

Probe Metals Inc. (TSXV: PRB)

Company Update

**THE LONG-AWAITED PEA AND MORE GOLD****INVESTMENT HIGHLIGHTS****Stock Info**

Closing Price (C\$/sh)	\$1.90
Rating	SPECBUY
Target (\$C/sh)	\$3.25 - 3.50
Return to Target	71% - 84%
Coverage Initiation (C\$/sh)	\$0.96
Coverage Initiation Date	2019-12-11
Return to Date	98%
52-wk Low/High (C\$/sh)	\$0.54 / \$1.95



Source: RBC Investors Edge

**Capitalisation**

Shares Out (basic) (M)	130.22
Market Capitalisation (C\$M)	253.20
Working Capital (C\$M)	~ 29.00

**Valuation**

Total Assumed in-situ Au (Moz)	2.41
Project NAV (C\$M)	970.95
Corporate NAV (C\$M)	27.53
Discount Company NAV (C\$M)	499.24

**Major Shareholders**

Newmont Goldcorp (12%), Caisse de depot (5%), Van Eck Associated Corporation (3.7%), Management and Directors (>6%), Other (10.3%), Retail (63%)

**Company Biography**

Probe Metals Inc is focused on exploring and developing significant gold projects in Quebec, Canada, known as one of the most attractive mining investment districts globally. Probe Metals, over the years, has acquired one of the most extensive land packages in Val-d'Or (~344 km<sup>2</sup>), a recognised Canadian mining district with well-developed infrastructure and logistical support. Probe Metals flagship Val-D'Or East project contains a measured and indicated resource of 14.6Mt at a grade of 1.85 g/t Au for 866.3Koz, an inferred resource of 37.9 Mt at a grade of 1.96 g/t Au for 2.39 Moz, and numerous newly discovered mineralised zones with no resource estimate yet. Additionally, Probe Metals has acquired a massive land package in the Detour Lake area, proximal to the Detour Lake Mine and Wallbridge Mining Company Ltd.'s Fenelon project.

**Company Update**

• **The news 1:** Probe Metals announces positive preliminary economic assessment (PEA) for the Val-d'Or East project; average annual production of 207,000 ounces of gold (Au), an after-tax net present value (NPV) of CAD\$598 million, an internal rate of return (IRR) of 32.8%, and a payback period of 2.7 years, utilising a discount rate of 5% and a USD\$1500/oz gold price. The new PEA models a 12.5-year mine life that will produce a total of 2.58 million ounces (Moz) of Au at an average all-in sustaining cost of USD\$965/oz after an initial capital expenditure (CAPEX) of CAD\$353 million.

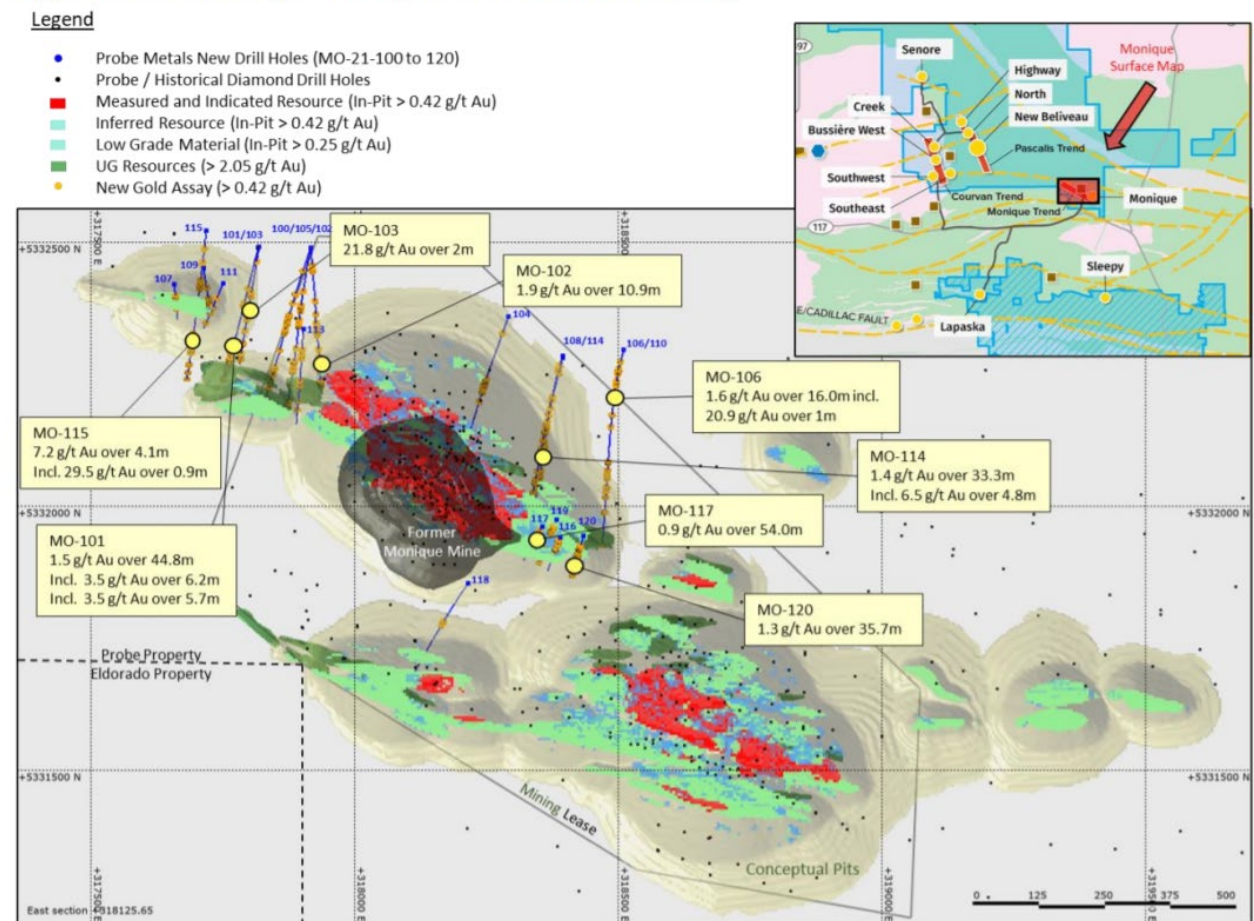
• **The news 2:** Probe Metals announces further drill results from the Monique Property, where the company intersected 21.8 grams/tonne (g/t) of Au over 2.0 metres, 7.2 g/t over 4.1 metres, 6.5 g/t Au over 4.8 metres, 1.9 g/t Au over 10.9 metres, 1.6 g/t Au over 16 metres, and 1.5 g/t Au over 44.8 metres in expansion drilling between surface and 500 metres depth. Infill drilling results continue to confirm gold mineralisation continuity, with highlights of up to 1.3 g/t Au over 35.7 metres and 0.9 g/t Au over 54 metres east of the former Monique open-pit, between surface and 100 metres vertical depth.

• **The long-awaited PEA and Monique continues to deliver:** Probe Metals has released their preliminary economic assessment for the Val-D'Or East project with favourable results. Their study illustrates a large and long-lived operation that should interest a major or intermediate gold producer. The inputs utilised in the study are well researched and match projects in the district. Additionally, the financial results compare favourably to peers in the district and show Val'd-Or East to be one of the more impressive development projects. Comparing Probe's Val'd-Or East project to O3 Mining's Marban project (using comparable gold prices) shows that Val'd-Or East has a more significant NPV and higher IRR, making it a more desirable project for investment. However, Val-d'Or East, the larger project, has a higher CAPEX requirement and a higher operating expenditure (OPEX), resulting in a higher all-in sustaining cost. Ultimately, Val-d'Or East will move the needle of a large producer more, but the more

significant costs associated with the project may dissuade small to intermediate-sized gold producers from making an acquisition. Moving on from the PEA, drilling at the Monique gold property continues to impress. Expansion drilling is discovering new gold mineralisation to be incorporated into a resource, and the infill drilling is intersecting expected mineralisation. Although new intercepts are essential, equally crucial is that the infill drilling is intersecting mineralisation where modelled and at the anticipated grades, showing that the deposit has excellent continuity and that inferred resources are unlikely to be lost as they convert to higher confidence resources. Drilling in the northwestern part of the deposit area intersects higher-grade gold mineralisation at greater depths, suggesting that the deposit's deep and underground potential is yet fully delineated (see report dated 2021-02-06).

**In summary, the release of the PEA and continued success at the Monique deposit has further increased my Probe Metals target price to an upside of CAD\$3.50 per share vs the current CAD\$3.00 per share. I model a 13.55-year mine life producing a total of 2.43 Moz of Au, yielding an after-tax (5% discount) NPV of CAD\$941 million and an IRR of 41.7%, utilising USD\$1700/oz gold price and different resource inputs that made assumptions on resource discovery and conversion. However, putting myself in the shoes of an acquirer with nearby processing infrastructure already in place (adjusts CAPEX, OPEX and transport costs), I model an after-tax NPV of CAD\$1.17 billion and an impressive IRR of 83.3%, approximately double that of the Probe Metals stand-alone model. I believe that the ultimate future of Probe Metals will be a buy-out from one of the neighbouring producing companies with infrastructure already in place.**

Figure 1: Surface Map – Monique Gold Trend new drilling



**Fig. 1:** A map of the Monique gold deposit area illustrating the current extents of the resource estimate and pit modelling. Expansion drilling MO-106, 102, 103, 115, and 101 intersected new gold mineralisation outside the currently modelled extents of mineralisation. Additionally, the Monique drill results show an increasingly larger proportion of underground mineralisation. Further, the gold grade increases with depth in the northwestern part of the Monique deposit area, a feature characteristic of gold deposits in the Val-d'Or district.

**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 confidence level. 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 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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