

Victoria Gold

VGCX-TSX

 Rating
Outperform

 Price: Feb-28
\$8.47

 Target
\$15.00

 Total Rtn
77%

Highlights From the 2023 BMO Global Metals, Mining & Critical Minerals Conf.

Bottom Line:

John McConnell, President, CEO & Director of Victoria Gold, presented at the 2023 BMO Capital Markets Global Metals, Mining & Critical Minerals Conference in Hollywood, Florida. In this note we also update our estimates based on the updated Eagle mine plan that was announced last week.

Key Points

- Mr. McConnell discussed the recently updated mine plan for the Eagle gold mine, indicating that the new mine plan presents an achievable growth trajectory for the mine. The updated plan shows a 12-year mine life with average annual production exceeding 200,000oz over the first 8 years.
- With this report we update our model to adjust for the updated mine plan, and present further discussion on page 3 of this note.** We will be monitoring stacking and production rates over the coming quarters, and we would expect delivery of these metrics in line with the mine plan to be positively received by the market.
- Mr. McConnell indicated that the company has improved its labour availability and retention at Eagle, reducing turnover from 20% to 10%, which is expected to help the mine improve performance. VGCX has also seen better access to vendors and has had Metso on site the last three quarters to help improve the crushing and conveying system. Spare parts inventory has also increased by \$10mm.
- Mr. McConnell indicated this year's Q1 stacking and mine performance has been markedly stronger than previous Q1's. The company has for the first time stacked ore through January and February, which should improve the seasonality of production seen in previous years.
- The new Eagle mine plan included an updated resource and reserve estimate, increasing resources by 17% and 38% in the M&I and inferred categories respectively. Mr. McConnell outlined the substantial exploration upside remaining at Eagle; VGCX recently expanded the pit to the west and at depth.
- Discussions also focused on regional exploration that Victoria Gold has been advancing. The company has a large land position with multiple exploration targets, including the Raven deposit of 1.1mmoz at 1.7g/t. The company plans to release an updated Raven resource in Q1.

Key Changes

Estimates	Q1 / 23E	2023E	2024E
Revenue	\$90	\$397	\$391
Previous	\$74	\$388	\$443
EPS	\$0.17	\$0.61	
Previous	\$(0.04)	\$0.29	
CFPS	\$0.49	\$2.10	\$1.99
Previous	\$0.28	\$1.78	\$3.06

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Company Data			in C\$
Dividend	\$0.00	Shares O/S (mm)	64.5
Yield	0.0%	Market Cap (mm)	\$546
NAV	\$9.22	P/NAV	0.9x

BMO Estimates				in C\$
(FY-Dec.)	2021A	2022A	2023E	2024E
Revenue	\$356	\$322	\$397↑	\$391↓
EPS	\$1.73	\$0.88	\$0.61↑	\$0.29
CFPS	\$2.12	\$1.31	\$2.10↑	\$1.99↓
Gold Prod (oz)	164,200	150,200	176,700↑	188,300↓

Consensus Estimates				
	2021A	2022A	2023E	2024E
EPS			\$0.79	\$0.82

Valuation				
	2021A	2022A	2023E	2024E
P/E	4.9x	9.7x	14.0x	29.6x
P/CFPS	4.0x	6.5x	4.0x	4.2x

QTR. EPS	Q1	Q2	Q3	Q4
2021A	\$0.48	\$(0.05)	\$0.62	\$0.68
2022A	\$0.14	\$0.41	\$0.13	\$0.20
2023E	\$0.17	\$0.17	\$0.23	\$0.04
2024E	\$(0.20)	\$(0.31)	\$0.40	\$0.40

Our Thesis

Victoria's Eagle project declared commercial production on July 1, 2020, and is working to complete a full ramp-up to meet the updated mine plan that was released in February 2023. We see the company positioned to benefit from the strength in the precious metals sector as it aims to build an operational track record as a producer or potentially attract a takeover offer.

Victoria Gold - Block Summary Model

Income Statement	2021A	2022A	2023E	2024E
Revenue	\$356	\$322	\$397	\$391
Operating Costs	146	166	220	199
SG&A	8	9	12	12
EBITDA	\$217	\$140	\$160	\$184
Depreciation	60	68	93	107
Tax	33	22	15	54
Adjusted Net Earnings	108	55	39	19
EPS	\$1.73	\$0.88	\$0.61	\$0.29
Cash Flow Statement	2021A	2022A	2023E	2024E
Cash Flow From Operations	132	84	136	129
Cash Flow From Investments	(96)	(126)	(105)	(30)
Cash Flow From Financing	(61)	31	(174)	13
Free Cash Flow	33	(39)	31	99
FCF/Share	\$0.53	\$(0.60)	\$0.48	\$1.53
Balance Sheet	2021A	2022A	2023E	2024E
Cash & Equivalents	31	21	(122)	(10)
Long-Term Debt	149	11	4	0
Total Assets	891	1,017	886	901
Total Liabilities	398	473	300	297
Total Shareholders' Equity	493	544	586	604
Key Metrics	2021A	2022A	2023E	2024E
Silver Price (US\$/oz)	25.14	21.64	20.40	21.38
Gold Price (US\$/oz)	1,799	1,798	1,681	1,615
Lead Price (US\$/lb)	4.23	4.00	3.57	3.51
Zinc Price (US\$/lb)	0.80	0.78	0.75	0.77
USD:CAD	1.253	1.290	1.336	1.298
Eagle - Gold Production (koz)	164,200	150,200	176,700	188,300
Eagle - AISC (US\$/oz)	1,194	1,454	1,396	946

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

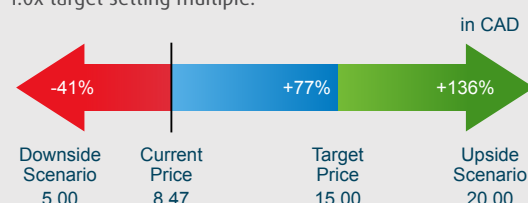
Our target is based on a 1.6x NAV5% multiple, which is appropriate for an operating mine in ramp-up as well as for the quality of the Eagle mine and the jurisdiction.

Upside Scenario **\$20.00**

Our upside scenario is based on an additional two-year extension to mine life at the Eagle pit to reflect the possible impact of resource expansion drilling that VGCM is undertaking, and using a higher 1.8x multiple.

Downside Scenario **\$5.00**

Our downside scenario is based on lower gold recovery (-25%) realized compared with the feasibility and a lower 1.0x target setting multiple.



Key Catalysts

Quarterly production progress and exploration updates, visibility on production expansion plans.

Company Description

Victoria Gold is ramping up the Eagle Gold mine in the Yukon. The February 2023 updated mine plan defined a ~200,000oz/year production capacity at a low all-in sustaining cost of US\$1,100/oz.



VGCM-TSX Research



Glossary



Company Models

Updating the Eagle Mine Plan

At the end of last week Victoria Gold announced results from the updated Eagle mine plan which we view as an achievable pathway to more reliable production levels. We think the market should view the mine plan as an attainable growth plan and maintain our \$15 target.

The updated Eagle mine plan sets an achievable growth trajectory, in our opinion. The updated mine plan shows average production of 194,000oz over the next 10 years, with an additional 2 years of production from stockpiled ore at the end of the mine life. AISC is expected to average \$1,114/oz, with a LOM strip ratio of 0.99:1.

Compared to the previous life of mine plan the updated plan has significantly less run-of-mine processing which effectively increases grade in the next several years by about 0.1g/t. Some of this lower grade mineralization will be processed at the end of the mine life. The mine plan projects a modest increase in stacking rates to 11.5mtpa by 2026 which equates to approaching 1mt per month and will be a visible marker of performance for the mine. The updated mine plan does incorporate slightly increased unit costs which drive a roughly \$340/oz AISC increase against the previous plan. We generally view this increase as reflecting the reality of inflation in the sector with the scale in line with that being observed/expected in the broader sector.

The updated mine plan does set aside Project 250 which was originally intended to drive annual production towards a targeted 250,000oz level. Over the past year the company indicated a pivot to **focusing on getting the mine towards the 200,000ozpa level, which the new mine plan achieves.** We have adjusted our estimates to match the production and cost profile presented in the news release and expect to review our estimates once the full NI 43-101 technical report is released. Management noted the company will evaluate future expansion options beyond the production contemplated in the updated mine plan.

We expect the market to have a favorable view on the attainability of the new plan. The Eagle mine has been challenged during ramp-up, most recently missing (withdrawn) guidance in 2022. We view the new plan as an achievable pathway to sustained higher production levels, and **in our view there is still meaningful long-term upside potential** – we have modeled an extra 2 years of mine life extension.






We will also be watching for less seasonal variability in Q1 after VGCM guided that Q1 production will be higher than in previous years, reducing somewhat the quarter-to-quarter seasonal variability. We would expect the 102,000oz inventory at year-end to contribute positively to Q1 performance, though we may see a similar increase in inventory in Q1 as ore stacked in the period may not be entirely brought into leach until later in Q1 or Q2.

Victoria Gold - ESG Tear Sheet

Bottom Line

Victoria Gold is growing its ESG disclosures as the company ramps up production at the Eagle gold mine, issuing an inaugural ESG report in 2022. Victoria Gold has shown a particular focus on stakeholder and community engagement, and in our view the company is executing on a clear commitment to provide benefits to the local First Nation and broader community in the Yukon. We expect VGCX's positive ESG trajectory to continue as its operations at Eagle progress.

Exhibit 1: ESG Themes & Initiatives

Climate Change	Water Management	Extraction Management	Stakeholder Engagement	ESG Governance
				
<p>Key Initiatives</p> <ul style="list-style-type: none"> Evaluating development of an emissions reduction policy that would look at various optimizations to operations at the Eagle mine Monitoring program covers items such as air quality at the Eagle mine, with independent samples collected by the local First Nation to confirm results Eagle mine is connected to the Yukon power grid which reduces reliance on diesel generators compared to other remote mines VGCX plans to continue to assess using electrical mining equipment to further reduce mine site emissions Preliminary evaluations for on-site solar power have been completed with the Yukon's primary solar power provider 	<p>Key Initiatives</p> <ul style="list-style-type: none"> Victoria Gold does not operate in any high-risk water jurisdictions Monitoring program includes ongoing evaluation of both surface and groundwater Water for processing is primarily sourced from water management ponds at the mine, which reduce the need for water withdrawal and discharge Erosion control programs minimize the occurrence of sediments entering local streams 	<p>Key Initiatives</p> <ul style="list-style-type: none"> Strong focus on safety with over 2.3 million hours worked since 2020 without a lost time incident Provided close to 5,000 hours of training to employees through the first three quarters of 2022, with almost 2,000 hours for employees on the mine rescue team Ongoing monitoring of wildlife and aquatic environments around the Eagle mine No tailings are generated at the Eagle mine due to its heap leach processing methodology Yearly revegetation initiatives provide ongoing reclamation of disturbed areas 	<p>Key Initiatives</p> <ul style="list-style-type: none"> Cultural awareness training program implemented since 2015 to promote responsible development 40% of employees at the Eagle mine are Yukon citizens, and Victoria Gold is the largest private sector employer in the Yukon Donated \$100,000 to the Whithorse Food Bank in May 2020 to battle food insecurity in Yukon during the COVID pandemic The Victoria Gold Yukon Student Encouragement Society is a registered charity that has distributed more than \$1.5M to reduce barriers to student attendance in Yukon classrooms 	<p>Key Initiatives</p> <ul style="list-style-type: none"> Victoria Gold is represented on the Yukon Women in Mining Equity, Diversity and Inclusion Working Group Cooperation and Benefits Agreement, in place since 2011, facilitates a transparent, mutually beneficial relationship with the local First Nation Partnered with the local First Nation to introduce a scholarship program to support First Nation citizens attending post-secondary education, providing more than 150 scholarships since 2012 Dedication from a board & management level to maximize local employment including employment of First Nations citizens Ethical Business Policy commits VGCX to a series of guiding principals
<p>Our Take</p> <ul style="list-style-type: none"> We expect emissions mitigation to grow as an area of focus for Victoria Gold as the Eagle mine completes its ramp up 	<p>Our Take</p> <ul style="list-style-type: none"> Efforts to minimize water withdrawal and discharge are apparent, and we note that the company does not operate in any water-stressed areas 	<p>Our Take</p> <ul style="list-style-type: none"> VGCX has a clear commitment to minimizing land disturbances and is taking a proactive approach to reclamation at the Eagle mine 	<p>Our Take</p> <ul style="list-style-type: none"> Stakeholder management is a focus for VGCX, as evidenced by its multiple programs to support local communities and the local First Nation. We view this as a particularly strong point in VGCX's ESG efforts 	<p>Our Take</p> <ul style="list-style-type: none"> Management is committed to strong ESG governance performance and we expect VGCX to continue to formalize this commitment in its policies as the Eagle mine ramps up

Source: BMO Capital Markets

Exhibit 2: ESG Disclosure Analysis^{1,2}

	✓	% of Peers That Do		✓	% of Peers That Do		✓	% of Peers That Do
Sustainability report?	✓	92%	Workforce breakdown by gender?	✓	90%	Total weight of tailings waste?	✓	84%
Audited sustainability report?	✗	46%	Workforce breakdown by BIPOC?	✗	36%	Lost time injury frequency rate?	✓	94%
Disclosures in line with GRI?	✗	80%	Water use?	✓	88%	Scope 1 GHG emissions?	✓	92%
Disclosures in line with SASB?	✗	74%	Energy consumption?	✓	90%	Scope 2 GHG emissions?	✓	92%
Disclosures in line with TCFD?	✗	72%	Reporting to CDP?	✗	50%	Scope 3 GHG emissions?	✗	48%

Source: BMO Capital Markets

Analyst Commentary

The inaugural ESG disclosures for Victoria Gold were released in November 2022 and cover the first three quarters of 2022. As a relatively new gold producer and a company still ramping up production from its Eagle gold mine, in our opinion the commencement of ESG reporting is a good first step as the company formalizes its ESG commitment which was clearly in place before any formal reporting. Victoria Gold has a particularly strong focus on bringing benefits to local communities - for example, its Every Student, Every Day initiative has provided more than \$1.5M of funding to promote regular attendance for students in Yukon schools. The company has strong relations with the local First Nation, having formalized a Cooperation and Benefits Agreement in 2011. Furthermore, the company has initiatives focusing on reclamation of land at Eagle and programs dedicated to environmental monitoring. Looking ahead, VGCX is evaluating multiple emissions reduction initiatives at the mine which we expect will be a next step as the company continues to advance its ESG goals.

Exhibit 3: ESG Performance Summary

	2019	2020	2021	2-Year Trend ³
 GHG EMISSIONS SCOPE 1 + 2 (MTCO2E/TONNE ORE PROCESSED)	N/A	0.01	0.01	N/A
 SCOPE 3 GHG EMISSIONS (MTCO2E)	N/A	ND	ND	N/A
 ENERGY INTENSITY (GJ/TONNE ORE PROCESSED)	N/A	0.12	0.09	N/A
 % RENEWABLE ENERGY	N/A	17%	15%	N/A
 WATER INTENSITY (CUBIC METRES/TONNE ORE PROCESSED)	N/A	ND	ND	N/A
 % WATER WITHDRAWAL FROM HIGH RISK REGIONS	N/A	0%	0%	N/A
 HAZARDOUS WASTE INTENSITY (METRIC TONNES/TONNE ORE PROCESSED)	N/A	ND	ND	N/A
 TOTAL EMPLOYEE TURNOVER (%)	N/A	30%	37%	N/A
 LOST TIME INJURY FREQUENCY RATE	N/A	0.19	0.0	N/A
 NUMBER OF FATALITIES	0	0	0	→
 % LOCAL WORKFORCE	N/A	47%	39%	N/A
 % WOMEN IN WORKFORCE	N/A	15%	14%	N/A
 % WOMEN ON THE BOARD	12	14	14	↑

Source: BMO Capital Markets

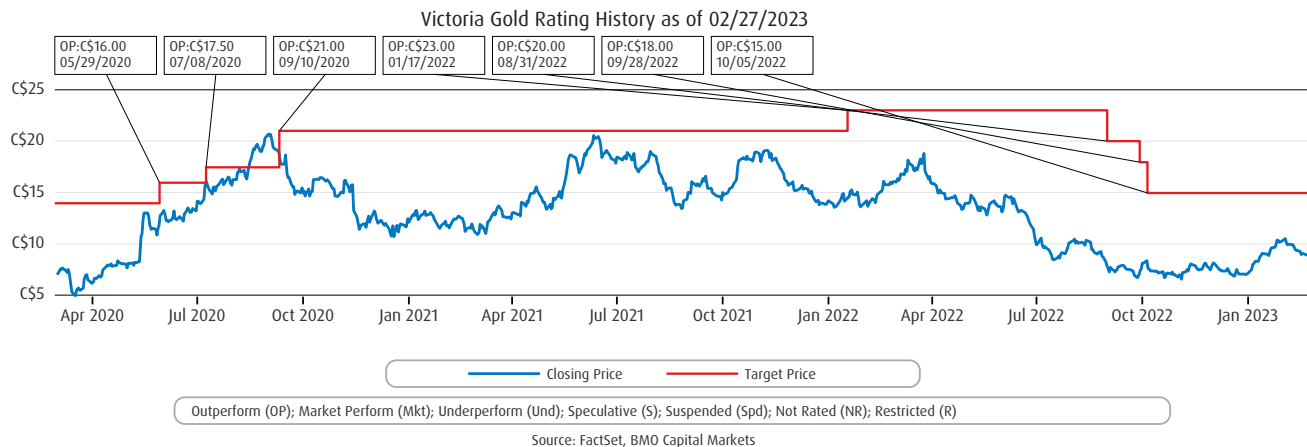
Note: ND refers to No Disclosure or Not Yet Available

Links to Reports

[Victoria Gold Corp Responsible Mining website](#)

Notes

1. Audited sustainability report refers to a report that includes a statement of assurance from independent auditor or verifier.
2. Peer comparisons based on 50 precious metals companies in the BMO Equity Research coverage universe
3. Two-year trend analysis captures the desired direction of the underlying numbers, not necessarily the absolute direction (e.g., an increase in energy intensity receives a “down” arrow).



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Methodology and Risks to Target Price/Valuation for Victoria Gold (VGCX-TSX)

Methodology: Our target is based on a NAV valuation reflecting the updated mine plan announced in February 2023. We model \$150mm of exploration upside to reflect a portion of the value from zones not included in the current mine plan below the pit or in satellites. We use a P/NAV target setting multiple in line with operating peers.

Risks: The largest risk exposure for Eagle project is in ramp-up and execution; Eagle has advantages of road and power infrastructure in place to minimize any unexpected issues. Financing risk has been reduced but remains a risk until the mine starts delivering consistent cashflows. Jurisdictional, technical, and metallurgical risk are low due to the extensive technical work backing up the recent feasibility update and the mining-friendly jurisdiction of the Yukon.

Distribution of Ratings (February 27, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	48.7 %	18.1 %	54.4 %	53.6 %	57.4 %	57.7%
Hold	Market Perform	48.9 %	13.9 %	41.8 %	44.7 %	40.2 %	37.5%
Sell	Underperform	2.5 %	25.0 %	3.8 %	1.5 %	2.0 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

Spd = Suspended - Coverage and rating suspended until coverage is reinstated;

NR = No Rated - No rating at this time; and

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http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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