

ContangoORE (OTCQB: CTGO)

Initiating Coverage

NEW MANAGEMENT, NEW YEAR, NEW WEBSITE!**INVESTMENT HIGHLIGHTS****Stock Info**

Closing Price (USD\$/sh)	\$19.10
Rating	SPECBUY
Target (\$USDsh)	\$29.00-\$31.00
Return to Target	52%-62%
Coverage Initiation (USD\$/sh)	\$19.10
Coverage Initiation Date	2021-01-29
Return to Date	0%
52-wk Low/High (USD\$/sh)	\$7.5/\$21



Source :RBC Investors Edge

Capitalisation

Shares Out (basic) (M)	56.15
Market Capitalisation (USD\$M)	114.50
Working Capital (USD\$M)	34

Valuation

Total Assumed in-situ Au (Moz)	1.28
Project NAV (C\$M)	201.94
Corporate NAV (C\$M)	27.45
(0.65x) Company NAV (USD\$M)	177.85

Major Shareholders

Institutional (41%), Directors and Officers (22%), and Retail (37%)

Company Biography

Peak Gold, LLC, 30%-owned by ContangoORE and 70%-owned by Kinross, is developing what could be the next gold mine in Alaska. The Peak Gold deposit is located on Tetlin Native Corporation land and is readily accessible through the Alaska highway. Currently, the Peak Gold project is host to a measured and indicated resource of 1.3 million ounces of gold averaging 4 g/t gold and 14 g/t silver in a skarn type mineral deposit. Leveraging Kinross's existing Fort Knox milling infrastructure dramatically reduces the capital expenditure, timeframe, and permits required to advance the project toward production while substantially improving the economics. At Peak Gold, there is still significant exploration upside to be tested, specifically the ground between the two peak ore-bodies. Beyond Peak Gold, ContangoORE holds a 100%-owned land package of approximately 707 km² with numerous promising targets.

• **New management:** Less than one year ago, ContangoORE (60%-owner) was led by a group of very successful petroleum geologists in an awkward partnership with Royal Gold (40%-owner and operator), a royalty company, trying to advance the Peak Gold deposit. The combination of petroleum geologists and a royalty company as the operator was not the perfect recipe for advancing the Peak Gold project. Then on January 6th, 2020, Rick Van Nieuwenhuysse was hired as the new chief executive officer. Rick has had a prolific career in mineral exploration, especially within Alaska, discovering and advancing mineral deposits towards mines. He recently served as chief executive officer (CEO) of Trilogy Metals Inc where he led the Arctic deposit to the pre-feasibility stage, guided discoveries at the Bornite project, and brought on a joint-venture partner in South32 to bring the Upper Kobuk Mineral Project towards mining. **Within one year of Rick as CEO, he led the transaction whereby Kinross Gold acquired 70% of the project, 30% from ContangoORE and 40% from Royal Gold. Kinross Gold paid USD32M to ContangoORE for half their ownership plus nearly 1 million shares of ContangoORE which were subsequently retired, and USD61.3M to Royal Gold for their entire ownership and allowed them to maintain their 3% royalty on the Peak Gold project. This transaction was critical towards advancing the project towards production, by bringing in an effective mine operator in Kinross who has all of the necessary infrastructures at their nearby Fort Knox gold complex.**

• **Peak Gold utilising Fort Knox infrastructure is very economical:** The partnership with Kinross will allow the companies to forgo much of the permitting and capital expenditure required to bring a mine online. Using a gold price of USD\$1750/oz, a silver price of USD\$22.00/oz, and a discount rate of 8% (higher discount rate to account risk in the stock and volume) I generate an after-tax net present value of USD\$201.94M attributable to ContangoORE and approximately USD\$356.3M in free-cash-flow attributable to ContangoORE over 4.5-year mine life, or in other words **an average of USD\$12.66/share per year. ContangoORE will need to find something to do with all of that cash! The company can use the money for acquisitions to grow as a producer, use that cash flow to explore for more discoveries and add shareholder**

value or distribute the funds to shareholders in the form of a dividend. Either outcome is good for shareholders.

• **Exploration upside:** ContangoORE has significant exploration upside, both near the existing Peak Gold deposit (Fig. 1) and their 100%-owned properties, likely to be tested a few years down the line (Fig. 2). Looking at the resource model in figure 1, it is not hard to imagine that these two deposits connect at depth, and much of the ground between them has yet to be adequately tested. **Although weaker than directly overlying the two known deposits, anomalous gold in soil values persists between the two primary deposits, implicating the possibility of deeper gold mineralisation yet to be discovered in between the two main peak ore-bodies. Rick suggests spending approximately USD\$3M for exploration on the 100%-owned land this year in his recent webinars.**

• **Investment strategy:** ContangoORE is pursuing a New York Stock Exchange listing, which will allow Canadian retail investors a much easier opportunity to purchase shares. Because of the low share count (~6 million shares outstanding) and low liquidity (average shares traded per day < 500), this is not a get rich quick investment and can be a tricky investment to enter and exit. **My strategy will be to wait until the NYSE-listing, purchase my shares, and hold until production. At that point, there are a few outcomes, all of which are positive. Either Kinross acquires all of the Peak Gold projects for cash considerations, or using the significant free cash flow, the company explores for and delineates another 100%-owned asset to monetise down the road, or pays a considerable dividend to their shareholders.**

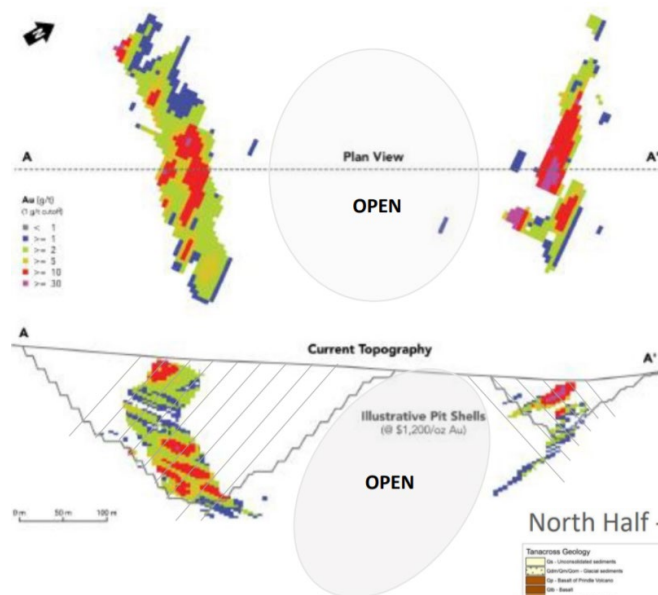
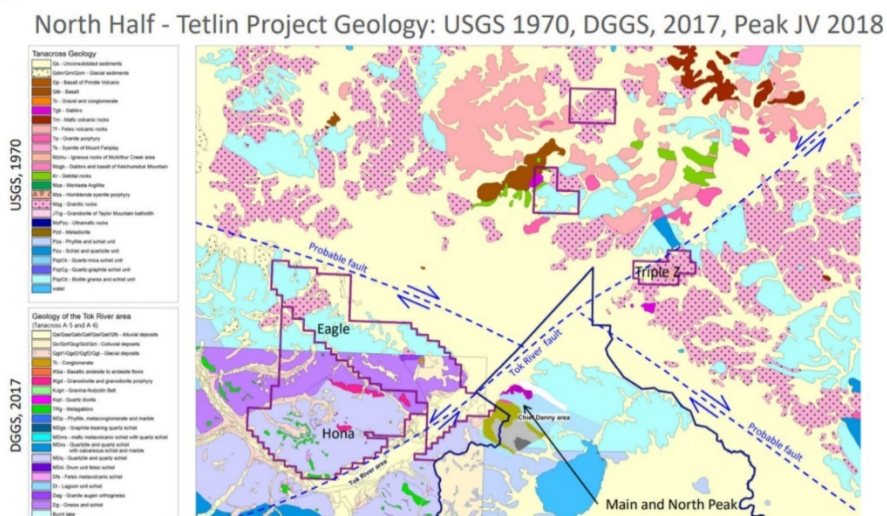


Fig.1: Plan and cross-section view of the Peak Gold deposit. Both ore bodies appear to be dipping towards each other. A logical exploration target is to drill between the two to a greater depth and test for continuation. Source—company files

Fig.2: Geologic map demonstrating the Peak Gold deposits' location and some of the nearby prospects. My favourite is Triple Z, where there are coincident geochemical and geophysical anomalies characteristic of a porphyry mineralised system. The few drill holes targeting the Triple Z (drilled in 2012) intercepted low-grade but anomalous mineralisation in argillite alteration, suggesting they intercepted a porphyry system's distal edges. This indicates that there is still some exploration upside at the Triple Z prospect, possibly tested this year. Source—company files



Glossary

- Initiating Coverage = author's first publication on a specific company where they introduce readers to this company and begin their coverage
- Update = an authors follow-up publication on a company after the author has already initiated his coverage.
- (M) = one million
- (\$C/sh) = Canadian dollars per share
- (C\$M) = one million Canadian dollars
- USD\$ = American dollars
- CAD\$ = Canadian dollars
- Mt = million tonnes
- Mlbs = million pounds
- Moz = million ounces
- /oz = per ounce
- g/t = grams per tonne
- Au = gold
- Ag = silver
- Cu = copper
- CuEq = copper equivalent, converts all metals present into copper using grades x metal recovery
- Stock Info = metrics related to a company's current share price, trading range and includes either a Buy, Sell or Spec Buy rating and a target price
- Spec Buy = a rating with a lower level of confidence than a "Buy" rating, implying more risk
- Buy = a rating with a higher level of confidence than a "Spec Buy" rating, implying less risk
- Sell = a rating that recommends selling a stock at the listed share price
- Halt = author is temporarily terminating his coverage on the company for the foreseeable future.
- Target (C\$/sh) = the author's 1-year target, or target range, for a fair value share price, based on the authors own valuation metrics. A target is subject to the author's opinion, and a share price may never achieve the target price
- Shares Out = the number of basic common shares issued (non-diluted) at the time of publication.
- Capitalisation = current share structure and capitalisation of the company at the last close before publication
- Valuation = the valuation includes calculating a company's assets and financial position using the author's valuation metrics. Valuation calculations may consist of assumptions and estimates on the potential for resource expansion, exploration, foreign exchange rates and financing activities. Includes estimated/assumed addition of shares based on financing or warrants exercised within the 1-yr target horizon
- Major Shareholders = details the principal and significant shareholders of the company. Retail refers to the shares that are not closely held by institutional funds or management, and other refers to a large number of shares held in smaller quantities by larger investors, but not funds
- NI 43-101 = is the legal standard for Canadian mineral resource disclosures and publishing of information.
- Types of Resources = An inferred mineral resource is the part of a mineral resource for which quantity, grade and mineral content can be estimated with a low level of confidence. Indicated resources are economic mineral occurrences sampled to a point where an estimate has been made, at a reasonable level of confidence. Measured resources are indicated resource that has undergone enough further sampling that a 'competent person' defined by the norms of the relevant mining code has declared them to be an acceptable estimate at a high degree of confidence. Proven reserves are the economically mineable part of a measured resource for which at least a preliminary feasibility study demonstrates that, at the time of reporting, economical extraction could be reasonably justified with a high degree of confidence. Probable reserves are the economically mineable part of a measured and indicated resource for which at least a preliminary feasibility study demonstrates that, at the time of reporting, economical extraction could be reasonably justified with a degree of confidence lower than that applying to proven reserves.

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