

PRECIOUS METALS

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All figures in US\$, unless otherwise noted.

Companies Mentioned

	Rating	Target
Dundee Precious Metals	Buy	C\$5.00
First Quantum Minerals	Buy	C\$15.50
IAMGOLD	Buy	C\$10.00
INV Metals	NR	NR
Lundin Gold	Speculative Buy	C\$9.00
SolGold	NR	NR
Lumina Gold	NR	NR
Toachi Mining	NR	NR
Teck Resources	Buy	C\$34.00
Cornerstone	NR	NR



Ecuador: Positioned to Become One of the World's Hottest New Mining Regions in 2017

Event

Ecuador may become one of the world's most attractive new exploration regions in 2017–2018. We discuss a major new high-grade discovery underway that we believe will attract global attention. The government has improved its fiscal regime and is intent on attracting foreign mining investment. We discuss the risks and rewards, including the upcoming February 19 federal election, and then six promising companies, one of which we cover, Lundin Gold.

Key Observations

- **Ecuador — Hottest Region in 2017?** | The Cascabel discovery is shaping up as one of the world's best in years, attracting majors Newcrest and BHP and highlighting the uncharacteristically high grades that Ecuador's deposits seem to be blessed with. Lundin Gold has committed to build the \$0.7B FDN project — a key vote of confidence, and another world-class discovery. Most importantly, Ecuador has greatly improved its tax regime since 2014.
- **A Discovery that Will Draw the World's Attention** | SolGold has discovered and owns 85% of what our Base Metals team feels it is one of the best copper-gold discoveries in years, Cascabel. Our arm's-wave resource potential is 500MT, so far, grading 1% CuEq; large, high-grade; and just one of 14 porphyry targets.
- **Cornerstone** | It owns the other 15% of Cascabel and is trading at about half of SolGold's valuation per percentage ownership — as close as one can get to a no-brainer takeover candidate. It also has a large land package in Ecuador.
- **Lundin Gold** | In Dec. 2016, LUG committed to build the \$0.7B FDN project, raising total investment to \$1.1B — Ecuador's largest foreign investment in years and a strong vote of confidence in the country. LUG is optimizing its July 2016 feasibility, with full-scale construction to begin in mid-2017 and first production in early 2020, subject to financing. We reiterate our Speculative Buy rating and a C\$9.00/sh target price.
- **INV Metals** | INV published a PFS for its 2.6Moz indicated resource Loma Larga project in August 2016, demonstrating dual concentrate solution pre-feasibility to the refractory mineralization was both economically attractive and an environmental plus.
- **Toachi** | It recently acquired an underexplored property in mid-2016 hosting a high-grade, gold-rich VMS deposit. It has identified 14 targets that it is currently exploring and will continue to drill through 2017 with a highly experienced team.
- **Lumina Gold** | An explorer-developer formed in November 2016 after Odin Mining acquired Ecuador Gold and Copper. Management hopes to use the same formula that made Lumina Copper a \$470M takeover candidate.

Conclusion

The mining world will be watching Ecuador's February and April federal elections. If another pro-mining government is elected, we believe this underexplored country has the makings of a major new mining district and a win-win for citizens and investors.

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Figure 1: Map of Ecuador and Projects



Source: Ezilon Maps

Investment Thesis

We believe three catalysts will draw the world's attention to Ecuador's exploration potential for minerals in 2017–2018.

1. A major copper-gold discovery has been made by SolGold. Six of the 17 drill holes by SolGold rank among the best for porphyry discoveries in history.
2. Since 2014, Ecuador has taken several steps to improve its fiscal regime for mineral properties, reducing the tax burden, from the highest among its major Latin American peers, to near the average. It will also allow fiscal stability agreements. In recent memory, the economy had been quite dependent upon its oil and gas reserves, falling prices for which caused budget and economic pressure. Ecuador has long been recognized as having the potential for large, unusually high-grade metal deposits, but unstable and adverse politics had severely limited modern exploration, particularly post-2008. In 2014–2015, the current president and administration outlined a strategy to make mining an economic pillar, helping to add growth and diversification. Since then, the Government of Ecuador (GoE) has "walked the walk", creating a Ministry of Mines, delivering improvement in its taxation, encouraging mining and exploration projects to move forward.
3. Since late 2014, Lundin Gold has invested \$0.4B to acquire the moribund Fruta del Norte (FDN) deposit from Kinross (K-T, Under Review) — one of the last cycle's best discoveries — and advance it through feasibility (July 2016), permitting (October 2016), the signing of a fiscal stability agreement and a commitment to proceed with constructing the \$0.7B project (both in December 2016). This is a critical endorsement and vote of confidence in Ecuador.

While there remains uncertainty and risk, the most imminent being the election of a new president — the first voting round for which is February 19 — we believe that future administrations will recognize and embrace the economic potential that exists in Ecuador's mineral industry. Motivated by the outstanding discoveries of FDN and Cascabel, we believe the world's mining industry will be drawn to Ecuador in 2017–2018, making it one of the hottest new exploration regions in Latin America and possibly the world.

In this report, we outline six early movers in the country, well positioned to advance their projects and add promising new properties as the federal government begins to issue new exploration concessions:

- **SolGold:** Discoverer and 85% owner of Cascabel.
- **Cornerstone Capital Resource:** 15% partner in the Cascabel project and a project generator in Ecuador.
- **Lundin Gold:** Developer of FDN and Ecuador's largest foreign investor in a decade.
- **INV Metals:** Owner of the 2.6Moz Loma Larga project which stacks up well in our *Takeover Twenty* list of Development-stage projects.
- **Toachi Mining:** Moving the small but high-grade La Plata Gold-VMS project forward.
- **Lumina Gold:** An explorer with two mid-sized gold-copper projects and a pedigree of creating value.

Ecuador — Emerging as One of the World's Best Exploration Regions

What a Great New Discovery Can Do

We believe that Ecuador will emerge as the hottest exploration region in Latin America in 2017–2018, possibly the world. If our assessment of a major new discovery is correct, global mining companies will be drawn to Ecuador like a magnet, just as has happened with major discoveries in the past. We have been fortunate to spot other great discoveries early on, ranging from the early days of West African Gold, the re-emergence of the African Copper Belt, the early days of the Canadian Diamond rush and a few in Argentina. Major discoveries are powerful events, the impact spilling over entire regions or countries. The impact of Cascabel's discovery will be accentuated by the world's vacuum of new discoveries, heightened by Ecuador's uniquely underexplored state, its potential for unusually high grades, the excellent infrastructure, the access to water and low-cost power.

Recognizing an Inflection Point

When the market becomes swept up in a new discovery it has been our experience that it often spawns a land play in the region bringing a positive perspective to companies that are operating there, especially those that are well placed. We believe the six companies discussed in this report are advantageously positioned. Today's market is mostly thinking about the risk and trauma of losses during the dark days of 2008–2014. While completely understandable, the first principle of investing is to recognize change — an inflection point — and how this can alter the value of an investment.

Three Powerful Catalysts in 2017

1. **The New Discovery** | Of the 18 drill holes completed and assayed to date in SolGold's Cascabel copper-gold discovery, six stand among the 30 best drill holes ever drilled in porphyry deposits around the world. Note in Figure 5 (SolGold section) how the holes are not only outstanding in intersection length, but also copper and gold grades. Ecuador is underexplored compared to most parts of Latin America; it also appears to have been blessed with relatively high-grade mineralization. Considering how little exploration occurred after the 2008 government-imposed hiatus and tax changes of 2010, Cascabel's discovery occurred notably quickly after the 7.4Moz Fruta del Norte (FDN) deposit, found in another of Ecuador's four mineral belts in 2006. The GoE only began issuing new exploration contracts on federal land in a serious way in 2016, using a new more open and comprehensive granting system.
2. **Lundin Gold Endorsement — A Vote of Confidence** | In December 2016, Lundin Gold signed an Investment Protection Agreement with the GoE, committing to build the \$0.7B FDN project and bring its total investment to \$1.1B, a strong endorsement of Ecuador. Over the 25 years we have known Chairman Lukas Lundin and his management teams, they have demonstrated rare acumen in identifying extraordinary deposits in risky regions. For example, we were the first to initiate coverage of Tenke Mining in February 2005 (market cap C\$0.23B), owner of the Tenke Fungarume copper-cobalt deposit in the Democratic Republic of the Congo (DRC) and a predecessor company to Lundin Mining (LUN). On Nov. 15, 2016, LUN announced the sale of its 30% interest in the deposit for \$1.1B in cash, by which time its market cap was \$5.6B. We also note that two of the world's largest mining companies have actively pursued the Cascabel discovery, with Newcrest (NCM-ASX, NR) being the first mover, taking a 10% interest in SolGold, while BHP's acquisition offer of \$30M for 10% was rejected.
3. **Ecuador's Improved Tax Legislation** | The GoE and its tax regime have come a long way toward making foreign mining investment attractive. It remains a work in process with further improvements required, particularly for large-scale base metal deposits. Elimination of the Windfall Profits Tax would remove the largest single deterrent, in our opinion. Wood Mackenzie, an independent consultancy, has been advising the GoE for the past three years in the country's efforts to make its mining taxation more competitive with that of other countries, particularly in Latin America. While the government's share of the pie, which we estimate is typically half of net cash flows, is still high compared to other regions, it is now workable for strong projects.

Ecuador — Much Improved But Risks Remain

Much has improved with Ecuador's new tax legislation, but certain images remain indelibly etched into investors' memories about the country, especially Kinross' struggle to achieve reasonable terms for the FDN project. We vividly recall that experience and discuss it below. Yet, one of the first principles of investing is to recognize when circumstances have changed. Our own math shows that Lundin's FDN investment will only achieve an IRR of 15% at a gold price of \$1250/oz, somewhat low for a development project in a risky setting. The most critical change to Ecuador's taxation is that if gold prices move upward, the company's IRR will too. We estimate its share of the project net cash flows will remain about half, smaller than in most parts of the world, but manageable for strong gold projects like FDN.

The Turning Point | In 2014, the price of oil began dropping sharply; oil had accounted for ~16% of the country's GDP in 2013. This prompted the federal government, still led by President Correa, to rethink its mineral tax legislation, knowing that the country had an unusually rich mineral endowment, yet had near-zero foreign investment in mines since 2010. Wood Mackenzie was hired in 2013 to advise, and in 2014 a Ministry of Mines was created, reporting to the powerful Co-ordinating Ministry of Strategic Sectors (which reports to the President).

Improving Tax Levels and Predictability | Ecuador has six main tax layers: a 3–8% NSR royalty; a 12% VAT; a profit-sharing tax of 15% of taxable income; a 22% income tax rate from which the profit sharing tax is deductible; a Sovereign Adjustment Tax and a Windfall Profits Tax. The cumulative burden of these taxes was substantially more than for mining companies in other major Latin American countries. Wood Mackenzie estimated that for a typical large-scale copper mine the cumulative burden in Ecuador was equivalent to 35% of revenue, compared to 31% in Peru, 28% in Columbia, 25% in Mexico and Brazil, and 21% in Chile. Wood Mackenzie proposed a number of fiscal and financial reforms, 11 of which have been approved, significantly improving project economics and certainty. Ecuador's overall burden remains higher than average, but is not far above. We can point to four major changes that have substantially lowered both the tax burden and the risk: modifications to the way in which the Sovereign Adjustment Tax and Windfall Profits Tax are calculated; refund of the VAT on capex and opex for mineral exports after 2018; and the willingness to sign Investment Protection agreements providing legal and tax stability. We discuss the first two below. Readers can find more detail about the changes and current structure of Ecuador's taxes in the presentation made at our Ecuador Conference in November 2016, by Ricardo Monte Alto, Wood Mackenzie's Head of Metals and Mining Consulting Americas, available on our website (look under Ecuador Conference).

Sovereign Adjustment Tax (SA) — Time Value of Money Now Considered | The Ecuadorian constitution requires that the government receive at least 50% of the benefits from non-renewable resource projects. Under the new formula, SA is only payable if/when the present value of cumulative company benefits exceeds present value of cumulative government benefits. The new formula recognizes the present value of a company's investment from the outset through construction and production, applying a cost of capital in the 8–9% range typically (real rate based on an assumption of 50% debt). Given the capital intensity of mining projects, the SAT is unlikely to be required. It did not arise in our valuations for Lundin's FDN and INV's Loma Larga projects. Allowing the recovery of the investment plus the cost of capital provides reasonable assurance of an IRR in the mid-teens or higher for projects at today's spot prices.

Windfall Profits Tax Before | When Kinross announced the outcome of its negotiations with the GoE in 2011, our model clearly indicated that, in the event of rising gold prices and costs, Kinross' IRR could not exceed 20% and would potentially be negative if cost inflation exceeded the U.S. CPI by much. Global gold production cost inflation had averaged 16% in 2003–2012. In some circumstances, Kinross might potentially have to pay the government more than its operating cash flow. This was primarily the result of the Windfall Profits Tax, which captured 70% of revenue above a set gold price, assumed to be \$1,650/oz. Our Jan. 18, 2012 Kinross research note, *Ecuador Taxes — A Major Rethink Required*, concluded that a "better deal must be struck with Ecuador — much better". Unfortunately for Kinross, this was not possible; the GoE had to learn the hard way, experiencing the fallout, taking Kinross and FDN with it.

Windfall Profits Tax Now — Much Improved | The new formula, approved in December 2016 by the Ecuadorian National Assembly, is quite different, in two ways. The tax will not apply until four years after the recovery of the cumulative investment, and the floor price above which the tax kicks in is calculated by adding one standard deviation to the 10-year rolling average. Today, it would be about \$1,510/oz. This allows the floor price to rise (and fall) with the gold price and to reflect some degree of the volatility. U.S. CPI remains the cost inflator. While the proposed changes are a substantial improvement, the existence of the Windfall Profits Tax is a decided weakness. It should be eliminated or neutralized. We can see a few unintended consequences of this tax for Ecuador. First, mining investment occurs in cycles with most investments occurring during the peak of the cycle. Yet, this is exactly when the Windfall Profits Tax would be most likely to occur, deterring companies from committing to build in Ecuador. Second, if the tax actually kicks in, it will force gold mines to only extract the highest grades of the deposits, shortening their productive lives.

Risks and the Upcoming February 19 Presidential Election | While the GoE has made significant improvements in its taxation laws, some material risks remain. An upcoming Presidential election could bring in a regime that is not as mining friendly. The first round of voting will occur on Feb. 19, but if the winner does not emerge with 40% of the vote and a 10% margin over the runner-up there will be a second round of voting on April 2. At this late stage, the undecided vote remains notably high — 39% we understand. Our analysis of the leading parties found them all in favour of mining as an important future part of Ecuador's economy, but the world has witnessed unanticipated election results in Britain and the U.S. We all know that the will of politicians is weak, especially leading up to an election, and the influence of the anti-mining lobby is not to be underestimated. The leading party coming into the first stage of the election, the Alianza PAIS, is currently the party in power and the strongest proponents of mining as a future economic pillar. We have chosen to publish this report despite the uncertainty because we firmly believe that Ecuador's mineral wealth potential is exceptional and offers the country an extraordinary opportunity to strengthen and diversify the economy, making a better life for its citizens, much as it did for Chile and Peru. The country's taxation and development laws are now much improved and, while still relatively onerous compared to other mining regions of the world, they allow foreign investors adequate rates of returns and a fair share of the upside. The world will be watching.

The Anti-Mining Movement | Ecuador has a limited modern history with mining and has an active anti-mining movement. Long-term impact on water sources appears to be the most emotive subject, as we have seen in Peru and Chile. Mineral development is the exclusive responsibility of the federal government, but experience and common sense dictate that gaining local and state support is very important. To do so, the mining industry will need to openly engage the local communities beginning with the exploration stage, demonstrate good intentions and apply world-standard-best-practices when it comes to actual mining. The lead up to any federal election generates a lot of noise and emotion. The anti-mining movement appears to have a few projects in its sights already owing to their proximity to the city of Cuenca — the Rio Blanco project and INV's Loma Larga project. The federal government has been quite supportive of these projects. How it handles these and other anti-mining challenges that will invariably crop up in the coming few months will be an important litmus test of its desire and ability to make mining an economic platform for the country.

Six Leading Exploration-Development Companies in Ecuador

This report discusses six of the most active and promising mining companies in Ecuador's nascent recovery. In our opinion, the positive outlook would not have been possible without the pioneering efforts of Lundin Gold to actively engage, support and guide the government in its efforts to improve the prospect for foreign investment in its mining industry. While the welcome mat is out for responsible foreign mining investment, there are still parts of existing legislation that need to be defined, especially the royalty rates for non-gold projects, or eliminated — in particular the Windfall Profits Tax. These changes will be necessary for Ecuador to translate what is shaping up to be an exploration boom over the next few years into mine construction investment. Exploration captures headlines, but it is development that will bring about the real economic benefits of Ecuador's remarkable mineral endowment. Each company has its own unique attractive investment features (summarized below):

- **SolGold** | Discovered and owns 85% of the Cascabel discovery. Our senior Base Metal Analyst, David Davidson, believes it is shaping up to be one of the best discoveries in years, based on his property visit. Six or seven of the 18 holes on the property rank in the best 30 drill holes ever recorded for copper-gold porphyries. Our arm's-wave resource estimate is 500MT grading ~1% copper equivalent (CuEq), so far, but SolGold has only tested one of 14 porphyry targets identified — and not the largest.
- **Cornerstone** | Is the closest to a no-brainer takeover candidate that we have seen in some time. A project generator with a large land package in Ecuador, it also has a 15% carried interest in the Cascabel discovery, through to and including the feasibility study. It is trading at less than half SolGold's valuation per percentage ownership. Large operators rarely want a junior partner.
- **INV Metals** | INV was an early mover in Ecuador, acquiring IAMGOLD's (IMG-T, C\$10.00 TP, Buy) 2.6Moz Quimsacocha property in 2012 for \$22M worth of equity. Following some critical metallurgical improvements, an updated Pre-feasibility Study (PFS) was released in August 2016 showing a robust 26% IRR at \$1,250/oz. The shares are trading at 0.21x NAV and \$20/oz compared to averages of 0.56x and \$91/oz, respectively, for the *Takeover Twenty*. INV plans to initiate a feasibility study in 2017, to be completed by Q2/18.
- **Lundin Gold** | Acquired FDN for a quarter of the investment cost of the seller, Kinross, in late 2014, a time when Ecuador was uninvestible. Since then, the GoE has made considerable improvement in the degree and certainty of its tax rules. FDN is robust and Lundin Gold (LUG) stacks up well against other development-stage companies, as we will show. It is totally focused on optimizing the July 2016 FS, financing the \$0.7B project, then building FDN. For Lundin Gold, FDN is the first building block. We expect it to emulate Lundin Mining, acquiring, constructing and growing in the years to come.
- **Toachi** | This highly experienced team is working toward an updated resource, metallurgical studies and a Preliminary Economic Assessment (PEA) at the La Plata high-grade gold-VMS project in north-central Ecuador. The company has 14 targets on the underexplored property and is in the process of completing a 4,000m drill program (with potential to increase) that has produced impressive, high-grade results so far.
- **Lumina Gold** | In November 2016, Odin Mining and Exploration acquired Ecuador Gold and Copper, creating Lumina Gold (LUM-V, NR). A maiden inferred resource was announced in January for its 100%-owned flagship Cangrejos copper-gold porphyry project of 192MT of 0.81 gpT gold equivalent (AuEq). LUM also owns 90% of the Condor project with an 8Moz indicated resource grading 0.55 gpT, as well as a 131,000-ha package of Ecuadorian exploration properties. Well-known investor Ross Beatty owns 25%. LUM's strategy is to replicate the success of its sibling project generator, Lumina Copper, which sold for \$0.47B in 2014.

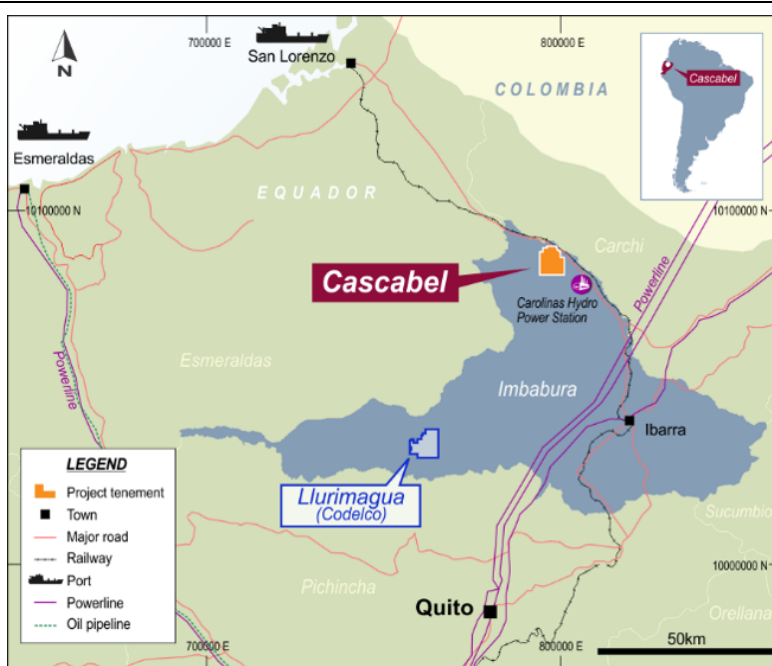
SolGold PLC

Description & Background

SolGold is a Brisbane-based exploration company that carries a diverse portfolio of exploration projects in Ecuador, Solomon Islands and Australia. SolGold has been focused on exploring the riches of the Andean Copper Belt in Northern Ecuador since 2012.

SolGold's principal project consists of a large land package located in northern Ecuador, ~200 km north of the capital Quito. Access to the project is excellent as the operation base is only a few kilometres off the main highway connecting Quito and the port city of San Lorenzo (Figure 2). Infrastructure in the area is excellent with the aforementioned highway, a deep water port at Esmeraldas some 220 km to the west, national power grid and plentiful water supply.

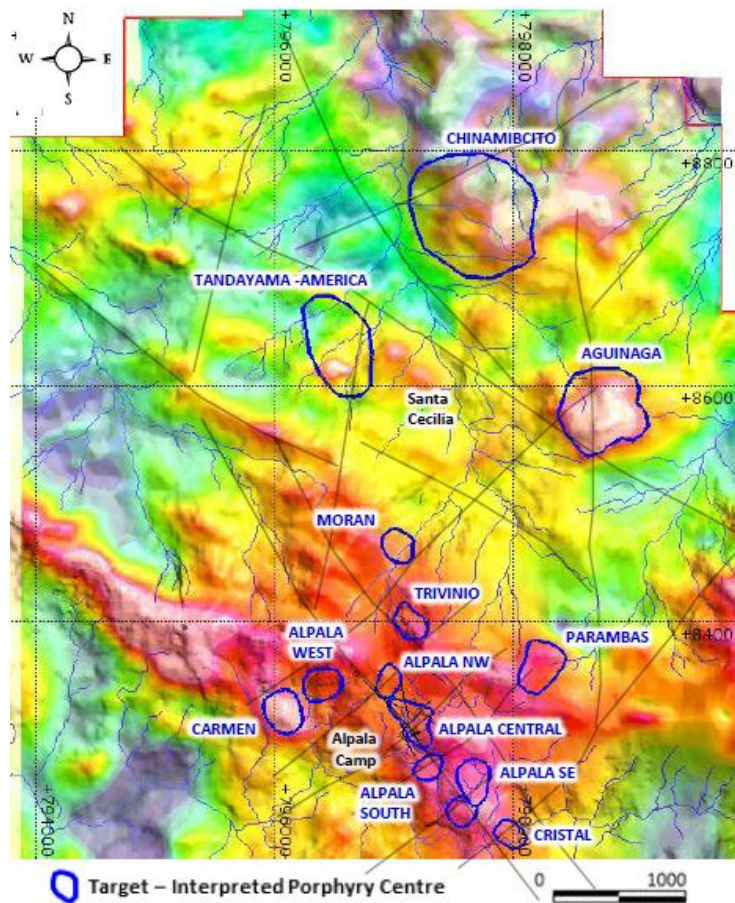
Figure 2: Location Map — Cascabel



Source: Company filings

SolGold acquired its 85% earn-in interest in the project in 2014 from Cornerstone Capital Resources Inc., a project generator that has been working in Ecuador since 2005. Cornerstone's 15% interest is free carried to the bankable feasibility stage, after which spending will be pro-rata.

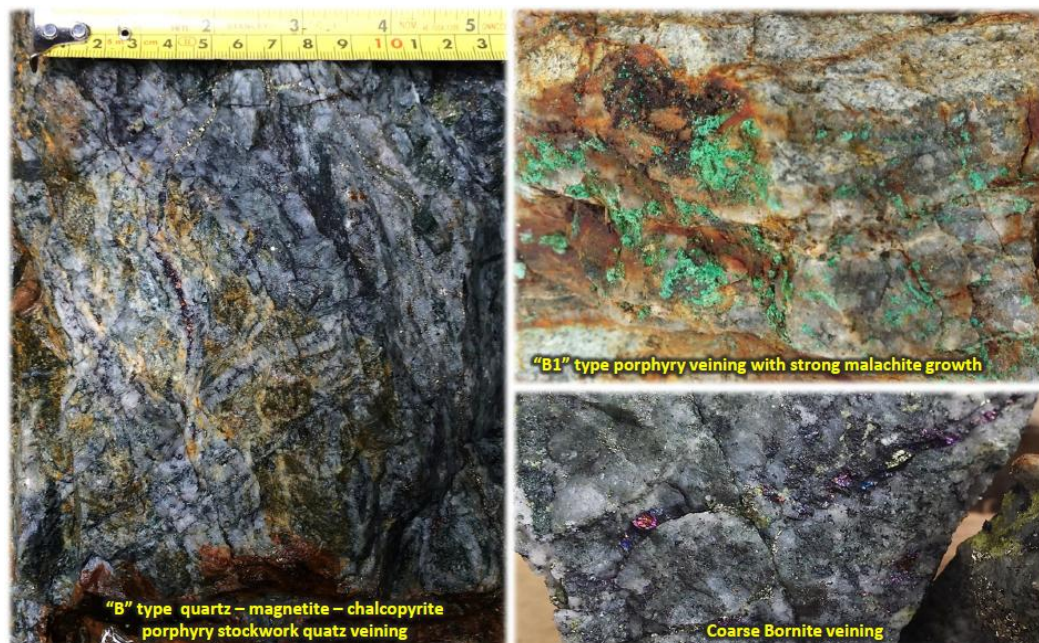
Cascabel has all the earmarks of a copper-gold porphyry complex associated with Miocene quartz diorite intrusive into a suite of Tertiary andesites and sediments. Exploration to date has been focused on the Alpala porphyry which displays an intense argillic alteration, very typical of a major mineralized porphyry system. Alpala has a distinctive magnetic signature (a magnetic high) that correlates to the quartz-magnetite veining, which is often associated with the sulfide mineralization of the deposit. Soil geochemistry and induced polarization also flagged Alpala as a high-priority target. Alpala is one of a potential 14 targets that have similar geophysical and geochemical signatures in the 50-sq-km mineral concession (Figure 3). Alpala was chosen not as the highest priority but the target that had the most favourable access. In fact, one of the most impressive targets, Aguinaga, has all the signatures of a textbook porphyry system. Geological mapping and trenching have confirmed high-grade quartz-magnetite-chalcopyrite porphyry stockwork veining similar to that intersected in drilling at Alpala. Mineralization is associated with several generations of stockwork veining illustrative of several pulses of mineralizing fluids within the system. The higher grades are either associated with the quartz-magnetite-chalcopyrite "B" veins or the "C" veins that are characterized by a pyrite-chalcopyrite-bornite mineral assemblage and are thought to be a later, higher-temperature phase (Figure 4).

Figure 3: Cascabel Regional Targets


Source: Company filings

Drilling has been focused on Alpala Central and 18 drill holes, totaling 23,700m, have been completed to date. Despite the limited drill campaign, 13 of the holes have intersected economic mineralization over core lengths up to 1,300m. Six of these drill holes are considered world-class (Figure 5), with the best being CSD-14-009 which intersected 1,327m grading 0.57% copper and 0.74 gpT gold (1.23% CuEq). Drilling resumed in late 2016 and there are currently three rigs on the property. Recently completed CSD-16-018, announced on February 2, was drilled oblique to the core of the mineralization toward the southeast and intersected 664m of 0.7% copper and 0.77 gpT gold starting at 904m depth. Additionally, Hole CSD-16-019 targeted Alpala Central to the southwest at depth and terminated at 1,633m — assays are pending, but visible, significant copper mineralization was intersected over an 800m length starting at 326m. Hole CSD-16-020R is targeting deep extensions of the deposit, up to 1,000m below the previously defined vertical extent of mineralization and will act as the parent hole for future directional drilling.

Figure 4: Photos of B & C Veins



Source: Company filings

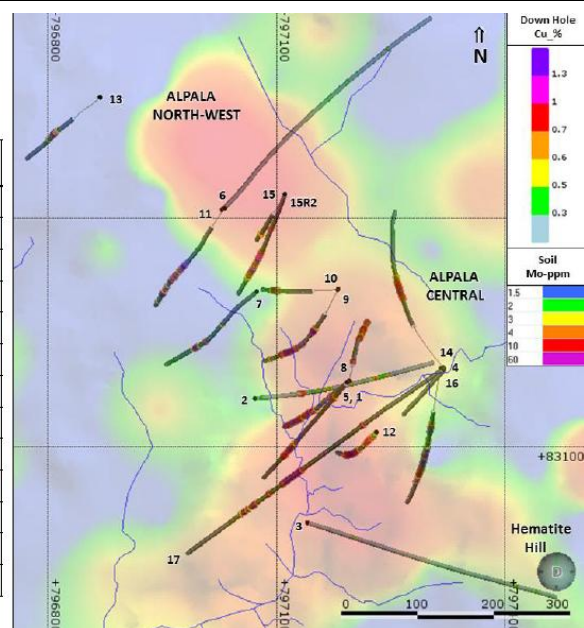
Figure 5: SolGold's World Class Drill Intercepts

• 23,700m from 17 drill holes

World Class Drilling Intersections
- 6 holes > 1000m% Cu.Eq


Hole ID	Interval m	Cu %	Au g/t	Cu.Eq %	m% Cu.Eq
CSD-13-001	302	0.39	0.48	0.82	246.79
CSD-13-005	1306	0.62	0.54	1.10	1437.38
CSD-14-007	958	0.40	0.17	0.55	528.15
CSD-14-008	448.45	0.56	0.64	1.13	506.57
CSD-14-009	1327.4	0.57	0.74	1.23	1630.78
CSD-15-010	394	0.38	0.36	0.70	275.96
CSD-15-011	636	0.58	0.40	0.94	595.30
CSD-15-012	1312	0.67	0.63	1.23	1614.68
CSD-15-013	376	0.52	0.25	0.74	279.18
CSD-15-014	768	0.50	0.45	0.90	691.58
CSD-16-015R2	1338	0.49	0.36	0.81	1084.32
CSD-16-016	1145.6	0.63	0.78	1.32	1517.00
CSD-16-017	948	0.60	0.53	1.07	1014.36

**Data aggregation methods uses Cu US\$2.2/lb, Au US\$1350/Oz



Source: Company filings

Figure 6: Corporate Summary — SolGold PLC


PARADIGM
CAPITAL

SolGold PLC

GB£ 0.42

Rating	n/a
Target (C\$)	n/a
Potential ROR	n/a

Ticker	SOLG-AIM
Shares O/S, Basic (m)	1431.2
Shares O/S, Diluted (m)	1478.0
Mkt Cap, Basic (GB£)	£ 601.1
Avg. Daily Vol (London, 000s)	3,458

*all figures in C\$, unless stated otherwise

Company Contacts

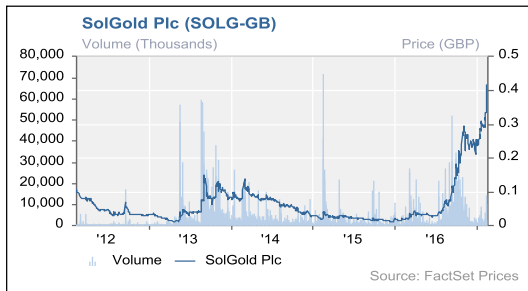
Management

Nicholas Mather	CEO
Jason Ward	Exploration Manager
Dr. Steve Garwin	Chief Technical Advisor
Priy Jayasuriya	CFO

Board of Directors

Nicholas Mather	CEO & Director
Brian Moller	Director
John Bovard	Director
Dr. Robert Weinberg	Director
Scott Caldwell	Director

Share Price Performance



Source: FactSet Prices

Summary of Financial Position (A\$m)

Assets	
Cash	\$0.1
Amounts receivable	\$0.2
Prepays and deposits	\$0.0
Subtotal: Current Assets	\$0.3
Mineral exploration and evaluation assets	\$41.1
Loans receivable and other non-current assets	\$0.1
Investments in available-for-sale securities	\$1.6
Property, plant, and equipment	\$0.4
Subtotal: Non-Current Assets	\$43.2
Total Assets	\$43.5

Primary Property/Project

Name:	Cascabel
Ownership:	85%
Stage:	Advanced Exploration
Location:	Ecuador
Geology:	Porphyry Cu/Au
Royalties:	
Other:	

Current Liabilities (000s)

Trade payables	\$3.7
Borrowings	\$4.8
Total Liabilities	\$8.5

Net Assets (000s) \$35.0

Equity (000s)

Equity attributable to owners	\$35.0
Total Equity	\$35.0

Other Significant Properties

Name:	Mount Perry
Ownership:	100%
Stage:	No presently planned exploration
Location:	Queensland, Australia
Geology:	Lode Gold and Porphyry Gold
Royalties:	n/a
Other :	

Name:	Kuma Project
Ownership:	100%
Stage:	No presently planned exploration
Location:	Soloman Islands
Geology:	Porphyry Cu/Au
Royalties:	n/a
Other :	

** Taken from June 30 2016 Year End Financials

Capital Structure	Price	Basic (m)	In-the-Money	Proceeds (£)
Shares Outstanding		1431.2		
Options	<£0.42	£ 0.14	12.9	12.9 £ 1.80
		£ 0.28	34.0	34.0 £ 9.51
Total		46.9	46.9	£ 11.32
Warrants				
	\$0.00/sh	0.0	0.0	£ -
	\$0.00/sh	0.0	0.0	£ -
Total Warrants		0.0	0.0	£ -
Diluted In-the-Money Shares		1478.0		£ 11.32
Fully Diluted Shares		1478.0		£ 11.32

Resources	Tonnage (Mt)	Au (gpt)	Gold (Koz)
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Cascabel

No current resource estimate

Ownership	Shares (m)	%	Last Financing
DGR Global	207.5	14.5%	Date Aug 2016
Tenstar Trading	145.0	10.1%	Type PP
Newcrest International	143.1	10.0%	Units (Share 269M
Guyana Goldfields	103.2	7.2%	Price (£) 0.01
Nicholas Mather	89.3	6.2%	Gross Proceeds (£m) £ 16.1

Source: Company filings

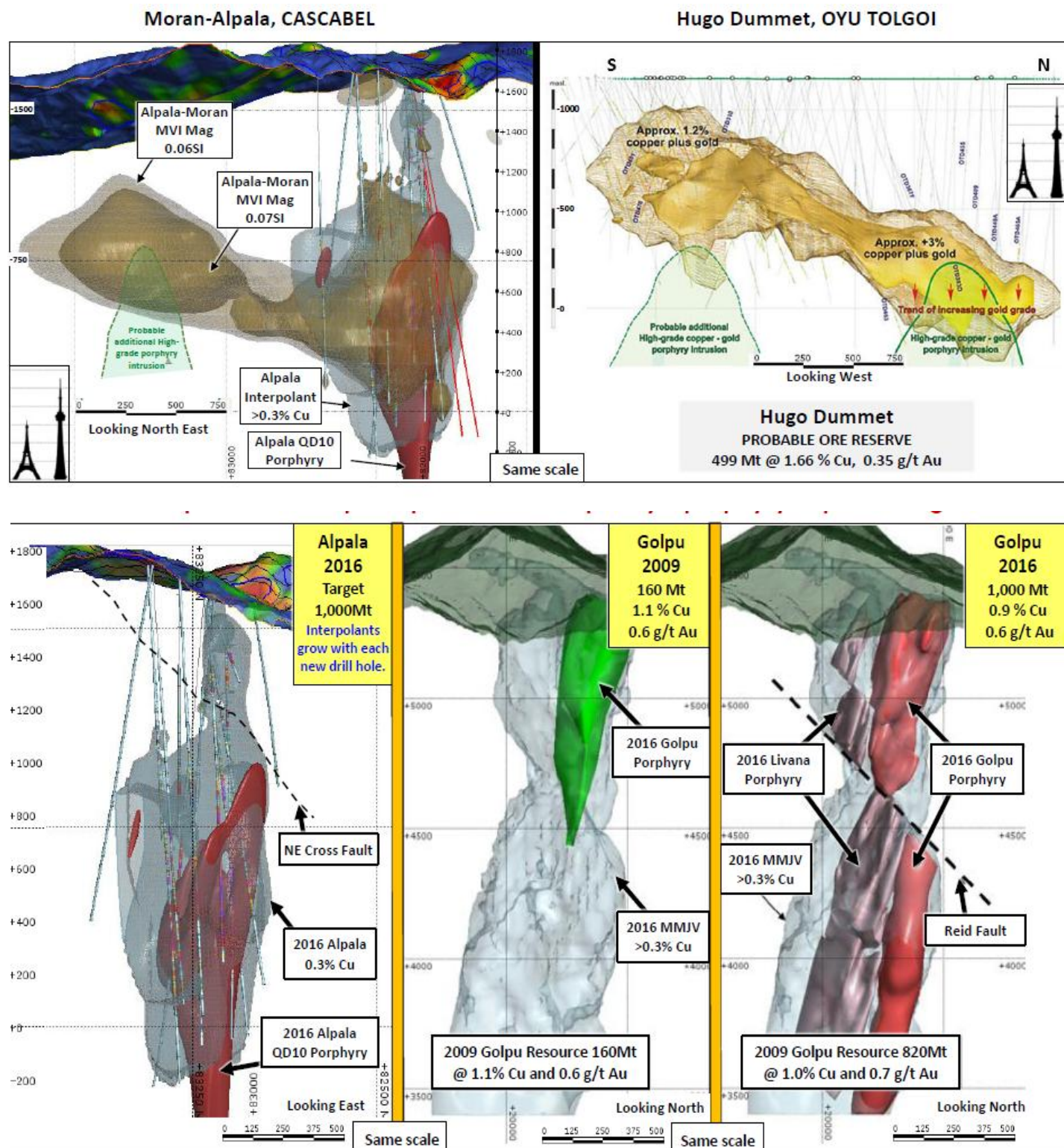
Investment Thesis

We believe that Cascabel is one of the most exciting exploration projects and has all of the key attributes to evolve into a giant porphyry copper-gold deposit for several key reasons: 1) its location on the gold-rich northern section of the prolific Andean Copper belt — renowned as the production base for nearly half of the world's copper; 2) the project area hosts mineralization of Eocene age, the same age as numerous Tier 1 deposits along the Andean Copper Belt in Chile and Peru to the south; and 3) given that the deposit remains open and there are at least 14 additional targets to be tested.

Analysis

- **Size Potential** | Early indications are that this property has the potential to be a large copper-gold camp with geophysical modeling revealing similarities along the Alpala-Moran trend with the giant Hugo Dummet orebody at Oyu Tolgoi in Mongolia (Figure 7), while the Alpala deposit by itself, has near identical geology, mineralization style and geometry to Newcrest's Golpu deposit in Papua New Guinea.
- **Major Backing** | It has had the stamp of approval from two producers, Newcrest and Guyana Goldfields. In September 2016, Newcrest purchased 10% of the shares outstanding through a \$33M offering. Guyana participated in the \$21.5M financing that occurred in August 2016, acquiring 6.65% of the shares outstanding. Scott Caldwell, Guyana's CEO, was also added to SolGold's board of directors.
- **Valuation** | While it will take at least another drill campaign before the company is in the position to calculate a maiden NI 43-101 resource, it is quite evident with the drilling completed to date that Alpala Central is approaching 500Mt grading ~1% CuEq or 24Moz AuEq. And that is just one of the potential 14 target areas. Of all the companies included in this report, SolGold has the largest market capitalization at £600M (\$750M). We believe it is deserving of a top-of-class multiple as Cascabel appears to be unfolding as a world-class discovery. No resource calculation has been completed at Cascabel; however, based on the dimensions and the results to date, we estimate that Alpala Central to be close to 500MT at 1% CuEq. Copper development stories typically trade in the range of \$0.03–\$0.06/lb; using this metric, the market appears to have assumed a resource in the range of 14–18Blb CuEq. On an AuEq basis, our *Takeover Twenty* group of Developers is trading at a median of \$81/oz, valuing it at 9Moz AuEq, a significant discount to our 20Moz AuEq estimate (based on its 85% direct share of the project).

Figure 7: Cascabel 3D Interpretation Mineralized Shell and Mag Shell vs. Comparative Deposits



Source: Company filings

Lundin Gold Inc.

Building a Major New Gold Company Starting with One of the World's Best Gold Deposits


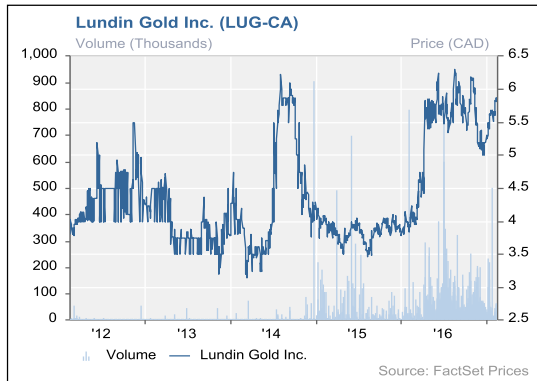
Description & Background

Lundin Gold (LUG) is the precious metals arm of the Lundin Group which purchased the Fruta del Norte (FDN) property from Kinross Gold in 2014 for \$150M plus 26.2M shares of LUG. The purchase was financed by an equity issue at C\$4.00/sh in which the Lundin family participated for 31%. In a subsequent financing of \$82.5M in July/August 2016, the Lundin family participated for 27%, and on January 16, a related party, Zebra Holdings, provided a \$35M bridge loan facility to LUG to carry on with its Early Works program until project financing is secured. At the current time, the Lundin family has a 30% interest in LUG.

We believe FDN is the first building block for Lundin Gold, and once in production in 2020 the company will be a low-cost Intermediate producer with a strategy to continue growing with other transactions. Our Senior Analysts have followed Lukas Lundin, head of the family mining group of companies, since 1992. We were the first to initiate coverage of Tenke Mining, the predecessor company to Lundin Mining — the base metal arm of the Lundin Group. We have watched it grow from \$226M in 2005 to its current \$5.6B market cap. We initiated coverage of Lundin Gold in March 2015 at C\$3.90/sh (C\$5.88/sh at the time of writing this report). The background discussion within that report remains a good starting point for interested investors, including the discussion of changes made by the GoE to its tax burden.

Summing the acquisition of FDN plus the subsequent \$0.7B of pre-construction and construction investment (2015–2020), Lundin Mining will have made the largest foreign investment in Ecuador for several years. FDN is not only LUG's core asset, but also the flagship for the GoE in its initiative to attract foreign investment in mining. As a result, we believe LUG has a special relationship with the GoE. FDN's high-grade (9.7 gpT), large size (6Moz+) small underground footprint and exemplary social licensing will allow it to provide a reasonable rate of return at current prices (15.3% IRR after tax at \$1,250/oz) while being able to handle Ecuador's relatively heavy tax burden. It will be a major contributor to the people of Ecuador. Over its 16-year life (and probably substantially longer) we estimate Ecuador's share of taxes and royalties will be \$1.4B if gold stays at \$1,250/oz, or \$2.06B at \$1,500/oz, plus payrolls, associated taxes and local purchasing.

Figure 8: Corporate Summary — Lundin Gold Inc.

		Lundin Gold		C\$	5.82
Rating	Buy (Speculative)	Ticker	LUG		
Target (C\$)	9.00	Shares O/S, Basic (m)	118.7		
Potential ROR	55%	Shares O/S, Diluted (m)	122.5		
*all figures in C\$, unless stated otherwise		Mkt Cap, Basic (C\$m)	\$691.1		
		Avg. Daily Vol (Toronto, 000s)	76		
Company Contacts		Share Price Performance			
Management					
Ron Hochstein		Pres & CEO, Director			
Alessandro Bitelli		CFO & Executive Vice President			
Nathan Monash		VP Business Sustainability			
Nicholas Teasdale		VP Exploration			
Chester See		VP Finance			
Iliana Rodriguez		VP Human Resources			
Sheila Colman		VP, Legal and Corporate Secretary			
David Dicaire		VP Projects			
Board of Directors		Pres & CEO, Director			
Ron Hochstein		Chairman & Director			
Lukas H. Lundin		Director			
Ashley Heppenstall		Director			
Paul McRae		Director			
Ian Gibbs		Director			
Carmel Daniele		Director			
Pablo Mir		Director			
Jim Cambon		Director			
Summary of Financial Position (US\$m)		Primary Property/Project			
Assets		Name: Fruta Del Norte			
Cash	\$54.8	Ownership: 100%			
Other current assets	\$0.5	Stage: Development			
Prepays and deposits	\$0.0	Location: Ecuador			
Subtotal: Current Assets	\$55.4	Geology: Intermediate Sulphidation Epithermal Au/Ag			
Mineral exploration and evaluation assets	\$236.9	Royalties:			
Property, plant, and equipment	\$7.9	Other : -			
Subtotal: Non-Current Assets	\$244.8				
Total Assets	\$300.2				
Current Liabilities (US\$m)		Other Significant Properties			
Accounts payable and accrued liabilities	\$5.5	Name: None			
Non-current liabilities		Ownership:			
Reclamation provisions	\$0.9	Stage:			
Total Liabilities	\$6.4	Location:			
Net Assets (US\$m)	\$293.8	Geology:			
		Royalties:			
		Other :			
Equity (US\$m)					
Equity attributable to owners	\$293.8				
Total Equity	\$293.8				
** Taken from Q3 2016 financials					
Capital Structure as of June 30	Price	Basic (m)	In-the-Money	Proceeds (C\$m)	
Shares Outstanding		118.7			
Options	\$4.13/sh	3.8	3.8	\$15.7	
Total		3.8	3.8	\$15.7	
Warrants	\$0.00/sh	0.0	0.0	\$0.0	
Total Warrants		0.0	0.0	\$0.0	
Diluted In-the-Money Shares		122.5		\$15.7	
Fully Diluted Shares		122.5		\$15.7	
** Taken from Sept 2016 financials					
Ownership	Shares (m)	%			
Lundin Family	35.7	30.1%			
Kinross Gold	20.7	17.4%			
Kopernik Global Investors	4.6	3.8%			
Resources		Tonnage (Mt)	Au (gpt)	Gold (Koz)	
Fruta Del Norte					
Mineral Reserves (4.7g/t Au for TS, 5.3g/t Au for D&F, elevated to 6.8g/t)					
Transv. Long-Hole Stope		8.4	9.0	2,423	
Drift & Fill		5.5	11.2	1,984	
Development >4.7 g/tAu		1.2	9.7	361	
Development >2.7 g/tAu		0.4	3.7	47	
Total Reserves		15.5	9.7	4,816	
Mineral Resources (3.5 g/t Au cutoff)					
Indicated		23.8	9.6	7,350	
Inferred		11.6	5.7	2,130	
Total Resource (incl. reserve)		35.4	8.3	9,480	
Last Financing					
Date		July 2016			
Type		PP			
Units (Share)		15M			
Price (\$)		5.50			
Gross Proceeds (\$m)		\$82.5			

Source: Company filings

Investment Thesis

- **Construction Financing Near at Hand I** In the last three months of 2016, Lundin Gold obtained all the necessary permits and agreements to proceed with development of its FDN mine. The Environmental Impact Assessment (EIA) was approved and the Environmental License obtained in October, paving the way for the Investment Protection Agreement (IPA), signed with the GoE in late December. LUG is now in a position to secure project financing and then begin full-scale development of FDN, one of the best gold deposits discovered in the past decade.

FDN was acquired in 2014 for a total consideration of \$240M, which included \$150M in cash and \$90M in common shares of LUG. At the time, Ecuador was considered uninvestible. It is a pattern we've seen in other Lundin investments; i.e., identifying exceptional deposits in high-risk countries whose governments wish to invoke positive changes to attract foreign investment. The GoE has made considerable progress since 2014 in bringing its onerous taxation burden in line with other Latin American countries and demonstrating through action that it welcomes responsible foreign mining investment. Indeed, as we have outlined in the opening thesis for this report, we believe that Ecuador will emerge as one of the best new jurisdictions for exploration in Latin America in 2017. Federal elections on February 19 will usher in a new president. We are optimistic, based on comments by the leaders of the main parties participating in the election, that a new regime will continue with the current GoE's efforts to attract foreign investment, given how important the fledgling mining industry could become — a true economic driver for the country, allowing it to diversify from its dependence on oil.

- **Creation of a Major New Lundin Mining Vehicle – This Time in Gold I** The Lundin family has invested ~\$104M for its 30% ownership in LUG at an average price of C\$3.50/sh, providing management and support, building a strong team capable of delivering FDN's potential. Investors have an opportunity to get in on the ground floor of a new major gold company. While FDN is an excellent building block and will fully occupy management's time for 2–3 years to come, LUG's destiny is to follow a similar growth pattern to its larger base metal sibling Lundin Mining. For now, it trades at a similar valuation multiple to other developers, trading at 0.64x NAV, assuming a \$1,250/oz gold price, but only half that of a mid-sized (500Koz/year) producer.
- **Potential Improvements Would Further Boost Economics I** Since announcing G-Mining would be the lead contractor to build FDN, the teams have been busy with an optimization plan, engineering the project in detail (20% engineered at the July 2016 FS), looking for areas of risk and identifying opportunities to improve the project. The optimized plan will be available by March. Possible opportunities identified include:
 - **Reducing the construction time** to 18 months from two years. A half-year reduction in construction time would add 0.9% to our after-tax IRR, currently 15.3% at \$1,250/oz, and 3% to our NAV @ 5%, currently C\$9.16/sh on an unfinanced basis.
 - **Reducing the construction capital**, currently \$847M, by 10% would add another 1.2% to our current after-tax IRR. G-Mining has identified a number of potential savings. It saved Newmont ~20% of the budgeted construction cost for its Merian mine in neighbouring Suriname which began construction in 2014.
- **Re-rating as a Project Moves into Production I** We follow a few dozen Development-stage companies, a group we call the *Takeover Twenty*, key metrics for which we summarize in Figure 10. LUG stacks up in the middle of this peer group on a number of criteria. While investors are naturally drawn to the prospect of being taken over and the average ~70% takeover premium we have enjoyed with the *Takeover Twenty*, there is considerable value created when a company moves from a developer to a producer. Two Development companies included in our August 2014 *Takeover Twenty* subsequently “graduated” to becoming full-fledged producers; Guyana Goldfields (GUY-T, NR) and Torex Gold (TXG-T, NR). GUY has increased 153% since August 2014, while Torex has increased 108%. These are reasonable comparables to LUG once FDN is built, but neither has the depth of investor backing that LUG has, nor the long-term growth pedigree.

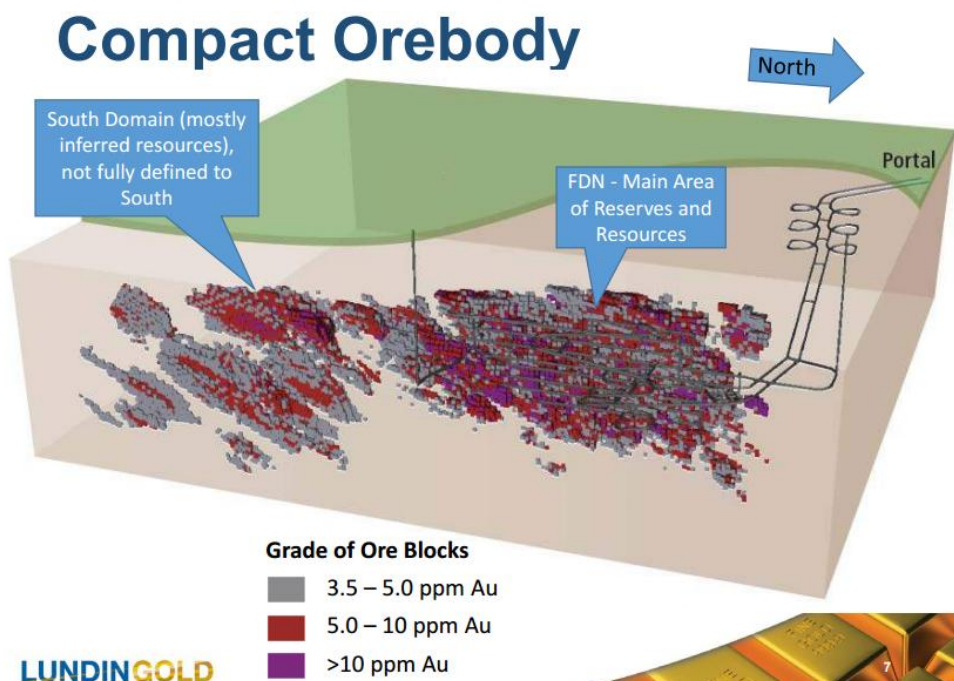
Valuation

A variety of valuation and project quality metrics are provided for LUG in Figure 10, along with its peer group of Development-stage companies. LUG is better than average under some criteria and average under others compared to this group. Our attention, however, is drawn to the long term view that LUG will become one of the lowest-cost Intermediate producers, by 2020. This tier enjoys multiples roughly twice those of the Developers.

Several features stand out. First, at a mineable resource of 6.3Moz gold, LUG is one of the largest undeveloped gold projects in the group. There are larger gold-copper projects, but they are different beasts and much lower grade. It also has very attractive total cash costs, LoM and sustaining costs at \$571/oz and \$672/oz, respectively. This is hardly surprising given FDN's reserve grade of 9.7 gpT, well above the *Takeover Twenty* average of 2.1 gpT. What is surprising is that FDN's project IRR is less than its peer group, at 15% after tax compared to a median of 24% at a gold price of \$1,250/oz. There are a few reasons: 1) Ecuador's tax burden is about one-third more than what we find with other projects; 2) FDN's construction capital is more capital intense and front-end loaded than most projects, a reflection of the type of underground mine it is, but also the investment philosophy to maximize NPV more so than IRR; and 3) Large projects typically have lower IRRs than smaller projects. The median construction capital for our developers is \$0.25B, one-third of FDN's \$0.85B, once one includes pre-construction and royalty payments. Notwithstanding FDN's larger construction capital, the project NPV is relatively high, yielding a capital efficiency ratio (NPV/Construction Capital) of 0.89, reasonable considering today's low gold price environment. Interestingly, it is the same as its smaller peer group median.


Overall, LUG is currently trading at 0.64x NAV @ 5%, based on a \$1,250/oz gold price, in line with its *Takeover Twenty* peers at 0.58x, but only about half the Junior Producer and Intermediate Producer averages of 1.25x and 1.4x, respectively. (Once in production, at 340Koz/year, we would consider LUG to be an Intermediate producer, where our threshold is 250Koz/year.)

Figure 9: FDN Orebody



Source: Company filings

Figure 10: Takeover Twenty Summary

SUMMARY			"TAKEOVER TWENTY"																				 PARADIGM CAPITAL	
Share Price (C\$/sh)	Company	Takeover Exchange	Last Economic Study Completed	Shares Outstanding (millions)	Market Cap US\$M	Net Mkt Cap US\$M	LOM Construction Remaining Capex Est US\$M	Reserves Moz Au (Co Share)	Other Resources Moz Au (Co Share)	Paradigm Estimate Moz Au Mineable	Process %	Net Mkt Cap/Au Equiv	Remaining LOM Construction Capex/Au Equiv	Total Cash Cost/oz Au Equiv	Sustaining Capex/oz Au Equiv	Investor Total Cost/oz Au Equiv***	Country	Share of Annual Production Koz Au Equiv	Production Start Year (Assumed)	Price to Long Term Cash Flow	Project IRR From Start of Construction	IRR to Acquirer (w/30% Construction Premium)	PNAV (NAV/ (unlevered) need)	Capital Efficiency (NAV/ Construction Capex)
\$0.30	Amel Gold	AVK-V	Feasibility	314.0	\$71	\$61	\$196	2.0	1.4	2.0	91%	\$34	\$110	\$822	\$99	\$1,064	Mali	102	2018	7.9	30%	11%	0.40	0.85
\$3.33	Bear Creek Mining	BCM-V	Feasibility	108.3	\$273	\$212	\$627	3.3	3.5	3.3	72%	\$90	\$267	\$-36	\$84	\$405	Peru	139	2019	5.4	22%	10%	0.46	1.00
\$1.50	Delradan Resources	DNA-T	PEA	308.2	\$351	\$280	\$320	0.0	4.4	3.4	94%	\$88	\$101	\$664	\$239	\$1,092	N. Ireland	154	2021	12.6	21%	4%	0.90	1.19
\$1.47	Exeter Resource	XRC-T	PEA	95.9	\$106	\$89	\$324	0.0	24.0	2.1	76%	\$57	\$205	\$693	\$98	\$1,053	Chile	117	2021	8.0	19%	7%	0.34	0.57
\$0.13	Fregold Ventures	FVL-T	PEA	145.1	\$14	\$14	\$92	0.0	6.5	1.0	80%	\$18	\$120	\$908	\$85	\$1,132	USA	48	2020	8.6	12%	8%	0.46	0.37
\$0.49	Goldquest Mining	GQC-V	PFS	240.6	\$88	\$78	\$165	1.1	1.5	1.1	74%	\$92	\$194	\$616	\$131	\$1,032	Dominican	117	2020	4.3	24%	6%	0.73	0.71
\$0.17	IDM Mining	IDM-V	PEA	354.3	\$44	\$39	\$99	0.0	0.6	0.5	87%	\$92	\$226	\$472	\$120	\$920	Canada	70	2019	3.1	36%	13%	0.48	0.84
\$0.75	Integra Gold	ICG-V	PEA	499.4	\$284	\$230	\$244	0.0	1.7	2.5	94%	\$98	\$104	\$486	\$225	\$913	Canada	136	2018	7.2	31%	5%	0.68	1.43
\$1.04	INV Metals	INV-T	PFS	69.2	\$55	\$44	\$286	1.9	1.4	2.4	90%	\$20	\$132	\$337	\$111	\$600	Ecuador	149	2022	2.9	23%	14%	0.21	1.00
\$1.99	Luna Gold	LGC-V	PFS	73.1	\$110	\$143	\$146	1.0	0.6	1.1	91%	\$142	\$145	\$669	\$80	\$1,035	Brazil	133	2018	3.8	32%	4%	0.83	1.14
\$5.88	Lundin Gold	LUG-T	Feasibility	122.6	\$547	\$485	\$847	6.7	4.3	6.3	92%	\$84	\$147	\$574	\$72	\$877	Ecuador	343	2018	6.7	15%	6%	0.64	0.89
\$1.30	Mariana Resources	MAR-LV	PEA	152.2	\$150	\$130	\$67	0.0	1.0	0.7	75%	\$242	\$125	\$244	\$359	\$970	Turkey	68	2021	5.0	62%	6%	0.71	3.63
\$0.89	Midas Gold	MAX-T	PFS	194.5	\$131	\$113	\$880	0.0	7.1	5.1	89%	\$25	\$196	\$579	\$97	\$896	USA	354	2020	5.0	18%	13%	0.22	0.73
\$0.81	NewCastle Gold	NCA-V	PEA	197.4	\$121	\$104	\$128	0.0	3.4	1.7	79%	\$78	\$97	\$721	\$93	\$989	USA	110	2018	5.2	29%	10%	0.53	1.62
\$0.73	Orezone Gold	ORE-T	Feasibility	161.1	\$89	\$62	\$250	1.3	1.0	1.4	87%	\$51	\$204	\$709	\$81	\$1,045	Burkina F.	105	2019	7.0	21%	8%	0.54	0.47
\$1.33	Oria Mining	OLA-V	PFS	139.7	\$141	\$115	\$117	0.5	0.2	1.0	86%	\$134	\$136	\$469	\$91	\$829	Panama	74	2019	5.0	45%	9%	0.58	1.94
\$15.87	Pretium Resources	PVG-T	Feasibility	187.2	\$2,253	\$2,405	\$207	8.8	4.2	8.8	97%	\$284	\$24	\$332	\$211	\$852	Canada	312	2017	11.1	24%	1%	1.04	2.07
\$1.46	Sabina Gold & Silver	SBB-T	Feasibility	229.9	\$255	\$192	\$449	2.7	4.5	2.6	93%	\$81	\$189	\$550	\$142	\$963	Canada	210	2021	6.0	25%	7%	0.58	0.85
\$14.17	Seabridge Gold*	SEA-T	PFS	61.0	\$656	\$543	\$5,785	38.6	41.8	39.8	73%	\$19	\$200	\$39	\$299	\$557	Canada	569	2024	12.4	9%	7%	0.25	0.44
\$0.66	Treasury Metals	TML-T	PEA	113.3	\$57	\$54	\$182	0.0	1.5	0.9	94%	\$66	\$222	\$691	\$61	\$1,040	Canada	78	2020	6.2	26%	7%	0.60	0.50
\$0.63	Victoria Gold	VIT-V	Feasibility	569.2	\$272	\$211	\$296	2.7	1.8	3.1	70%	\$98	\$137	\$578	\$79	\$892	Canada	186	2018	5.2	29%	8%	0.58	1.38
Takeover Twenty Average					\$267	\$113	\$557	3.4	5.5	4.3	85%	\$90	\$157	\$529	\$136	\$912		170		6.6	26%	8%	0.56	1.13
Takeover Twenty Median							\$244	1.1	3.4	2.4	89%	\$81	\$145	\$578	\$98	\$863		133		6.2	24%	7%	0.58	0.89
(All figures per recovered POC estimated Au/eqv oz)																				Date of Share Pricing: 8-Feb-2017				
*Seabridge reserves and resources only use Mineable gold resources; operating costs are net of copper and other metal credits																								

*Seabridge reserves and resources only use Mineable gold resources; operating costs are net of copper and other metal credits
 **Market cap less other assets, investments, working capital and proceeds from ITM options/warrants, plus debt
 ***ITC = Investor Total Cost = Market Cap/oz + Construction Capex/oz + AISC/oz

Bolded companies indicate research coverage by PCI

(All \$ ratios are in US\$ (eq. Market Cap/oz) except NAV/sh, which is C\$/sh)

(Per ounce metrics use PCI Mineable resource estimate, and are net of processing recovery)

(IRR and NAVs are based on 100% equity, no leverage. NAVs are at 8% discount except with Copper at 8%.)

Date of Share Pricing: 8-Feb-2017

Valuation Assumptions

Gold Price (US\$/oz): \$1,250

Silver Price (US\$/oz): \$17.85

Copper Price (US\$/lb): \$2.63

CAD/USD Exchange Rate: 0.750

Source: Company filings


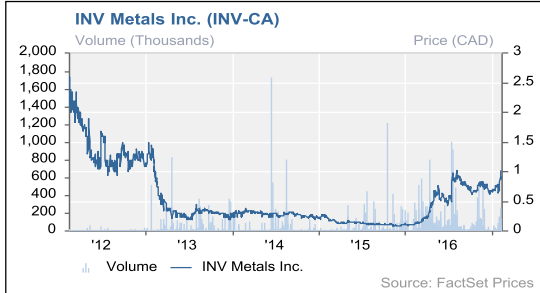
INV Metals Inc.

High-Quality Development Property, Excellent Value

Description

- **First Mover** / While Lundin Gold has received more attention for its high-profile investment in FDN, INV Metals was actually one of the first movers among significant foreign investors in Ecuador's mining space, astutely acquiring IAMGOLD's advanced Quimsacocha project in south-central Ecuador in the summer of 2012 for 221M shares of INV valued at C\$0.10/sh at the time (pre-consolidation of 10:1 in 2014), giving IAMGOLD a 47% position in INV, the right to a seat on its board which it has not exercised, and the right to maintain its interest if it keeps its interest above 20%. Since then, INV has invested ~\$11M in drilling and work on the 8,000-ha property, producing a PFS in August 2016. IMG's interest has diluted to 36%, but based on our discussion with IMG's senior management, it remains quite engaged. (We note that IMG included INV in its presentation slide deck for the first time in November 2016.)
- **August 2016 PFS** / The PFS, prepared by RPA & Associates and summarized in Figure 12, proposes a small footprint, low-impact, cyanide-free project producing two concentrates from a 3,000 Tpd underground mine, averaging 150Koz/year over 11 years of full production. Half the tailings will be used as backfill underground, the remainder dry stacked, then covered after mining finishes. Prices assumed were \$1,250/oz gold, \$20/oz silver and \$3.00/lb copper. At these metal prices, the after-tax IRR was 26%, with a capital cost of \$286M (including 15% contingency), a 2.7-year payback, life-of-mine (LoM) AISC of \$590/oz net of silver and copper credits (~15% of revenue) over a 12-year life. INV is planning to initiate a FS in early 2017, with anticipated completion in Q3/18. Assuming permits are received by late 2018, construction could commence by Q3/19 following detailed engineering and procurement, with start-up anticipated in Q4/20.
- **Resources** / Resources were calculated by RPA. IMG drilled 280 holes and INV had added another 12 holes up to the June 2016 cut-off date for the calculation.
 - **Indicated Category:** 17.9MT grading 4.4 gpT gold, 28 gpT silver and 0.26% copper. Contained indicated resources were 2.6Moz gold, 16Moz silver and 104Mlb copper.
 - **Inferred Resource:** 7.3MT at 2.3 gpT gold, 24 gpT silver and 0.13% copper. Contained inferred resources are 0.5Moz gold, 6Moz silver and 21Mlb copper.
- **Reserves (all probable category)** / 11.6MT grading 5.0 gpT gold, 28 gpT silver, 0.29% copper at a 2 gpT cut-off all within the high-grade zone; 1.9Moz gold, 10Moz silver, 73.6Mlb copper.

Figure 11: Corporate Summary — INV Metals Inc.

		INV Metals		C\$	1.02
Rating	n/a	Ticker	INV-T		
Target (C\$)	n/a	Shares O/S, Basic (m)	64.9		
Potential ROR	n/a	Shares O/S, Diluted (m)	69.2		
*all figures in C\$, unless stated otherwise		Mkt Cap, Basic (C\$m)	\$66.2		
		Avg. Daily Vol (Toronto, 000s)	53.68		
Company Contacts		Share Price Performance			
Management Candace MacGibbon Kevin Canario Dawson Proudfoot Gabriel Vinas		CEO & Director CFO Project Manager Corporate Controller			
Board of Directors Candace MacGibbon Terrance MacGibbon James Clucas Parviz Farsangi Eric Klein Robert Pollock		CEO & Director Chairman & Director Director Director Director Director			
Summary of Financial Position (C\$m)		Primary Property/Project			
Assets Cash \$10.7 Amounts receivable \$0.1 Prepays and deposits \$0.1 Subtotal: Current Assets \$10.8 Mineral exploration and evaluation assets \$46.5 Property, plant, and equipment \$0.4 Other Non-Current Assets \$0.5 Subtotal: Non-Current Assets \$47.3 Total Assets \$58.1		Name: Loma Larga Ownership: 100% Stage: PFS Complete Location: Ecuador Geology: Epithermal Au Royalties: Other : -			
Liabilities Accounts payable \$0.1 Accrued liabilities \$0.3 Provisions \$0.37 Total Liabilities \$0.86		Other Significant Properties Name: Kaoko Ownership: 35% Stage: No presently planned exploration Location: Northwest Namibia Geology: Porphyry Au/Ag Royalties: n/a Other :			
Net Assets \$57.3					
Equity (000s) Equity attributable to owners \$57.3 Total Equity \$57.3					
** Taken from Q3 2016 financials					
Capital Structure as of June 30		Price	Basic (m)	In-the-Money	Proceeds (C\$m)
Shares Outstanding			64.9		
Options					
		\$0.35/sh	0.1	0.1	\$0.1
		\$0.55/sh	1.4	1.4	\$0.8
		\$1.00/sh	2.7	2.7	\$2.7
Total			4.3	4.3	\$3.6
Warrants		None			
Total Warrants			0.0	0.0	\$0.0
Diluted In-the-Money Shares			69.2		\$3.6
Fully Diluted Shares			69.2		\$0.8
Ownership		Shares (m)		%	
IAMGOLD Corp.		23.2		35.7%	
Management/Insiders		6.2		9.5%	
Franklin Advisers		4.6		7.0%	
Last Financing		Date	03-Nov-2010		
		Type	PP		
		Units (Share)	15M		
		Price (\$)	\$0.20		
		Gross Proceeds (\$m)	\$3.0		

Source: Company filings

Investment Thesis

INV offers investors a high-quality advanced-stage development project and inexpensive valuation metrics, primarily because of its Ecuador location, in our opinion. We are familiar with the project from its discovery and subsequent work from 2004 to 2009 by IAMGOLD, which saw over 300 holes drilled and a PFS. The initial enthusiasm was cut short by onerous legislation changes by a new government in 2008. Much has improved in the interim, including a tripling of the gold price. INV was a first-mover into Ecuador, taking advantage of then-depressed valuations to acquire the project in Nov. 2012. At INV's current market cap of \$49M, the 1.9Moz of probable reserve in its core project, Loma Larga, which we estimate could grow to 2.4Moz, is being valued at \$20/oz recoverable versus our *Takeover Twenty* group of Developers trading at \$81/oz. INV also stacks up in our group of development-stage projects on other project quality-related criteria, summarized in Figure 10. We do not wish to understate the political risks that INV faces, but investment is about the balance of risk and reward. There have been several improvements since the acquisition, but the following are two key areas of change:

- **Ecuador Has Improved Considerably** / Since INV acquired the Loma Larga project, Ecuador has reworked its Windfall Profits Tax to make it substantially less onerous, while improving and creating more certainty for its other taxes. It has also enjoyed a more stable, popular presidency since Correa was elected in 2008. Federal elections will take place on Feb. 19, and while Correa can no longer run, having served two terms, his pro-mining party is leading the polls.
- **The Project Has Improved and the Risk Reduced** / An August 2016 PFS by RPA Associates indicated a 26% IRR after-tax underground mine was possible producing 150Koz/year over a 12-year life. IAMGOLD's 2006 PEA only achieved a 16% pre-tax IRR in its best scenarios. Here too much has changed for the better. The new PFS was done at \$1,250/oz, four times what IAMGOLD used (\$400/oz). Our own estimates are more conservative than the PFS in the areas of sustaining capital, mining and treatment costs, but we include 25% more mineable resource to reflect Loma Larga's exploration potential. Collectively, these adjustments reduce the IRR about 3%. We use prices of \$1,250/oz gold and \$2.63/lb copper, reflecting today's spot market conditions, taking our final after-tax IRR to 23%, in line with the median of our *Takeover Twenty* Developers at 24%. INV also astutely carried its metallurgical testing further than IAMGOLD, arriving at a two higher-grade concentrate products. IAMGOLD had considered a single concentrate option, but found pressure oxidation was a preferred route. The concentrate path eliminates cyanide, an obvious social benefit, and saves capital, boosting the capital efficiency and putting the project within the financial reach of a wider population of potential acquirers.

Figure 12: 2016 PFS Highlights

Mine Life	~12 years	Capital Costs	(M\$)
Nameplate Capacity	3,000 tpd	Direct Costs	\$153.4
Annual Gold Production	150,000 oz	Indirect Costs	88.3
Gold Grade	4.98 g/t	Contingency	44.2
Gold Production	1.68 million oz	Initial Capital	\$285.9
Gold Recovery	90%	Sustaining	90.0
Silver Grade	28.00 g/t	Reclamation and Closure	4.2
Silver Production	9.83 million oz	Total	\$380.1
Silver Recovery	94%	Costs	\$/tonne
Au Equivalent Payable Ag	129,000 oz	Mining	\$36.30
Copper Grade	0.29%	Processing and Treatment	44.23
Copper Production	71.30 million lbs	G&A	7.27
Copper Recovery	97%	Total Operating Costs	\$87.80
Au Equivalent Payable Cu	119,000 oz	Operating Cash costs	\$510/oz sold
		All-in Sustaining Costs*	\$590/oz sold
		All-In Costs*	\$778/oz sold

Gold Price Sensitivities	\$1,050/oz Au	\$1,150/oz Au	Base Case \$1,250/oz Au	\$1,350/oz Au	\$1,450 /oz Au
Pre-tax NPV @ 5% (\$M)	288.2	389.1	489.9	590.8	691.6
After-tax NPV @ 5% (\$M)	173.6	235.3	300.9	366.5	414.7
Pre-tax IRR (%)	25.0	30.5	35.7	40.7	45.4
After-tax IRR (%)	18.5	22.4	26.3	30.0	32.6
Payback (yrs)	3.4	3.1	2.7	2.5	2.3

Source: Company filings

Analysis

We are able to offer our analysis on the back of INV's 2016 Pre-Feasibility Study with more granularity due to the reasonably advanced stage of the project. INV has ranked in the top half of our *Takeover Twenty* for 3 months – stacking up well on several metrics as we outline below and show in Figure 10. We characterize our assumptions, such as higher sustaining capex (\$111/oz vs the PFS \$59/oz) and higher treatments costs as conservative, yet not unreasonable given the higher-risk nature of investing in Ecuador.

- **Excellent Value for a Strategic-sized Resource** / INV has a current market cap of C\$67M, with no debt and C\$8.7M in cash. Loma Larga's reserve base is 1.9Moz gold, all in the probable category, within an indicated resource of 2.6Moz (it also has a small silver and copper content of 16.3Moz and 104Mlb, respectively). Thus, INV shares are trading at \$17/oz of resource, \$23/oz of reserve and \$20/oz of our estimated recoverable resource, assuming a 25% growth in the reserve and net of process recovery
- **Attractive P/NAV** | INV is also trading at the lowest P/NAV of the Development companies in our group, which average 0.56x at a gold price of \$1,250/oz, compared to INV's 0.21x.
- **IRR to the Acquirer** | One must consider what the IRR would be to an acquirer, once the acquisition cost is considered, assuming the acquirer pays a 30% premium to its current share prices. The current group median of 7% is relatively *typical* of the acquisition IRRs that we have observed in the past. Given its modest market cap and solid project metrics, INV's is 14%.
- **Project IRR Is Average** / One must temper the IRR to the acquirer with consideration of the after-tax IRR in our model, which is slightly below the median of 24%, at 23%. In context of the political risk factor this, in our opinion, is the largest single weakness of the Loma Larga project. Thus, INV's efforts to explore for higher-grade feeder structures and to find new resources are definitely in investors' best interests.
- **Capital-efficient Project** / The PFS' construction capital cost estimate of \$286M works out to \$123/oz, comparing favourably to the \$145/oz median for our *Takeover Twenty*. Likewise, Loma Larga's capital efficiency ratio for the project (NPV/Construction Cost) of 1.00 is better than the group median of 0.89 and meets the 1.0x target deemed "desirable" by many corporate builders.

Risks

Permitting, Water and the Anti-Mining Movement / This is INV's most significant risk, as are the implications for the federal government's vision of a vibrant mining industry. Ecuador has a limited modern history with mining and has an active anti-mining movement. Long-term impact on water sources is the most emotive subject with locals. Loma Larga is at the top of the watershed. Fortunately, the drainage from the processing facilities and tailings is in the opposite direction of the city of Cuenca, Ecuador's third-largest city, 30 km away. The project enjoys strong support from the smaller towns and villages within the immediate area. Nevertheless, watching the Ecuadorian press, it is apparent that the anti-mining movement is trying to raise its profile in the election run-up and has Loma Larga in its sights, along with other projects such as the medium-scale Rio Blanco gold and copper project. As gold mining projects go, Loma Larga would be about as "green" as they get. It will be an underground mine, minimizing surface disturbance. No cyanide will be used and the concentrate will remove the arsenic in the ore. About half the waste material brought to surface will be returned to the mine as backfill, stabilized with cement. Tailings left on the surface will be on top of a thick impervious liner and covered after the mine closes. On Jan. 22, the Cantonal Council of Cuenca voted 12 to 4 on resolutions to be free of metal mining activities in the Canton and for the GoE to suspend activities at Loma Larga and Rio Blanco. It is our understanding that the federal government is very supportive of Loma Larga and that such decisions are exclusively the power of the federal government. Thus, it will be an important litmus test of the GoE's desire to make mining an economic platform for the country. The lead up to a any federal election generates plenty of noise and emotion, but the fact remains that Loma Larga is about as green as mining gets and we estimate it will spend about \$1.8B in construction and operation over its 11–12-year life and provide tax revenue of another \$0.4B.

Ecuador | A substantial portion of the larger report discusses the changes, risks and opportunities for investors in Ecuador. The country's taxation structure is significantly more expensive than that of most other countries, which means only high-quality projects can achieve satisfactory returns, which Loma Larga fortunately has.

Treatment Terms | The most important concentrate, a gold-pyrite concentrate, will account for about three quarters of revenue and 93% of the concentrate tonnage. It should be relatively easy to find a smelter for this clean concentrate on competitive terms. The second concentrate envisioned will be small in quantity, at 8,500 Tpy, but a high-grade specialty concentrate because it will contain ~30% copper in enargite (an arsenic mineral), ~11% arsenic, 111 gpT gold and 1,577 gpT silver. Terms for such a specialty concentrate can vary significantly over time, depending on which has the upper hand, the miner or the smelter.

Ground Conditions / Rock quality in the high-grade orebody is described as ranging from good to very poor, with ground conditions worsening near the host rock contact. Mines can handle poor ground conditions, but at additional cost. The FS will include a more detailed review of rock mechanics, ground conditions and a better understanding of the potential impact of groundwater in the mine.

Lumina Gold Corp.



Looking to Repeat the Success of Lumina Copper

Description & Background

Lumina Gold (LUM) is the newest of the six Ecuador-focused companies we discuss in this report. Previously known as Odin Mining and Exploration, Lumina was formed following Odin's acquisition of Ecuador Gold and Copper on November 1 2016. The company has two major plays in Ecuador (Figure 14): a 90% interest in the Condor gold project containing indicated resources of over 8Moz gold with by-product silver and copper, and the wholly owned Cangrejos gold project, where a maiden inferred resource of 4Moz gold was announced in January. Ross Beaty, a well-known investor in the mining space, is the largest shareholder of LUM with a 25% ownership stake.

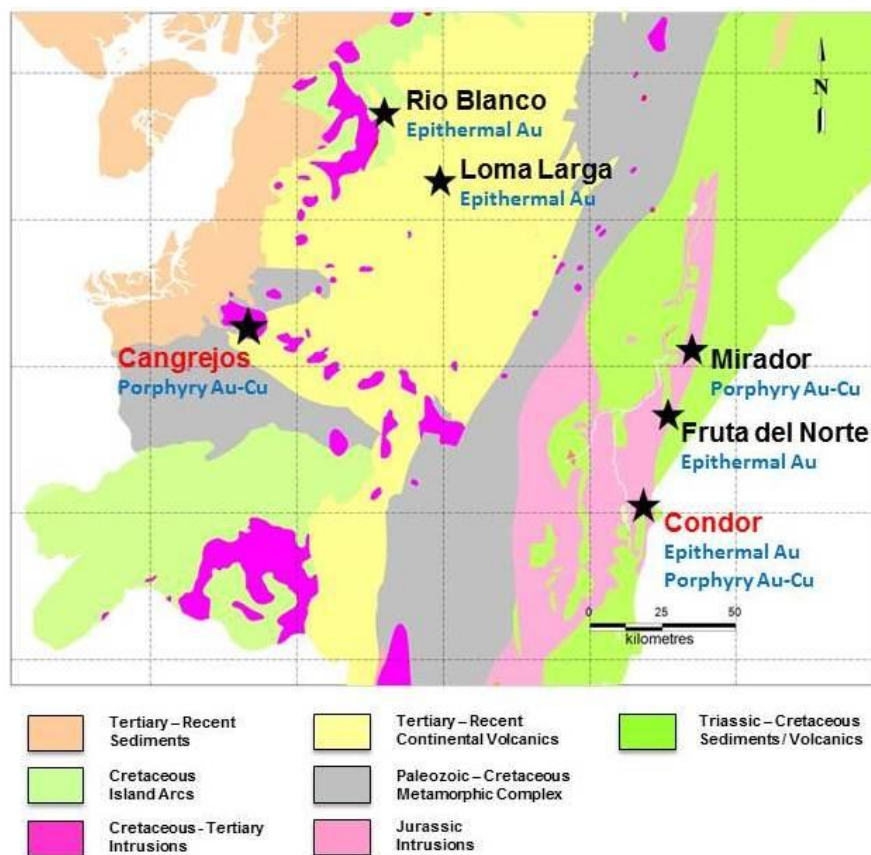
- **Condor** | Lumina's recent acquisition, the Condor gold-silver-copper project, is located in the Zamora-Chinchipe province within the Cordillera del Condor region in southeast Ecuador. The project lies 31-km south of the FDN gold project (Lundin Gold) and 55-km south of the Mirador copper-gold project (Corriente Resources [CTQ-T, NR]). With mineralization beginning at surface, Condor contains an indicated resource of 447MT grading 0.55 gpT gold and 2.0 gpT silver, for 8Moz gold and 28.5Moz silver. Approximately \$40M has been spent on exploration since 1993 with a total of 106,126m of drilling (417 holes). Lumina has identified both epithermal-style and porphyry-style mineralization on the property, in the Northern Area and Southern Area, respectively (Figure 15). In 2017, the company is contemplating a small drill program to further expand resources at the Santa Barbara and El Hito (Southern Area) while continuing baseline environmental studies. In December 2016, Lumina was awarded 12,758 ha of additional land across three concessions near Condor: Tres Pichachos, La Canela and Las Orquideas.
- **Cangrejos** | The Cangrejos porphyry project is located in southwest Ecuador, 30 km southeast of the port city of Machala and ~80 km from INV's Loma Larga project. A total of 10,200m was drilled at Cangrejos over three campaigns between 1999 and 2015 — the first by a Newmont/Odin joint venture and the two latter by Odin Mining. On January 25, Lumina announced a maiden inferred resource at Cangrejos of 4Moz gold, 4Moz silver and 423Mlb copper (191.8MT grading 0.64 gpT gold, 0.8 gpT silver, 0.1% copper). Drilling is ongoing on the property, and Lumina has been very active acquiring additional adjacent land packages — in Nov 2016, the company was granted an additional, previously drilled concession within the Cangrejos project area, increasing the total current drill database to 15,747m over 55 holes. In addition to continued drilling, Lumina is planning metallurgical studies, road upgrades, environmental baseline studies and community relations programs in 2017.

Figure 13: Corporate Summary — Lumina Gold Corp.

		Lumina Gold		C\$	0.97
Rating	n/a	Ticker	LUM-T		
Target (C\$)	n/a	Shares O/S, Basic (m)	231.7		
Potential ROR	n/a	Shares O/S, Diluted (m)	231.7		
*all figures in C\$, unless stated otherwise		Mkt Cap, Basic (C\$m)	\$224.8		
		Avg. Daily Vol (Toronto, 000s)	174		
Company Contacts		Share Price Performance			
Management Marshall Koval Leo Hathaway Diego Benalcázar Martin Rip Lyle Braaten John Youle Board of Directors Marshall Koval Lyle Braaten Heye Daun Donald Shumka Michael Steinmann Stephen Stow		Pres & CEO, Director Senior Vice President VP of Exploration & Corporate Development CFO VP Legal Counsel VP Corporate Affairs Pres & CEO, Director VP Legal Counsel & Director Director Director Director Director			
Summary of Financial Position (US\$m) (Odin Mining)		Primary Property/Project			
Assets Cash Amounts receivable Prepays and deposits Subtotal: Current Assets Mineral exploration and evaluation assets Property, plant, and equipment Environmental Deposit Deferred Acquisition Costs Subtotal: Non-Current Assets Total Assets		Name: Condor Ownership: 100% Stage: Advanced Exploration Location: Ecuador Geology: Epithermal Au/Ag/Cu Royalties: Other : 31km south of Fruta Del Norte			
Current Liabilities (US\$m) Account payable and accrued liabilities Loan Payable Total Liabilities		Other Significant Properties Name: Cangrejos Ownership: 100% Stage: Exploration Location: Ecuador Geology: Porphyry Au/Cu Royalties: Other :			
Net Assets (US\$m)					
Equity (US\$m) Equity attributable to owners Total Equity					
** Taken from Q3 2016 financials					
Capital Structure as of June 30		Price	Basic (m)	In-the-Money	Proceeds (C\$m)
Shares Outstanding			231.7		
Options		<\$0.97	\$0.54/sh	5.26	5.3
Total				5.3	5.3
Warrants				0.0	0.0
Total Warrants				0.0	0.0
Diluted In-the-Money Shares				231.7	
Fully Diluted Shares				231.7	
Ownership		Shares (m)		%	
Ross Beaty		58.0		25.0%	
Kenosis International		41.9		18.1%	
Management & Directors		35.3		15.3%	
Last Financing (Odin) (C\$)		Date	Aug 2015		
		Type	PP		
		Units (Share)	13.6M		
		Price (\$)	\$0.22		
		Gross Proceeds (\$m)	\$3.0		

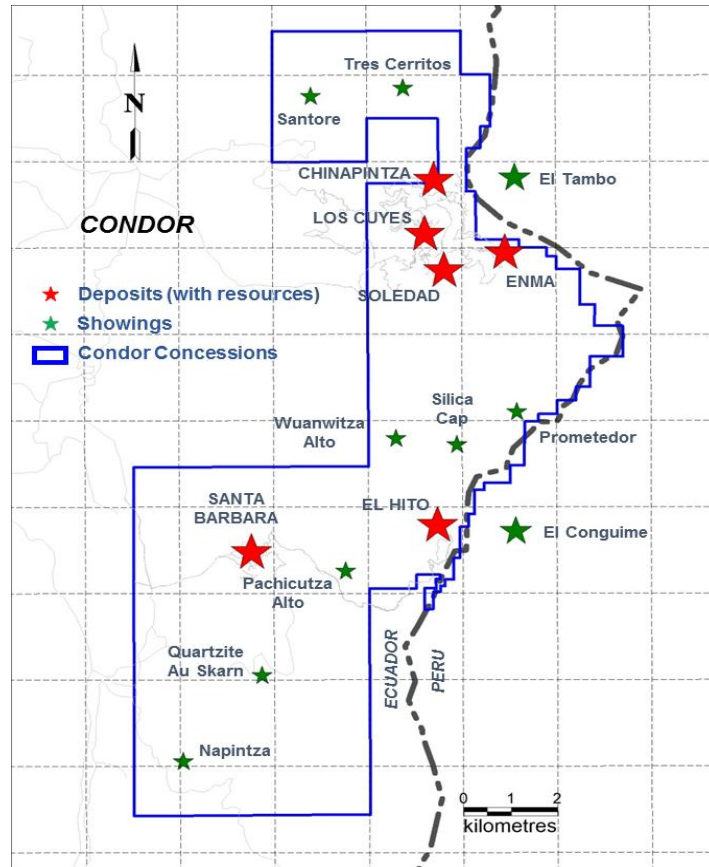
Source: Company filings

Figure 14: Regional Deposits — Lumina Projects in Red



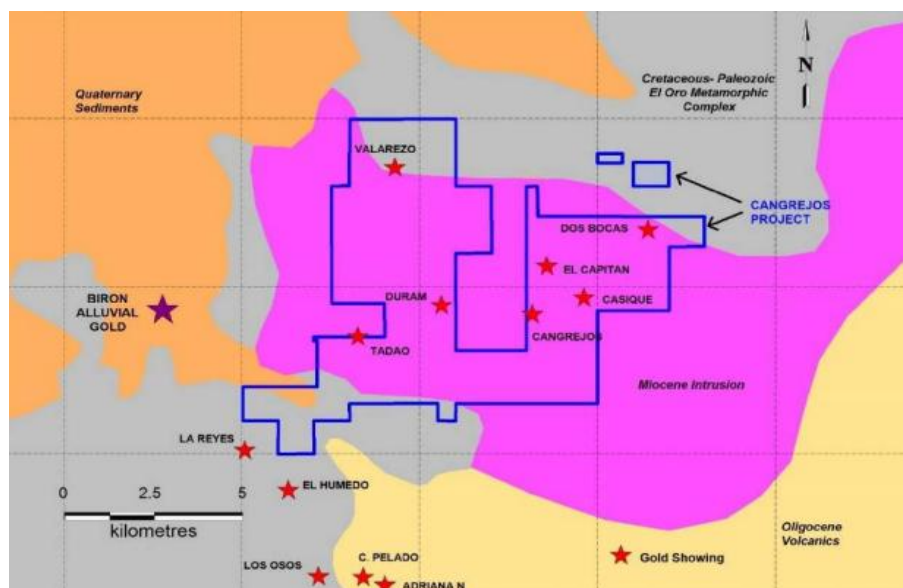
Source: Company filings

Figure 15: Condor Concession



Source: Company filings

Figure 16: Cangrejos Concession



Source: Company filings

Investment Thesis

Lumina Gold's management team and board have had impressive success advancing and selling large South American based porphyry projects in the past. By exploring and adding value to known resources, the team has been successful at derisking projects to a level that attracts acquirers. From 2006, the collective Lumina management team and board have sold the Regalito deposit to Pan Pacific Copper, the Redstone/Hushamu/Casino deposits to Western Copper, the Vizcachitas deposit to Los Andes, the Galeno/Pashpap deposits to Jiangxi Copper/China MinMetals, the Relincho deposit to Teck Resources, and the Taca Taca project to First Quantum Minerals (FM-T, C\$15.50 TP, Buy). The team plans to recreate the successes of Lumina Copper through a similar roll-up strategy with Lumina Gold. Both the Cangrejos project and the Condor project now have NI 43-101 compliant resource estimates; however, we believe the upside will come from the exploration potential on the large land packages they have around both projects, as numerous porphyry and epithermal targets remain untested. SolGold has already demonstrated the potential for the discovery of "sleeping giants" in Ecuador's underexplored mineral belts, and Lumina Gold is well on its way to summing up a considerable resource between Cangrejos and Condor.

Analysis

- **Prolific Geological Regions** | The Condor project is located in the Condor Cordillera, a region composed of folded Jurassic-Cretaceous back-arc rocks, Jurassic magmatic intrusions and younger volcano-sedimentary cover. The region has produced several major discoveries in the past two decades, including FDN (6+Moz gold), Mirador I and II (4Moz gold, 11Blb copper) and the Nambija deposit (2Moz), forming a 20 km x 80 km district known as the Zamora Copper-Gold Belt. Currently, six deposits on the property contribute to Condor's total resource, yet there are eight additional porphyry and epithermal showings that remain untested. Cangrejos is located on the margin of the Andean cordillera, host to some of the world's largest gold-copper porphyrys. Mineralization on the property is associated with silicified, Cretaceous to Tertiary age intrusions associated with paleo-subduction margins, similar to Teck's (TCK.B-T, C\$34.00 TP, Buy) Andacollo mine in Chile.
- **Strong Local Infrastructure** | Both projects are relatively accessible from Ecuador's major hubs and transport networks. Condor is a three-hour drive from Loja via paved highway, the last 35 km on gravel road. Cangrejos is located 40 km southeast of Machala and 40 km east of the Puerto Bolivar deepwater commercial port. Cangrejos has an on-site camp, which is accessible via paved highway and 8 km of gravel road. Power to the camp is supplied from the national grid.
- **Additional Exploration Concessions** | Lumina has been an active participant in the GoE's Swiss Auction-style land acquisition process. On top of the land packages at Condor and Cangrejos, Lumina has an additional 131,000 ha of prospective exploration concessions in south-central Ecuador where it is planning mapping and sampling programs in 2017.
- **Valuation** | Without including any of the copper resources at Cangrejos and Condor, LUM is currently trading at \$12.50/oz AuEq of in-situ indicated and inferred resource, a fair discount to our *Takeover Twenty* median of \$81/oz (keeping in mind the *Takeover Twenty* is based on ounces of estimated mineable resource). LUM is up 27% over the last three months versus the group of Explorers up 7%.

Toachi Mining Inc.



High-Grade VMS with 14 Nearby Targets Identified by Advanced Geophysics

Description & Background

Previously known as Ferrum Americas Mining Inc., Toachi Mining was formed in March 2016 following the company's investment in the La Plata high-grade VMS project. The gold-rich VMS system lies within two concessions composing 2,300 ha located 85 km south of Quito at an elevation averaging 1,600m. In partnership with Sultana Del Condor Minera S.A., a long-established Ecuadorian mining and exploration company, Toachi has the option to earn a 60–75% interest in the property under a 4–6-year deal signed in February 2016. A previous, non-43-101 resource estimate completed by AMEC in a 2004 scoping study put the resource at 914KT at 8.05 gpT gold, 5.01% copper, 88.29 gpT silver, 6.71% zinc and 0.78% lead, an NSR roughly equivalent to 13 gpT AuEq. Toachi initiated a 4,000m drill campaign in August 2016 aimed at verifying the current resources and to begin exploring the 14 promising exploration targets along a 9-km strike of mineralization-favourable geology. Having just raised C\$4M, the company is considering expanding the drill program considerably and added a second drill rig in late Nov. 2016.

Since discovery in 1947, La Plata has been subject to several drilling campaigns and small-scale open-pit mining operations. Buenaventura operated the La Mina open-pit mine from 1975 to 1981 averaging 80 Tpd. Cambior Inc. completed 8,628m of drilling between 1996 and 2000. From 2006 to 2009, a joint-venture exploration campaign between Sultana and Cornerstone Capital drilled an additional 5,993m. AMEC, commissioned by Cornerstone, produced a scoping study on the property which was updated at the request of Sultana in March 2015. The Cornerstone-Sultana joint venture came to an end in 2009 and Sultana became the sole owner. Toachi became the project operator of La Plata upon the signing of the deal with Sultan in late 2015. Toachi can earn 60% over a four-year earn-in period and must expend \$4M on the project over that term (no fixed amounts per year), as well as make sliding-scale annual cash payments totaling \$2M paid on the November 6 anniversary through 2019, the last payment being \$1M. Toachi has the option to acquire an additional 5% over a two-year extension by financing the cost of a FS after the four-year earn-in is complete. Following further study, if Toachi secures project financing of less than or more than \$60M, it will earn an additional 5% or 10%, respectively.

Figure 17: Corporate Summary — Toachi Mining Inc.

		Toachi Mining		C\$	0.53
Rating	n/a	Ticker	TIM-T		
Target (C\$)	n/a	Shares O/S, Basic (m)	41.0		
Potential ROR	n/a	Shares O/S, Diluted (m)	55.1		
*all figures in C\$, unless stated otherwise		Mkt Cap, Basic (C\$m)	\$21.7		
		Avg. Daily Vol (Toronto, 000s)	41		
Company Contacts		Share Price Performance			
Management Nick Tintor Stephen Gledhill		President & CEO CFO			
Board of Directors Laurence Curtis Jonathan Goodman Peter Nixon Carolina Vargas Nick Tintor		Founder & Director Chairman & Director Director Director Pres, CEO, Director			
Summary of Financial Position (C\$m)		Primary Property/Project			
Assets Cash \$3.1 Amounts receivable \$0.1 Prepays and deposits \$0.0 Subtotal: Current Assets \$3.2 Mineral exploration and evaluation assets \$0.0 Property, plant, and equipment \$0.0 Subtotal: Non-Current Assets \$0.0 Total Assets \$3.2		Name: La Plata Ownership: 60-75% Earn-in Stage: Advanced Exploration Location: Ecuador Geology: VMS Au/Cu/Zn Royalties: Other: Past producing open-pit from 1975-1981 @ 80tpd			
Current Liabilities (000s) Trade payables \$0.4 Due to related parties \$0.0 Total Liabilities \$0.45		Other Significant Properties			
Net Assets (000s) \$2.7		Name: n/a Ownership: n/a Stage: n/a Location: n/a Geology: n/a Royalties: n/a Other: n/a			
Equity (000s) Equity attributable to owners \$2.7 Total Equity \$2.7					
** Taken from Q2 2016 financials					
Capital Structure as of June 30		Price	Basic (m)	In-the-Money	Proceeds (C\$m)
Shares Outstanding			41.0		
Options					
<C\$0.53		\$0.35/sh	1.2	1.2	\$0.4
		\$0.50/sh	0.2	0.1	\$0.1
Total			1.4	1.3	\$0.5
Warrants					
<C\$0.53		\$0.29/sh	11.1	11.1	\$3.2
≥C\$0.53		\$1.00/sh	1.5	0.0	\$0.0
Total Warrants			12.7	11.1	\$3.2
Diluted In-the-Money Shares			53.4		\$3.7
Fully Diluted Shares			55.1		\$5.3
Ownership		Shares (m)	%		Last Financing
Jonathan Goodman		9.7	23.7%		Date Nov 16
US Global Investors Inc.		6.2	15.2%		Type PP
Nicholas Tintor		1.5	3.7%		Units (Share) 13.25M
Laurence Curtis		1.3	3.2%		Price (\$) \$0.10
					Gross Proceeds (\$m) \$5.3

Source: Company filings

Investment Thesis

Toachi is an opportunity for investors to participate in a promising small to medium, but high-grade, exploration story that is being guided by a management team of proven explorers and company builders. The original VMS deposit produced in the past (1975–1981), but only on a small scale. While the La Plata project came with a good drill database, there has been relatively little exploration on the property to look for other VMS deposits and the last geophysics campaign of significance in 2002, which was still only over one-tenth of the property. Interpretive software has improved considerably in the decade and a half since then. VMS deposits tend to occur in clusters. In 2016–2017, Toachi will focus on confirming the existing 0.9MT resource, growing it with extensional drilling, and will begin testing some of the 14 new targets it has identified with its first-pass analysis. By mid-year, it hopes to have an updated resource and a PEA by H2/17. Toachi's C\$7–C\$8M cash position will allow it to carry out a comprehensive exploration program in 2017. It has a share capitalization of C\$18M at the current share price of C\$0.44, and while the latter has increased three-fold over the past year TIM's market cap is only C\$17M net of the cash, or about \$44/oz AuEq based on the old non-43-101 resource and assuming Toachi earns a 65% interest.

Analysis

We believe the La Plata project brings upside potential on several fronts:

High Grade | La Plata displays the right signs of a well-endowed, high-grade polymetallic VMS system. Drilling completed by Toachi to date has confirmed the presence of laterally extensive and near-surface, gold-rich massive sulphide lenses that are structurally hosted in local fold limbs and stratigraphic contacts. Typically, mineralization occurs at the contact between hanging-wall Andesite and footwall Dacite. This contact, along with the overlying jasper marker horizon and underlying stockwork, represents useful exploration vectors on the property. Gold and silver account for ~43% of the contained value in the historic non-compliant resource of 914KT at 8.05 gpT gold, 5.01% copper, 6.71% zinc and 88.29 gpT silver, an in-situ grade equivalent to ~20 gpT AuEq. Using historic mill recoveries and current metal prices the gross NSR would be ~\$543/tonne

VMS Deposits Often Occur in Clusters and Can Have Stacked Lenses | La Plata came with a good database of 14 km from 45 drill holes, but the vast majority were into the existing resource shell. Relatively little drilling was done elsewhere on the 2,300-ha property. For example, Toachi appears to have identified another high-grade zone near surface adjacent the historic open pit but outside of the previous resource shell.

14 New Targets | Toachi has reprocessed gravity data from a 2002 survey with leading-edge terrain correction algorithms, correlating gravity with VMS mineralization. Fourteen exploration targets have been identified over 9 km of favourable geology. The largest target is located immediately east of the existing resource. The historical gravity data only covers one-tenth of the property. Toachi's exploration program kicked off in August 2016 with a second drill beginning in late November, initially planning for a 4,000m program, but a 10,000m program is under consideration as we write. The near-term objective is to grow the historical resource to ~1.6MT. The easiest way to do this is to extend the defined resource into the lower-grade halo around the higher-grade zones. The company is also reviewing bids to extend the gravity airborne survey over the rest of the property.

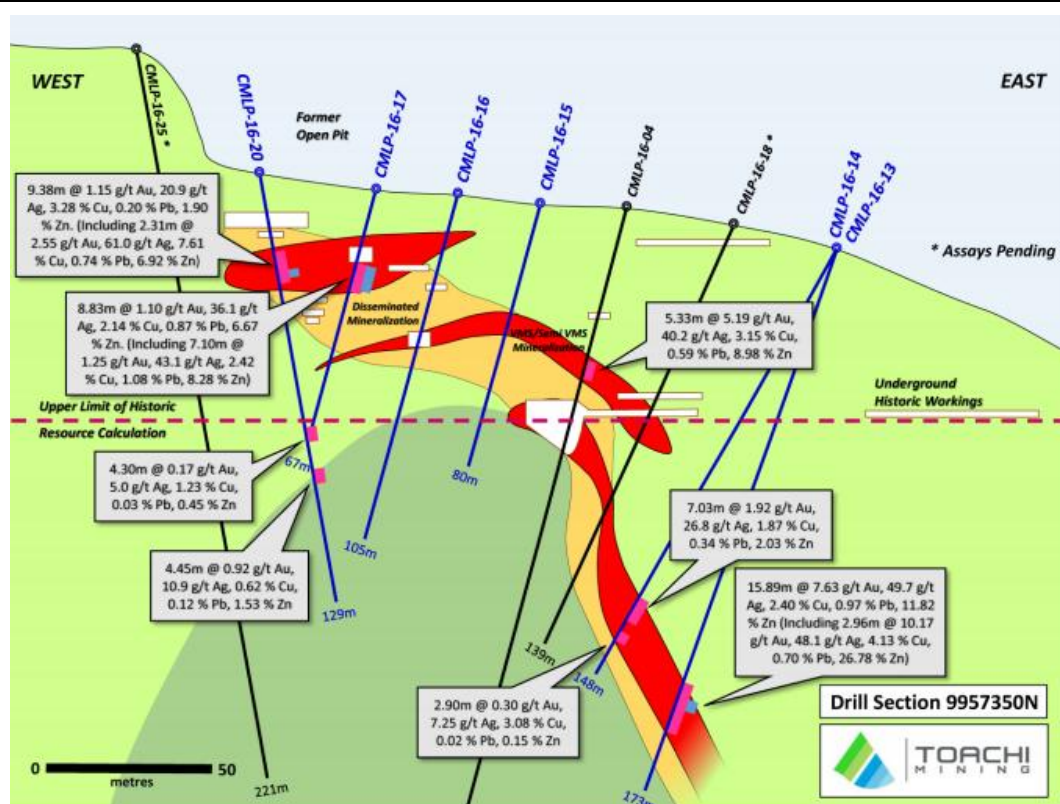
Excellent Infrastructure | La Plata is accessible from Quito via 85 km of paved highway, followed by 13 km of dirt road. The Ecuadorian government has been investing heavily in hydroelectricity across the country. In 2017, the new Toachi-Pilaton hydro power project, less than 10 km from La Plata, will come online. A mine at La Plata would have access to inexpensive hydroelectricity relative to other countries in the Americas — at 6¢/kWh. Often the lack of infrastructure is one of the factors that force companies to build larger mines, but in Toachi's case, the infrastructure advantage would allow a small mine to be viable.

Target — Small Could Be Beautiful | If Toachi achieves its size target of 1.6 MT, it could conceivably support a small high-grade mine, small enough to fall into the “small” mine threshold that enjoys lower government royalties (3–4%) for mines under 300 Tpd underground or 1,000 Tpd open pit. Royalties are 5% for larger gold mines and still undefined for base metal mines. It is also easier to permit a small

mine. For example, a 300 Tpd mine might generate a NSR over \$30M/year at current metal prices (\$1,250/oz gold, \$17.85/oz silver, \$2.67/lb copper, \$1.29/lb zinc). Toachi's share would range from 60% to 75%, depending on the path to production.

Next Steps in 2017 / A 4,000m drill program (which may expand) is ongoing at La Plata and has produced some impressive results from both shallow, near-pit mineralized zones and deeper lenses proximal to the old underground workings (Figure 18): on January 9, Toachi released results including 16m of 7.6 gpT gold, 50 gpT silver, 2.4% copper, 11.82% zinc and 0.97% lead from Hole CMLP-16-14 at 135m depth. An updated resource estimate is expected in Q2, as well as new metallurgical testwork supervised by Dr. Simon Meik, who managed mineral processing at Dundee Precious Metals for 13 years. The company plans to progress onto a PEA in Q3.

Figure 18: La Plata VMS Lenses



Source: Company filings


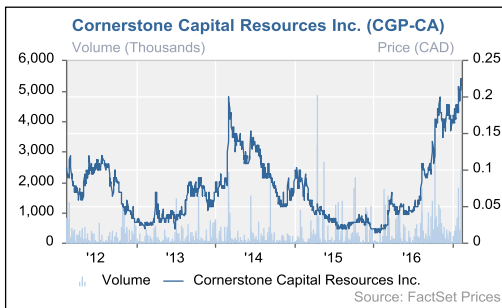
Cornerstone Capital Resource Inc.

Description & Background

Cornerstone Capital Resources has been directly involved with Ecuadorian project generation since 2005. Of the six companies we discuss in this report, Cornerstone has been one of longest players in the Ecuadorian mining industry. Currently, the company has exploration plays on large land packages in both Ecuador and Chile — its major asset being the 15% interest in the Cascabel project, a joint-venture with SolGold. The option agreement with SolGold was signed in July 2012, with SolGold providing 100% of the funding through to a Bankable Feasibility Study (BFS). In total, the company holds land packages of ~455 sq km in Ecuador. The company targets Epithermal gold-silver and porphyry copper-gold deposits. It has 100% ownership of two Ecuadorian exploration projects, Bella Maria and Vetas Grandes, and the option to earn 100% interest on a third, Cana Brava. Cornerstone also has 100% ownership on a fifth property, Miocene, targeting epithermal and porphyry deposits on a 5,014-ha land package in the renowned Chilean Maricunga Belt.

In addition to its exploration properties, in June 2016 Cornertstone signed an agreement with ENAMI, the Ecuadorian state mining company, to form a strategic alliance. The partnership allows Cornerstone to identify prospective geological areas, and ENAMI, which has the preferential right to acquire mining concession anywhere in the country, to subsequently apply for the mineral rights. Upon granting of a concession, ENAMI will grant the rights to Cornerstone in return for a 16% shareholding in a specific purpose corporation (SPC), of which Cornerstone and a funding partner (according to its project generator business model) will hold 84%. This gives Cornerstone a healthy competitive advantage with regards to acquiring mineral concessions within Ecuador. The Cornerstone-ENAMI joint venture is currently in application for a roughly 40,000-ha land package in the Cascabel district. On top of this, Cornerstone has independently applied for approximately 15,000 ha of additional land under the Swiss Auction process.

Figure 19: Corporate Summary — Cornerstone Capital Resources Inc.

		Cornerstone Capital Resources		C\$	0.29
Rating	n/a	Ticker	CGP		
Target (C\$)	n/a	Shares O/S, Basic (m)	287.4		
Potential ROR	n/a	Shares O/S, Diluted (m)	428.6		
		Mkt Cap, Basic (C\$m)	\$83.4		
*all figures in C\$, unless stated otherwise		Avg. Daily Vol (Toronto, 000s)	309		
Company Contacts		Share Price Performance			
Management H. Brooke Macdonald Sabino Di Paola Yvan Crepeau		Pres & CEO, Director CFO VP of Exploration			
Board of Directors H. Brooke Macdonald Colin McKenzie David Loveys W. John Clarke Beverly A. Evans		Pres & CEO, Director Chairman & Director Director Director Director		Source: FactSet Prices	
Summary of Financial Position (C\$m)		Primary Property/Project			
Assets Cash \$3.1 Amounts receivable \$0.1 Prepays and deposits \$0.0 Subtotal: Current Assets \$3.2 Mineral exploration and evaluation assets \$0.0 Property, plant, and equipment \$0.1 Subtotal: Non-Current Assets \$0.1 Total Assets \$3.3		Name: Cascabel Ownership: 15% (85% SolGold plc) Stage: Advanced Exploration Location: Ecuador Geology: Porphyry Cu-Au Royalties: Other : Exploration 100% funded by SolGold plc			
Current Liabilities (000s) Trade payables \$0.1 Flow through share tax liability \$0.0 Total Liabilities \$0.1		Other Significant Properties			
Net Assets (000s) \$3.2		Name: Bella Maria Ownership: 100% Stage: No presently planned exploration Location: Ecuador Geology: Porphyry Au-Cu Royalties: n/a Other :			
Equity (000s) Equity attributable to owners \$3.2 Total Equity \$3.2		Name: Miocene Ownership: 100% Stage: No presently planned exploration Location: Chile Geology: Porphyry Au-Ag-Cu Royalties: n/a Other :			
** Taken from Q3 2016 financials					
Capital Structure as of June 30		Price	Basic (m)	In-the-Money	Proceeds (C\$m)
Shares Outstanding			287.4		
Options					
<C\$0.29		\$0.09/sh	11.1	11.1	\$1.0
		\$0.19/sh	3.9	0.7	\$0.1
Total			15.0	11.9	\$1.2
Warrants					
<C\$0.17		\$0.10/sh	97.7	97.7	\$9.6
		\$0.20/sh	28.5	5.7	\$1.1
Total Warrants			126.2	103.4	\$10.7
Diluted In-the-Money Shares			402.7		\$11.9
Fully Diluted Shares			428.6		\$17.0
Ownership		Shares (m)			%
Solgold plc		31.2			10.9%
Lachlan Gold LTD		17.5			6.1%
Tenstar Trading Co.		17.5			6.1%
Last Financing					
Date		May 2016			
Type		PP			
Units (Share Price (\$))		45M/45M warrants \$0.10 / \$0.10			
Gross Proceeds (\$m)		\$4.5			

Source: Company filings

Investment Thesis

We are always hesitant to say that a company is a “no brainer” takeover candidate, but occasionally we come across just such a situation, and that would be our assessment of Cornerstone. If we assume that SolGold’s £600M share capitalization (at £0.42/sh) is entirely tied to its 85% direct interest in Cascabel, then at the current exchange rate of 1.25 USD/£ each percentage point of Cascabel is worth \$8.8M. At the current USD/CAD exchange rate of 0.76, Cornerstone’s 15% direct interest in Cascabel is being valued at \$4.2M per percent, or only 48% of SolGold’s. If SolGold is a takeover candidate, Cornerstone is even more compelling. In fact, the discount is even steeper because Cornerstone is carried through feasibility, and drilling a major porphyry takes tens of millions of dollars. Furthermore, no acquirer would want a pesky minority partner to deal with. Our experience has been that the senior operator would generally seek to strangle the minority partner, depriving it of information and making large capital calls for the junior to maintain its interest, but 15% of a very large and high-grade project would have sufficient appeal that we think the junior could find that capital (our opinion is based on our experience with unique projects).

Analysis

- **Cascabel** | Our analysis of the Cascabel project can be found in our Solgold company description.
- **Timing** | In terms of timing, we would be surprised if Cornerstone makes it through 2017 without some kind of bid. Shareholders might well end up with a bucket of the acquirer’s shares or cash plus an exploration spinco, for Cornerstone is a project generator, has a portfolio of properties outside the Cascabel region and is well positioned to acquire new properties from the Ecuador government.
- **Catalysts** | What are the catalysts that could trigger a bid? The elections would be a key one. A buyer might want to know that a pro-mining president and party have been elected, waiting a few months to see if the new government planned material changes to the tax and investment strategy of the existing government. There are also only 18 drill holes into Cascabel. Buyers will no doubt have plotted these up to see if there are other critical holes required to confirm the expansion potential before bidding; e.g., a few holes into some of the more promising of the 14 targets.
- **Valuation Comments** | As mentioned previously, Cornerstone does not have to fund the Cascabel project up to a BFS, which will likely cost a significant sum. It is currently trading at C\$0.29/sh and is up 1350% over the past year. With a market capitalization of \$63M and 15% share in Cascabel, Cornerstone is trading at 0.5x the market’s perception of Cascabel’s value. Cornerstone offers investors the chance to move early into a largely discounted story that we believe is the most likely takeover candidate going forward into a new, mining favourable jurisdiction.

DISCLAIMER SECTION

Company	Ticker	Disclosures
Dundee Precious Metals	DPM-T	3
First Quantum Minerals	FM-T	3
IAMGOLD Corp.	IMG-T	2,3
Kinross Gold	K-T	3
Lundin Gold	LUG-T	3
Teck Resources	TCK.B-T	3

Note: Please refer to above table above for applicable disclosure numbers.

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2. Paradigm Capital Inc. has assumed an underwriting liability for, and/or provided financial advice for consideration to the subject companies during the past 12 months.
3. Paradigm Capital Inc. expects to receive or intends to seek compensation for investment banking services from the subject companies in the next 3 months.
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Spec. Buy	22	14%	Speculative Buy - Expected returns of 20% or more over the next 12 months on high-risk development or pre-revenue companies, such as junior mining and other early stage companies.
Hold	9	6%	Hold - Expected returns of less than +/- 20% over the next 12 months.
Sell*	1	1%	Sell - Expected returns of -20% or more over the next 12 months.
Under Review	32	20%	Under Review - Estimates, Target and/or Recommendation under review.
Total	161		

*Includes companies with a "Tender" recommendation

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