

Metals and Mining

Condor Gold*

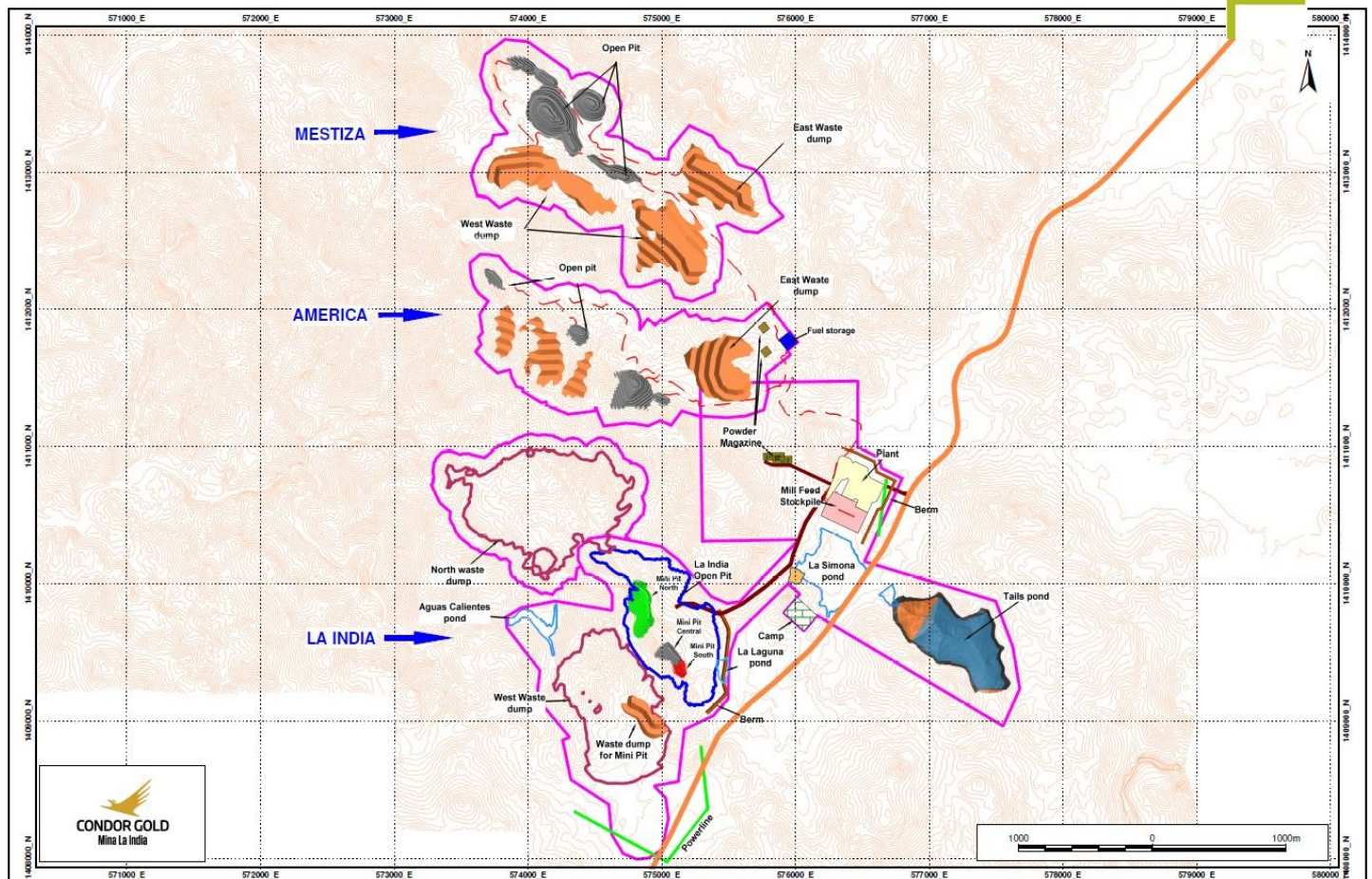
18 May 2020

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Proposed La India & Satellite Pits Development

(Source: Condor Gold)

Mining Note

Condor Gold*

CNR LN

BUY

Valuation 102.5p

18 May 2020

Stock Data

Ticker (ASX)	CNR LN COG CN
Share Price	44p
Market Cap	£40m

Price Chart



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Emerging mid-tier gold developer

Condor Gold is developing the La India gold mine in Nicaragua within a large, relatively underexplored, licence area with a history of previous gold production dating from the 1930s to the mid-1980s.

Initial expectations are for the production of around 100,000oz gold per year from open-pit mining of the main La India vein system and nearby high-grade satellite mineralisation.

Production at this level would place Condor Gold among the five largest gold producers on London's AIM Market.

The first phase of open-pit mining is expected to evolve to underground operations later in the mine's life and significant additional exploration targets offer scope for the discovery of completely intact vertical epithermal mineralised systems on the down-thrown side of faults lying to the south of the current proposed mining area at La India.

- We estimate a value for Condor Gold of 102.5p/share based on the discounted value of potential cash flow from initial open-pit mining at La India and its satellites
- Our fair value is currently 40% of the estimated NPV of the initial project in order to reflect the uncertainties of project execution. As progress is achieved, we expect the discount to the full NPV to reduce.
- In the longer term, we expect further exploration and a longer term transition to underground mining to lead to further value growth as the project develops.
- Our estimated fair value is supported by peer group comparisons of the market value of both other AIMlisted gold companies and with other gold mine development projects throughout Latin America.
- In common with many mining projects, the project's value is most sensitive to changes in metal prices with a 10% variation in our base case US\$1600/oz long term estimate translating to a 19% variation in NPV.



Figure 1 La India Site

Summary & Recommendation

We estimate a value for Condor Gold of US\$122m (£97.6m) based on our NPV_{10%} for the cash flows generated by open pit mining at La India over an initial 7 years mine-life. In order to reflect completion and execution risk of the project, our value estimate represents 40% of the project NPV_{10%} and we would anticipate this discount narrowing as project development brings La India closer to production.

This NPV based estimate appears consistent with the values currently ascribed by the market to the resource and production base of similar listed AIM gold companies and of other international companies with gold development projects underway in Latin America.

Valuation

Our estimated value of Condor Gold's La India project rests on the estimated NPV_{10%} applied to the expected cash flows generated by the La India project described in the production profile presented in the company's pre-feasibility study modified to reflect the company's recent announcements concerning the development of high-grade satellite pits. We have also considered the relative values applied by the market to the production and resource base of listed peers on the London AIM market and of companies with development stage mining projects elsewhere in Latin America.

In summary our valuation is shown on the following table and the individual components are discussed in greater detail below.

La India Project Valuation Matrix			
	Pessimistic Case	Base Case	Optimistic Case
NPV_{10%}			
NPV US\$m		304.9	
Percent of NPV	25%	40%	55%
Implied Valuation US\$m	76.2	122.0.8	170.1
AIM Peer Group			
US\$/Resource oz	36.55	61.48	97.65
Implied Valuation US\$m	41.7	70.1	111.3
US\$/Prodn oz	1,315	1,478	1,701
Implied Valuation US\$m	131.5	147.8	170.1
Latin America Peer Group			
US\$/Resource oz	53.88	62.05	91.66
Implied Valuation US\$m	61.4	70.7	104.5

Table 1 La India Project Valuation Summary (Source: SP Angel) –peers as of 5th May 2020

Net Present Value

Condor Gold has announced that it is working on optimising the previous production profile to include enhancements derived from the addition of high-grade satellite pits early in the mine's life. Our assessment uses SP Angel's long-term gold price assumption US\$1,600/oz.

We consider these modifications likely to enhance the project economics considerably over the longer term and to be justified by the strong likelihood that, as exploration progresses, the company will secure meaningful increases to the overall resource base of the project.

In addition, we consider that, with the project still to be developed, it is appropriate to apply a discount to the project NPV_{10%} in order to recognise the execution risk and

inherent uncertainty of construction. As the project construction proceeds, we expect the value of the project to move closer to the underlying NPV which should, theoretically, be crystallised in full on commencement of commercial production. Our base case recognises 40% of the underlying project NPV while the pessimistic and optimistic cases represent 25% and 55% respectively.

Our principal base case assumptions are summarised in the following table.

La India Project SP Angel's Modelling Assumptions			
Economic Assumptions			
Gold Price US\$/oz	1,600		
Exchange Rate US\$/£	1.25		
Tax Rate	30%		
Operations	Min	LOM Avg	Max
Mine Life Years	7.3		
Ore Mining Rate tpd		2,700	
Total Mining Rate tpd (inc waste)		30,400	
Gold Grade g/t	2.1	3.0	3.9
Silver Grade g/t	2.9	5.3	6.0
Processing Rate tpa	1,225,000		
Gold Recovery Rate	91%		
Gold Production oz	46,000	97,000	147,000
Costs	US\$m		£m
Pre-Production Capital	108		86
LOM Sustaining Capital	10		8
Mining Cost \$/t Moved	2.35		1.88
Process Cost \$/t Treated	20.50		16.44
G&A Cost \$/t Treated	5.50		4.40
Royalty (NSR)	3%		

Table 2 La India Valuation Assumptions (Source: SP Angel)

Using these assumptions, our modelling indicates an after-tax NPV_(10%) of US\$304.9m (£243.9m) and IRR of 62%. We expect payback of the preproduction capital within less than 2 years of the start of production.

NPV Sensitivity

We estimate that the project is most sensitive to changes in long-term commodity price assumptions with a 10% change resulting a 19% variation in the NPV. Similar 10% changes in operating and capital cost assumptions result in impacts of 7% and 2% respectively on the NPV. These changes are illustrated in Figure 2 below.

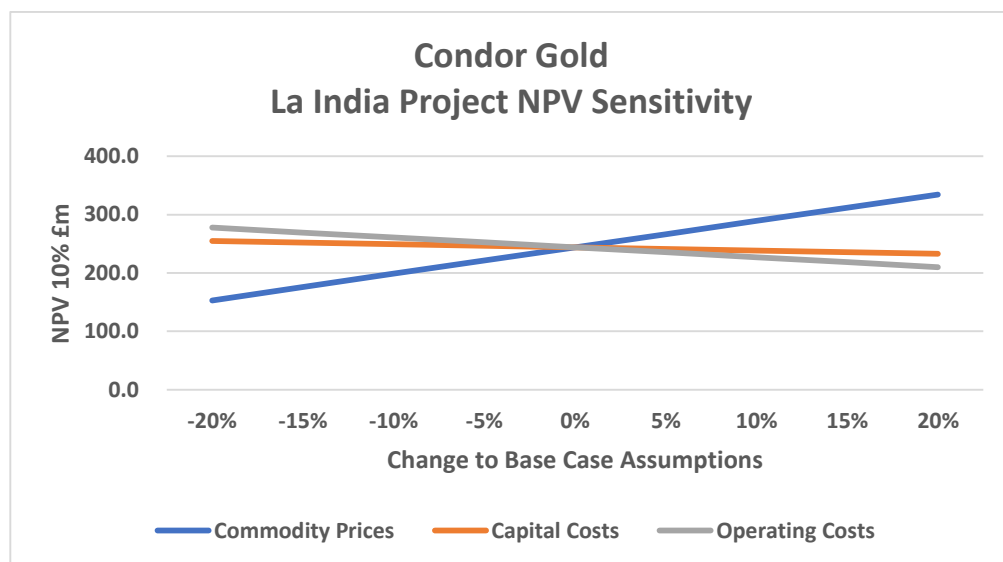


Figure 2 NPV Sensitivity (Source: SP Angel)

In absolute terms, similar 10% variations in the base case assumptions result in a £45m change for changes to commodity price assumptions, £17m for operating costs and £6m for changes to capital cost assumptions as illustrated in Figure 3.

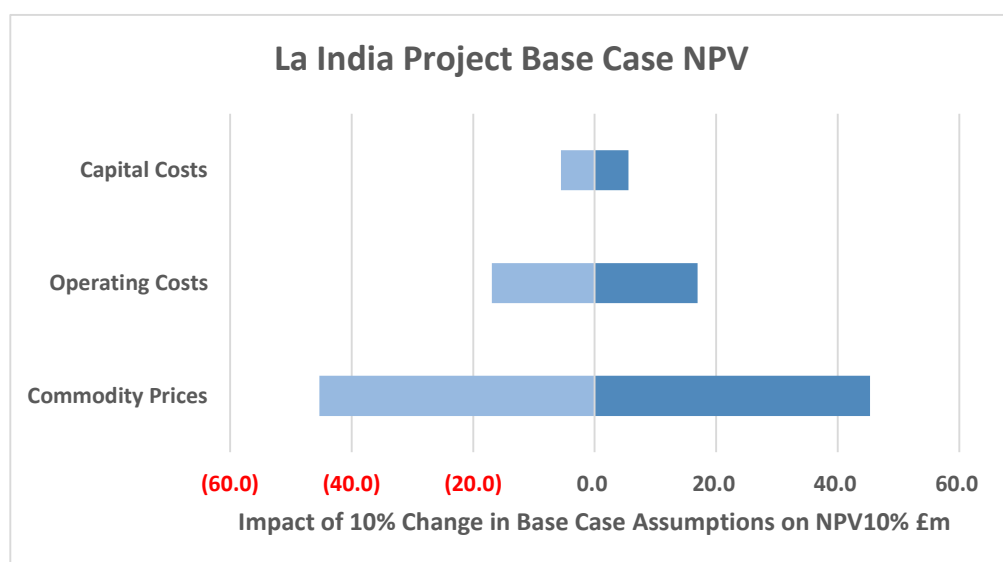


Figure 3 Impact on NPV of 10% Change to Base Case Assumptions (Source: SP Angel)

We also tabulate our estimated NPVs across a range of throughput rates and gold prices as an illustration of the variability of the project value to these factors.

La India Project			
NPV Variability to changes in projected Throughput & Gold Price (£m)			
	1500	1600	1700
800,000	101.7	122.2	142.2
1,000,000	156.0	180.0	203.7
1,200,000	209.0	236.8	264.6
1,400,000	261.7	293.6	325.6
1,600,000	314.3	350.3	386.0

Table 3 La India Project Throughput & Gold Price (Source SP Angel)

AIM Peer Group

Condor is one of 14 gold focused producers or developers on London’s AIM Market. This peer group ranges from large current producers such as Highland Gold through smaller scale producers, development companies and explorers.

Assessed in terms of enterprise value per ounce of gold resources classed as measured and or indicated, our analysis shows that Condor Gold ranks 6th at US\$36.51/resource oz. The median rating is US\$57.59/oz. The highest rated AIM mining company in this respect is Shanta Gold at US\$557/oz.

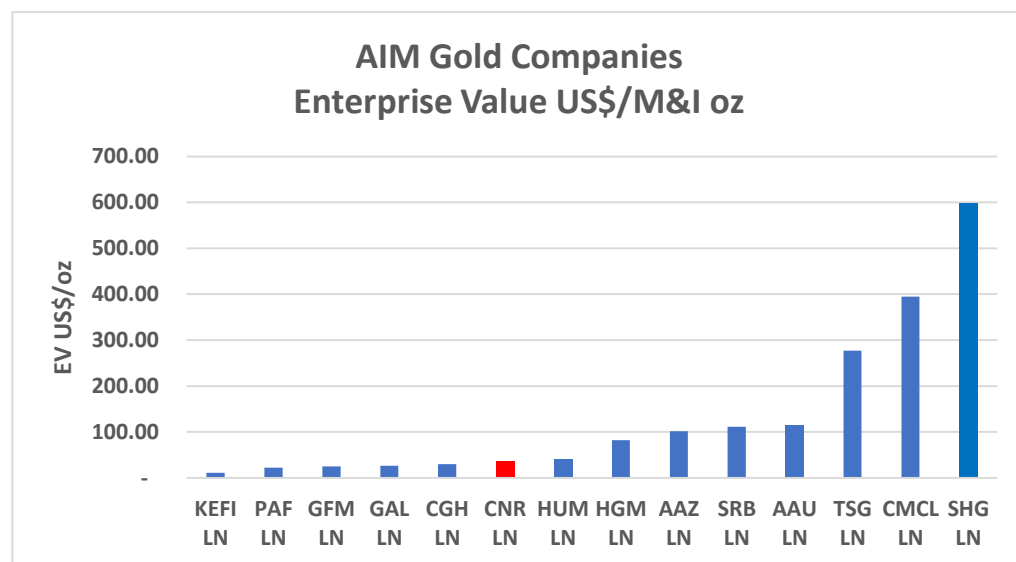


Figure 4 AIM Listed Gold Company Valuation per Resource oz (Source: SP Angel)

We have also considered Condor Gold’s rating in respect of its planned 100,000oz pa production compared with the actual or projected production of its AIM-listed peers. At an enterprise value of US\$416/planned production ounce, Condor Gold ranks 3rd in a population with a median value of US\$1,306/oz. The highest rated AIM listed gold producer is Highland Gold which attracts and EV of US\$4,013/oz.

We include a table of the peer group analysis as Appendix XX

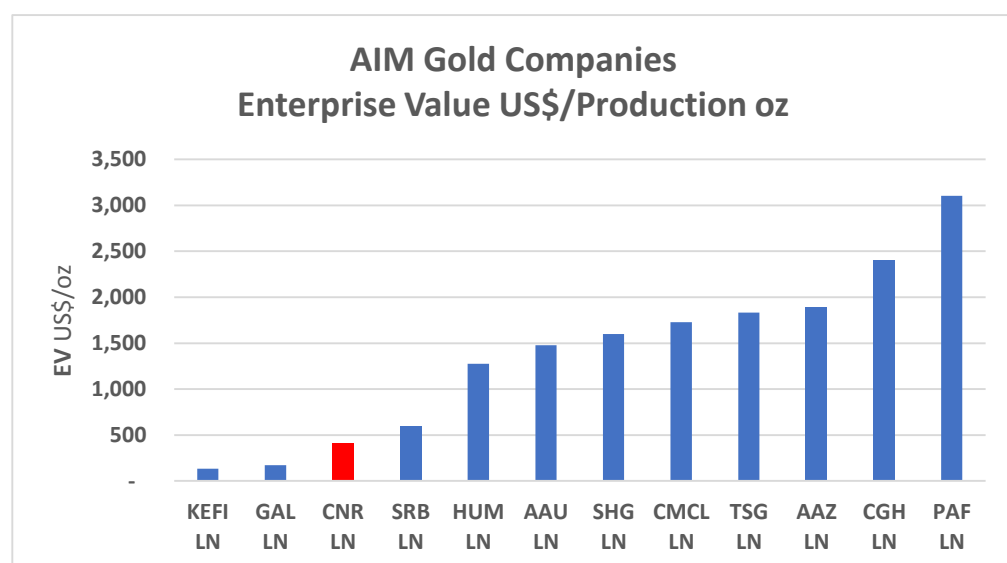


Figure 5 AIM Listed Gold Company Valuation per Production oz (Source: SP Angel)

Latin American Peer Group

We have also compared the market rating of Condor Gold with a number of other, largely Canadian-listed, companies with gold development projects in Latin America. Although not necessarily exhaustive, our analysis ranks Condor Gold behind existing producers including Minera Alamos, Serabi Gold and Jaguar Mining and Bluestone Resources which is developing the high-grade-feasibility stage Cerro Blanco underground gold project in Guatemala. We also observe that Condor Gold's resource grade is the highest of the open-pit projects although below that of the underground operations of Serabi Gold and Cerro Blanco.

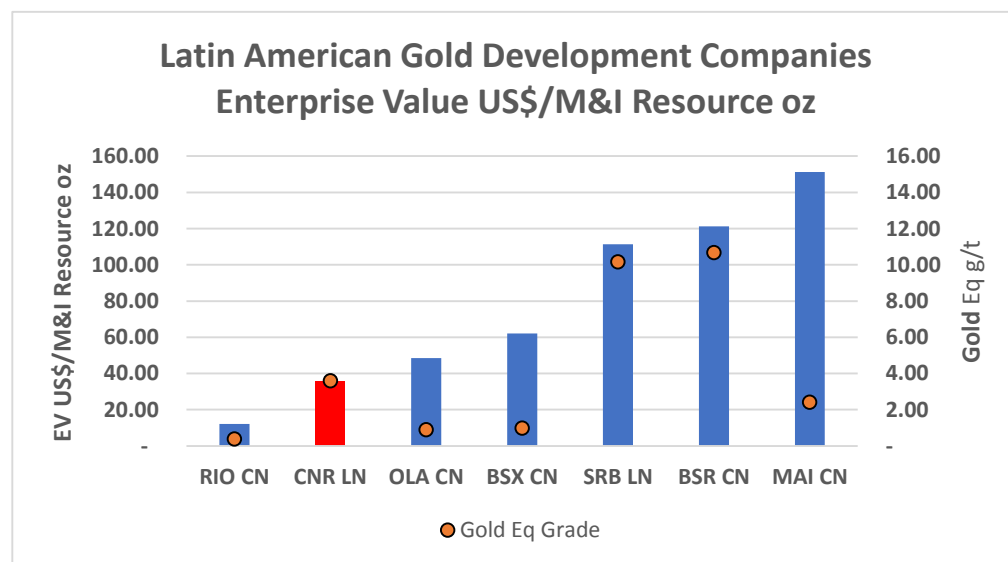


Figure 6 Valuation of Latin American Gold Development Companies (Source: SP Angel)

We observe that, Condor Gold, appears less highly rated than other gold developers in Latin America for no apparent reason. Existing producers such as Minera Alamo, Serabi Gold and Jaguar Mining are rated higher than Condor Gold and demonstrate the potential re-rating available as La India is brought to production.

The La India Project

Condor Gold's La India project area comprises almost 600km² of exploration licences in Nicaragua located on a gold mining area located mid-way between the existing gold mines at El Limon and La Libertad. Which were acquired by Calibre Mining from B2Gold for US\$100min cash, shares and a convertible debenture in October 2019.

Project History

The La India mine was initially worked during the 1930s exploiting the La India and Guapinol (now termed the America-Constancia vein) veins. According to the USGS Bulletin 1034, published in 1957 the veins *"trend northeastward and dip 50°-70°NW. The La India Vein is 6-15 feet wide and is composed of fine-grained quartz which encloses considerable clayey material ... The vein is mined by means of adit levels to a depth of 180 feet and for 2,600 feet along strike. About 9,000 tons of ore is treated monthly and annual production is about 30,000ounces of gold and 40,000ounces of silver."*

The company reports that between 1938 and 1956, under the management of Noranda Inc, the mine produced 576,000oz of gold from the processing of 1.7mt of ore at an average grade of 13.4g/t gold. *"Since the closure of La India gold mine and continuing to the present day, artisanal miners have intermittently worked the most accessible upper levels of the mine and extracted ore from small pits throughout the district".*

Between 1986-1991, Soviet sponsored mineral exploration, including underground mapping and sampling, surface trenching and the drilling of some 90 boreholes identified some 1.8moz of Russian standard C1, C2 and P1 gold resources at an average gold grade of 9g/t within the La India-ESP concession.

After the privatisation of Nicaragua's mining industry in 1994, the concessions passed through a number of owners prior to acquisition by B2Gold in 2009. Condor Gold has consolidated several licences since its initial listing in May 2006 which included a portfolio of central American assets including the El Cacao properties at La India.

A key part of the licence consolidation occurred in September 2010 when Condor Gold was able to swap its Cerro Quiroz licence located adjacent to B2Gold's La Libertad mine for the La India concessions of B2Gold.

Geology

The La India deposit is described as a low-sulphidation epithermal gold / silver system hosted in Tertiary aged intermediate to felsic volcanic rocks associated with the subduction of the Cocos Plate beneath the Caribbean Tectonic Plate along the circum-Pacific "Ring of Fire".

La India is located close to the southwestern margin of Nicaragua's Central Highlands close to the faults defining the margin of the Nicaraguan Graben. The deposits occur approximately mid-way between a younger volcanic caldera approximately 6km to the southeast and an older, less well defined, caldera a similar distance to the northwest.

Typically, low sulphidation epithermal systems are emplaced at depths of between 100 to 700m below surface at moderate temperatures of less than 300°C and normally at some distance from an underlying porphyry heat source. Gold mineralisation associated with the high level boiling of mineral-bearing solutions is characteristically high grade and in the case of La India, particularly to the south of the east/west trending Link fault there is reason to hope that much, if not all of the vertical extent of any originally emplaced mineralisation might be preserved.

Geological textures shown in drill core from La India shown in the company's presentations appear to confirm the presence of bladed calcite and quartz which are

characteristic of high-level epithermal systems and associated with other mineralised gold systems.

Mineral Resources

Published mineral resource estimates released in January 2019 show an indicated 1.14moz of gold contained within 9.85mt at an average grade of 3.6g/t gold with an additional 1.18m inferred ounces within 8.5mt at an average grade of 4.3g/t.

La India Mineral Resource Estimate January 2019									
	Open Pit			Underground			Total		
	mt	g/t	koz	mt	g/t	koz	mt	g/t	koz
Indicated									
La India	8.38	3.1	837	0.68	4.9	107	9.06	3.2	944
America	0.11	8.2	30	0.47	7.3	110	0.58	7.5	140
Mestiza	0.09	12.2	36	0.12	5.5	21	0.21	8.4	57
Other									
Sub Total	8.58	3.3	903	1.27	5.9	238	9.85	3.6	1,141
Inferred									
La India	0.89	2.4	69	1.72	5.6	309	2.60	4.5	378
America	0.68	3.1	67	1.76	4.8	272	2.44	4.3	339
Mestiza	0.34	7.8	85	0.80	4.6	120	1.14	5.6	205
El Cacao	.019	2.3	14	0.47	3.0	46	0.66	2.8	60
Other	0.92	1.9	56	0.71	6.2	142	1.63	3.8	198
Sub Total	3.01	3.0	291	5.46	5.1	889	8.48	4.3	1,180
Total	11.60	3.2	1,194	6.73	5.2	1,127	18.33	3.9	2,321

Table 4 La India Mineral Resource Estimate (Source: SP Angel & Company Announcements)

Currently, approximately 80% (903,000oz) of the indicated resources are from open-pittable resources with 837,000oz (over90%) of that resource derived from the La India open-pit containing 8.38mt at an average grade of 3.1g/t gold. Overall, almost 60% (1.32moz) of the combined indicated and inferred resources are derived from the La India Vein system as shown in Table 4.

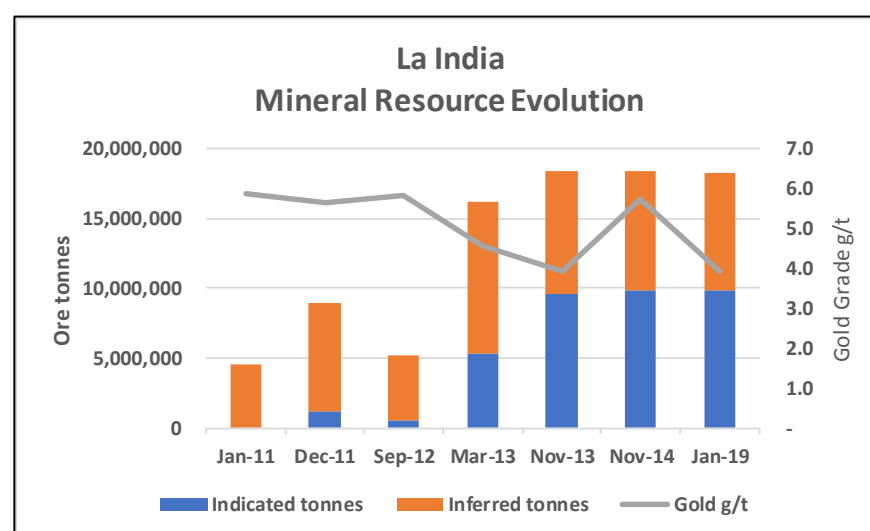


Figure 7 La India Mineral Resource Evolution (Source: SP Angel & Company Data)

Over the last decade, the resource estimates have firmed up from an overall, wholly inferred, estimate of 4.58mt at an average grade of 5.9g/t (0.87moz) reported in January

2011 to the most recent estimate comprising 2.32moz of which around 50% is classified as indicated.

Cut-off grades have evolved from 1.5g/t in the earlier estimates to the most recent estimates which apply cut-offs of 0.5g/t for the open-pit resources and 2g/t for underground resources.

Exploration Potential

Although Condor Gold has concentrated on the core La India area in order to develop a resource and mine plan for production, the licence area hosts a number of high potential exploration targets with the longer term capacity to provide the company with a pipeline of development opportunities.

In the immediate future, drilling down dip and along strike of the 3 permitted vein sets provides a relatively low-risk opportunity to expand the resource base through extension of known resources hosted by geologically well-understood structures. A step out drilling programme at, say 50m spacing, could, realistically add significantly to the current mineral inventory. Based on previous drilling densities, the company has indicated that 20,000m of additional drilling could add up to a further 900,000oz of mineral inventory.

La India lies at the southern end of a corridor of gold mineralisation extending through several known but relatively under explored deposits extending from the Mestiza area in the north, where work on the high grade Tatiana vein has broadly confirmed work conducted by Russian geologists during the 1990s, through the America area to La India itself, an estimated strike length of some 7 km. Even within La India the southeast ore-shoot is still to be fully explored with one of the last holes drilled intersecting over 7.5m of mineralisation at grades averaging around 10g/t gold at depth in hole 324.

To the south of the Highway Fault, the Cacao area, which was among Condor Gold's first holdings in the district, represents a promising target for further exploration with the potential for a meaningful increase of the existing 60,000 oz inferred resource. Much of the vein is obscured beneath alluvial cover, however, with 500m of known strike already known, there is a reasonable possibility that it may link up beneath the cover with known mineralisation at Santa Barbara approximately 4 km to the east.

The additional attraction of Cacao lies in the presence, at surface, of rock types containing minerals and textures indicative of the original volcanic surface which provides relatively compelling evidence that the entire vertical extent of any mineralised veins may be preserved intact. Although these concepts and those of increased lateral extent to the vein systems remain unproven, they are considered exploration targets of merit worthy of additional follow-up exploration.

Additional, and probably rather longer term exploration opportunities, may arise from further evaluation of the Cascabel fault system which forms the western boundary of an up-thrown fault faulted block bounded on the east by the faults which host the main La India mineralisation. We also speculate that ring-shaped collapsed volcanic caldera structures to both the north and south may offer attractive long term targets as similar settings have proved fruitful elsewhere, as for example at Gold Resource Corporation's smaller El Aguila mine in Oaxaca, Mexico which produces around 27,000oz pa of gold and 1.7moz of silver.

Mining & Processing

Condor Gold is currently optimising its mine plan for the development of open-pit mining at La India including the incorporation of feed from high grade satellite pits which are currently the subject of permit applications. Our base case assessment rests on the

production profile outlined in the company's NI43-101 compliant Technical Study, prepared by SRK and published in 2017 at the time of the company's TSX listing.

This plan envisages the extraction, by conventional open-pit mining methods of a total of 6.9mt of ore and 94.5mt of waste over a 9 years mine life at an average waste:ore ratio of 13.6:1 and peak ratio of 20.1:1. Over the life-of-mine, gold grades average 3g/t, peaking at 3.9g/t in the penultimate year of operation with silver grades averaging 5.3g/t and reaching a maximum 6.6g/t in the 8th year.

Mining is likely to be undertaken by contractors operating a fleet based around a core complement of an 11m³ capacity hydraulic shovel for waste removal and a 2 5m³ capacity shovels loading ore into up to eight 91 tonne capacity haul trucks. The mining workforce, including contractors is expected to number around 130, excluding management.

Later in the mine's life, higher grade ore shoots are likely to justify underground mining but at this stage we are confining our attention to the open-pit production of ore. Grades processed during the latter years of open pit mining decline as increasing proportions of lower grade ore stockpiled in the early years of mining are blended into the mill feed.

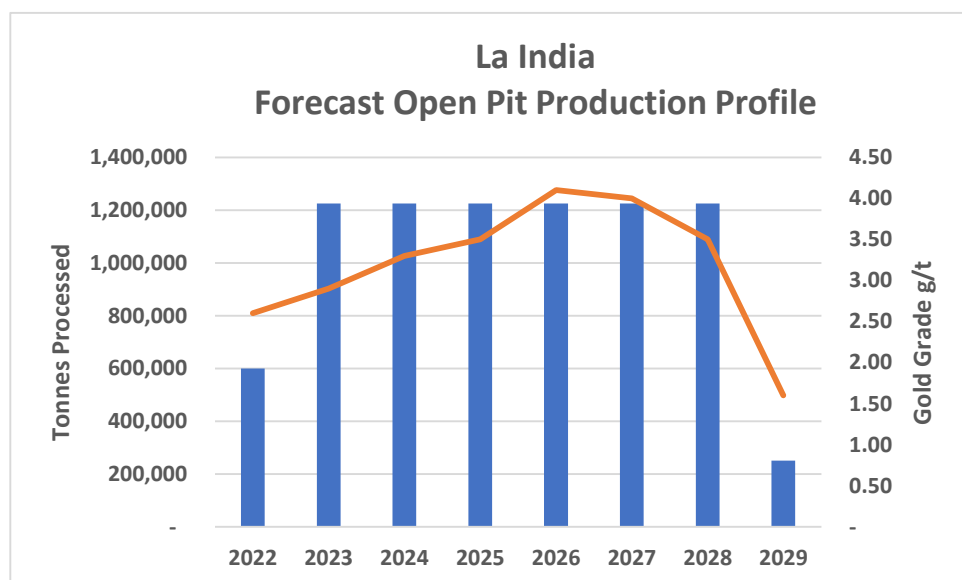


Figure 8 La India Projected Production (Source: SP Angel and Company Announcements)

The process plant is expected to be conventional with a crushing and single stage grinding circuit treating approximately 1,200,000tpa of ore with gold recovery rates of over 90% via a carbon-in-leach plant and elution to produce a gold doré on site.

Ore treatment is expected to generate around 6 million cubic metres of waste tailings over the mine's operating life. Tailings are currently expected to be stored in a conventional downstream tailings storage facility located less than 1km to the east of the process plant.

We expect that the current optimisation work will adjust the overall operating parameters, reducing overall waste:ore ratios and perhaps rescheduling higher grades earlier in the mine life in order to enhance the project NPV.

Board & Management

The board of Condor Gold are significant shareholders with non-Executive Director, Jim Mellon holding 15.5% and Chairman/CEO, Mark Child owning a further 4.4% interest.

Other significant shareholdings are held by the well-known mining entrepreneur, Ross Beatty (6.8%) and the Nicaragua Milling Company (10.3%).

Condor Gold's management team is headed by Mark Child, who owns 4.4% of the company and has been a board member since 2006 and CEO since 2011. Mr. Child comes from a stock-broking background with some 20 years of corporate finance, investment banking and private equity experience.

Chief Technical Officer, Dave Crawford is an ex-Newmont Mining mining engineer with over 40 years professional experience while Senior Geological Consultant, Dr. Warren Pratt's professional background includes a decade with the British Geological Survey and a wide experience of gold/silver exploration including several major projects in Latin America and in Russia.

Nicaragua

Nicaragua is reportedly the poorest country in Central America and the second poorest in the whole western hemisphere. Estimated per capita GDP in 2017 was US\$5,900 per head and the World Bank estimates that the economy declined by 3.8% during 2018. World Bank forecasts suggest a further 5% contraction in 2019 is to be expected.

The President, Daniel Ortega has been in office since January 2007 and since January 2017, the President's wife, Rosanna Murillo has served as Vice President. Elections for both roles are to be held by November 2021.

Over the 5 year period 2014-2018, Nicaragua's rating on the well-regarded Fraser Institute rating for investment attractiveness slid to the point where in the 2018 survey the country ranked 81st of the 83 countries surveyed. The rating recovered somewhat in 2019 to 67th of 76.

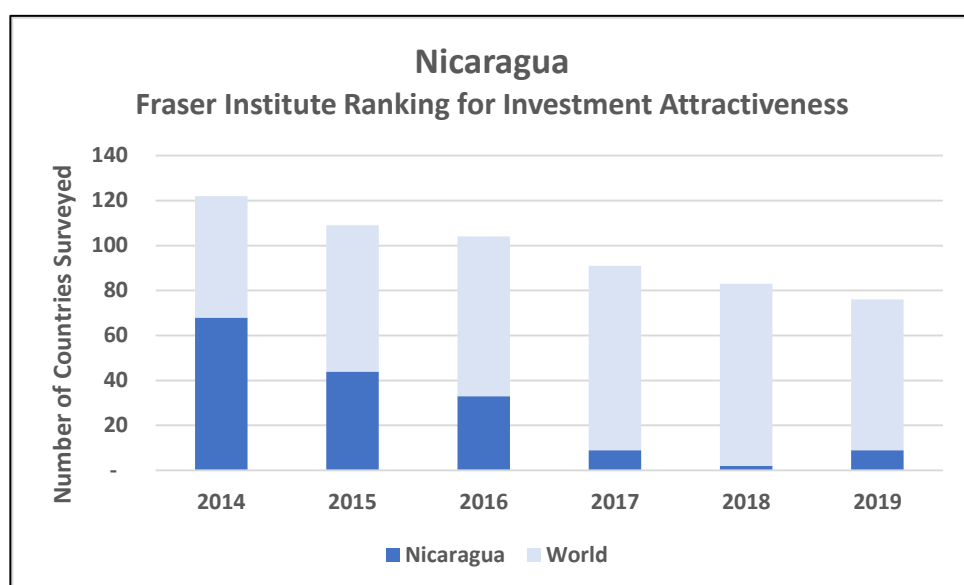


Figure 9 Investment Attractiveness of Nicaragua (Source: SP Angel - Fraser Institute Data)

Although the 2019 "Investment Attractiveness" rating score of 43.03 remains below the average for the Latin America and Caribbean region, an upward move in 2019 may be a signal of a longer-term revival of the country's standing.

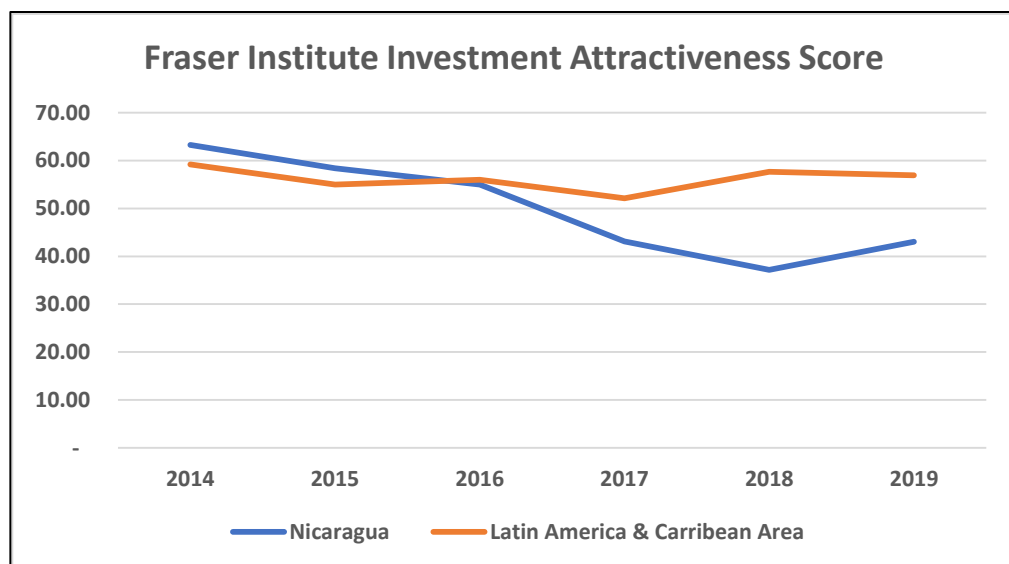


Figure 10 Investment Attractiveness Scores (Source_ SP Angel using Fraser Institute Data)

Risks

Project Risks

The La India Project has a well-established resource base with over 900,000 oz of indicated resources amenable to conventional open pit-mining using industry-standard conventional mining techniques. Similarly, the processing flow-sheet is conventional with crushing, single stage grinding and the use a carbon-in-leach plant and elution to produce a gold doré on site. As with all gold operations, security of the doré on site and in-transit will be important but should not present any particularly unusual challenges.

Geopolitical Risks

Nicaragua experienced a period of serious political unrest in 2018 triggered by reforms to the social security system. Deaths, instances of repression and vigilante activities, suspension of civil liberties and extra-judicial imprisonments provoked international criticism. Since then, however, the situation appears to have improved, with an amnesty of detainees in June 2019 and fewer reports of a resumption of unrest. While this is to be welcomed, the possibility of future unrest which might result in delays to the development of La India cannot be wholly discounted.

Commodity Risks

As our sensitivity analysis demonstrates, the NPV of the La India project is most vulnerable to changes in the long term gold price. However, in our view, the project is capable of generating a marginally positive NPV at gold prices as low as US\$900/oz; a price last seen in early 2008. We see little likelihood of gold prices at these levels and in the unlikely event of this occurring we consider that gold would not be sustained at these prices for any protracted period.

Appendix 1 AIM Market Peer Group

Valuation of AIM Market Gold Companies							
		US\$(m)		Resources		Long Term Production	
Name	Ticker	MV	EV	M&I oz	EV/M&I oz	oz	EV/Prodn oz
Anglo Asian Mining	AAZ LN	175.9	160.6	1.58	102	85,000	1,890
Ariana Resources	AAU LN	45.0	44.3	0.39	113	30,000	1,478
Caledonia Mining	CMCL LN	145.7	138.1	0.35	395	80,000	1,727
Chaarat Gold	CGH LN	177.0	228.1	7.62	30	95,000	2,401
Condor Gold	CNR LN	44.0	30.4	1.14	35	100,000	404
Galantas Gold	GAL LN	4.6	4.7	0.18	26	27,500	172
Griffin Mining	GFM LN	95.0	66.6	2.69	25		
Highland Gold	HGM LN	1,103.5	1,316.3	16.1	82	295,000	4,462
Hummingbird Resources	HUM LN	118.4	165.7	4.04	41	130,000	1,275
Kefi Minerals	KEFI LN	17.0	17.9	1.62	11	135,000	133
Pan African Mining	PAF LN	399.5	527.9	23.7	22	170,000	3,105
Serabi Gold	SRB LN	66.3	59.8	0.54	111	100,000	598
Shanta Gold	SHG LN	108.3	131.2	0.22	598	82,000	1,320
Trans Siberian Mining	TSG LN	89.9	82.5	0.30	277	45,000	1,832
Total/Average		2,590.3	2,984.1	60.42	49	729,500	2,123

Table 5 Appendix 1 AIM Gold Companies Valuation Summary (Source: SP Angel)

Appendix 2 Latin American Market Peer Group

Valuation of Latin American Gold Companies						
Name	Ticker	Area	MV	EV	M&I oz	EV/M&I oz
Almaden Minerals	AMM CN	Mexico	47.6	46.6	3.11	15
Argonaut Gold	AR CN	Mexico	213.5	178.0	7.85	23
Belo Sun	BSX CN	Brazil	329.2	307.3	4.95	62
Bluestone Resources	BSR CN	Guatemala	185.4	177.7	1.47	121
Condor Gold	CNR LN	Nicaragua	44.0	40.4	1.14	35
INV Metals	INV CN	Ecuador	30.5	30.3	3.05	10
Jaguar Mining	JAG CN	Brazil	156.9	150.1	1.24	121
Minera Alamos	MAI CN	Mexico/Panama	121.5	120.9	0.80	151
Orla Mining	OLA CN	Mexico/Panama	538.8	543.6	11.22	48
Rio 2	RIO CN	Chile	61.9	60.3	4.95	12
Total/Average			1,729.3	1,655.2	39.8	42

Table 6 Appendix 2 Latin American Gold Development Companies Valuation Summary (Source: SP Angel)

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Buy - Expected return >15%

Hold - Expected return range -15% to +15%

Sell - Expected return < 15%

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