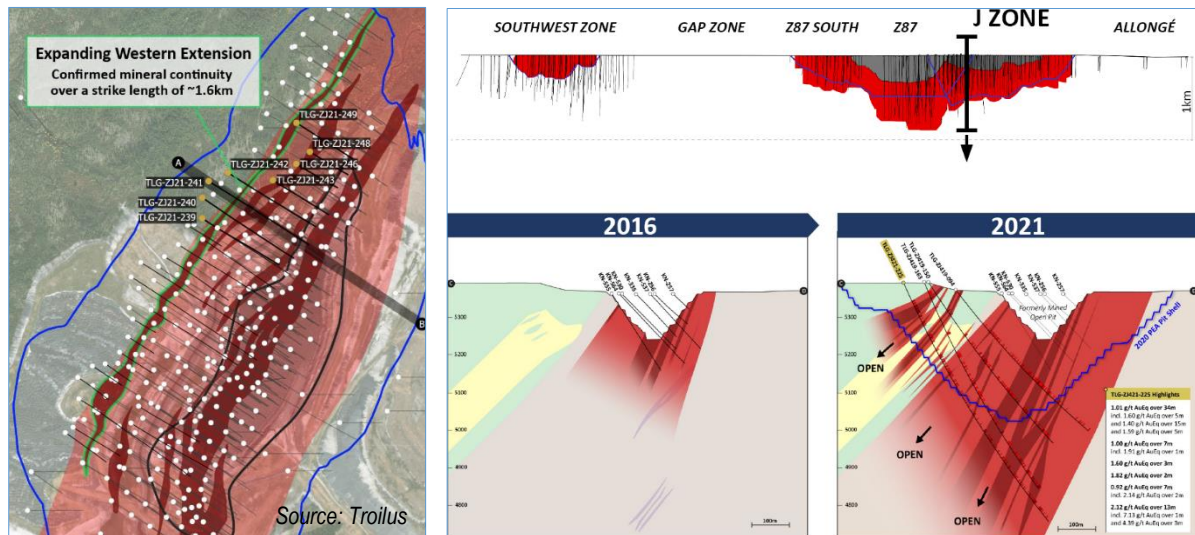
Figure 4. Southwest Zone (A) plan view, (B) long section, (C) cross sections and (D) isometric view of MRE pit



J Zone Western Extension discovery expands resources inside the PEA pit for lower strip

What started with two small, formerly mined open pit targets in 2016, quickly expanded with the discovery of broad disseminated mineralization in the FW of the J Zone in 2019 (19m @ 1.1g/t at the EOH). Subsequent drilling booked 2.7Moz @ 0.66g/t AuEq OP, plus a further 2Moz @ 1.2g/t AuEq UG in the 4Q20 MRE, good in its own right, but post MRE drilling expanded this further with the discovery of the hanging wall parallel zone within undrilled areas of the PEA pit shell with **68m @ 1.1g/t and 19m @ 1.5g/t AuEq <100m downhole**. Down dip and along-strike near surface extensions over 1.6km on the new Western Extension zone (Figure 5) are as useful to lower the trip (converting of 'waste' to 'not waste') as adding ounces, in places above the existing MRE grades also.

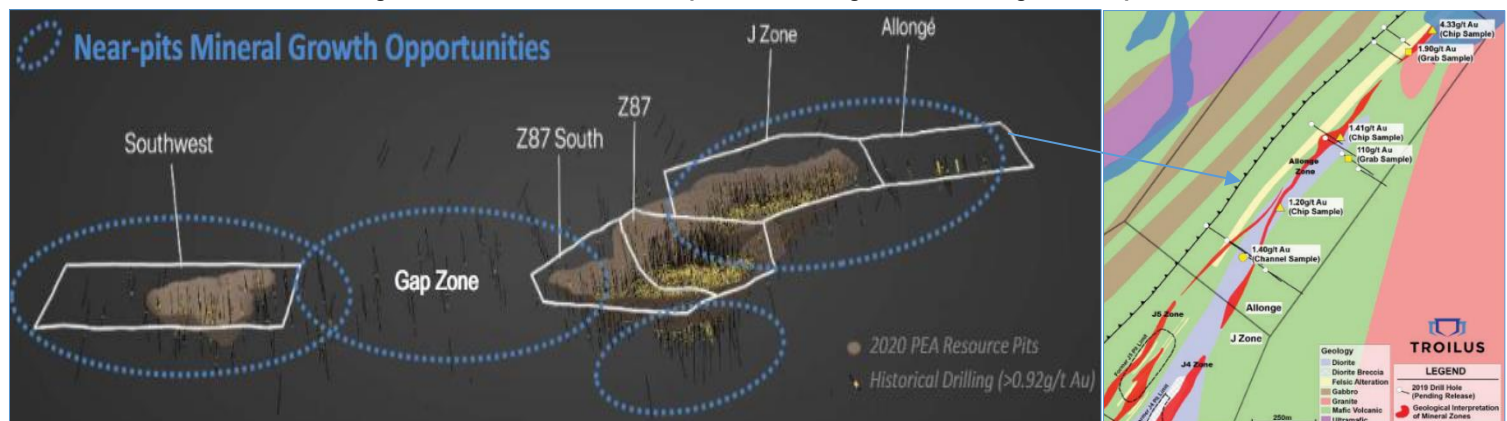
Figure 5. J zone long section and cross sections showing resource expansions over 2016-2021



Putting it all together: big strides over 2020-2021 to feed upcoming open pit-only PFS >220koz pa

With 123,000m of drilling since the 2020 MRE, we expect to see both a material MRE lift with 80-90% conversion in the upcoming MRE update and consequently a larger pit inventory to feed the 3Q22 PFS, which will target >220koz Au pa from the open pits only, albeit likely with a lower production 'tail' without the UG. Whilst inflation is a key hurdle, we see three material opportunities over the 2020 PEA to help offset higher costs: (i) open pit only focus for lower sustaining capex (-C\$560m UG dev) and opex savings, (ii) expanded Southwest / J Zones for higher grades upfront (SCPe ~1g/t AuEq) / lower LOM strip (SCPe 3.6:1) that should accelerate payback, and (iii) the 2.5% royalty buyback in late 2020 saves >C\$145m at today's spot prices by our estimates. We think this should all flow through nicely to the project economics, even at conservative metal prices. It doesn't stop there in our view, growing ounces is what this team does very well, and there is a trailing pipeline of near-pit brownfield expansion opportunities to come into play, likely post PFS, including the Gap Zone / Allongé (Figure 6).

Figure 6. Isometric view of near-pit resource targets surrounding the PEA pits



Source: Troilus

Belt control grows from 1,070km² to 1,420km² with Urban Gold acquisition in 2021

Exploration ground is now as scarce and strategic as skilled drillers and rigs. The Yilgarn and the Abitibi, alongside the Kenibina 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 Ontario to Quebec is one of the richest trends within the richest cratons, deserved of a strategic premium. With O3 and Probe controlling some of the best parts of Val d'Or along the main trend, Troilus' is 'King of the North' with 1,420km² of Frôtet-Evans Greenstone Belt i.e the same Archean rocks, just less explored. With existing visibility on 10Moz, a 'blue sky 15Moz target' doesn't seem like such a stretch with this much ground to test. Hence we think Troilus' exploration upside is not only compelling but comes with relatively lower risk as the existing endowment underpins the current market cap for good downside protection, leaving plenty of runway to step out along the belt. Recall management has a demonstrated track record of growing ounces to date, so we think this makes the case that Troilus is one of the best-overlooked exploration opportunities right now. Also, the strategic value here shouldn't be underestimated as mid-tier scale, 200-300koz Au pa capable, advanced stage development assets remain a major scarcity in Canada, but they rarely come with belt control.

Unlike many peer developers, Troilus keeps advancing exploration regionally. This year will see follow up programs at Beyan (9.7-32.5g/t Au grabs), Testard (8.3-203g/t Au grabs), and our personal favourite Pallador Regnault next to Sumitomo's **8.4m @ 29.1g/t** greenfield discovery in 2020 north of **102g/t Au** boulders on Troilus's property (Figure 7C) points to the high-grade satellite potential in this camp, not surprising though, it is an Archean Greenstone after all.

Figure 7. (A) Regional target plan map, (B) Testard aerial view and (C) Pallador claim boundary



Troilus positioned to build 'this cycle' vs peer Canadian bulk tonnage developers

At the core of our investment thesis, pittable inventory is the engine room of bulk tonnage projects in our view, so we stack Troilus against peers in Table 1 below, but remove the UG resources. We see five key takeaways:

First, (i) whilst lower grade than peers, Troilus' existing 6.7Moz AuEq (at spot) endowment dwarfs peer projects, this feeds an already large >4.5Moz AuEq PEA pit inventory and generally speaking we would expect this number to scale back as PFS only includes reserves, but that's the beauty of Troilus' aggressive pace of drilling and focus over the last 12M— we see this converting well and growing to SCPe 4.6Moz pittable in the PFS. We think this differs from peer strategies over the years, resulting in slower growth, with many only beginning the greenfield target generation / satellite exploration now as existing 'in pit expansion' opportunities are limited. This means near term 'growth' is dependent on pit parameter adjustments (lowering cut off / lifting gold price) or costly depth extensions. Stepping back, a notable standout is Moss Lake, but we note management's goal to delineate >6Moz of pittable material is ambitious, but if achieved, depending on keeping grade >0.9g/t and strip <3:1, would be impressive but is hard to quantify at this juncture.

Second, (ii) Troilus' massive belt control provides prime, low risk exploration upside with the existing endowment as good downside protection. Also key, this much real estate is a real attraction for M&A buyers looking to 'nest in' for the long term. So we think this is a mining district in the making, not unlike what Benchmark is doing in BC, which recently attracted investment from Yamana.

Third, (iii) large endowments come with higher build costs / energy costs and thus a greater payback risk. Troilus benefits from copper optionality (SCPe 15% revenue) and US\$350m of inherited infrastructure sitting within an existing mining lease and all the operational data that comes with it, including 90% recovery and low ~12 BWI, which in our view should provide investors' confidence that there are no fatal flaws discovered at this stage.

Fourth (iv) qualitatively and perhaps the most critical of all is permitting; we think Troilus has the most visibility on becoming a mine this cycle, benefiting greatly from not being under a major lake / river system, or near provincial park / major wildlife habitats. **As such, we think Troilus stands out as the leading undeveloped, large scale bulk tonnage project ahead of more engineering and drilling.**

Table 1. Bulk gold developers in Ontario / Quebec seeking >1Moz pittable inventory

Asset, Location	Mayfair Fenn-Gib, ON	First Mining Springpole, ON	Troilus Troilus Gold Project, QC	Goldshore Moss Lake, ON	Maple Gold Mines Douay Gold, QC
Compliant open pit MRE (000oz AuEq)	2,153	5,220	6,763	2,994	2,467
Compliant open pit grade (g/t AuEq)	0.91	0.97	0.79	1.05	1.03
PEA / SCPe / Mgmt tgt inventory (000oz)	3,000	4,056	4,600	6,000	1,000
Inventory grade (g/t)	1.00	1.04	0.75	0.90	1.40
Strip (x)	3.50	2.36	3.60	2.46	6.00
Royalty (%)	5.00%	3.00%	1.00%	1.00%	1.00%
Recovery (%)	75.0%	85.7%	90.0%	81.7%	90.0%
Satellite Targets (Upside)	South Block	Cameron, P. Crow	SW, Beyan, Allonge +others	Coldstream, Iris, Hamlin	Jouteil
District control (hc)	1,878	41,943	142,000	3,224	35,513
Nominal C1 cost (US\$/t ^a)	1077	787	1124	913	758
City (dist, km)	Matheson 21km	Red Lake 110km	Chibougamau 120km	Thunder Bay 100km	Matagami 55km
Bond Work Index (kWh/t)	16.6 (75µm)	13.4 (150µm)	11.8 (150µm)	18.3 (150µm)	18.5 (75µm)
Flow sheet (type)	N/A	CIP	CIL	CIL	N/A
Market cap (C\$m)	70	214	173	33	114
Net cash (C\$m)	12	30	30	20	24
EV/pit resources (US\$/oz)	33.0	33.8	19.8	12.9	37.8
EV/SCPe inventory (US\$/oz)	23.7	43.5	29.1	6.4	93.3

Source: company data, SCP estimate using spot px; ^abased on fixed US\$2.50/t mining, US\$12/t G&A and processing. *75% recovery for Mayfair, but targeting 90%

Valuation: C\$1,506m NPV_{5%-1850} at build start for 4.6Moz @ 0.75g/t AuEq pittable SCPe inventory

We model Troilus on a DCF basis as per the 2020 PEA open pit only case, and management's guidance as well as our own assumptions based on work completed to date. Mining & inventory: we exclude UG material from our model at this stage as we don't expect all or even a majority of the underground resources to convert to reserves in the near term, so for now we exclude this from our DCF inventory / valuation, leaving room for upside. Thus, we see pittable inventory as the key value driver and model **4.6Moz @ 0.75g/t AuEq**, slightly higher than the PEA ~4.5Moz @ 0.72g/t AuEq but likely still beatable given the aggressive conversion / expansion drilling since the

3Q20 MRE has focused on the higher grade Southwest. With an experienced mine builder / operator at the helm as COO—we expect to see optimizations of the three ‘S’s (i.e strip, stockpiles, and schedule) and mine design, difficult to estimate precisely ahead of the MRE / PFS. However, we do expect to see a larger starter pit for lower 3.6:1 LOM strip (vs PEA 3.9:1), so we model higher grades upfront ~0.9-1g/t AuEq in Y1-2, (vs PEA 0.6g/t) which should drive project NPV / IRR, if only for a few years.

SCP production: Our model adoptions are shown below (Table 3), with a ~15 yr life processing >12Mtpa at 90% recovery for ~255koz AuEq pa at AISC US\$876/oz LOM, but reaching 300koz AuEq pa in the early years as mining starts from the higher grade Southwest pit, then Z87 and J pits, with production / grades averaging lower to 0.70g/t AuEq Y5-15, in line with the PEA. **Costs:** We now model operating costs in line with the PEA and look to the PFS to refine our assumptions. On capex, we model C\$705m for the initial build and C\$134m for sustaining significantly higher than the PEA, on both inflation and our own conservative assumptions base on the capital intensity of peers. This drives an NPV_{5%-1850} of C\$1.5bn at build start, or ~C\$2.4bn at first pour, which we sensitise to gold price and discount below in

Table 3. Whilst spot prices today aren’t guaranteed when in operation, copper price appreciation post PEA to >US\$4.50/lb today brings light to SCPe >C\$1.5bn revenue from Cu, which we think could be a good source of stream funding.

Table 2. Troilus PEA vs SCP inputs & economics at SCPe US\$1,850/oz, US\$24/oz Ag, & US\$4.00/lb Cu

Open pit only				Open pit only			
Troilus Gold Project Summary	Troilus	SCP	Δ %		Troilus	SCP	Δ %
Pit inventory (000t)	194.4	191.8	-1%	C1 cost (US\$/oz AuEq)	824	831	1%
Pit AuEq grade (g/t)	0.72	0.75	4%	AISC (US\$/oz AuEq)	848	876	3%
Pit inventory AuEq (000oz)	4,500	4,600	2%	Build capex (C\$m)	443	705	59%
Strip ratio (x)	4.1	3.6	-14%	Sust capex (C\$m)	108	134	24%
UG AuEq grade (g/t)	-	-	0%	Gold price (US\$/oz)	1475	1850	25%
UG inventory AuEq (000oz)	-	-	0%	Copper price (US\$/lb)	3.00	4.00	33%
Au recovery (%)	90.0%	90.0%	0%	Effective tax rate (%)	-	40%	-
Throughput (ktpa)	12,600	12,118	-4%	USD / CAD	0.74	0.78	5%
Y1-5 Au production (koz pa)	215	228	6%	Discount (%)	5.0%	5.0%	-
Production Au LOM (000oz)	3,318	3,190	-4%	Royalty (%)	3.5%	1.0%	-71%
Production AuEq LOM (000oz)	4,298	3,828	-11%	NPV post-tax (C\$m)*	701	1,506	115%
Pit mining cost (US\$/t)	2.06	2.18	5%	IRR post-tax (%)	22%	29%	28%
UG mining cost (US\$/t)	-	-	-	Payback (years)	4.20	3.75	-11%
Proc. + G&A cost (US\$/t)	6.10	6.43	5%	Mine life (yrs)	16.00	15.00	-6%

Source: Troilus 4Q20 PEA ‘open pit only’ case, SCP estimates, *From build start, project only, excluding central G&A and finance costs

Recommendation: Initiate coverage with BUY rating and C\$2.80/sh Price Target

To convert our NPV to a group NAV we simply add cash, cash from ITM options and a nominal US\$25/oz for the 3Moz of resources outside our SCPe inventory, including the 1.6Moz in UG resources. **As such, we initiate with a BUY rating and C\$2.80/sh PT based on 0.3xNAV_{5%-1850-4.00} of the above scenario.** We see a positive rerating coming with infill and engineering towards DFS, and with the existing mine plan underpinning our valuation for good backstop, exploration is considerably lower risk—making this a high conviction ounce growth opportunity in our view. We have 8.1Moz AuEq ahead of an updated MRE, with drilling flat out on near mine targets including the Southwest / Gap Zone / Allonge before turning the rigs onto regional targets and known depth extensions—the upside is simply more ounces in our view. Stepping back, there is an emerging scarcity value for projects of scale in Canada, and Troilus is positioned among the **select few Canadian developers with scale capable of producing >200koz pa** for >10 years, with copper optionality the ‘cherry’ on top (SCPe ~C\$1.5bn Cu revenue at spot US\$4.50/lb).

Table 3. SOTP valuation for Troilus Gold

Commodity price	CY23E	CY24E	CY25E	CY26E	CY27E	Asset value: 1xNPV project @ build start (C\$m, ungeared)*					
Gold price LT (US\$/oz)	1,850	1,850	1,850	1,850	1,850	Project NPV (C\$m)*	\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz
Copper price LT (US\$/lb)	4.00	4.00	4.00	4.00	4.00	10.0% discount	809	929	1,048	1,283	1,399
SOTP project valuation*	C\$m	O/ship	NAVx	C\$/sh		7.5% discount	1,043	1,183	1,322	1,595	1,731
Proj. @ build start (2024)	1,506	100%	0.30x	2.14		5.0% discount	1,341	1,506	1,670	1,993	2,153
Est. cash @ 1Q22	30	100%	1.00x	0.14		Ungeared project IRR:	25%	27%	29%	33%	35%
Cash from options	2	100%	1.00x	0.01		1xNAV5%-1850 (C\$/sh)	\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz
Regional expl. nominal upside	15	100%	1.00x	0.07		8.0% discount	5.30	5.94	6.58	7.83	8.45
Resources ex invnt’y @ US\$25/oz	96	100%	1.00x	0.45		6.5% discount	6.06	6.77	7.47	8.85	9.53
Asset NAV5% US\$1850/oz	1,649			PT: 2.81		5.0% discount	6.95	7.73	8.51	10.04	10.79
*Shares diluted for options but not mine build						*Project level NPV, excl finance costs and central SGA, discounted to build start					
Market P/NAV5% today						0.10x					

Key Risks

- Resource / reserve: There can be no guarantee that our modelled 4.6Moz AuEq inventory eventuate in the upcoming PFS, but we look to the existing 6.5Moz pit-constrained resource already at ~62% M&I and with >100km of drilling since the MRE, we expect a lift and conversion to reserves for increased confidence here. Excluding UG resources from our DCF greatly reduces the overall risk in our view.
- Permitting risk – is low given this is an historic mining area, with the exception of Southwest. Still Quebec is a tier one permitting jurisdiction for mining (>10 projects permitted in last decade in <36M time frame)
- Funding: While we apply a conservative NAV multiple, financing remains a key risk for Troilus, and of course is market dependent. With the current estimated cash position of C\$30m, aggressive drilling and DFS work ahead, we expect the company could require more cash in the short term. Construction is likely to start in 1H24 and we are modelling C\$705m build capex which is significant relative to the company's current market capitalization of ~\$180m—but likely manageable with some combination of debt and equity, and/or stream. Further, we expect a higher market cap once the DFS and regional exploration drilling are completed.

Why we like Troilus

- 8.1Moz AuEq resource, including SCPe 4.6Moz @ 0.75g/t AuEq pittable PEA inventory in Quebec
- Demonstrated ounce growth and aggressive pace of drilling >100km post MRE
- Existing infrastructure & access to cheap hydroelectric power
- Large 1,420km² land package in prime mining district

Catalysts

- 1Q22: permitting start
- Mid-2022: MRE update and PFS
- 1H24: SCPe DFS and construction decision
- 1H26: SCPe first production

Ticker: TLG CN		Price / mkt cap: C\$0.8/sh, C\$160m				Project PNAV today: 0.10x		Asset: Troilus Gold Project				
Author: B. Salier / B. Gaspar		Rec / xNAV PT: BUY, C\$2.8/sh				1xNAV _{1Q22} FF FD: C\$6.21/sh		Country: Canada, Quebec				
Commodity price		CY23E	CY24E	CY25E	CY26E	CY27E	Resource		AuEq (koz)AuEq (g/t)	PEA Inv.	AuEq (koz)AuEq (g/t)	
Gold price LT (US\$/oz)		1,850	1,850	1,850	1,850	1,850	Pit constrained >0.3g/t		6480koz	0.76g/t	Pit: 3285koz 0.68g/t	
Copper price LT (US\$/lb)		4.00	4.00	4.00	4.00	4.00	Underground >0.9g/t		1630koz	1.77g/t	UG: 1830koz 1.35g/t	
SOTP project valuation*		C\$m	O/ship	NAVx	C\$/sh	C\$/sh	Grand total MRE (61% M&I)		8110koz	0.86g/t	SCP pit inv. 4600koz 0.75g/t	
Proj. @ build start (2024)		1,506	100%	0.30x	2.14		Uses of funds (C\$m)		Sources of funds (C\$m)			
Est. cash @ 1Q22		30	100%	1.00x	0.14		Pre-prod'n capex (C\$m)		705	Cash + pre-Au options (C\$m) 32		
Cash from options		2	100%	1.00x	0.01		G&A / fin. cost to 1st Au (C\$m)		69	DFS + build equity (C\$m) 317		
Regional expl. nominal upside		15	100%	1.00x	0.07		Working cap (C\$m)		29	Mine build debt (C\$m) 457		
Resources ex invnt'y @ US\$25/oz		96	100%	1.00x	0.45		Exploration pre-Au (C\$m)		20	Total sources (C\$m) 807		
Asset NAV5% US\$1850/oz		1,649		PT: 2.81			Peak financing (C\$m)		823	Buffer (C\$m) -15		
*Shares diluted for options but not mine build						Market P/NAV5% today		0.10x				
Asset value: 1xNPV project @ build start (C\$m, ungeared)*												
Project NPV (C\$m)*		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	Average shares out (m)		199.9	199.9	293.3 293.3 293.3	
10.0% discount		821	941	1,060	1,296	1,413	EPS (C\$/sh)		-	-	- 0.01 0.58	
7.5% discount		1,050	1,190	1,328	1,603	1,739	CFPS (C\$/sh)		-	-	- - 0.71	
5.0% discount		1,342	1,506	1,670	1,993	2,153	EV (C\$m)		80.4	97.1	346.9 664.3 455.6	
Ungeared project IRR:		26%	28%	30%	34%	36%	FCF yield (%)		-	-	- - 89%	
1xNAV5%-1850 (C\$/sh)		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	PER (x)		-	-	- 53.4x 1.4x	
8.0% discount		5.34	5.98	6.61	7.87	8.49	P/CF (x)		-	-	- - 1.1x	
6.5% discount		6.09	6.79	7.49	8.87	9.56	EV/EBITDA (x)		-	-	- 8.4x 1.2x	
5.0% discount		6.95	7.73	8.51	10.04	10.79	Income statement (YT Jan 31)		CY22E	CY23E	CY24E CY25E CY26E	
*Project level NPV, excl finance costs and central SGA, discounted to build start								Net revenue (C\$m)		-	-	- 119.6 549.4
Shares outstanding (m)								COGS (C\$m)		-	-	- 33.6 158.9
Basic in issue (m)		199.9	Build shares @ 0.5xNAV (m)		82.0		Gross profit (C\$m)		-	-	- 86.0 390.5	
FD with options (m)		211.3	FD mine build @ 0.5xNAV (m)		293.3		D&A, attrib (C\$m)		-	-	- 14.3 61.9	
Group valuation over time^		Apr-22	Apr-23	Apr-24	Apr-25	Apr-26	Group G&A (C\$m)		7.3	7.3	7.3 7.3 7.3	
Troilus Project NPV (C\$m)		1,352	1,420	1,506	2,012	2,393	Finance cost (C\$m)		-	-	- 14.7 35.8 36.3	
G&A + fin. costs (C\$m)		(217)	(206)	(202)	(190)	(155)	Taxes (C\$m)		-	-	- 24.3 116.0	
Net cash prior qtr (C\$m)		30.4	79.5	62.9	(112.3)	(429.7)	Net income (C\$m)		(7.3)	(7.3)	(22.0) 4.4 169.0	
Cash from options (C\$m)		1.5	1.5	1.5	1.5	1.5	EBITDA (C\$m)		(29.2)	(21.7)	(13.6) 78.7 383.2	
Regional expl. nominal upside		15	15	15	15	15	Cash flow, attrib. (YT Jan 31)		CY22E	CY23E	CY24E CY25E CY26E	
Resource ex reserve (C\$m)		96.0	96.0	96.0	96.0	96.0	EBIT (C\$m)		(7.3)	(7.3)	(7.3) 64.5 321.3	
NAV FF FD (C\$m)		1,278	1,406	1,479	1,822	1,920	Add back D&A (C\$m)		-	-	- 14.3 61.9	
Shares in issue (m)		199.9	196.5	196.5	293.3	293.3	Less tax (C\$m)		-	-	- 14.7 60.1 152.2	
1xNAV5%/sh FF FD (C\$/sh)		6.39	7.16	7.53	6.21	6.55	Change in wkg cap (C\$m)		-	(3.4)	- (28.9) (15.3)	
Equity ROI from spot (% pa)				207%	98%	69%	Plus other non-cash (C\$m)		(13.6)	(6.0)	(29.3) (120.2) (304.5)	
Geared company NAV diluted for mine build, net G&A and finance costs								Cash flow ops (C\$m)		(20.9)	(16.7)	(22.0) (10.2) 215.7
2Q26 1xNAV FF FD (C\$/sh)^		\$1750oz	\$1850oz	\$1950oz	\$2150oz	\$2250oz	PP&E - build + sust. (C\$m)		-	-	(400.0) (307.1) (6.9)	
10.0% discount		1,338	1,482	1,625	1,908	2,049	PP&E - expl'n (C\$m)		-	-	- - -	
7.5% discount		1,517	1,677	1,837	2,152	2,308	Cash flow inv. (C\$m)		-	-	(400.0) (307.1) (6.9)	
5.0% discount		1,740	1,920	2,100	2,455	2,631	Share issue (C\$m)		70.0	-	246.8 - -	
Geared project IRR:		23%	25%	27%	31%	33%	Debt draw (repay) (C\$m)		-	-	366.7 91.7 (38.2)	
*Project NPV incl grp SG&A & fin. cost, +net cash; *diluted for mine build equity								Cash flow fin. (C\$m)		70.0	-	613.5 91.7 (38.2)
Production		Y1	Y2	Y3	Y4	Y5	Net change in cash (C\$m)		49.1	(16.7)	191.5 (225.7) 170.5	
Gold Eq production (000oz)		209	307	274	263	263	Balance sheet		CY22E	CY23E	CY24E CY25E CY26E	
C1 cost (US\$/oz AuEq)		439	508	645	643	644	Cash (C\$m)		79.5	62.9	254.4 28.7 199.2	
AISC cost (US\$/oz AuEq)		478	545	683	681	681	Acc rec., inv, prepaid (C\$m)		6.4	6.4	6.4 46.3 69.7	
AISC = C1 + sustaining capex, Y1 = CY26								PP&E + other (C\$m)		6.9	6.9	406.9 699.8 644.8
								Total assets (C\$m)		92.8	76.2	667.6 774.8 913.6
								Debt (C\$m)		-	-	366.7 458.3 420.1
								Accounts payable (C\$m)		4.0	0.6	0.6 11.6 19.7
								Others (C\$m)		8.7	8.7	8.7 8.7 8.7
								Total liabilities (C\$m)		12.6	9.3	375.9 478.6 448.5
								Sh'hlds equity + wrnts (C\$m)		247.7	256.1	509.2 509.2 509.2
								Retained earn'gs + rsvs (C\$m)		(167.6)	(189.2)	(217.5) (213.1) (44.0)
								Liabilities + equity (C\$m)		92.8	76.2	667.6 774.8 913.6

400koz

300koz

200koz

100koz

0koz

Gold Eq production (000oz)

AISC cost (US\$/oz AuEq)

Y1

Y2

Y3

Y4

Y5

1200/oz

900/oz

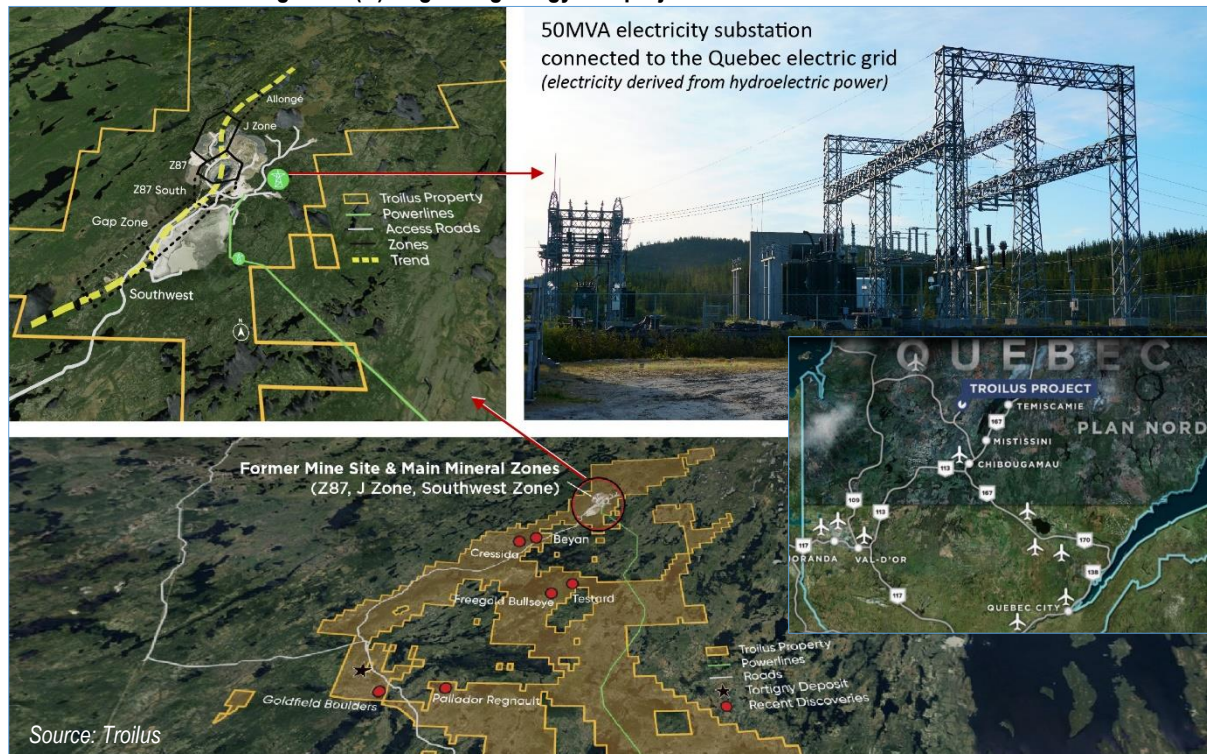
600/oz

300/oz

APPENDIX: TROILUS GOLD PROPERTY

The 100% owned Troilus Gold Project is located in central Quebec and lies 120km north of the town of Chibougamau. The project is comprised of a single active Mining Lease and 1,988 mineral claims covering 107,321 ha. The historic Troilus open pit mine processed **~70Mt @ 1.07g/t Au**, 1.2g/t Ag, and 0.1% Cu between November 1996 - June 2010 for total production of **2Moz Au, 2.2Moz Ag, and ~70kt Cu**. Production ceased in 2010 due to commodity pricing and the company shifting focus to other assets. Following this, the mill was sold and shipped to Mexico, and the main camp facilities were dismantled. Infrastructure in place today includes +85km of power lines, a 50MW substation sourcing hydroelectric power, main offices, core shack, water treatment facility, permitted TSF and 60-person camp.

Figure 8. (A) Regional geology and project location & infrastructure

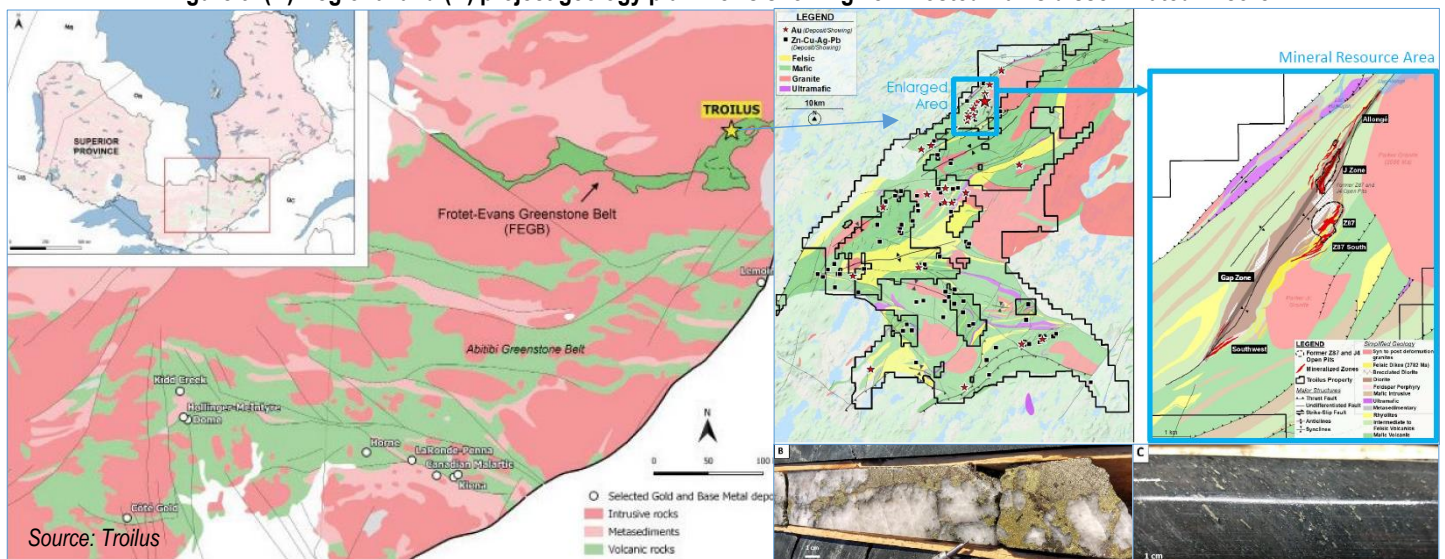


Geology

Regional: The Frotêt Evans Greenstone Belt shares all of the typical geological characteristics as the well-endowed Abitibi Belt to the south (i.e. hosted in the same age and greenschist style of mineralization, along the same West-East trend, and within the same alteration, deformation, etc) spanning >300km between James Bay and Mistassini Lake.

Project geology: The Troilus deposit is located in the northeastern region of the Frotêt-Troilus domain, and is hosted by volcanic rocks situated within the northern limb of the Troilus isoclinal syncline, transposed by a series of NE-SW striking thrust fault zones, and parallel to the main regional foliation. **Mineralization:** Troilus is primarily an Au-Cu deposit, but contains minor amounts of Ag, Zn and Pb, (inc. trace Bi, Te, and Mo). Mineralization typically occurs around the margins of the Troilus Diorite in either the matrix of the diorite breccia, the diorite and the felsic dikes. Gold / copper can be disseminated and vein-hosted. Gold typically occurs with sulphides, although not correlated to grade. Disseminated gold occurs as fine grains of electrum, up to 20 µm wide along sulfide grain boundaries, and filling fractures within sulfide grains, containing up to 15 wt. % Ag. Vein-hosted mineralization is typically gold only, but these vein / veinlets can be observed across all host rocks on the property. J4 veins for example, host the most significant quartz-chlorite (±tourmaline) veins in higher strain zones, containing free gold and minor amounts of sulphide. Much of the gold is fine grained and contains up to 20% Ag, but can be coarser >1,000µm in size as well. Locally, a second set of gold-bearing quartz veinlets cut the first and carry fine grained gold (>95%) and sulphides. Whilst small in volume, these veins can see up to 1m widths and grades **>50g/t Au**, hence 30% of coarse gold is recovered by gravity in the PEA.

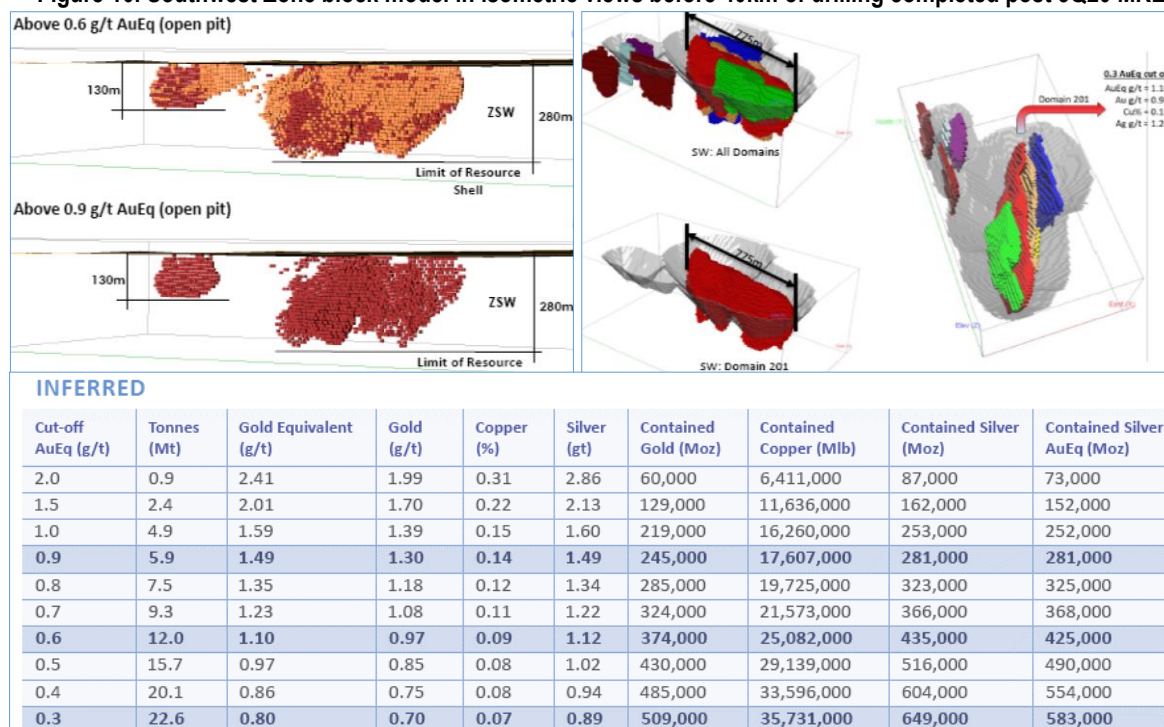
Figure 9. (A) Regional and (B) project geology plan views showing vein hosted Au vs disseminated in core



Southwest Zone

Discovered in 2019, the SW Zone is 3 km southwest of the Z87 Zone. The current interpretation, based on recent drilling, is that the SW Zone appears to be the nose of a synclinal fold with a gentle plunge to the northwest. Geology is comparable to the main deposits at Troilus, but key is the SW Zone is defined by two key mineralized zones: the 'Main Zone' (higher grades) and the 'West Zone' (lower grade), and have been interpreted to represent opposite limbs of a major regional syncline and two separate gold phases. **Higher grades** / alterations observed in Main Zone occur as a result of focused structural controls / fluid traps acting as a conduit for higher temperature alteration / mineral deposition. While only an early snapshot in Figure 10 below, the existing MRE sensitivities plus drilling to date show both the higher grade potential of mineralization at higher cut-offs and that it comes to surface.

Figure 10. Southwest Zone block model in isometric views before 40km of drilling completed post 3Q20 MRE



Source: Troilus

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

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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.

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HOLD:	1
SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	56

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