



November 2020



Market data	
EPIC/TKR	NUAG
Price (C\$)	5.97
12m High (C\$)	7.23
12m Low (C\$)	2.34
Shares (m)	157.89
Mkt Cap (C\$m)	942.6
EV (C\$m)	881.3
Free Float*	54.5%
Market	TSX

\*As defined by AIM Rule 26

**Description**

New Pacific Metals Corp. is developing the Silver Sand and Silverstrike projects in Bolivia. The company has a strong balance sheet and supportive strategic shareholders.

**Company information**

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 Chairman Hon. Jack Austin  
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**Key shareholders**

Silvercorp Metals Inc.	28.8%
Pan American Silver	9.7%
Directors	7%

**Diary**

Nov'20	1Q'21 results
Feb'21	2021 interim results

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# NEW PACIFIC METALS CORP.

## World-class silver project

New Pacific Metals (NUAG) is a TSX-listed silver company, which is developing the potentially world-class Silver Sand project, and earlier-stage Silverstrike project, in Bolivia. The Whitehorse gold-silver assets in the Yukon will be spun off to existing shareholders, leaving NUAG focused on its core assets. With skilful guidance, the company has the potential to join the relatively small number of high-quality primary silver producers. Furthermore, mining has been designated a strategic sector for attracting foreign investment by the Bolivian government, and other mining companies, e.g. Glencore and Pan American Silver, are operating there.

- ▶ **Silver Sand:** NUAG's flagship project is located 35km from Cerro Rico, the largest silver mine (1.6bn oz Ag) in history. Silver Sand's total resources currently stand at 191.39m oz of silver, of which 70% are Measured & Indicated and 70% are within 200m of the surface, making it suitable for lower-cost open-pit mining.
- ▶ **Strong balance sheet:** Following a further successful C\$25.0m financing in June 2020, NUAG has net cash/short-term investments of more than C\$61.0m. This leaves it well placed to finance the next phase of exploration, including the publication of a PEA (Preliminary Economic Assessment) for Silver Sand.
- ▶ **Strategic shareholder:** NUAG's largest shareholder, with 28.8%, is TSX/NYSE-listed Silvercorp Metals Inc., China's largest primary silver producer. Silvercorp's founder, Dr Rui Feng, is also the founder of NUAG. Pan American Silver, another major silver miner, is the second-largest shareholder, with 9.7%.
- ▶ **Risks:** NUAG faces the normal risks for a junior miner. These include exploration risks (adding additional resources, for example), political risks, permitting and environmental risks, volatility in the silver price and operational risks in successfully executing the mining plan.
- ▶ **Investment summary:** The approach of the publication date for the PEA – expected in 1H'21 – should be a significant catalyst for the share price. NUAG's valuation in terms of EV/total silver resources of \$3.5/oz compares with \$12.8/oz for MAG Silver, which recently commissioned its 44%-owned (with Fresnillo) Juancipio project in Mexico.

Financial summary and valuation						
Year-end Jun (C\$000)	2016	2017	2018	2019	2020	2021E
Sales	0	0	0	0	0	0
Underlying EBIT	2,069	925	-4,643	-1,735	-4,426	-3,950
Reported EBIT	2,069	925	-4,643	-1,735	-4,426	-3,950
Underlying net income	2,935	1,355	-4,122	-1,793	-3,082	-3,750
Statutory net income	-810	1,355	-4,122	-2,573	7,913	-3,750
Underlying EPS (C\$)	0.04	0.02	-0.03	-0.01	-0.03	-0.02
Statutory EPS (C\$)	0.00	0.02	-0.03	-0.02	0.05	-0.02
Net (debt)/cash	22,469	15,215	32,718	38,793	61,278	43,595
Shares issued (m)	66.94	67.39	122.10	133.80	150.69	157.89
P/E (x)	149.3	298.5	n/a	n/a	n/a	n/a
Dividend	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	n/a	n/a	n/a	n/a	n/a	n/a

Source: Hardman &amp; Co Research

## Overview

*TSX-listed, with projects in Bolivia*

NUAG is a silver exploration and development company, which is listed on the Toronto Stock Exchange, and has two main projects in Bolivia. NUAG’s flagship Silver Sand project – with an existing resource of close to 200m oz – has world-class potential.

*Flagship project located near to world’s biggest-ever silver mine*

It is hard to imagine a better geographical pedigree for Silver Sand. It is located 54km from the city of Potosí, which was founded in 1546 and was the site of the world’s largest silver deposit, Cerro Rico. Potosí has been described as the “first city of capitalism” and, at one time, was the site of the Spanish Colonial Mint. More than 60,000 tonnes of silver was shipped from the town during the following four centuries.

*Mining now strategic sector for Bolivian government*

In recent decades, Bolivia has been under-explored by major mining companies. However, government policy is to increase foreign investment, with mining being categorised as a “strategic sector”. Other major silver mines currently operating in the region include San Cristóbal (Sumitomo) and San Vicente (Pan American Silver).



Source: Hardman & Co Research

## Silver Sand – NUAG’s flagship project

*Silver Sand acquired in 2017*

NUAG acquired 100% of the Silver Sands project for \$40.0m in September 2017. The project covers 6 sq km in four concessions over two north-west trending mineralised zones – Silver Sand in the south, and El Bronce, Jardan and Jisas in the north. The project is accessible by road, while power and water are available from the national grid and local rivers. NUAG signed a Mining Production Contract (MPC) with COMIBOL (the Mining Corporation of Bolivia) in January 2019, which is awaiting ratification by the Bolivian parliament.

*Maiden resource estimate of 191m oz of silver*

During 2018-19, the company completed almost 89,000m of exploration drilling, which was followed by the publication of Silver Sands’ maiden NI 43-101 resource estimate in April 2020. This showed aggregate resources of 191.39m oz of silver, with 70% in the Measured & Indicated category. It is worth noting that 70% of the resources are within 200m of the surface, making them suitable for open-pit extraction. Initial metallurgical tests have shown silver recoveries in the 87%-97% range.

**Silver Sand – mineral resource estimate (NI 43-101)**

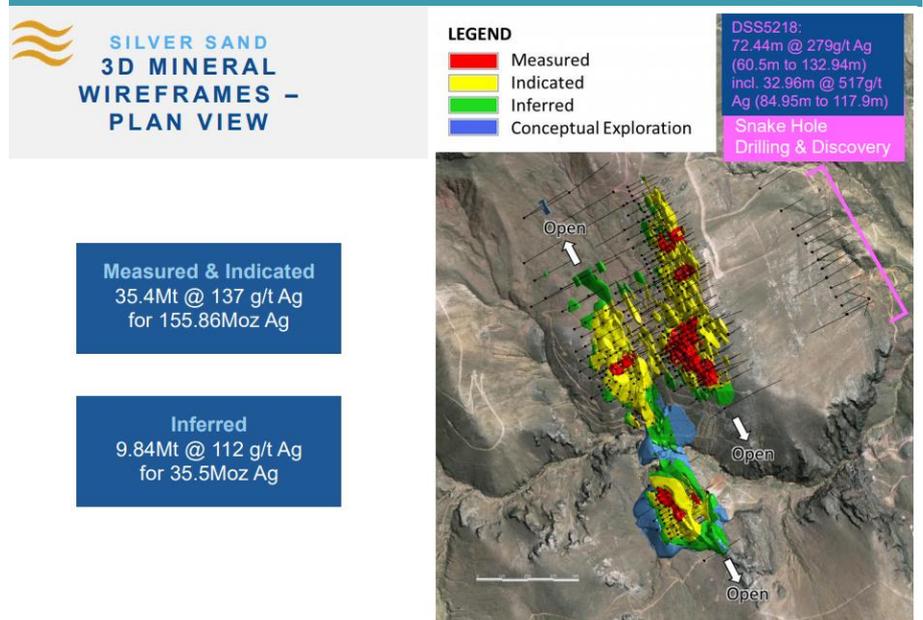
	Tonnes (mt)	Ag (g/t)	Ag (m oz)
Measured	8.40	159	43.05
Indicated	26.99	130	112.81
Total Measured & Indicated	35.39	137	155.86
Inferred	9.84	112	35.55
Total resources	45.23		191.41

Source: Hardman & Co Research

*Silver-rich polymetallic system open to north, south and at depth*

Mineralisation at Silver Sand remains open to the north, south and at depth. The northern blocks (see map below) are believed to form a large silver-rich polymetallic system. Furthermore, drilling is under way to expand the resource estimate at the nearby Snake Hole target, which is located to the east and several hundred metres lower in the system, with wider vein sets, than Silver Sand. Results from assays are awaited on nearly 600 samples, and drilling is expected to begin before year-end.

**Silver Sand – distribution of current resource and Snake Hole target**



Source: Hardman & Co Research

The company believes that Silver Sand has the potential to host several silver deposits, and a PEA study (Preliminary Economic Assessment) is expected in 1H'21.

**Silverstrike – main targets identified**

*Mineralisation may be similar to Silver sand and Cerro Rico*

The Silverstrike project is located on the central-western edge of Bolivia, close to the borders with Peru and Chile. The elevation of 4,100m is almost identical to Silver Sand, and also benefits from grid connection and paved roads. Highlights from initial assay results in the northern part of the deposit showed silver, lead and copper mineralisation up to 1,865g/t, 0.96% and 1.42%, respectively. Average sample results have yielded 190g/t silver, which is higher than the current Silver Sand resource estimate. NUAG's management team has noted that the mineralisation in this zone appears similar to its Silver Sand project. Indeed, the geological pattern of sandstones intruded by a felsic dome is similar to both Silver Sand and the famous Cerro Rico deposit. Three main targets have been identified for further exploration: Silverstrike North, Central Dome & South and Dos Amigos. With mineralisation beginning near the surface, there is potential for an open-pit mine.

## Current financial and trading position

### Latest C\$25.0m financing...

In June 2020, NUAG completed its latest round of financing, with a C\$25m bought deal (4,238m shares at C\$5.90). This puts the company in a strong position to continue exploration work at the Silver Sand and Silverstrike properties, at least through the rest of 2020 and 2021.

### ...left NUAG with net cash of more than C\$60.0m

At the end of the financial year to 30 June 2020, the company's net cash position stood at C\$40.6m, with an additional C\$20.6m in short-term investments (mainly guaranteed investment certificates issued through Canadian financial institutions). Excluding a C\$11.7m gain for impairment recovery on the Tagish Lake Gold project (TLG – see below), NUAG reported an underlying (before impairment recovery) net loss of C\$3.8m during the last financial year, while capital expenditure amounted to \$11.6m.

### TLG project being spun out as Whitehorse Gold

TLG consists of three gold and gold-silver deposits, and is located in Canada's Yukon Territory. It has seen little exploration since its acquisition in 2010. Following a strategic review, it was established in a wholly-owned subsidiary, Whitehorse Gold, which is being spun out to existing NUAG shareholders. The deal has been approved by shareholders, and a TSX listing is currently proposed for the demerged entity.

## Management, shareholders and valuation

### Backgrounds to key members of management team

Dr Mark Cruise was appointed NUAG's CEO on 28 May 2020, after previously being COO. Cruise is ex-Anglo American, and also led the development of Trevali Mining from discovery to a top-10 zinc producer. The Chairman, Hon. Jack Austin, is a former Canadian senator and Deputy Minister of Energy, Mines and Resources. NUAG's founder, Dr Rui Feng, is currently the Chairman and CEO of Silvercorp Metals.

### Silvercorp Metals and Pan American Silver significant shareholders

NUAG's largest shareholder is Silvercorp Metals Inc. (NYSE: SVM), the largest primary silver producer in China, which owns 28.8%. Pan American Silver Corp. (TSX: PAAS), another major silver producer, with six mines (including the San Vicente mine located in the Potosí Department of Bolivia), is second, with 9.7%. The directors own 7%, and the free float is currently 54.5%.

### Upside to NUAG's valuation as Silver Sand project progresses

This is a short research report on NUAG, ahead of the company presenting at the Hardman & Co Investor Forum on 11 November 2020. As such, we have not prepared a detailed valuation of the company, especially not of the Silver Sand project. However, we look forward to doing so in the near future. In the meantime, we would note the potential upside to NUAG's valuation in terms of EV to total silver resources, compared with, for example, MAG Silver, as the former progresses with its Silver Sand project. MAG Silver announced the commissioning of its 44%-owned Juanicipio project at the end of October 2020. Compared with Discovery Metals, we believe that NUAG benefits from the presence of its strategic shareholders and its relatively high silver grade.

NUAG – EV/total silver resources valuation comparison		
US\$/oz	Grade g/t	Silver m oz EV/resources \$/oz
MAG Silver	332	117.5
Juanicipio (44%)		12.8
New Pacific Metals	131	191.4
Silver Sand (100%)		3.5
Discovery Metals	1	259.0
Cordero (100%)		1.4

Source: Hardman & Co Research

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