

Algold Resources (ALG-V)

New Gold Zone At Tijirit Project in Mauritania

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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.

Drill Results: this morning, Algold reported initial assay results from the 10,000m Phase 2 drill programme. Gold mineralization at Eleonore has now been observed over a 3.4km strike length (not including the new Nour discovery – see below).

1. **Eleonore North** – drill intercepts of **4m grading 3.9g/t** and **3m grading 2.4g/t** (new vein), the latter which extends the mineralized zone some 300m to the northeast.
2. **Eleonore Central:** hole#116 yielded **4m grading 1.3g/t**, extending the zone 50m southwest.
3. **Eleonore South:** drill intercepts of **3m grading 2.5g/t** (new vein) and **6m grading 1.7g/t**, the latter which extends the mineralized zone to 150m depth. To date, this zone looks the most complex, with a large array/swarm of quartz veins (with both high and low grade).
4. **Nour Discovery:** panel rock chip sampling some 8km along strike to the north of Eleonore has also generated positive results (up to 17g/t gold), with mineralization displaying similar features to that observed at Eleonore.

Our Take: several of the reported intercepts represent parallel structures to the main high-grade veins, thus reflect widening the mineralized zones at Eleonore. With multiple veins, gold resources can grow more rapidly, as well as provide wider zones for future mining (open pit or underground). **Nour** looks very interesting, as it could materially expand the prospectivity of the overall Tijirit property.

Update

Speculative BUY (unch) \$0.85 (unch.)

Previous Close	\$0.35
12-month Target Price	\$0.85
Potential Return	146%
Dividend Yield	0.0%
52 Week Price Range	Low High \$0.07 \$0.44

	Annual Estimates			
(C\$MM, except per unit)	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	\$40.8			
LT Debt (corporate)	\$0.0			
Working Capital	\$5.0			
Enterprise Value	\$35.8			
Fiscal Year End	December 31			

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

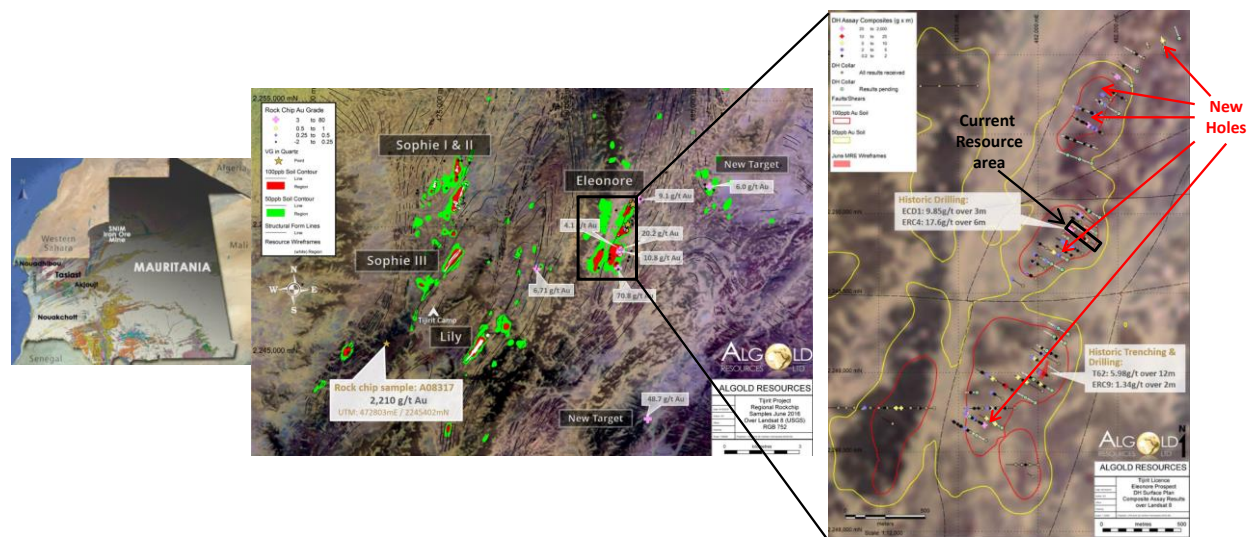


Investment Thesis...Prospective Ground With Motivated Buyer On Successful Exploration

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 +8MMoz 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-based 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 Resource (MMoz)	Target AMC/oz (US\$/oz)	Value C\$M	Per Share (C\$/sh)		
				FY17e	FY18e	FY19e
Tijirit (Mauritania)	1.5	\$50	\$98	\$0.82	\$0.82	\$0.82
Other assets			\$0	\$0.00	\$0.00	\$0.00
OPERATING ASSETS			\$98	\$0.82	\$0.82	\$0.82
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	\$0.87	\$0.87	\$0.86

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+I)	(M+I+I)	Gold Grade g/t	AMC/ M+I oz US\$/oz	AMC/ M+I+I oz US\$/oz	Area of Major Exploration	
						Measured Indicated 000oz	Total Resource 000oz					
Auryn Resources	AUG-T	\$3.07	67	\$157	\$146	678	1,507	5.48	216	97	Nunavut	
Continental Gold	CNL-T	\$3.95	142	\$430	\$402	2,800	7,000	8.84	144	57	Columbia	
Dalradian Resources	DNA-T	\$1.37	242	\$255	\$240	1,004	3,492	9.90	239	69	N.Ireland	
Eastmain Resources	ER-T	\$0.67	175	\$90	\$79	951	1,584	4.01	83	50	Quebec	
Golden Reign Resources	GRR-V	\$0.31	163	\$39	\$38	150	938	7.44	253	40	Nicaragua	
IDM Mining	IDM-V	\$0.18	279	\$39	\$33	441	549	7.92	74	59	BC	
Integra Gold	ICG-V	\$0.76	477	\$279	\$241	1,165	2,193	6.90	207	110	Quebec	
K92 Mining	KNT-V	\$1.37	114	\$120	\$110	250	1,450	8.13	441	76	Philippines	
Lundin Gold	LUG-T	\$6.21	119	\$567	\$505	7,260	9,810	8.52	70	51	Ecuador	
Pure Gold	PGM-V	\$0.66	173	\$88	\$81	928	1,225	9.61	87	66	Ontario	
									Mean	192	68	
									Median	207	59	
Algold Resources-current	ALG-V	\$0.35	111	\$29	\$21	-	270	1.71		80	Mauritania	
Algold Resources-target	ALG-V	\$0.85	111	\$73	\$73	-	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		\$0.35				
Stock Rating		Speculative Buy		Shares O/S (MM)		118.2 Float (MM) 103.0				
Price Target		n.a.		Mkt Cap (\$MM)		41				
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	15.3			
Taxes/Recovery	C\$MM	-	-	-			\$0.30			
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)	APR-2016	\$3.5	\$0.10	non-brokered	\$0.15	APR-2018
Shares o/s (wgt avg.)	MM	53.7	100.0	125.0	JUN-2015	\$2.5	\$0.22	brokered/non-brok	\$0.30	DEC-2016
EPS (operating)	\$/sh	(\$0.01)	(\$0.02)	(\$0.01)	FEB-2015	\$0.4	\$0.20	non-brokered	\$0.25	AUG-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 October 31, 2016	# Stocks	Distribution
Buy	62	72%
Speculative BUY	14	16%
Hold	3	3%
Sell	0	0%
Under Review	6	7%
Tender	2	2%
Total	86	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
Tender	Clients are advised to tender their shares to takeover bid or similar offer

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