

# Gold & Silver: The Perfect Storm

*Join us for the 2020 Mining Investor Forum, hosted by Hardman & Co in partnership with London South East, on Wednesday 11th November, at 3:00pm.*

Hardman has been holding investor forums for over six years, giving all types of serious investors the opportunity to meet company managements, hear their stories and pose questions. 2020 may be a little different, but the success of our first virtual forum in July shows that investor appetites remain undimmed and the screen experience is similarly engaging.

This forum focuses in on the mining sector. As gold and silver commodity prices soar under record low interest rates, and interest in “safe haven” assets grows, BoE discussions around negative interest rates could be the perfect storm for gold and silver miners.

In this pack you will find profiles of the company speakers and brief notes on each of the companies presenting. I would encourage you to read these before the forum to get the most out of the event.

During the forum we will conduct a number of polls; we will also be collecting feedback in other ways. These are excellent ways to influence management. You are also invited to submit questions to management in advance ([click here](#) to send them in) and during presentations, using the Q&A function in the webinar.

For professional investors, the forum has been authorised to count towards your Continuing Professional Development time. [Click here](#) to request a CPD certificate.

I hope you enjoy the event. I'm sorry I won't be able to enjoy a glass of wine with you all afterwards!

*Keith Hiscock – CEO, Hardman & Co*

[Click here](#)  
to enter the  
2020 Mining  
Investor Forum

*at 2:55pm  
on 11th November*

## Chair of the Forum



**Keith Hiscock**  
*CEO, Hardman & Co*

Keith is personally responsible for the firm's relationships with its corporate clients and also for corporate finance. In addition, he is the author of several articles tackling the issues facing companies in today's climate. Keith has more than 35 years' stockbroking experience and has developed long-standing relationships with many major institutional investors, including Private Client Brokers and Wealth Managers. He started his career at James Capel, at the time the top-ranked research house in London. He was a founding member of Schroder Securities and of Agency Partners, a leading research boutique house, and was a member of the five-man securities board at Evolution. Keith was part of the group of investors that acquired Hardman & Co in late 2012. He holds an MA in Philosophy, Politics & Economics from the University of Oxford.

## Q&A Host



**Richard Angus**  
*Head of Business Development,  
Hardman & Co*

Richard has more than 30 years of City experience. His primary focus has been US equity capital markets, and he has been involved predominantly in the development of growth companies. He has experience on both the buy and sell sides. Having worked for M&G as a fund manager, Richard then worked for US investment banks Alex Brown & Sons and Furman Selz. Latterly, he was Managing Director and Head of Institutional Sales for Europe at FBR & Co. Besides being involved in many public flotations, Richard's experience includes pre-IPO capital raises. He joined Hardman & Co in September 2014. He holds a BA (Hons) in Economics from the University of Liverpool and is a Chartered Accountant.

## Keynote Speaker



**Paul Mylchreest**  
*Metals & Mining Analyst,  
Hardman & Co*

Paul has 30 years' analytical experience, having started his career in the Chemicals sector. He was an Extel-rated analyst at S.G. Warburg, Schroders and Citibank. As well as a brief foray into Oil & Gas, he worked for several years as a Global Macro & Cross Asset strategist, firstly setting up on his own, and later working at US commodity trader, Archer Daniels Midland (ADM Inc.). He began his mining coverage at Crédit Agricole Chevreux in 2005. Paul joined Hardman & Co in early 2018. He holds a BSocSci in Money, Banking & Finance from the University of Birmingham.

## Company Speakers



**Eric Zurrin**  
*CEO and Director, Shanta Gold*

Eric has 20 years' experience in mining and investment banking, previously with UBS Investment Bank in London. Eric is a Canadian national and has worked and lived in North America, the UK, Asia and Africa.



**Luke Leslie**  
*CFO and Director, Shanta Gold*

Luke is a mining investor with a background in Mergers & Acquisitions. Formerly a member of UBS Investment Bank's Corporate Finance team, Luke began his career as a management consultant with Accenture specialising in post-acquisition integration and cost reduction strategies. He has served on the Board of junior mining companies including Kincora Copper and REBgold prior to its merger with Aquila Resources. Luke has lived and worked in China, Hong Kong, Outer Mongolia and Myanmar, and is currently a resident of Tanzania.



**Gordon Neal**  
*President, New Pacific Metals*

Gordon has extensive experience in the metals and mining sector, capital markets and government communications. He was most recently the Vice President of Corporate Development for Silvercorp Metals Inc., New Pacific's largest shareholder. Previous to that role, he held the same position at MAG Silver Corp. His career also saw him working in the Office of the Prime Minister of Canada as a senior communications advisor.



**Richard Gray**  
*Managing Director and CEO,  
Scotgold Resources*

Richard has extensive international experience, in both underground and open pit mine operations, and brings considerable operational knowledge and management experience and skills to the Company, particularly in the development and implementation of gold mining projects. He has previously held various roles at both majors and juniors within the gold mining sector and his successful career has included 15 years working in South Africa for Gencor Ltd and 14 years in West Africa for Golden Star Resources Ltd and Avocet Mining. He holds a BSc (Hons) Mining Engineering from the Royal School of Mines, Imperial College and an MBA from the Graduate School of Business, Cape Town University.

# Company research from Hardman & Co analysts

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Entering its sweet spot

*By Paul Mylchreest*

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## **NEW PACIFIC METALS**

World-class silver project

*By Paul Mylchreest*

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## **SCOTGOLD RESOURCES**

High grade, low cost and up and running

*By Paul Mylchreest*

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## Mining



Source: Refinitiv

## Market data

EPIC/TKR	SHG
Price (p)	16.61
12m High (p)	20.50
12m Low (p)	6.00
Shares (m)	1,043.5
Mkt Cap (£m)	173.3
EV (£m)	139.9
Free Float*	93.4%
Market	AIM

\*As defined by AIM Rule 26

## Description

Shanta Gold operates the New Luika mine in Tanzania. The company is developing two other gold projects in East Africa, including the recently acquired West Kenya project.

## Company information

CEO	Eric Zurrin
CFO	Luke Leslie
Chairman	Anthony Durrant
	+255 22 2925148-50
	<a href="http://www.shantagold.com">www.shantagold.com</a>

## Key shareholders

Odey Asset Mgt.	17.7%
Hargreaves Lansdown	8.4%
Directors	6.6%
Sustainable Capital	6.5%

## Diary

Jan'21	4Q production
Feb'21	FY results

## Analyst

Paul Mylchreest	020 7194 7222
	<a href="mailto:pm@hardmanandco.com">pm@hardmanandco.com</a>

## SHANTA GOLD

## Entering its sweet spot

Shanta Gold (SHG) is a low-cost, high-grade East African gold miner, which is transforming from a single-asset to a multi-asset producer. Production guidance for its flagship New Luika Gold Mine (NLGM) in 2020 is 80-85k oz. The commissioning of Singida in 2022 will see a resumption of growth from the current plateau. The recent West Kenya acquisition has taken total gold resources to 3.2m oz. After cutting net debt by \$44m since end-2017, SHG raised \$42.1m last month to accelerate development of the ca.100k oz p.a. West Kenya project.

- ▶ **NLGM:** SHG's flagship gold mine has consistently produced 80-88k oz p.a. of gold since 2014. Production is planned to continue to at least 2024, although the current mine plan excludes an additional 531k oz of resources. Furthermore, only three of seven potential deposits are currently in production.
- ▶ **Singida – moving off the plateau:** Construction of the near-surface Singida mine has begun, with commissioning due in 2022 – almost 32k oz p.a. production will increase group production to at least 110,000 oz p.a. Significant upside derives from the 664k oz of gold resources outside the current seven-year mine plan.
- ▶ **West Kenya acquisition:** SHG paid \$14.5m, or a modest \$12/oz, for a project with an estimated 1.182m oz of resources and \$55m of historical exploration. The average gold grade of 12.6g/t is unusually high, bordering on spectacular. A new resource estimate and construction decision are expected within 36 months.
- ▶ **Risks:** SHG faces the normal risks for a junior miner, albeit without the funding risk faced by explorers. These risks include volatility in gold prices, political risks, environmental risks, and operational risks in successfully executing the mining plan and operating downstream processing facilities.
- ▶ **Investment summary:** Our provisional valuation for SHG of 31.7p is based on aggregating our NPV valuations for NLGM, Singida and West Kenya. The valuation incorporates a conservative long-term gold price of \$1,700/oz and a discount rate of 8%. The model currently excludes 1.49m oz of future gold production represented by resources outside the current mine plans.

## Financial summary and valuation

Year-end Dec (\$m)	2015	2016	2017	2018	2019	2020E
Sales	95.71	107.14	101.50	103.80	112.80	149.56
Underlying EBIT	-11.13	3.04	11.01	19.26	5.13	39.85
Reported EBIT	-11.13	3.04	11.01	19.26	5.13	39.85
Underlying PTP	-18.11	-4.34	3.55	13.14	-1.19	38.00
Statutory PTP	-18.11	-4.34	3.55	13.14	-1.19	38.00
Underlying EPS (c)	-3.73	-1.47	0.60	1.02	-1.21	1.72
Statutory EPS (c)	-3.73	-1.47	0.60	1.02	-1.21	1.72
Net (debt)/cash	-38.52	-44.25	-39.49	-31.55	-18.99	43.06
Shares issued (m)	472.0	544.3	689.3	785.6	786.0	846.8
P/E (x)	n/a	n/a	21.3	12.7	n/a	7.5
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

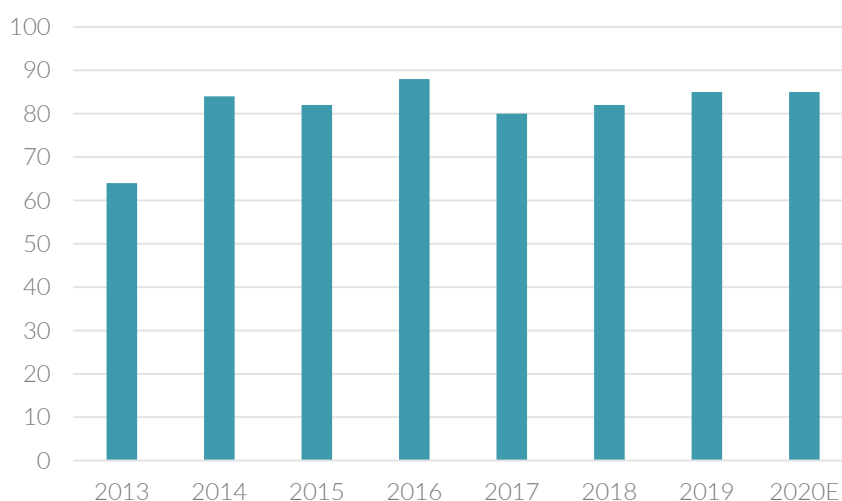
## Overview

*NLGM has consistently produced at least 80k p.a. of gold*

SHG is a low-cost, high-grade East African-based gold producer and development company. The company was founded in 2001 to explore for gold in Tanzania, and was listed on the London AIM market in 2005. SHG's Chairman, Tony Durrant, was formerly Head of Metals & Mining at UBS, and founder, Ketan Patel, is a non-executive director. Eric Zurrin also came from UBS, joining SHG as an adviser to the former CEO; he was then interim CFO in 2015/16, before re-joining the group as CEO in 2017. The CFO, Luke Leslie, joined the company in September 2017, having previously worked for other junior mining companies, UBS and Accenture.

The flagship NLGM, in south-west Tanzania, began production in 2012, and currently has six producing open-pit and underground deposits. During 2014-19, gold production was 80-88k oz, and 2020 guidance is 80-85k oz.

### Shanta Gold production, 2013-20E (000s oz)



Source: Hardman & Co Research

*Lower half of industry cost curve, and almost free of hedges*

The AISC (All-In Sustaining Cost) of production in 2020 is expected to be in the range of \$830-880/oz, putting SHG in the lower half of the industry cost curve. The company has seen a \$43.8m reduction in net debt, to \$0.8m, in the two and a half years since end-2017. Staying with operational considerations, we should highlight that there have been zero lost time injuries at NLGM since 4Q'17. Encouragingly, SHG has been winding down its hedge book. At the end of this year's third quarter, forward sales commitments were 15,000 oz (average price \$1,251/oz). The company expects to be unhedged by January 2021, and will not hedge again.

*Latest resource estimate puts group total above 3.0m oz*

The recent group-wide reserves and resources update confirmed a total of 3.2m oz, with an average grade of 3.58g/t across NLGM and SHG's two development projects, Singida (Tanzania) and West Kenya.

### Shanta Gold – total mineral resources (NLGM + Singida + West Kenya)

	Tonnes (kt)	Au (g/t)	Au (k oz)
Measured	2,609	3.33	280
Indicated	11,344	2.73	995
Total Measured & Indicated	13,953	2.84	1,275
Inferred	13,638	12.60	1,901
Total Resources	27,591	3.58	3,176

Source: Hardman & Co Research

## Shanta Gold

*With 531k oz of resources outside reserves, NLGM should continue in production well beyond 2024*

*Singida will move SHG's production off its plateau*

*Favourable economics and production upside*

*West Kenya project acquired for \$14.5m*

Total group-wide reserves were 653k oz, made up of 410k oz (370k oz recoverable) at NLGM and 243k oz at Singida. Based on reserves alone, the company expects production to continue at NLGM until at least 2024 and likely significantly longer. Total resources outside reserves, but within mining licences at NLGM, amount to 531k oz, at 2.45g/t.

## Singida – next growth phase

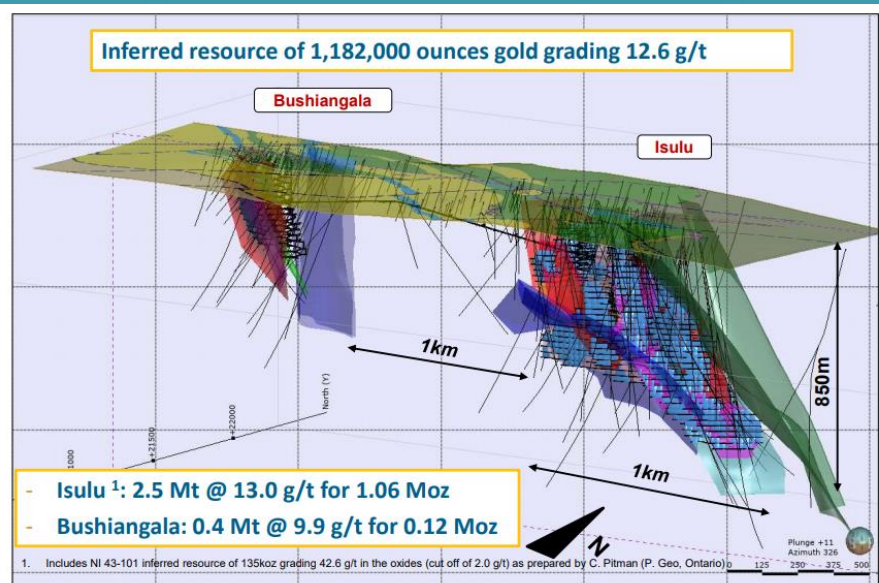
SHG will see a resumption in production growth from the current plateau with the commissioning of Singida, which is expected in late 2022 (we assume the beginning of 2023 – see below). Singida is an open-pit gold project in central Tanzania's Greenstone Belt, covering an area of 98 sq km. The capital cost of construction is \$36.8m, including \$10.4m of pre-production stripping costs. Following the balance sheet deleveraging, the company will finance the project out of operating cashflows.

Based on (gross) reserves of 243k oz at 3.0g/t, the company is currently planning a seven-year mine life, with production of almost 32k oz p.a. More than 90% of the current life of mine (LOM) reserves are located less than 120m from the surface. The cash cost of production is expected to be \$843/oz. SHG has identified an additional 664k oz of gold resources outside of the current mine design (mainly underground), which will be explored after 2022 and offer significant upside versus current project economics.

## Recent West Kenya acquisition and funding

SHG announced the acquisition of 100% of Barrick Gold's Kenya gold projects on 10 February 2020, including the (very) high-grade West Kenya project. The consideration was \$7m cash and \$7.5m in SHG shares, and 2% LOM net sales revenue (NSR) covering the project licences. The project covers 1,161 sq km in the Lake Victoria greenstone gold field located in south-west Kenya and north-west Tanzania. This mineralised region, which has produced more than 35m oz of gold since 1990, includes tier 1 assets, such as AngloGold's Geita and Barrick's North Mara gold mines.

### West Kenya project – model of inferred resources



Source: Hardman & Co Research

### \$55m of historical exploration spend

The case for acquiring West Kenya was compelling:

- ▶ over 1.0m oz of gold resources at a valuation of only \$12.6/oz; and
- ▶ one of the highest grading resources for a project of more than 1.0m oz at 12.3g/t.

Since 2010, exploration work, amounting to \$63m, had been undertaken by the previous owner, including 221,000m of drilling. In addition, 259k oz of gold was extracted from the former Rosterman mine, located 9km from the main site.

### Construction decision in mid/late 2023

The current 1.182m oz inferred resource is based on two deposits, Isulu and Bushiangala, with two more prospects targeted for exploration within the 12km long Liranda Corridor. SHG expects the time needed to complete an updated resource estimate and reach a construction decision will be about 36 months, i.e. mid/late 2023.

### \$42m raised to progress West Kenya

On 22 October 2020, SHG announced a \$42.1m fundraising – issuing of 194.9m shares at 16.5p (6.8% discount) – which was significantly oversubscribed. As a result, Barrick Gold also sold its 6.4% holding at the issue price as part of this transaction. SHG will use the proceeds for further development of West Kenya, including infill and expansion drilling, and the preparation of a technical report.

## Valuation

### Valuation based on aggregate valuation for NLGM, Singida and West Kenya

Our provisional valuation for SHG is based on aggregating our NPV valuations for NLGM, Singida (we expect production to begin in 2023) and West Kenya (production from 2026). We have used a conservative long-term gold price of \$1,700/oz, a discount rate of 8% and a tax rate of 37%. At this stage, our estimated cash costs for Singida and West Kenya are those used in the company's mine plans.

### Significant production upside

For the time being, we have not assumed any gold production from NLGM and Singida beyond reserves, nor from West Kenya's resources beyond the mine plan in the 2020 scoping study. In aggregate, this excludes 1.49m oz of potential future gold production.

### Key assumptions: NLGM, Singida and West Kenya

	NLGM	Singida	West Kenya
Pre-production capital cost	n/a	36.8	\$161.0m
Mine life	4 years	7 years	9 years
Gross reserves in mine plan/NPV valuation	410k oz	243k oz	1,033k oz
Total resources	1,092k oz	659k oz	1,182k oz
Cash cost of production	\$800/oz	\$843/oz	\$582/oz

Source: Hardman & Co Research

Our fair value for SHG is 31.7p, which is summarised in the table below.

### Shanta Gold: estimated valuation

(000s)	US\$	£
NLGM	120,434	93,360
Singida	54,917	42,572
West Kenya	208,610	161,713
Add: net cash	43,064	33,383
<b>Total</b>	<b>427,025</b>	<b>331,027</b>
No. of shares (m)	1,043.5	1,043.5
<b>Valuation per share</b>	<b>40.9c</b>	<b>31.7p</b>

Source: Hardman & Co Research

Our valuation above includes estimated net cash of \$43.1m at year-end 2020, mainly as a result of the recent \$42.1m share sale. This is calculated as cash, plus restricted cash, less gross debt (loans, plus leases, plus convertibles). Indeed, we believe that SHG could simplify its gross debt and net debt/cash calculations, and provide improved transparency on finance income/expense in its interim results releases.



## Mining



Source: Refinitiv

## 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

CEO	Dr Mark Cruise
CFO	Jalen Yuan
Chairman	Hon. Jack Austin
	+1 604-633-1368
	<a href="http://www.newpacificmetals.com">www.newpacificmetals.com</a>

## 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

## Analyst

Paul Mylchreest	020 7194 7222
	<a href="mailto:pm@hardmanandco.com">pm@hardmanandco.com</a>

## 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)**

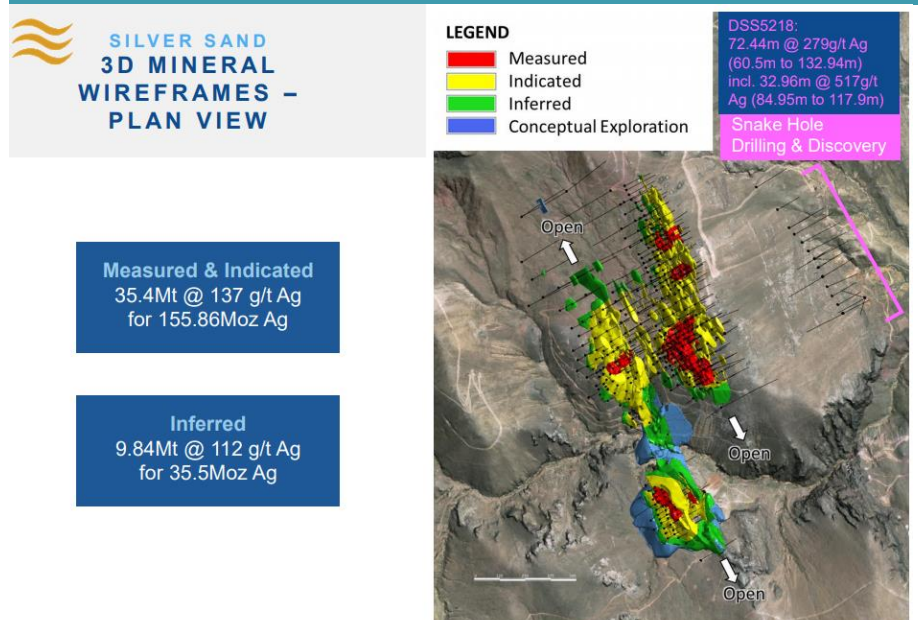
	Tonnes (mt)	Ag (g/t)	Ag (m oz)
Measured	8.40	159	43.05
Indicated	26.99	130	112.81
Total Measured & Indicated	35.39	137	155.86
Inferred	9.84	112	35.55
Total resources	45.23		191.41

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

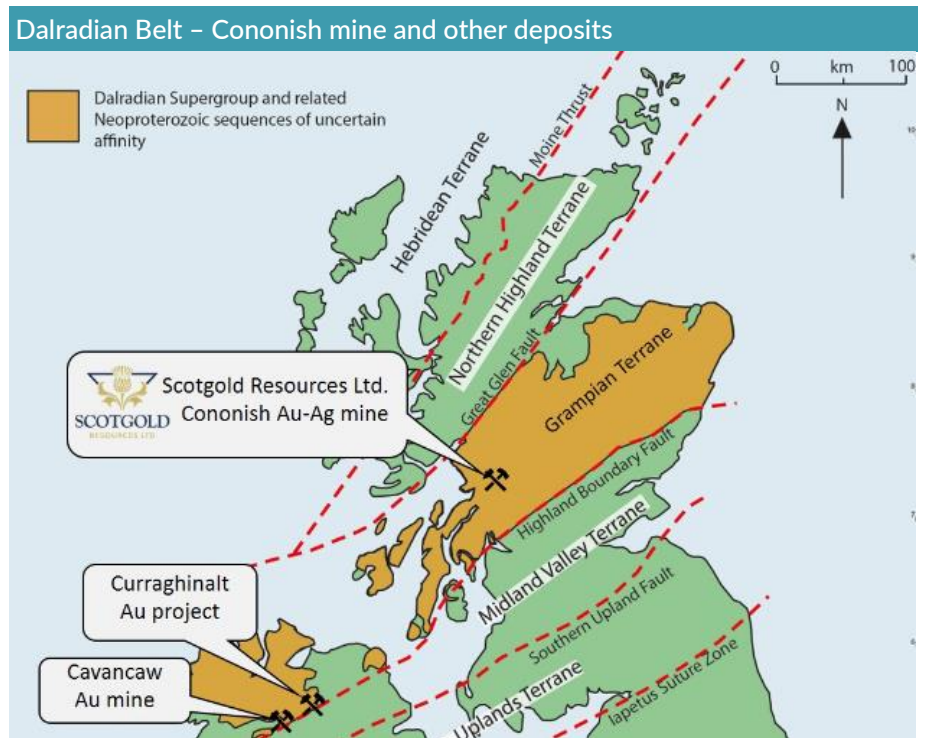
Source: Hardman & Co Research



## Overview and strategy

*SGZ owns the Cononish gold project in Scotland's Grampian Mountains*

Scotgold Resources (SGZ) is an AIM-listed gold exploration company, which was formed in 2007 to acquire 100% ownership of the Cononish gold project in Scotland. SGZ has 13 exploration licences from the Crown Estate Scotland covering 2,900 sq. km. – the Grampian Gold Project – in Scotland's Grampian Mountains. In geological terms, the area is part of the Dalradian Belt – a sequence of heavily folded sedimentary and volcanic rocks – which stretches from northern Scotland to Ireland and is believed to host more than 5.0m ounces of gold resources, e.g. primarily the Curraghinalt (Dalradian Gold) and Cavancaw (Galantas Gold Corp.) deposits.



Source: Scotgold Resources

*Commissioning of phase one is underway*

The company is commissioning the first phase of this high-grade, low-cost underground mine, onstream at the end of last month, making it the first commercial gold producer in Scotland. At full production, the mine will produce an average of at least 23,000 ounces p.a. of gold. It is worth noting that Scottish gold is sought after and often commands a premium to the spot gold price.

*Strategy is to be a multi-asset company*

Going forward, the company's strategy is to use its local expertise, balance sheet and cashflow from the Cononish mine to develop additional mines. These could be similar in scale to Cononish, or potentially larger, in Scotland or other low-risk jurisdictions.

## Cononish mine: first gold imminent

*High-grade gold mineralisation*

The Cononish deposit is characterised by a narrow vein of gold-silver mineralisation with a width of less than six metres. The vein is part of a larger system of quartz veins in the northeast-southwest trending Tyndrum Fault. The gold occurs primarily as electrum (gold-silver alloy) and, to a lesser extent, as native gold. Gold reserves are estimated at 198k ounces at a very high grade of 11.1g/t, as shown in the table below. We would also note that current resource estimate, including Measure, Indicated and Inferred, is 266k ounces of gold at 13.4g/t.

**Cononish mine – proved and probable reserves**

	k tonnes	Gold (g/t)	Silver (g/t)	Gold (k oz)	Silver (k oz)
Proven	65	11.5	51.5	24	108
Probable	490	11.1	47.2	174	743
<b>Total reserves</b>	<b>555</b>	<b>11.1</b>	<b>47.7</b>	<b>198</b>	<b>851</b>

Source: Hardman & Co Research

*Successfully overcome environmental issues*

The company has successfully managed the environmental challenges of developing a mine in the Loch Lomond & The Trossachs National Park. In December 2018, the company announced that it had met all 19 pre-start and other obligations and was able to proceed with construction. The Planning Authority assessed that the impact from environmental and visual perspectives was minor. That said, the project is sensitive to its location, e.g. using gravity separation (25%) and flotation (75%) instead of cyanide in processing. The construction of the mine is also supported by the local community.

*After construction halt due to COVID-19, first gold is expected by the end of November*

The development of the Cononish mine was planned in two phases. Phase one incorporates annual ore and gold production of 36kt and 9,910 ounces, respectively. While the onset of the COVID-19 pandemic led to a temporary cessation of work, construction of the remaining earthworks and process plant resumed in June 2020. With commissioning underway, the first gold from the new mine is expected by 30 November 2020.

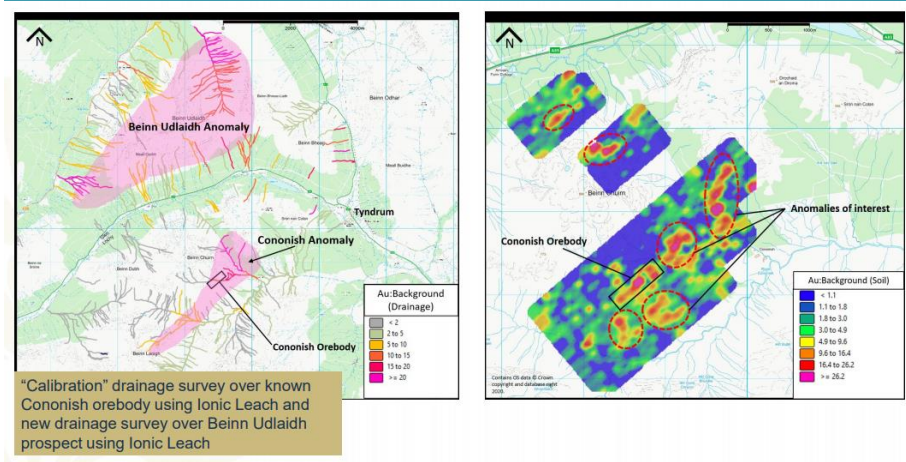
*Phase two is planned for May 2022*

Phase two is currently expected by May 2022, which is 11 months earlier than previously planned. This will see a doubling of ore production from 36kt to 76kt p.a. and take annual gold production from 9,910 ounces to 23,500 ounces p.a. Mine life is currently expected to be nine years with an average operating cost of \$566/oz. If achieved, the mine will be in the lowest quartile of the industry’s cost curve.

*Upside potential from Cononish near-mine development*

The Cononish orebody is open at depth below 450m. Furthermore, SCZ has identified near-mine exploration targets, which have potential to extend mine life. The latest exploration update noted gold and silver anomalies to the north-east of the mine (see below right) that are consistent with the “Mother Vein” structure. The targets also include the Beinn Udlaidh prospect (below left), which was identified by an ionic leach stream sediment survey, and is significantly larger than Cononish.

**Cononish: near-mine exploration and development**



Source: Scotgold Resources

High gold values detected at Inverchorachan target

Another potentially significant anomalous target area, Inverchorachan, has been identified, which is also north-east of Cononish. The highest gold values detected from samples at Inverchorachan of 124ppb compare favourably with the highest gold values recorded at Cononish of 39.9ppb, using the same "Ionic Leach" technique.

## Management and valuation

Directors and management hold more than 60% of the company

SCZ's M.D. and CEO is Richard Gray who has longstanding experience in operational roles in underground and open-pit mining. This includes four years at Avocet Mining and 10 years at Golden Star Resources. Chairman, Nat Le Roux, was Chief Executive of IG Group Plc 2002-06 and a director of the LME between 2008 and 2016. Jeff Hogg is SCZ's Financial Controller and has more than a decade of experience in mining finance, previously in the diamonds, iron ore and manganese sectors. SCZ's directors and management hold more than 60% of the company's share capital. Nat Le Roux is the largest shareholder with 41.8%, followed by William Styslinger (non-executive) with 11.0% and Peter Hetherington (non-executive) with 7.6%.

Recent £3.0m funding will support the Cononish expansion and further exploration

In its latest financial statements for the half-year ending 31 December 2019, SCZ had cash of \$4.57m, borrowings of \$9.06m and net debt of \$4.49m. We estimate that the latter had increased to ca.\$9.0m by the year-end to 30 June 2020. On 12 October 2020, SCZ raised a further \$3.9m (£3.0m) via the placing of 2.727m shares at 110p per share. The funds will be used to finance the expansion of the Cononish mine and to accelerate exploration work across the company's licence areas.

Our provisional valuation is 167p per share

Our provisional valuation for SCZ is 167p per share. This is based on an NPV valuation using a long-term gold price of \$1,700/oz (note: we are not assuming any premium to the spot price for Scottish gold at this stage), a discount rate of 8%, the company's estimated cash operating cost of \$566/oz, a capital cost for phase two of Cononish of \$8.5m and maintenance capex during 2023-29 of \$0.5m p.a.

### SCZ - P&L, cashflow and DCF valuation, 2021-30E

\$000 (unless stated)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Total
Sales: Gold (k oz)	6,000	13,000	23,000	23,000	23,000	23,000	23,000	23,000	23,000	5,000	185,000
Silver (k oz)	24,000	52,000	92,000	92,000	92,000	92,000	92,000	92,000	92,000	20,000	740,000
Gold price (\$/oz)	1,900	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	
Silver price (\$/oz)	24.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	22.00	
Revenue	11,976	23,244	41,124	41,124	41,124	41,124	41,124	41,124	41,124	8,940	332,028
Operating costs	-3,396	-7,358	13,018	13,018	13,018	13,018	-13,018	-13,018	-13,018	-2,830	-104,710
Op. cost/oz	566	566	566	566	566	566	566	566	566	566	
EBITDA	8,580	15,886	28,106	28,106	28,106	28,106	28,106	28,106	28,106	6,110	227,318
EBITDA margin	71.6%	68.3%	68.3%	68.3%	68.3%	68.3%	68.3%	68.3%	68.3%	68.3%	
Depreciation	-2,300	-4,897	-4,897	-4,897	-4,897	-4,897	-4,897	-4,897	-4,897	-4,897	
EBIT	6,280	10,989	23,209	23,209	23,209	23,209	23,209	23,209	23,209	1,213	
Tax	-1,193	-2,088	-4,410	-4,410	-4,410	-4,410	-4,410	-4,410	-4,410	-230	
<b>NOPAT</b>	<b>5,087</b>	<b>8,901</b>	<b>18,799</b>	<b>18,799</b>	<b>18,799</b>	<b>18,799</b>	<b>18,799</b>	<b>18,799</b>	<b>18,799</b>	<b>982</b>	<b>146,563</b>
Depreciation & amort.	2,300	4,897	4,897	4,897	4,897	4,897	4,897	4,897	4,897	4,897	
Capex & exploration	-2,000	-6,528	-500	-500	-500	-500	-500	-500	-500	0	
<b>Free cashflow</b>	<b>5,387</b>	<b>7,270</b>	<b>23,196</b>	<b>23,196</b>	<b>23,196</b>	<b>23,196</b>	<b>23,196</b>	<b>23,196</b>	<b>23,196</b>	<b>5,880</b>	<b>180,911</b>
<b>Discount rate = 8%</b>											
Discount factor	1.00	0.93	0.86	0.79	0.74	0.68	0.63	0.58	0.54	0.50	
<b>Disc. free cashflow</b>	<b>5,387</b>	<b>6,732</b>	<b>19,887</b>	<b>18,414</b>	<b>17,050</b>	<b>15,787</b>	<b>14,618</b>	<b>13,535</b>	<b>12,532</b>	<b>2,941</b>	<b>126,883</b>
<b>Cum. disc. FCF</b>	<b>126.883</b>										
Net (debt)/cash	-5.130										
<b>Total</b>	<b>121.753</b>										
FD shares (m)	56.459										
Valuation (\$)	2.16										
\$/£	1.29										
<b>Valuation (£)</b>	<b>1.67</b>										

Source: Hardman & Co Research

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