

**Ticker:** SKE CN

**Cash 3Q22+royalty sale:** C\$54m

**Project:** Eskay Creek

**Market cap:** C\$531m

**Price:** C\$7.01/sh

**Country:** Canada, BC

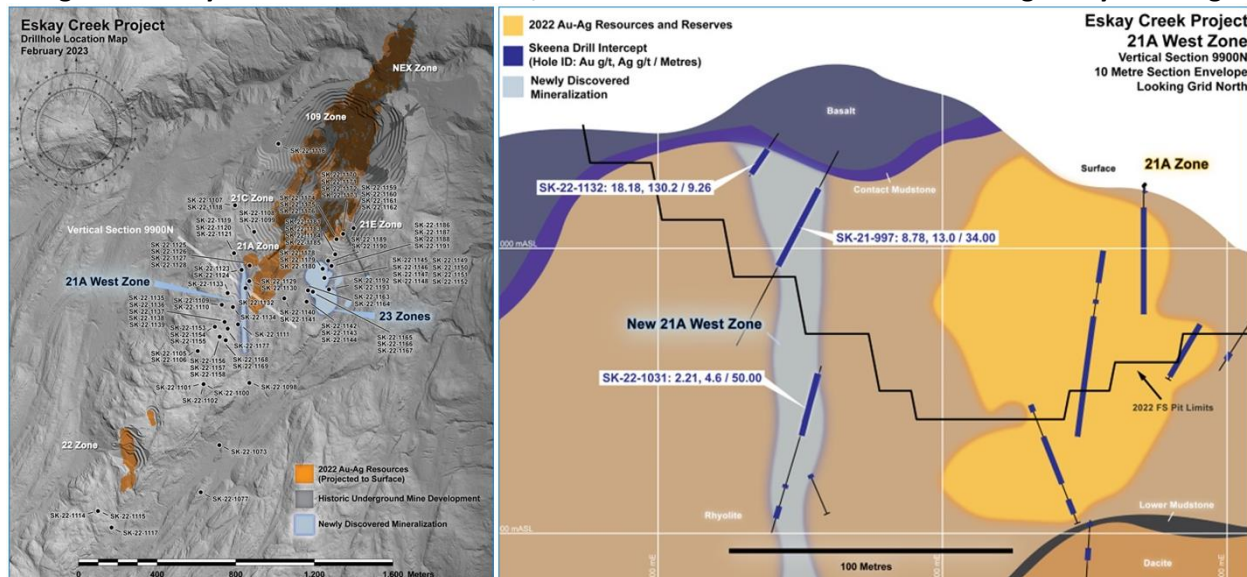
**REC. (unc):** BUY

**TARGET (unc):** C\$12.00/sh

**RISK RATING (unc):** HIGH

The main key takeaway from today's drill results is that Eskay Creek will get bigger, mainly from near-surface ounce additions, which are NPV accretive in our view. Currently, we model C\$1.75Bn NPV<sub>5%-1850</sub> for Eskay Creek at build start, which simply equates to a ~C\$50m NPV increase for each 100koz added or +64c/sh, a figure that lifts if over 3.7g/t AuEq reserve grade, and falls if under. It's hard to pin down the exact ounce-addition potential, but 21A West and 23 Zones are the engine room. For the pessimists concerned about losses during infill, at worse this would offset such, while the optimists have a flyer on additional high-grade from the rhyolites and near-surface high-grade ounces like some of those drilled today. Digging in (i) infill drilling at 21A Zone saw **9.3m @ 19.7g/t AuEq** from 46m – near surface and substantially higher grade than the current OP resource (5.3Moz @ 3.2g/t) in an area modelled as waste, a big win, (ii) extension drilling from the newly discovered 21A West Zone hit **5.7m @ 14.9g/t**, just 10m below surface, next to the FS pit shell and 100m vertically up-dip from prior **46.8m @ 1.8g/t** hit, speaking to continuity for more cheap ounce additions, while (iii) bulk hits from 23 Zone (ie 26.1m @ 1.3g/t) fill out the back end, perhaps with some cherries (6.4m @ 12.9g/t), with the mineralization now being traced for ~800m along strike and 300m below surface. For now, **we maintain our BUY rating and C\$12.00/sh PT based on 0.6xNAV<sub>5%-1850</sub>**. Looking ahead, clearly the upcoming MRE is the main catalyst to provide more torque to Skeena's share, alongside with early construction works and progress on permitting.

**Figure 1. Eskay Creek Plan view and 21A / 21A West Zone vertical section showing today's drilling**



Source: Skeena

## Step-out / infill drilling at 21A W, 23 Zones opens door to ounce growth in 1H23 MRE update

Skeena reported results from 91 holes from the 2022 drilling program at Eskay Creek. Infill drilling at the 21A Zone intercepted **9.3m @ 19.7g/t AuEq** from 46m, while extension drilling from the newly discovered 21A West Zone hit **5.7m @ 14.9g/t** from 10m below surface. Step-out exploration drilling from the also newly discovered 23 Zone intercepted **6.4m @ 12.9g/t** from surface and **26.1m @ 1.3g/t** from 61m downhole. An updated MRE is expected by 1H23, which will incorporate all drilling data after September 2021, including the newly discovered 21A West and 23 Zones, that as of now have not been included in any MRE or economic analysis to date.

### Why we like Skeena Resources

- Large high-grade open pit with SCPe >500koz upside potential in coming 12-18M

- Shift in market dynamics allows concentrate sales for lower capex
- Optionality from high-grade Snip mine nearby to blend concentrate or add ounces
- Catalyst heavy with drilling, metallurgy, and DFS optimizations in coming 12M

## Catalysts

- 1H23: Updated MRE
- 2023: Permitting updates
- 3Q23: SCPe build start
- CY26: SCPe first production
- 2H22: Exploration and AWF infill / expansion drilling

## Research

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

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

**Konstantinos Kormpis** (Toronto) M: +1 778-957-3623 [kkormpis@sprott.com](mailto:kkormpis@sprott.com)

<b>Ticker:</b> SKE CN	<b>Price / mkt cap:</b> C\$7.01/sh, C\$531m	<b>Project PNAV today:</b> 0.33x	<b>Asset:</b> Eskay Creek / Snip
<b>Author:</b> B Salier/ E Magdzinski	<b>Rec / 0.6xNAV PT:</b> BUY, C\$12/sh	<b>1xNAV<sub>4Q22</sub> FF FD:</b> C\$21.42/sh	<b>Country:</b> Canada: BC

Commodity price	CY18A	CY19A	CY20A	CY21A	CY22E
Gold price	1,850	1,850	1,850	1,850	1,850
<b>SOTP project valuation*</b>					
	<b>C\$m</b>	<b>O/ship</b>	<b>NAVx</b>	<b>C\$/sh</b>	
Ungeared proj. @ build start (3Q23)	1,748	100%	1.00x	21.07	
Cash 3Q22+royalty sale	54	100%	1.00x	0.65	
Cash from options	55	100%	1.00x	0.67	
Rsr ex rsv @US\$50/oz	88	100%	1.00x	1.06	
Snip (US\$75/oz)	61	100%	1.00x	0.73	
Asset NAV5% C\$1850/oz	<b>2,006</b>			<b>24.2</b>	
*Shares diluted for options but not mine build Market P/NAV5% <sub>3Q23</sub> 0.29x					

Share data	
Basic shares (m)	75.8 FD with build equity raise 107.4
FD with options (m)	82.9

Asset value: 1xNPV project @ build start (C\$m, ungeared)*					
Project NPV (C\$m)*	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
10.0% discount	1,289	1,416	1,543	1,669	1,795
7.5% discount	1,472	1,614	1,756	1,897	2,038
5.0% discount	1,687	1,846	<b>2,006</b>	2,165	2,324
Ungeared project IRR:	44%	47%	50%	53%	56%

Project NPV (C\$/sh)*					
	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
10.0% discount	15.54	17.08	18.60	20.13	21.65
7.5% discount	17.75	19.46	21.17	22.87	24.57
5.0% discount	20.34	22.26	<b>24.2</b>	26.10	28.01

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

Group valuation over time^					
	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27
Eskay Creek (C\$m)	1,727	1,856	2,146	2,550	2,423
Net cash prior qtr (C\$m)	23	169	(24)	(334)	(144)
G&A and finance costs (C\$m)	(90)	(100)	(92)	(70)	(29)
Cash from options (C\$m)	55	55	55	55	55
Snip	61	61	61	61	61
NAV FF FD (C\$m)	1,776	2,040	2,146	2,262	2,366
1xNAV <sub>5%</sub> /sh FF FD (C\$/sh)	<b>21.42^</b>	<b>18.98*</b>	<b>19.98*</b>	<b>21.06*</b>	<b>22.03*</b>

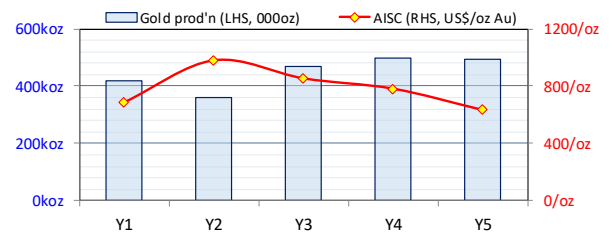
Geared company NAV diluted for mine build, net G&A and finance costs

1xNAV FF FD (C\$/sh)^					
	\$1650oz	\$1750oz	\$1850oz	\$1950oz	\$2050oz
10.0% discount	1,813	1,980	2,147	2,314	2,482
7.5% discount	1,903	2,077	2,251	2,426	2,600
5.0% discount	2,002	2,184	<b>2,366</b>	2,549	2,731
Geared project IRR:	42%	45%	48%	51%	54%

^Project NPV incl grp SG&A & fin. cost, +net cash; \*diluted for mine build equity

Production					
	Y1	Y2	Y3	Y4	Y5
Gold production (000oz)	420	361	469	496	493
C1 cost (US\$/oz)	611	897	722	656	590
AISC cost (US\$/oz)	691	979	854	783	636

AISC = C1 + ug sustaining capex, Y1 = 12M to Mar 2027



Source: SCP estimates

Resource / Reserve	AuEq (koz)	AuEq (g/t)
Pittable resource	5329koz	3.20g/t
Underground resource	279koz	5.23g/t
Snip	646koz	13.60g/t
<b>Funding: uses</b>		
Build Capex	C\$592m	Cash 3Q22+royalty sale C\$71m
SCPe G&A to 1st Au + NSR buyback	C\$28m	Mine debt @ 65% gearing C\$385m
SCPe pre-production expl'n	C\$0m	Mine build equity at 0.4xNAV C\$207m
SCPe finance costs + wkg cap	C\$38m	Total proceeds C\$663m
<b>Total uses</b>	<b>C\$659m</b>	<b>Buffer C\$4m</b>

\*Cash from options expiring pre first pour

Ratio analysis					
	CY21A	CY22E	CY23E	CY24E	CY25E
Average shares out (m)	92.2	71.2	97.5	100.7	100.7
EPS (C\$/sh)	-	-	-	-	-
CFPS (C\$/sh)	-	-	-	-	-
EV (C\$m)	607.1	477.4	516.6	731.0	1,041.2
FCF yield (%)	-	-	-	-	-
PER (x)	-	-	-	-	-
P/CF (x)	-	-	-	-	-
EV/EBITDA (x)	-	-	-	-	32.6x

Income statement

	CY21A	CY22E	CY23E	CY24E	CY25E
Net revenue (C\$m)	-	-	-	-	40.8
<b>Gross profit (C\$m)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32.7</b>
D&A, attrib (C\$m)	0.3	0.2	-	-	5.9
Admin (C\$m)	22.9	18.7	16.1	12.1	-
Expensed exploration (C\$m)	107.5	71.9	-	-	-
Finance cost (C\$m)	(0.2)	(0.3)	-	-	24.6
Royalty (C\$m)	-	-	-	-	0.8
Forex, other (C\$m)	(12.8)	(14.0)	-	-	-
Taxes (C\$m)	-	-	-	-	3.7
<b>Net income (C\$m)</b>	<b>(117.6)</b>	<b>(76.5)</b>	<b>(16.1)</b>	<b>(12.1)</b>	<b>(2.4)</b>

Cash flow, attrib.

	CY21A	CY22E	CY23E	CY24E	CY25E
EBIT (C\$m)	(117.8)	(76.8)	(16.1)	(12.1)	26.0
Add back D&A (C\$m)	0.3	0.2	-	-	5.9
Less tax + net interest (C\$m)	(0.2)	(0.3)	-	-	28.4
Net change in wkg cap (C\$m)	(10.3)	12.1	-	(1.2)	(17.6)
Add back other non-cash (C\$m)	1.4	(6.3)	-	-	-
<b>Cash flow ops (C\$m)</b>	<b>(126.1)</b>	<b>(70.5)</b>	<b>(16.1)</b>	<b>(13.3)</b>	<b>(14.0)</b>
PP&E + build + sust. (C\$m)	(13.1)	(12.7)	(35.4)	(179.3)	(296.3)
PP&E - expl'n (C\$m)	(0.5)	(0.0)	22.5	-	-
<b>Cash flow inv. (C\$m)</b>	<b>(13.5)</b>	<b>(12.7)</b>	<b>(12.9)</b>	<b>(179.3)</b>	<b>(296.3)</b>
Share issue (C\$m)	137.0	65.2	174.4	-	-
Proceeds from sale (C\$m)	5.0	-	-	-	-
Debt draw (repay) (C\$m)	(1.6)	(0.3)	-	-	410.7
<b>Cash flow fin. (C\$m)</b>	<b>140.5</b>	<b>64.9</b>	<b>174.4</b>	<b>-</b>	<b>410.7</b>
Net change in cash (C\$m)	0.8	(18.3)	145.4	(192.6)	100.5
EBITDA (C\$m)	(117.5)	(76.6)	(16.1)	(12.1)	31.9

Balance sheet

	CY21A	CY22E	CY23E	CY24E	CY25E
Cash (C\$m)	40.3	23.2	168.5	(24.0)	76.5
Acc rec., inv, prepaid (C\$m)	13.9	7.4	7.4	8.6	6.2
PP&E + other (C\$m)	100.8	124.2	137.1	316.4	606.7
<b>Total assets (C\$m)</b>	<b>155.0</b>	<b>154.8</b>	<b>313.1</b>	<b>301.0</b>	<b>689.3</b>
Debt (C\$m)	1.3	1.4	1.4	1.4	412.1
Accounts payable (C\$m)	12.5	20.6	20.6	20.6	0.6
Others (C\$m)	17.6	3.6	3.6	3.6	3.6
Total liabilities (C\$m)	31.4	25.6	25.6	25.6	416.4
Sh'hlds equity + wrmts (C\$m)	362.0	448.9	623.3	623.3	623.3
Retained earn'gs + rsvs (C\$m)	(238.4)	(319.7)	(335.9)	(348.0)	(350.3)
<b>Liabilities + equity (C\$m)</b>	<b>155.0</b>	<b>154.8</b>	<b>313.1</b>	<b>301.0</b>	<b>689.3</b>

## DISCLOSURES & DISCLAIMERS

This research report (as defined under IIROC Rule 3600, Part B) is issued and approved for distribution in Canada by Sprott Capital Partners LP ("SCP"), an investment dealer who is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investor Protection Fund ("CIPF"). The general partner of SCP is Sprott Capital Partners GP Inc. and SCP is a wholly-owned subsidiary of Sprott Inc., which is a publicly listed company on the Toronto Stock Exchange under the symbol "SII". Sprott Asset Management LP ("SAM"), a registered investment manager to the Sprott Funds and is an affiliate of SCP. This research report is provided to retail clients and institutional investors for information purposes only. The opinions expressed in this report are the opinions of the author and readers should not assume they reflect the opinions or recommendations of SCP's research department. The information in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does SCP and/or affiliated companies or persons assume any responsibility or liability whatsoever. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. SCP accepts no liability whatsoever for any loss arising from any use or reliance on this research report or the information contained herein. Past performance is not a guarantee of future results, and no representation or warranty, expressed or implied, is made regarding future performance of any security mentioned in this research report. The price of the securities mentioned in this research report and the income they generate may fluctuate and/or be adversely affected by market factors or exchange rates, and investors may realize losses on investments in such securities, including the loss of investment principal. Furthermore, the securities discussed in this research report may not be liquid investments, may have a high level of volatility or may be subject to additional and special risks associated with securities and investments in emerging markets and/or foreign countries that may give rise to substantial risk and are not suitable for all investors. SCP may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivatives instruments thereon, and may, as a principal or agent, buy or sell such products.

**DISSEMINATION OF RESEARCH:** SCP's research is distributed electronically through email or available in hard copy upon request. Research is disseminated concurrently to a pre-determined list of clients provided by SCP's Institutional Sales Representative and retail Investment Advisors. Should you wish to no longer receive electronic communications from us, please contact [unsubscribe@sprott.com](mailto:unsubscribe@sprott.com) and indicate in the subject line your full name and/or corporate entity name and that you wish to unsubscribe from receiving research.

**RESEARCH ANALYST CERTIFICATION:** Each Research Analyst and/or Associate who is involved in the preparation of this research report hereby certifies that:

- The views and recommendations expressed herein accurately reflect his/her personal views about any and all of the securities or issuers that are the subject matter of this research report;
- His/her compensation is not and will not be directly related to the specific recommendations or view expressed by the Research analyst in this research report;
- They have not affected a trade in a security of any class of the issuer within the 30-day period prior to the publication of this research report;
- They have not distributed or discussed this Research Report to/with the issuer, investment banking group or any other third party except for the sole purpose of verifying factual information; and
- They are unaware of any other potential conflicts of interest.

**UK RESIDENTS:** Sprott Partners UK Limited ("Sprott") is an appointed representative of PillarFour Securities LLP which is authorized and regulated by the Financial Conduct Authority. This document has been approved under section 21(1) of the FMSA 2000 by PillarFour Securities LLP ("PillarFour") for communication only to eligible counterparties and professional clients as those terms are defined by the rules of the Financial Conduct Authority. Its contents are not directed at UK retail clients. PillarFour does not provide investment services to retail clients. PillarFour publishes this document as non-independent research which is a marketing communication under the Conduct of Business rules. It has not been prepared in accordance with the regulatory rules relating to independent research, nor is it subject to the prohibition on dealing ahead of the dissemination of investment research. It does not constitute a personal recommendation and does not constitute an offer or a solicitation to buy or sell any security. Sprott and PillarFour consider this note to be an acceptable minor non-monetary benefit as defined by the FCA which may be received without charge. This is because the content is either considered to be commissioned by Sprott's clients as part of their advisory services to them or is short term market commentary. Neither Sprott nor PillarFour nor any of its directors, officers, employees or agents shall have any liability, howsoever arising, for any error or incompleteness of fact or opinion in it or lack of care in its preparation or publication; provided that this shall not exclude liability to the extent that this is impermissible under the law relating to financial services. All statements and opinions are made as of the date on the face of this document and are not held out as applicable thereafter. This document is intended for distribution only in those jurisdictions where PillarFour is permitted to distribute its research.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS:** This research report was prepared by Sprott Capital Partners LP ("SCP"), a company authorized to engage in securities activities in Canada. SCP is not a registered broker/dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Sprott Global Resource Investments Ltd. ("SGRIL"), a broker dealer in the United States registered with the Securities Exchange Commission ("SEC"), the Financial Industry Authority ("FINRA"), and a member of the Securities Investor Protection Corporation ("SIPC"). Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through SCP.

SGRIL accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor. The analyst whose name appears in this research report is not licensed, registered, or qualified as a research analyst with FINRA and may not be an associated person of SGRIL and, therefore, may not be subject to applicable restrictions under FINRA Rule 2241 regarding communications by a research analyst with a subject company, public appearances by the research analyst, and trading securities held by a research analyst account. To make further inquiries related to this report, United States residents should contact their SGRIL representative.

**ANALYST CERTIFICATION / REGULATION AC:** The analyst and associate certify that the views expressed in this research report accurately reflect their personal views about the subject securities or issuers. In addition, the analyst and associate certify that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

**SPROTT CAPITAL PARTNERS EXPLANATION OF RECOMMENDATIONS:** Should SCP issue research with recommendations, the research rating guidelines will be based on the following recommendations:

**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

Research Disclosure		Response
1	SCP and its affiliates collectively beneficially owns 1% or more of any class of the issuer's equity securities <sup>1</sup>	YES
2	The analyst or any associate of the analyst responsible for the report or recommendation or any individual directly involved in the preparation of the report holds or is short any of the issuer's securities directly or through derivatives	NO
3	An SCP partner, director, officer or analyst involved in the preparation of a report on the issuer, has during the preceding 12 months provided services to the issuer for remuneration other than normal course investment advisory or trading execution services	NO
4	SCP has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the research report or recommendation	NO
5	Name of any director, officer, employee or agent of SCP who is an officer, director or employee of the issuer, or who serves in an advisory capacity to the issuer	NO
6	SCP is making a market in an equity or equity related security of the issuer	NO
7	The analyst preparing this report received compensation based upon SCP's investment banking revenue for the issuer	NO
8	The analyst has conducted a site visit and has viewed a major facility or operation of the issuer	YES
9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

**Sprott Capital Partners Equity Research Ratings:**

Summary of Recommendations as of February 2023	
BUY:	53
HOLD:	1
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	55

<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