



## CORPORATE UPDATE August 30, 2021

### VICTORIA GOLD CORP (TSX-VGCX) C\$14.22

**RATING: BUY**  
(unchanged)

**TARGET: C\$23.00**  
(unchanged)

## Site Visit Confirms Eagle has Emerged from Ramp-Up Stronger than Ever

**EVENT:** We attended a site visit to Victoria Gold Corp's (TSX-VGCX) Eagle Gold Mine near Mayo, YT. We have adjusted our model on the back of several positive developments on display at site, and reiterate our BUY rating and \$23.00 Target.

**IMPACT: Positive.** Eagle has come a long way since the 'teething issues' experienced throughout H2/20, and the operational experience gained during those tough times has allowed management to set the mine up to shine through H2/21 and beyond. We note several redundancies have now been built into the crushing/stacking circuit, and several stages of the operation have excess capacity installed to absorb any short-term setbacks. We await the Q3/21 production results to validate our expectations for LOM leach pad kinetics, but cannot ignore the deep value on the table resulting from recent share price weakness — just as the operation begins to hit its stride.

### HIGHLIGHTS:

- ▶ **Material Handling Circuit Optimized and Stealing the Show:** Improvements to the material handling circuit, which were made throughout Q4/20 to Q1/21, are paying off. With redundancies smoothing the overall stacking rate, and the system setting throughput records in Q3/21, we are confident the mine will deliver stacking rates above design.
- ▶ **Leach Kinetics Remain the Key Test:** With mining, stacking, and grades performing to (or exceeding) design, we now need to see the total pad inventory plateau (or ideally begin to draw down) to confirm our LOM recovery assumptions. Q3/21 production results will be the key test.
- ▶ **Model Updates Boost NTM CFPS and FCF/EV Estimates:** With the improvements to the material handling circuit, and strong QTD leach pad performance (aided by a warmer than usual summer), we now model H2/21 production of ~123K oz Au, which we see providing a +15% FCF/EV yield over the next 12 months.

**VALUATION:** Our \$23.00 Target for VGCX is derived by applying a 50/50 weighting to 8x our NTM CFPS estimate and 1.0x our project NAVPS estimate, based on our DCF5% model for Eagle at US\$1,800/oz Au. Our target implies a 1.07x adj. TP/NAV multiple.

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### Company Statistics

Risk:	SPECULATIVE
52-week High/Low:	C\$22.54 / C\$10.42
Shares Out. (fd):	65.9M
Market Cap:	C\$889M
3-mth Avg Daily Vol:	336K
Return:	61.7%
Cash:	C\$14.8M
Debt:	C\$252.5M
Working Capital:	C\$40M
Enterprise Value:	C\$1,096M

### Financial and Valuation Summary

(YE Dec)

C\$	FY20a	FY21e	FY22e
Prod. (KozAuEq)	117	182	219
AISC (US\$/ozEq)	\$1,350	\$1,345	\$1,084
Revenue (M)	\$179	\$396	\$479
OCF (M)	\$75	\$166	\$225
FCF (M)	\$1	\$92	\$180
CPS (\$/fd)	\$1.17	\$2.52	\$3.41

Quarterly (FY21)	Q1a	Q2a	Q3e	Q4e
Revenue (M)	\$63	\$64	\$122	\$149

C\$	M	/fd	%NAV
Proj. NAV	\$1540	\$23.35	109.2%
Corp. Adj.	\$-129	\$-1.96	-9.2%
<b>Total NAV</b>	<b>\$1410</b>	<b>\$21.39</b>	<b>100.0%</b>



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A Disclosure fact sheet is available on Page 6 of this report.



## Material Handling Optimization Boosts Stacking Rate

Optimizations of the material handling circuit include:

- ▶ Adding breaks/bypasses at key points through the crushing/stacking circuit to allow operations to continue if one component undergoes maintenance or fails.
- ▶ Building up stockpiles at each crushing stage, allowing for redundancy if mining operations are impacted by weather, maintenance, or other issues. Over 900 Kt of ore has been stockpiled (or nearly one month's worth of production).
- ▶ Increased horsepower on the grasshopper feeders now gives them the potential to run above design capacity.
- ▶ New wear liners on the feeder chutes reduce maintenance down-time.

With the mining fleet demonstrating capacity well in excess of the design stacking rate, we see the material handling circuit only being limited by the capacity of the secondary and tertiary crushers. As a result of this optimization work, we see the potential for the stacking rate to increase through the warmer months (generally H2) throughout the remaining LOM. **Therefore, we have increased our assumed stacking rate to 37,500 tpd (from 33,700 tpd) for H2 of each year of remaining mine life.**

As part of Project 250, VGCX plans to implement year-round stacking. Initial engineering work is underway, and we expect the Company to provide an update by the end of the year. We continue to model suspension of stacking through most of Q1/22, and Q1/23.

Exhibits 1 to 3 show the material handling circuit at Eagle.

**Exhibit 1 - Primary, Secondary, and Tertiary Crushers at Eagle**



Source: PI Financial Corp.





### Exhibit 2 - Improved Grasshopper Conveyors at the Heap Leach Facility



Source: PI Financial Corp.

### Exhibit 3 - Building the Next Lift on the Heap Leach Pad



Source: PI Financial Corp.



## Building Confidence in Grade & Recovery Estimates

The Q2/21 production miss was primarily driven by grade and throughput coming in below our estimates; though we note that the miss on grade was mainly due to changes in short range planning, rather than poor reconciliation with the resource model. Management remains confident that grades continue to reconcile well with their model, and this is owed to the relatively homogeneous nature of the orebody. Mineralization is hosted in sheeted veins and fractures, with grade primarily being driven by vein density. Therefore, we have left our LOM grade estimates unchanged.

Leach pad kinetics and recovery estimates remain the key test to validate our LOM assumptions. The 2019 Feasibility Study (FS) estimated LOM recovery at 76.4%, which is what we implement in our model. The 2019 FS also noted a relatively fast leach cycle, with most recovery occurring after 60 days. Using the 76.4% recovery estimate, we continue to see the recoverable inventory in the pad build faster than new oz's are being stacked. We are expecting recoverable ozs to plateau (or ideally begin to draw down) in Q3/21, but if this is not the case, it could indicate that actual recovery is lower than anticipated, or that cycle times are significantly longer than expected.

Based on the frequency of gold pours through Q3/21 so far, along with the strong reiteration of 2021's production guidance of 180K-200K oz Au, we are cautiously optimistic that recovery will reconcile, and have made minor modifications to our estimates for the remainder of 2021. We now model a more front-loaded recovery curve, and slightly increased recoveries through H2/21; though we have left our LOM estimate unchanged.

If recoveries do continue to reconcile ahead of the FS estimates, as management claims, we could see a significant boost to the project NAV. **Increasing overall LOM recovery to 79% would result in a \$1.25/sh increase to the project NAV.**

## Model Updates & Valuation

Updates to our modelled assumptions include:

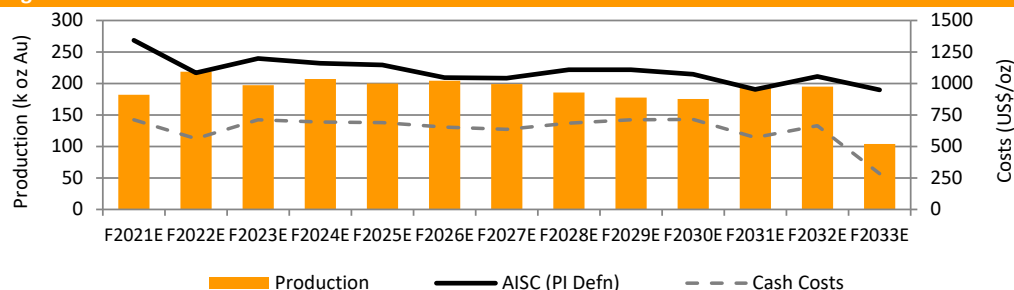
- ▶ Increased stacking rate to 37,500 tpd (from 33,700 tpd previously) in H2 of each year for the remaining LOM.
- ▶ Increased overall recovery estimates for H2/21 to 79% (from 76.4% previously).
- ▶ Adjusted estimated leach curve to account for faster leach pad kinetics.
- ▶ Pushed the start of year-round stacking to 2024 (from 2023 previously).
- ▶ Increased capitalized stripping estimates for 2022 to account for pre-stripping the Phase 3 pit expansion.

Exhibits 4 and 5 show our updated production, cost, throughput, and grade estimates for Eagle.



#### Exhibit 4 - Eagle Production & Cost Profile

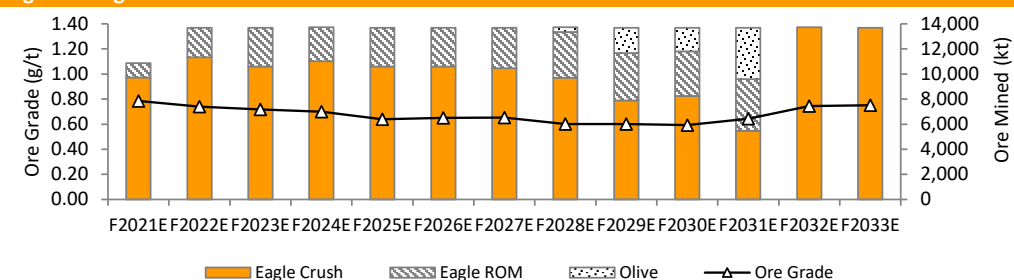
##### Eagle Production & Consolidated Cost Profile



Source: PI Financial Corp.

#### Exhibit 5 - Eagle Mining & Grade Profile

##### Eagle Mining & Grade Profile



Source: PI Financial Corp.

### FCF Expected to Grow Substantially

We expect VGCX will join the increasingly long list of precious metals producers with +10% FCF/EV yields, as the increased production of H2/21 begins to take hold, and into 2022 when we expect production of over 218K oz Au. **We now model NTM FCF of ~C\$169M, which results in a FCF/EV yield of 15%.** This places VGCX third among our junior and intermediate precious metals producers under coverage.

### Valuation & Target Price

We reiterate our BUY rating and C\$23.00 target price for VGCX. Our target is based on applying a 50/50 weighting to 8x our NTM CFPS estimate and 1.0x our project NAVPS estimate, based on our DCF5% model for Eagle at US\$1,800/oz Au. Our target implies a 1.07x adj. TP/NAV multiple (see Exhibit 6).

#### Exhibit 6 - VGCX Valuation & Target Price Derivation

Valuation Summary	C\$ 000	C\$/fd	% NAV	Value	Multiple	% Weighted	Target Value
<b>Project NAV</b>							
Eagle (DCF 5%)	\$1,539,564	\$23.35	109%				
Project Total	\$1,539,564	\$23.35	109%				
<b>Corporate NAV</b>							
Working Capital	\$39,792	\$0.60	3%				
Additional Capital	\$32,659	\$0.50	2%				
LT Debt	(\$201,847)	(\$3.06)	-14%				
Total Corporate	(\$129,396)	(\$1.96)	-9%				
<b>Net Asset Value</b>	<b>\$1,410,168</b>	<b>\$21.39</b>	<b>100%</b>				
		Adjusted	Straight				
P/NAV		0.69x	0.66x				
Target P/NAV		1.07x	1.08x				
<b>Share Count</b>							
	<b>I/O</b>	<b>F/D</b>					
	62,542	65,932					

<b>Target Derivation</b>							
NAVPS (C\$)	\$23.35	1.0x	50%				\$10.69
NTM CFPS (C\$)	\$3.24	8.0x	50%				\$12.96
							\$23.65
<b>Target Price</b>							
Return to Target							62%

Source: PI Financial Corp.

## Disclosure Fact Sheet

### Ratings

**BUY** : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

**NEUTRAL** : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

**SELL** : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

**U/R** : Under Review

**N/R** : No Rating

**TENDER**: Investors are guided to tender to the terms of the takeover offer. Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

### Price Volatility/Risk

**SPECULATIVE** : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

**ABOVE AVERAGE** : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

**AVERAGE** : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

### Analyst Certification

We, Justin Stevens and Chris Thompson, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject securities or issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. We are the research analysts primarily responsible for preparing this report.

### Research Disclosures

Company	Disclosure
Victoria Gold Corp	3, 4, 9

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9. Company has partially funded previous analyst visits to its projects.

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Analyst	Company	Type of Review	Operations / Project	Date
Thompson, Chris	Victoria Gold Corp	Management Review	Vancouver, BC	08/12/21
Recommendations		Number of Recommendations		Percentage
BUY		73		90.12%
NEUTRAL		4		4.94%
SELL		0		0.00%
UNDER REVIEW		4		4.94%
N/R		0		0.00%
TENDER		0		0.00%
<b>TOTAL</b>		<b>81</b>		

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