

# Troilus Gold Corp.<sup>1</sup>

**BUY**

TLG-TSXV

February 9, 2018

 Last: **C\$1.94**  
 Target: **C\$4.00**

## Initiating coverage: Rebooting a forgotten asset

**Low risk path to restart:** Troilus is a past producer that operated until 2010. The company is working towards a restart. Further, the asset already has a gold resource of 2.64mm oz.

**Address of choice:** The Troilus past producing mine is located in Quebec, which is a stable and premium mining jurisdiction. Over the past year, we have seen the importance of operating in a stable and mining friendly jurisdiction as a number of strong operations have struggled because of political and social issues. Moreover, the government of Quebec has started a plan called “Plan Nord,” under which the government is helping develop the natural resources extraction sector, including mining, in northern Quebec. The Troilus Mine stands to benefit from this program.

**Regional exploration potential:** Exploration targets zones J4, J5 and 87 are priority drilling targets and remain open for expansion. The Southwest Zone is another priority target that has shown significant mineralization, including intercepts as high as 36m at 1.23 g/t Au and 18m at 1.06 g/t Au. We believe that the resource will grow. An updated resource and a preliminary economic assessment are expected to be released later this year.

**Experienced management team:** The management team has extensive mining and finance experience and has a track record of developing mines (ex: Desert Sun Mining, Central Sun Mining and Sulliden Gold).

### Valuation and recommendation

Troilus is likely to be rapidly advanced. Starting with 2.64MM oz across all categories, the company has a great head start towards making a restart decision. An enviable stable jurisdiction has only become more important in recent months as others in the precious metals arena struggle to even gain access to their assets.

Our valuation only contemplates resources within the existing resource – exploration is pure upside to our outlook. Our NAV6% is US\$3.35/sh. Using a 1.0X NAV multiple and a 0.80CAD:USD exchange rate, we are initiating with a C\$4.00/sh target price and a BUY recommendation.

Rating	BUY
Target	C\$4.00
Gold Production 2020E	0
Gold Production 2021E	81,107
Gold Production 2022E	108,143

#### Share Data

Share o/s (mm, basic/f.d. itm)	41.5/ 59.6
52-week high/low	C\$2.25 /C\$0.26
Market cap (m)	C\$80.5
EV (m)	\$48.4
Net debt (m)	(\$16.0)
Projected return	106%
NAV/share	\$3.35
P/NAV	0.46x

#### Financial Data

YE Dec. 31	2020E	2021E	2022E
Gold Production	0	81,107	108,143
EPS	-\$0.07	\$0.35	\$0.46
CFPS	-\$0.01	\$0.76	\$0.95
P/E	nm	4.4x	3.3x
P/CF	nm	2.0x	1.6x

*All figures in USD unless otherwise noted*

 [Current Chart](#)

 [Previous Research](#)

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## Introduction

Troilus is a newly crafted development stage gold company focused on restarting the Troilus Mine, which is located near Chibougamau, Quebec. Troilus has a quality resource located in a top tier jurisdiction, seasoned management team and tight capital structure.

## Investment thesis

**Right address:** Quebec and Ontario remain locations of choice with political and jurisdictional risk being more and more of a concern for investors.

**Plan Nord:** Supportive government sponsored initiative to develop the northern Quebec region.

**Past production eases path for restart:** A past producer that ceased operations in 2010, Troilus is well positioned to restart operations while others struggle through the permitting process.

**Solid resource to build from:** 2.64 MM ounces out of the gate provides a great start.

**Potential cornerstone for consolidation:** Once de-risked and better understood, an asset such as Troilus could drive additional acquisitions. We see a solid cash flow engine capable of funding additional growth projects.

## Project location, accessibility, infrastructure and government support

The Troilus mine is located within the Municipalité de la Baie James in northwestern Quebec. The region has short mild summers and long cold winters, temperatures ranging from  $-17^{\circ}\text{C}$  in January to  $16^{\circ}\text{C}$  in July. Average annual rainfall ranges from 40 mm in February to 120 mm in September.

The Cree town of Mistissini is located about 90 km southeast of the mine and provides various limited services to the mine. However a wider range of services are available in the town of Chibougamau, which has been an established mining town since 1950 and has a population of almost 8,500. The Troilus mine is located approximately 166km from the town of Chibougamau. Troilus can be reached from Chibougamau by driving 23 km east along Highway 167, then 167km north along the Route du Nord, and then 44km northeasterly along the mine access road (approx. 2-hr drive). Both Highway 167 and the Route du Nord are well maintained year-round. Further, Chibougamau is serviced by daily flights from Montreal.

The mine has access to grid power via a 137 km 161 kV power line and to abundant water. High voltage sub-station is on site. An operational water treatment facility is in place from the legacy operation. Other key infrastructure at site includes bunkhouse/office building, garage for snow removal and road maintenance contractor, garage for site restoration employees, electrical transformer station, drinking water tank and pump house, a number of tailings water pump houses, and outdoor core storage area. The tailings pond from the previous operation has been reclaimed and revegetated.

The asset is located in a region where the government of Quebec has traditionally been very supportive of mining and has encouraged the development of the mining industry through expeditious permitting, title security and financial incentives.

**Figure 1. Location of the Troilus Mining Complex**



Source: Company technical report

### Property and previous mining history

Exploration activities started in the area in 1958, following the discovery of copper and nickel anomalies. However, it was not until Kerr Addison, who had acquired a large block of claims in 1985, commenced a mapping program leading to a drilling campaign in 1986 that a zone called Zone 86 (Z86) was discovered. Addison continued to purchase additional claims, focusing on the area located to the north of the Z86 discovery. Exploration work carried out in this newly acquired area resulted in the finding of significant gold-copper mineralization over great widths. This new discovery was named “Z87,” named after the year of its finding (1987).

In 1988, Minnova purchased a 50% stake in the property to become operator and a 50/50 joint venture partner with Kerr Addison. However in early 1993, both Minnova and Kerr Anderson sold all of their interests in the mining property to Metall (which later became Inmet Mining).

After the discovery of Z87, additional drilling campaigns were carried out in the late 1980s and early 1990s to support a case to build a mining operation. In 1991, a PFS for a 7,500 tpd operation was negative. But in August 1993, following additional drilling, a FS for a 10,000 open pit operation yielded positive results. As a result in late 1994, construction of an open pit mining operation (Troilus Mine) commenced which was completed in 1996. The Troilus Mine began commercial production in October 1996. During the construction period, in 1995, the 44km access road from the Route du Nord was refurbished and a 137 km power line and two substations were completed.

After operations started in late 1996, the mill ramped up well and reached its nameplate capacity of 10,000 tpd in April 1997. A year later, Inmet Mining decided to expand milling capacity to 15,000 tpd. The mill achieved the new design capacity of 15,000 tpd capacity in 1999.

Subsequently in 2004, Inmet approved another mill expansion to 20,000 tpd which was achieved in 2005.

By April 2009, the Z87 area was mined out, following which mining activities stopped. Processing of low grade stockpiles continued until June 2010, after which the mill was shut down and operations were completely stopped.

Over its LOM (between 1996 and 2010), the Troilus Open Pit Mine produced over 2mm ounces of gold (gold milled grade of 1.00 g/t and recovery of 86%) and 69.7k t of copper (copper grade of 0.10% and recovery of 90%).

Over the past few years, focus has been on restarting mining at Troilus. Prior to the operational shutdown in 2010, exploration had confirmed the presence of underground mineralization. But because of the vision (at the time) of Inmet Mining and market conditions, developing and pursuing the underground opportunity was not deemed a priority.

It was only in May 2016, when Sulliden Mining Capital (a mining-focused venture capital company) acquired an option to purchase the Troilus Property from First Quantum (in 2013 First Quantum purchased Inmet Mining) for three \$100k payments and a commitment to spend at least \$1mm on engineering and technical studies to evaluate the economic viability of restarting mining operations that progress towards a mining restart began. Sulliden immediately commenced work and, in May 2016, announced an updated open pit and underground indicated resource estimate of 44mm t containing 1.8mm ounces of gold grading 1.27 g/t and 117mm lbs of copper grading 0.12% (underground indicated resource of 1.4mm ounces of gold grading 1.48 g/t and 102mm lbs of copper grading 0.16%).

In December 2017, Pitchblack Resources amalgamated with the Sulliden Sub, a Sulliden Capital owned entity that owned the company's 60% option to purchase the past producing Troilus Mine, and 251 Ontario, a private company that owned the other 40% of the option, to form a wholly-owned Pitchblack entity that owned 100% of the mine purchase option. To acquire the 100% option, Pitchblack issued 100mm shares (60mm shares to the Sulliden Sub and 40mm shares to 251 Ontario). Pitchblack Resources changed its name to Troilus Gold and is now advancing the restart case.

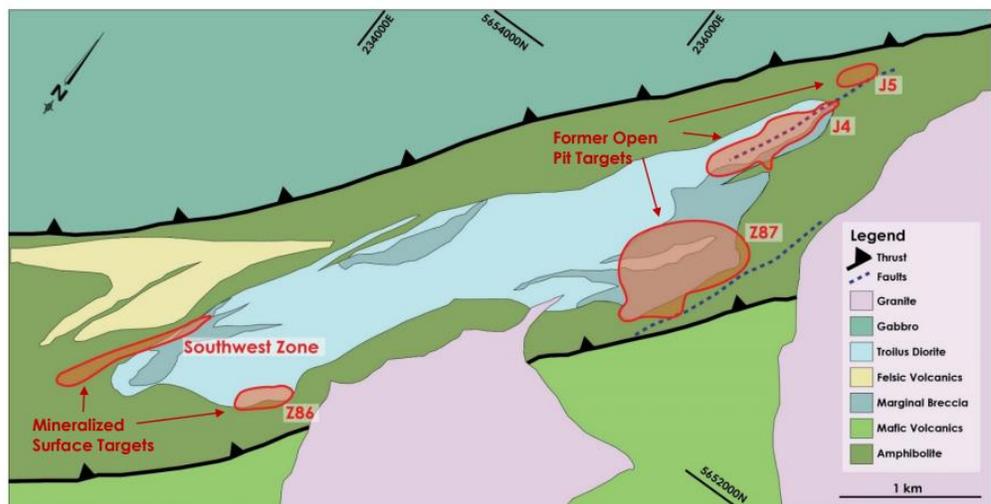
To exercise the ownership option under the Troilus Option Agreement, Troilus (and formerly Sulliden Sub) was required to make three cash payments of \$100,000 to First Quantum and spend a minimum of \$1,000,000 on engineering and technical studies to evaluate the economic viability of the project. This spending is complete and both parties are essentially finalizing paperwork. A 1.5%-2.5% NSR royalty is payable to First Quantum, depending on whether the gold price is below or above \$1,250/oz.

### Promising exploration targets

The company recently announced a 30,000 m drill program. The newly initiated program will focus on three primary areas:

**Z87:** The goal is to expand the defined underground mineral resource down dip and along strike, below the historically producing Z87 open pit. From 1996 to 2010, Z87 produced the majority of the over 2 million ounces of gold and 70,000 tonnes of copper at the Troilus Project. The Z87 pit was ultimately 350 metres deep and had a strike of approximately 900 metres. Z87 is the focus of the current underground estimated mineral resource representing over 1.6 million ounces of indicated and 360,000 ounces of inferred material.

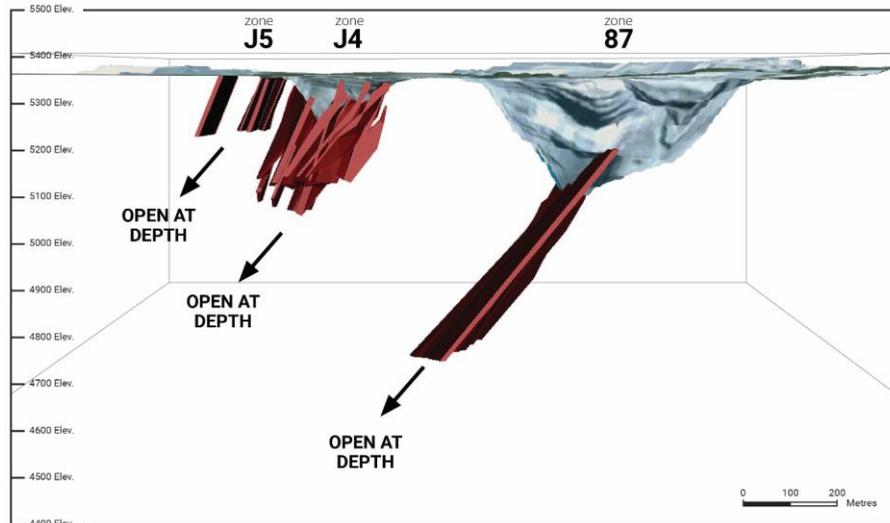
**Figure 2. Exploration targets**



Source: Company presentation

**J4 and J5:** The objective is to expand mineral resource below the historically producing J4 and J5 open pits to show potential near surface mineralization. Both targets remain open at depth and along strike.

**Figure 3. 3D section of Troilus Zones looking North**

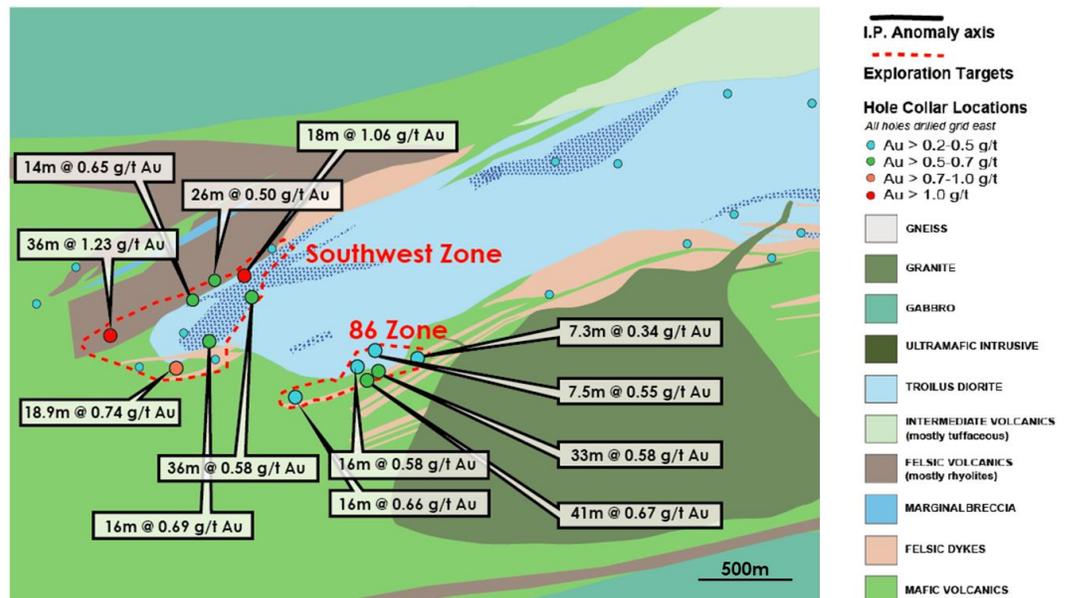


Source: Company presentation

**Southwest Zone:** Based on historical drilling results, this area has exhibited significant mineralization, including intercepts as high as 36m at 1.23 g/t Au and 18m at 1.06 g/t Au. Based on the historical drilling success, management plans to initiate near surface exploration approx. 3.5 km southwest of the Z87 open pit along the Troilus Diorite boundary.

Exploration priorities are near term infill and expansion of the underground area, exploring for additional open pit targets on the property, and property wide “regional” level exploration looking for a repeat of Troilus.

**Figure 4. Southwest and Z86 – historical results**



Source: Company presentation

### Reserves and resources

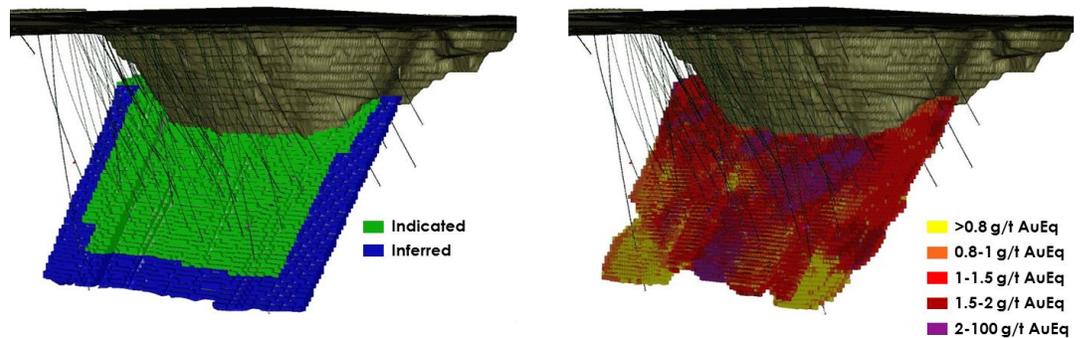
Figure 5. Troilus resource statement

Type	Category	Tonnage (M t)	Au (g/t)	Cu (%)	Au (k oz)	Cu (M lb)
Open Pit	Indicated	14.4	0.84	0.044	386	14.3
	Inferred	6.1	0.72	0.047	144	6.4
Underground	Indicated	29.6	1.48	0.157	1,403	102.2
	Inferred	12.6	1.18	0.102	478	28.4
Total	Indicated	44.0	1.27	0.120	1,789	116.5
	Inferred	18.7	1.03	0.084	622	34.8

a. Open pit resources were estimated using a cut-off grade of 0.3 g/t Au. Underground resources were estimated using a cut-off grade of 0.8 g/t Au. Mineral resources were estimated using long-term metal prices of \$1,500/oz Au and \$3.50/lb Cu, an exchange rate of US\$1.00 = C\$1.10, and recoveries of 83% for gold and 92% for copper.

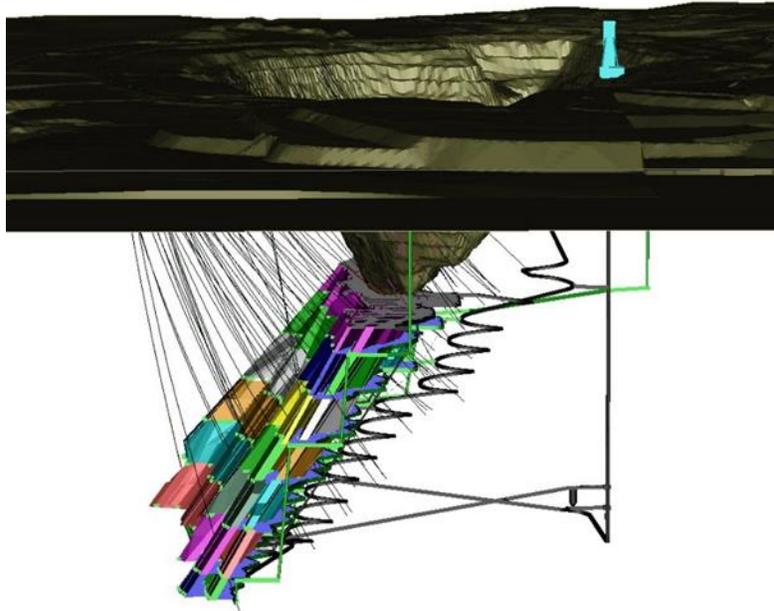
Source: Company presentation, GMP

Figure 6. Current mineral resource



Source: Company presentation

Figure 7. Conceptual underground mine development scenario



Source: Company presentation

### Our key model assumptions and operating scenario

Our key model assumptions include (all figures are in U.S. dollars unless stated otherwise):

- Long term gold price: \$1,350/oz
- Long term silver price: \$19.25/oz
- Long term copper price: \$3.10/lb
- Mine life of Troilus: 14 years
- 10,000 tpd milling operation
- 85% gold recovery and 90% copper recovery
- LOM production: 1.487mm oz of gold, 2.758mm oz of silver, and 148.8mm lbs of copper
- Average annual production (once ramped up): 108k oz of gold, 200k oz of silver, and 10.8mm lbs of copper
- Cash cost: \$703/oz of gold produced
- Initial capital: \$297mm
- Sustaining capital: \$42mm
- Canadian exchange rate 80 CDN cents to 1 USD
- Discount rate: 6%

We model a base case similar to that outlined by management. As highlighted in the November 2017 technical report, mineralization is continuous and remains open at depth. Prior work contemplated a 20k tonne a day operation feeding the existing mill at the time. This case led to concerns about ground conditions and the ultimate extraction rate. Now that the mill has been removed, a fresh look can be taken at the deposit. We have assumed a throughput of 10k tpd. Our base case results in lower capital requirements that we believe are more manageable and should reduce concerns about ground conditions and the underground mining rate.

In our model, we assume a gold recovery of 85%. Historically, the previous operators averaged 83% of recoveries from 1995-2010. We model copper recoveries of 90%—again in line with the previous recovery of 89%.

We apply a discount rate of 6% for valuation. The project is early stage, but as we have seen time and time again, many non-Canadian mining jurisdictions repeatedly have permitting and social risks, impacting both producers (such as Eldorado having issues in Greece, Tahoe having issues in Guatemala, and Torex having issues in Mexico) and early stage development companies within our precious metals coverage universe (the earlier attempt of Kinross to build Fruta Del Norte in Ecuador did not proceed and the company had to sell the asset to Lundin Gold which is working towards development; Ecuador is still not seen as an ideal mining jurisdiction).

### **Catalyst rich 2018**

- Drill results from both near mine exploration and infill work
- Regional exploration beyond the original Troilus footprint
- Updated resource
- Preliminary economic assessment

### **Investment thesis, target price and recommendation**

Troilus is likely to be rapidly advanced. Starting with 2.64MM oz across all categories, the company has a great head start towards making a restart decision. An enviable stable jurisdiction has only become more important in recent months as others in the precious metals arena struggle to even gain access to their assets.

Our valuation only contemplates the existing resources base. Any additions through exploration are upside. Our NAV6% is US\$3.35/sh. Using a 1.0X NAV multiple and a 0.80CAD:USD exchange rate, we are initiating with a C\$4.00/sh target price and a BUY recommendation.

## **Key members of the management team**

**Justin Reid, M.Sc., MBA**  
**Chief Executive Officer, Director**

Mr. Reid is a geologist and capital markets executive with over 20 years of experience focused exclusively in the mineral resource space. Mr. Reid started his career as a geologist with Saskatchewan Geological Survey and Cominco Global Exploration after which he became a partner and senior mining analyst at Sprott/Cormark Securities in Toronto. He was then named Executive General Manager at Paladin Energy, where he was responsible for leading all merger and acquisition, corporate and market related activities. He is the former Managing Director Global Mining Sales at National Bank Financial, where he directed the firm's sales and trading in the mining sector. Most recently, he acted as President and Director of Sulliden Gold Corporation, until its acquisition by Rio Alto Mining in 2014. Mr. Reid has been a managing Director at Agua Resources Ltd. since 2015. He holds a B.Sc from the University of Regina, a M.Sc from the University of Toronto and an MBA from the Kellogg School of Management at Northwestern University.

**Paul Pint, CPA, CA**  
**President**

Mr. Pint is a capital markets professional with over 25 years of experience. Mr. Pint began his capital markets career on the Institutional Equity team at CIBC World Markets, where he held various senior positions and was instrumental in building and developing their Private Placements and Small Cap Equity group. Over his career, he has held a number of senior positions at various financial institutions and boutique investment banks in Canada. Mr. Pint has been involved in over 500 financings for companies in North America and globally. Mr. Pint is the former President of Sulliden Mining Capital and has been Executive Chairman of Agua Resources since January 2016. Mr. Pint is a Chartered Professional Accountant and holds a Bachelor of Commerce degree from the University of Toronto.

**Michael Timmins**  
**Senior Vice President, Corporate Development**

Mr. Timmins is a mining executive with over 20 years of technical and corporate development experience. Most recently, he worked for Agnico Eagle as Vice-President, Corporate Development, where he led several key acquisitions totalling over C\$3.0B in value and key investments of approximately C\$300M into junior gold companies. Mr. Timmins formerly worked in various operational capacities in the Red Lake camp for Placer Dome. He is a graduate of Queens University (MBA), the University of British Columbia (M.Sc. Metallurgy), and Bishops University (B.Sc.).

## **Risks**

- Metal price volatility
- Failure to convert resources to economic reserves or find new resources
- Potential start-up and ramp up issues
- Political risk is low but is worth noting
- Permitting

## Troilus Gold Coporation (TLG CN)

**Stock Rating:** BUY  
**Target Price:** \$4.00  
**Share Price:** \$1.94  
**Implied Return:** 106.2%  
**Market Cap (C\$mm):** \$81

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Company Summary	Tonnes					
	Reserves / Resources (M)	Au (g/t)	Cu %	Au (k oz)	Cu (M lbs)	
Troilus is a newly crafted development stage gold company focused on restarting the Troilus Mine, which is located near Chibougamau Quebec. Troilus has a quality resource located in a top tier jurisdiction, seasoned management team, and tight capital structure.	Indicated Resources	44.0	1.27	0.120	1,789	116.5
	Inferred Resources	18.7	1.03	0.084	622	34.8
GMP Commodity Forecast						
	2018E	2019E	2020E	2021E	2022E	
Gold Price (US\$/oz)	1,350	1,350	1,350	1,350	1,350	
Silver Price (US\$/oz)	19.25	19.25	19.25	19.25	19.25	
Copper Price (US\$/lb)	3.25	3.25	3.10	3.10	3.10	

### Investment Thesis & Catalysts

**Right Address:** Quebec and Ontario remain locations of choice with political and jurisdictional risk being more and more a concern for investors

**Plan Nord:** Supportive government sponsored initiative to develop the northern Quebec

**Past production eases path for restart:** Troilus stopped producing in 2010 and is well positioned to restart operations while others struggle through the permitting process.

**Solid resource to build from:** 2.64 MM ounces out of the gate provides a great start

Financial Data	2018E	2019E	2020E	2021E	2022E
Cash	12.8	11.0	4.4	56.4	125.7
Debt	-	-	150.0	150.0	150.0
Total Debt / Total Assets	0%	0%	50%	44%	38%
EPS (Adjusted)	(0.05)	(0.03)	(0.07)	0.35	0.46
CFPS	(0.08)	(0.04)	(0.01)	0.76	0.95
P/E	nm	nm	nm	4.4x	3.3x
P/CF	nm	nm	nm	2.0x	1.6x
EV/EBITDA	nm	nm	nm	5.7x	4.5x

Income Statement (USD)	2018E	2019E	2020E	2021E	2022E
Revenue	-	-	-	182.2	242.9
EBITDA	(5.0)	(5.0)	(5.0)	90.9	114.5
EBIT	(5.0)	(5.0)	(5.0)	74.7	92.6
Net Income	(3.3)	(3.3)	(8.1)	38.8	50.5
EPS (Adjusted)	(0.05)	(0.03)	(0.07)	0.35	0.46
EBITDA/Share	(0.12)	(0.05)	(0.05)	0.99	1.25
Basic Shares Outstanding	41.5	91.5	91.5	91.5	91.5
Options & Warrants	18.1	18.1	18.1	18.1	18.1
Fully Diluted Shares Outstanding	59.6	109.6	109.6	109.6	109.6

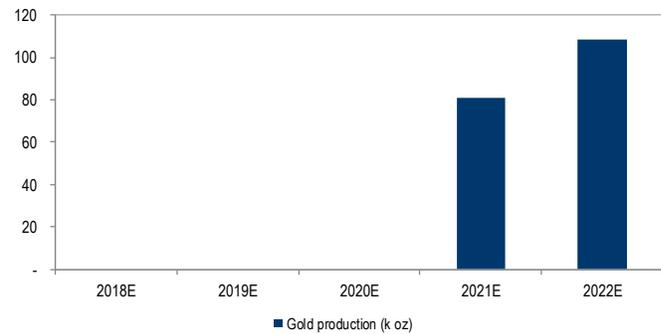
Cash Flow (USD)	2018E	2019E	2020E	2021E	2022E
Net Income	(3.3)	(3.3)	(8.1)	38.8	50.5
Depreciation	-	-	-	16.2	21.8
Other	-	-	7.5	15.0	15.0
Operating Cash Flow	(3.3)	(3.3)	(0.6)	70.0	87.3
Investing Cash Flow	-	(148.5)	(148.5)	(3.0)	(3.0)
Financing Cash Flow	-	150.0	142.5	(15.0)	(15.0)
Cash Increase/Decrease	(3.3)	(1.7)	(6.6)	52.0	69.3
Ending Cash	12.8	11.0	4.4	56.4	125.7
Free Cash Flow	(3.3)	(151.7)	(149.1)	67.0	84.3

### Company Management

G. Scott Moore Chairman & Director  
 Justin Reid Chief Executive Officer, Director  
 Paul Pint President  
 Denis C. Arsenault Chief Financial Officer; Senior Vice President

Source: Company Reports, GMP Securities, Bloomberg, FactSet

Production (Attributable)	2018E	2019E	2020E	2021E	2022E
<b>Troilus</b>					
Gold Production (k oz)	-	-	-	81.1	108.1
Silver Production (k oz)	-	-	-	150.3	200.4
Copper Production (k lbs)	-	-	-	8,114.4	10,819.1
<b>Total</b>					
Gold Production (k oz)	-	-	-	81.1	108.1
Silver Production (k oz)	-	-	-	150.3	200.4
Copper Production (k lbs)	-	-	-	8,114.4	10,819.1



NAV Valuation	Ownership	Discount	USD\$MM	USD\$/Sh
<b>Assets</b>				
Cash			16.0	0.15
Troilus	100%	6%	501.0	4.57
<b>Total Assets</b>			517.0	4.72
<b>Liabilities</b>				
Long-term Debt (fully-funded)			150.0	1.37
<b>Net Asset Value (USD\$)</b>			<b>367.0</b>	<b>3.35</b>
Exchange Rate CAD\$/US\$				0.80

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