

Algold Resources (ALG-V)

More Drill Results From Tijirit Project in Mauritania

September 08, 2016
Michael D. Curran, CFA
(416) 507-3950
mcurran@beaconsecurities.ca

Algold Resources controls land positions to the north and southeast of Kinross Gold's (K-T, not covered, no rating) Tasiast gold mine in Mauritania. The focus of current exploration activity is the **Tijirit Project** located some 30km southeast of the Tasiast gold mine. In July, Algold reported a maiden resource estimate of **270Koz of gold** (M+I+I) within three zones (Eleonore, Lily, and Sophie - see fig1).

Drill Result Takeaways: this morning, the company reported additional assay results from the Phase 1 drill programme.

- Eleonore Zone Results** – headline intercept of **3m grading 30g/t** (mostly from 1m grading 86g/t) was encountered in the northern area, between hole#45 and #24 (see fig.1). Hole#45 encountered **5m grading 6.6g/t** gold, some 240m SSW of hole#24. Other holes from Eleonore were less impressive (2-5m grading 1-2g/t), but the company now has 3 separate high-grade areas along the 3km long strike to delineate (and perhaps connect) with drilling.
- Lily Zone Results:** hole#52 yielded 14m grading 1.03g/t and 6m grading 1.59g/t.
- Sophie Zone Results:** hole#65 yielded 10m grading 1.29g/t and 8m grading 1.11g/t.
- Regional Results:** rock chip sampling has also generated positive results suggesting structures that host gold mineralization extend +20km.

Phase 2 Underway: last month Algold management approved a 10,000m Phase 2 drill programme that will focus on the Eleonore and Sophie II zones, as well as test additional targets. The company has the necessary funds and expects to complete Phase 2 drilling before the end of this year.

Initiating Target Price Speculative BUY (unch) \$0.85 (new)

Previous Close	\$0.32
12-month Target Price	\$0.85
Potential Return	166%
Dividend Yield	0.0%
52 Week Price Range	Low \$0.07 High \$0.40

(C\$MM, except per unit)	Annual Estimates			
	FY15	FY16e	FY17e	FY18e
Revenue	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	-\$0.8	-\$1.7	-\$1.7	-\$1.7
Shares O/S (wgt avg)	54	100	125	185
EPS (operating)	-\$0.01	-\$0.02	-\$0.01	-\$0.01
CFPS	-\$0.01	-\$0.02	-\$0.01	-\$0.01

Valuation				
P/E	neg.	neg.	neg.	neg.
P/CF	neg.	neg.	neg.	neg.
NAV	-	-	-	-
P/NAV	-	-	-	-

Financials		
Shares Outstanding	118.2	million
Mgt/Insiders	4%	
	(C\$MM)	
Market Cap	\$37.8	
LT Debt (corporate)	\$0.0	
Working Capital	\$5.0	
Enterprise Value	\$32.8	
Fiscal Year End	December 31	

Reserves / Resources		
2P Reserves	-	
M+I Resources	0.03	MMoz
Total Resources (M+I+I)	0.27	MMoz

	Quarterly Estimates			
	Q1/15	Q2/15	Q3/15	Q4/15
EPS (operating)	-\$0.01	\$0.00	\$0.00	\$0.00
CFPS	-\$0.01	\$0.00	\$0.00	\$0.00
	Q1/16	Q2/16	Q3/16e	Q4/16e
EPS (operating)	\$0.00	-\$0.01	\$0.00	-\$0.01
CFPS	\$0.00	-\$0.01	\$0.00	-\$0.01

Company at a Glance

Algold Resources is a mineral exploration company focused on a portfolio of properties in Mauritania, near Kinross Gold's Tasiast Gold Mine. **All prices in C\$ unless otherwise indicated.**

Stock Performance

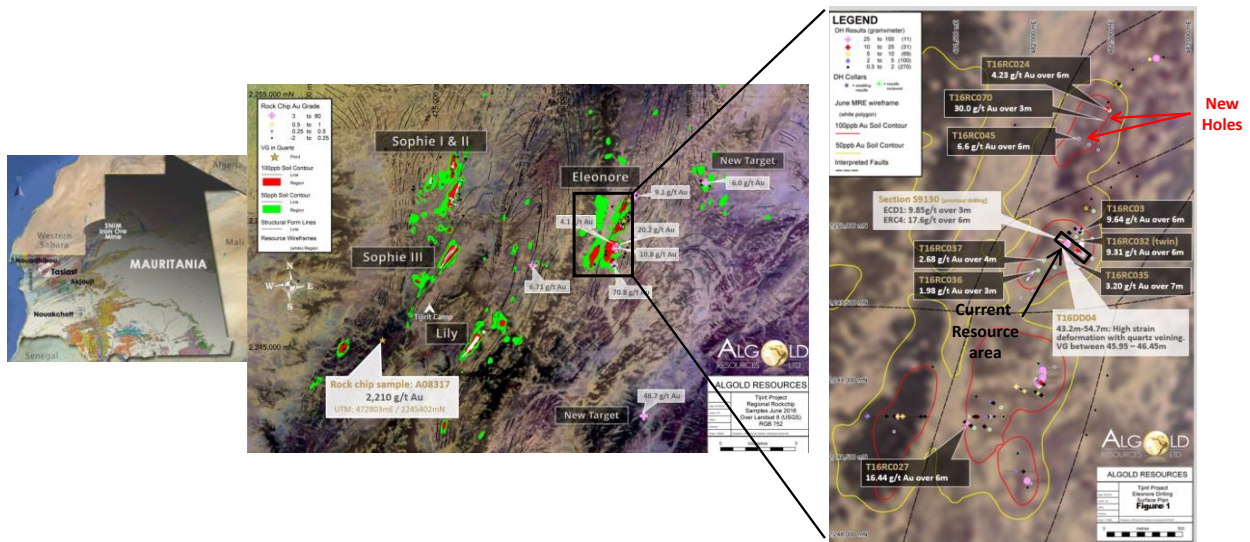


Investment Thesis...Prospective Ground With Motivated Buyer On Successful Exploration

We view Algold Resources as an attractive speculative play for exploration success in Mauritania. The company controls a large land position to the north and south of Kinross Gold's Tasiast gold mine (15MMoz of total gold resources, currently 250Koz/yr production). Several principals of the company were involved with building the Tasiast mine, thus have experience doing business in the country. Algold also holds gold properties in Burkina Faso, where management has ample experience (with SEMAFO).

We maintain our view that any discovery in the region with grades above Tasiast (reserves are 8.2MMoz - 132MMt grading 1.9g/t gold) could be of interest to Kinross Gold. Earlier this year, Kinross Gold announced the go-ahead for the Phase 1 expansion of the Tasiast mine, increasing daily throughput from 8,000 to 12,000tpd, to achieve gold output of 400Koz/yr. Kinross also outlined the parameters of a Phase 2 expansion (+\$900MM capex) to take gold production to 777Koz/yr.

Fig 1 Tijirit Property Maps: Eleonore Zone Detail (far right)



Source: Company report

Valuation Methodology

Our preferred valuation for mining equities employs cash flow-base metrics such as P/CF and P/NAV, using life-of-mine production forecasts and our commodity price assumptions. However, for earlier-staged explorers without reported resources that could be DCF modeled with any accuracy, we employ the more basic valuation metric of **Adjusted Market Capitalization per total resource ounce (AMC/oz)**.

For Algold, we are targeting a 1.5MMoz resource at Tijirit. In terms of a target AMC/oz multiple, we believe Algold can command premium multiples for the higher-grade nature of the gold mineralization at Tijirit. As a result, we employ a target multiple of US\$50/oz, which represents a 20% discount to the current peer group average (see fig 3) for the fact that our targeted resource has yet to be achieved.

Fig 2 NAV Breakdown: Algold Resources

	Target	Target	Per Share (C\$/sh)			
	Resource (MMoz)	AMC/oz (US\$/oz)	Value C\$M	FY17e	FY18e	FY19e
Tijirit (Mauritania)	1.5	\$50	\$98	\$0.83	\$0.83	\$0.83
Other assets			\$0	\$0.00	\$0.00	\$0.00
OPERATING ASSETS			\$98	\$0.83	\$0.83	\$0.83
Working Capital			\$5	\$0.04	\$0.04	\$0.04
LT Debt (corporate only)			\$0	\$0.00	\$0.00	\$0.00
CORPORATE ASSETS			\$5	\$0.04	\$0.04	\$0.04
NET ASSET VALUE			\$103	\$0.88	\$0.88	\$0.87

Source: Company website


Using our targeted resource and AMC/oz multiple generates a **\$0.85** target price for ALG shares.

Fig 3 Peer Group of Explorers: AMC/oz

Company	Sym- Exch	Share Price C\$/sh	Shares O/S M	Market Cap US\$M	AMC US\$M	(M+1)	(M+1+1)	Gold Grade g/t	AMC/ M+1 oz US\$/oz	AMC/ M+1+1 oz US\$/oz	Area of Major Exploration	
						Measured Indicated 000oz	Total Resource 000oz					
Auryn Resources	AUG-V	\$3.40	62	\$161	\$150	678	1,507	5.48	221	100	Colombia	
Continental Gold	CNL-T	\$4.00	141	\$435	\$407	2,800	7,000	8.84	145	58	Quebec	
Dalradian Resources	DNA-T	\$1.51	218	\$253	\$238	1,004	3,492	9.90	237	68	Quebec	
Eastmain Resources	ER-T	\$0.91	175	\$123	\$112	951	1,584	4.01	117	70	Quebec	
Golden Reign Resources	GRR-V	\$0.32	163	\$40	\$39	150	938	7.44	261	42	Quebec	
IDM Mining	IDM-V	\$0.20	228	\$34	\$28	441	549	7.92	64	51	Quebec	
Integra Gold	ICG-V	\$0.80	446	\$275	\$237	1,165	2,193	6.90	203	108	BC	
K92 Mining	KNT-V	\$1.55	98	\$117	\$107	250	1,450	8.13	429	74	Ontario	
Lundin Gold	LUG-T	\$5.93	119	\$541	\$479	7,260	9,810	8.52	66	49	Nunavut	
Pure Gold	PGM-V	\$0.72	147	\$81	\$74	928	1,225	9.61	80	61	Nunavut	
									Mean	194	69	
									Median	203	68	
Algold Resources-current	ALG-V	\$0.37	110	\$31	\$23	-	270	1.71		85	Mauritania	
Algold Resources-target	ALG-V	\$0.85	110	\$72	\$72	-	1,500	5.00		48	Mauritania	

Source: Company reports, Thomson Reuters Eikon share data

Appendix : Summary Financials

Algold Resources				Beacon Securities Limited						
		Symbol ALG-V	Share Price \$0.32							
		Stock Rating Speculative Buy	Shares O/S (MM) 118.2	Float (MM) 103.0						
		Price Target \$0.85	Mkt Cap (\$MM) 38							
				Michael Curran, CFA (416) 507-3950						
INCOME STATEMENT				Management		Other Directors				
		FY15	FY16e	FY17e						
Revenues	C\$MM	-	-	-	Francois Auclair	President/CEO/Director	John Hick			
Operating Costs	C\$MM	-	-	-	Benoit La Salle	Chairman	Mario Caron			
EBITDA	C\$MM	(0.8)	(1.7)	(1.7)	Yves Grou	Exec. Vice-Chairman	Salma Seetaroo			
DD&A	C\$MM	-	-	-	Dejan Ristic	CFO	Mary Batoff			
EBIT	C\$MM	(0.8)	(1.7)	(1.7)	Andre Ciesielski	Sr. Technical Consultant	Darin Milmeister			
Interest Expense	C\$MM	-	-	-	Options (MM)	Avg. Price	Warrants (MM)			
EBT	C\$MM	(1.0)	(1.5)	(1.5)	5.1	\$0.22	61.3			
Taxes/Recovery	C\$MM	-	-	-			\$0.23			
Net Income (reported)	C\$MM	(0.8)	(1.7)	(1.7)	Recent Financings					
Non-Recurring Items/Other	C\$MM	(0.1)	0.2	0.2	Date	Amount	Price	Type	Warrant	Expiry
Net Income (operating)	C\$MM	(0.7)	(1.5)	(1.5)	JUL-2016	\$4.0	\$0.30	brokered/non-brok	\$0.40	JUL-2017
Shares o/s (wgt avg.)	MM	53.7	100.0	125.0	APR-2016	\$3.5	\$0.10	non-brokered	\$0.15	APR-2018
EPS (operating)	\$/sh	(\$0.01)	(\$0.02)	(\$0.01)	JUN-2015	\$2.5	\$0.22	brokered/non-brok	\$0.30	DEC-2016
P/E Multiple	x	n.m.	n.m.	n.m.						
Cash Flow (operating)	C\$MM	(0.7)	(1.5)	(1.5)						
CFPS	\$/sh	(\$0.01)	(\$0.02)	(\$0.01)						
P/CF Multiple	x	n.m.	n.m.	n.m.						
BALANCE SHEET										
Cash & Equivalents	C\$MM	1.1	0.8	2.3						
Total Current Assets	C\$MM	1.2	0.9	2.4						
PP&E & Mining Interests	C\$MM	6.9	9.6	11.5						
Other	C\$MM	0.1	0.1	0.1						
Total Assets	C\$MM	8.2	10.6	14.0						
Current Liabilities	C\$MM	0.8	0.8	0.8						
Long Term Debt	C\$MM	-	-	-						
Other LT Liabilities	C\$MM	0.2	0.2	0.2						
Total Liabilities	C\$MM	0.9	0.9	0.9						
S/Holder Equity	C\$MM	6.9	9.3	12.6						
Total Liab. & S/Holder Equity	C\$MM	8.2	10.6	13.9						
Working Capital	C\$MM	0.4	0.2	1.6						

Source: Company reports, Beacon estimates

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As at August 31, 2016	# Stocks	Distribution
Buy	57	67%
Speculative BUY	14	16%
Hold	6	7%
Sell	0	0%
Under Review	8	9%
Total	85	100%

Buy Total 12-month return expected to be >15%
 Speculative Buy Potential total 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
 Hold Total 12-month return expected to be between 0% and 15%
 Sell Total 12-month return expected to be negative

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