

GoGold Resources Inc. (GGD CN)

Hidden value in new Los Ricos discovery

RECOMMENDATION: BUY

PRICE TARGET: C\$1.10/sh

RISK RATING: SPECULATIVE

SHARE DATA

Shares (basic, FF FD)	186 / 193
52-week high/low	C\$0.24 / C\$0.80
Current price / market cap (C\$/m)	0.66 / 123
Net cash (debt) (US\$m)	5.6
Average daily value (US\$000, 3M)	67
1.0xNAV5% @ US\$1400/oz (US\$m)	304
1.0xNAV5% FD (C\$/sh)	2.07
P/NAV (x)	0.32x
Parral / L Ricos NAV multipl.	1.0x / 0.4x

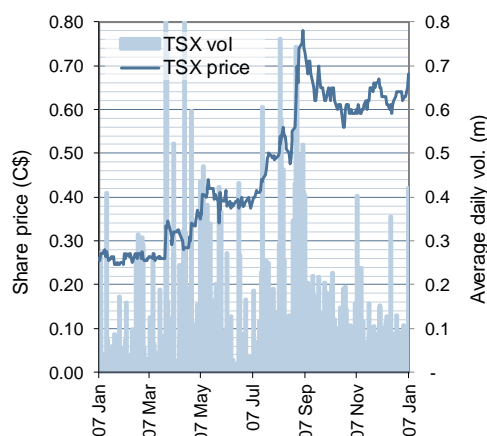
FINANCIALS

	CY19E	CY20E	CY21E
Silver sold (000oz)	1.9	1.9	1.9
Revenue (US\$m)	32	34	33
AISC (US\$/oz)	14	14	14
Income (US\$m)	0.6	3.2	2.3
EPS (USc)	0.3	1.7	1.2
PER (x)	160.5x	29.8x	41.9x
CFPS (USc)	0.82	(0.38)	(1.88)
PCF (x)	0.0x	-	-
EBITDA (US\$m)	6.2	8.0	6.5
EV/EBITDA (x)	14.0x	10.7x	13.2x

1xNAV OVER TIME

	1Q20	1Q21	1Q22
1xNAV5% FD (US\$m)	285	292	305
1xNAV5% FD (C\$/sh)*	1.94	1.99	2.08

*Diluted for options not for mine build



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‘Everyone knows GoGold’ – or do they? New asset Los Ricos is key

Despite a strong history selling >\$1.2bn of mining asset in Mexico, GoGold’s Parral tailings project suffered from poor commissioning and low commodity prices in recent years. We think this, and the pre-resource status, may have caused investors to miss recent drilling supporting a potential 100Moz AgEq discovery at recently acquired Los Ricos. As such, we would expect a short- and medium-term re-rate for GoGold post 2Q20 maiden resource, and as the asset de-risks through feasibility studies thereafter.

SCPe up to 100Moz pitable silver at 200-225g/t Ag Eq in Mexico

Los Ricos is an intermediate to low-sulfidation epithermal vein striking over 1,200m. Mineralisation is ~20m thick, but only 2-3m of high-grade was stoped from a historic 900m deep UG mine. Rather than remnant mining, GoGold is drilling through the old stopes. The attraction for investors is the linearity of the ore, enabling a rough estimate of the resource potential. With drill intercepts averaging 20m true thickness, we estimate existing drilling has already defined ~70Moz @ ~210g/t AgEq in a 12:1 strip pit, with areas assessed from historic face sampling, but not drilled, potentially lifting this to ~100Moz.

Parral: not core to thesis but operations and Ag price drives FCF

This tailings retreatment heap-leach had a poor start with 10m stacks creating channelling. However, having now moved to 5m stacks, we forecast 1.9Moz pa AgEq at an AISC of US\$13.9/oz, in line with SepQ19 actuals. The attraction is simply SCPe ~US\$8m pa of FCF to fund central costs and drilling over the coming eight year life as production and commodity prices now improve.

Strategic belt in Jalisco state, management has done it before

In addition to Los Ricos, GoGold has 220km² along strike on a well mineralised belt that has only seen small-scale mining. Based in Jalisco state, we saw a safe and stable region, with no opposition to mining in evidence when we visited the site. The team has form here, having sold multiple assets for a combined >C\$1.2bn including Gammon / Ocampo, Mexgold / El Cubo, and Nayarit. In fact, even in GoGold the team successfully sold Santa Gertrudis to Agnico Eagle in 4Q17. As such, with Parral funding drilling, we think investors can have their cake (Los Ricos development or sale) and eat it too (continued belt exploration).

Initiate with BUY rating and C\$1.10/sh PT

We model Los Ricos as a 1.5Mtpa open pit producing 9.5Mozpa at an AISC of US\$10.60/oz AgEq for a US\$244m NPV_{5%/1400/16.50}. Applying a 0.4xNAV multiple given the pre-resource status, and 1xNAV to the operating Parral mine, less central costs, drives our US\$158m NAV and C\$1.10/sh FD PT. With Silvercrest trading at US\$5.99/oz AgEq, and the smaller and lower grade Santa Elena project sold to First Majestic at US\$3.32/oz when silver was US\$14.5/oz, GoGold’s implied EV/in-situ of US\$0.91-1.27/oz on 72-100Moz from our drilled and targeted estimates presents a compelling investment.

Discovery underpins value, with self-funding heap leach and upside from belt-control

GoGold has two core assets; the Parral operating heap-leach project treating old tailings from the namesake town in Chihuahua, and a development stage silver-gold epithermal project, Los Ricos, in Jalisco state near the capital Guadalajara. The heap leach made little cash post commissioning-issues, and then with low commodity prices, but since the recent price rally and after a record quarter in September 2019, the asset now funds central costs and exploration. However, Los Ricos underpins the value in the company and is the focus of our report.

Figure 1 Project locations; Parral heap-leach operations; Los Ricos surface expression and drill collars



Source: GoGold, SCP, Google Earth

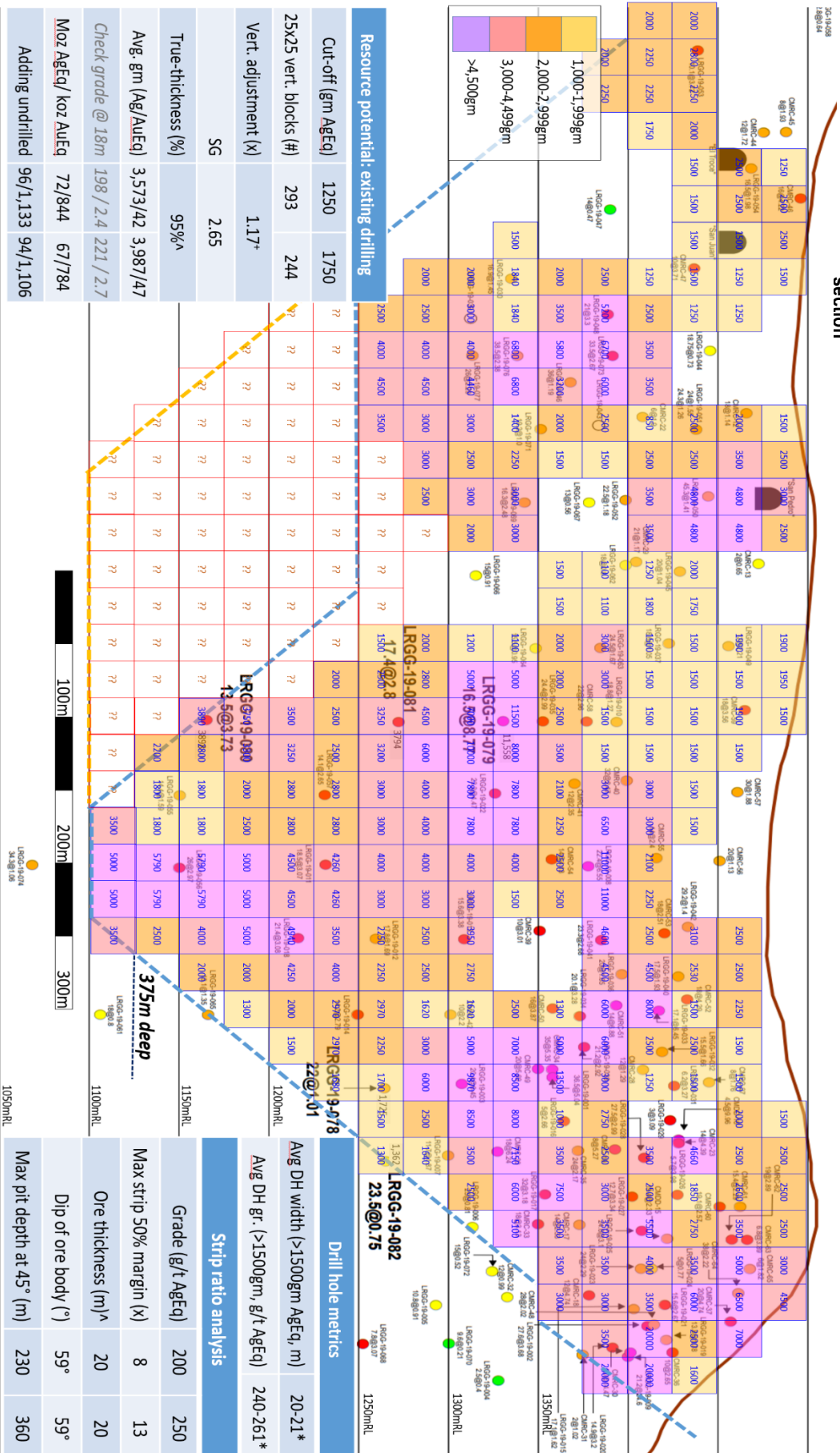
Los Ricos: new thinking generates new discovery

Despite newly acquired Los Ricos being a historic underground mine, GoGold has now discovered a large high-grade pitable resource around, and completely excluding, the old stopes. The 'ah hah' moment followed (i) initial twin drilling of three holes showing historic assays under-estimated bonanza silver by as much as ~40%, (ii) discovery of mine records, including face sampling of unmined wall rock, at a US university, and ultimately (iii) drilling averaging ~20m @ ~260g/t AgEq (3.1g/t AuEq) in the halo around, and along strike from, old stopes. This grade in a pitable resource where historic recoveries exceed 90% in a conventional tank-leach leach circuit underpins investment thesis.

SCPe ~70Moz @ ~210g/t AgEq drilled at Los Ricos already; testing 95Moz AgEq in core area

The attraction of Los Ricos from an investment standpoint is the linear geometry of the ore body; most mineralisation is in a single plane. This enables long-section analysis for rough estimates of the metal endowment of the system. We assessed thickness from pierce points (~20m), at a grade of 200-220g/t AgEq at various cut offs. We show our workings overleaf in Figure 2, which supports an already drilled resource of 67-72Moz; adding undrilled areas at a similar grade and hit-miss ratio would lift this to 94-96Moz on our estimates. We have put this in a rough pit with 45° pit slopes, showing that these grades could support a 50% gross margin at 230m depth using the lower 200g/t, or down to 360m where grades are 250g/t. Although we have adjusted for true-thickness and ore body dip, included 65 holes drilled historically, and excluded all void / backfill areas despite backfill averaging 105g/t AgEq (US\$50/t NSR) in historic drilling, this is of course a very preliminary estimate designed as an approximate guide only. However, what is clear in our mind is that this deposit has all the hallmarks of the rare 'will be a mine' discovery. The opportunity we see is a silver asset 'hidden' inside a company inappropriately named GoGold, where investor attention is focussed on the historically underperforming Parral tailings project.

Figure 2: Long section showing SCPe silver gram-meter contours above GoGold drilling long-section



^aOre body 59° oblique to long section; ^b50° hole dip; 59° ore body dip

Source: SCP estimates, GoGold drill data

Peer M&A and equity valuations highlight upside for GoGold

Two peer comparisons for Los Ricos come from (i) Silvercrest Mines' Santa Elena mine, sold to First Majestic in 4Q15, and (ii) Silvercrest Metals, recently financed for its mine build at Las Chispas. **Santa Elena** provides the best comparison given the grade, metallurgy and plant size: 31Moz @ 177g/t AgEq was sold for US\$3.32/oz at a time when Silver was US\$14.52/oz. By comparison, if GoGold define 72Moz (our already-drilled estimate) to 100Moz (including areas assed from UG mine records but not drilled), it puts the company on just 95-133c/oz AgEq for a larger, higher-grade, and open pit asset at Los Ricos. Forecast total cash costs of ~US\$11/oz in both cases provides a broad sense-check to our modelling. The higher-grade **Las Chispas'** 97Moz @ 780g/t AgEq trades at a substantial premium of US\$5.99/oz, with SSR recently investing equity at US\$7.46/oz or 1.8x published NPV. While these premiums partially represent the high-grade nature of Las Chispas and the operating status of Santa Elena, plus exploration upside, it is clear that, rightly or wrongly, silver assets trade at a premium. Interestingly, Los Ricos drilling has averaged 62% silver, whereas Santa Elena and Las Chispas are only 43% and 54%, respectively.

Table 1. EV/in-situ and P/NAV for

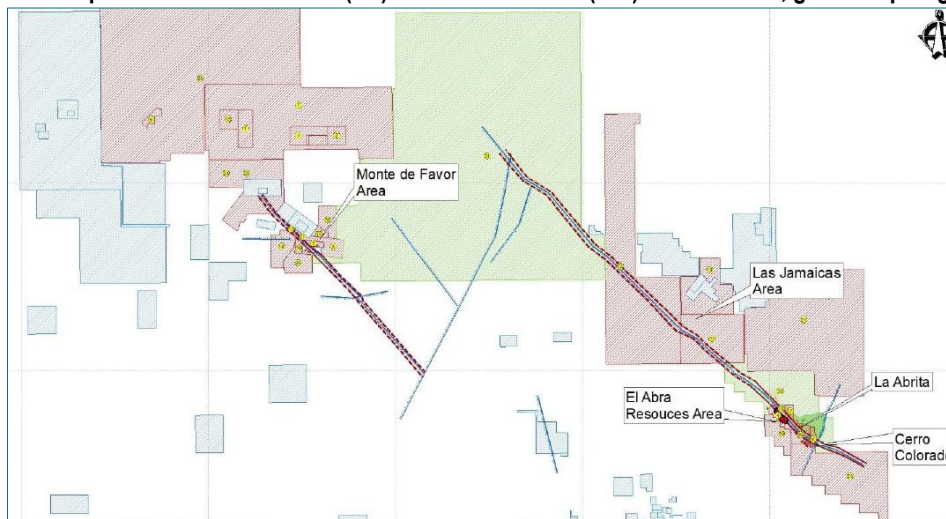
	Silvercrest Mines	Silvercrest Metals	GoGold	
Asset	Santa Elena	Las Chispas	Los Ricos	Los Ricos
Resource date	4Q15	3Q19 PEA	SCPe: bear	SCPe: base
Mining inventory (kt) ^A	5,509	3,860	9,917	13,824
Grade (AgEq) ^B	177	780	200-225	
Silver (%)	43%	54%	62%	
Silver px (US\$/oz)	14.52	17.76	17.76	
Mining invent'y (Moz AgEq)	31	97	72	100
FD mkt cap (US\$m) ^C	-	854	97	
Net cash (US\$m) ^D	-	130	6	
EV (US\$m)	104	724	91	
EV/in-situ (US\$/oz AgEq)	3.32	7.48	1.27	0.91
AISC (US\$/oz AgEq) ^E	11.00	7.52	10.60	
Discount (%)	5%	5%	5%	
Gold price (US\$/oz)	1115	1269	1400	
Silver price (US\$/oz)	20	16.68	16.47	
NPV (US\$m) ^F	119	407	220	288
P/NAV (x)	0.87x	1.78x	0.41x	0.32x

(A) Silvercrest Mines: First Majestic 31 Dec 2015 reserves 3M post October 1 2015 acquisition; Silvercrest Metals 3Q19 PEA; GoGold: SCP estimates; (B) AgEq 85:1 using US\$1,400/oz Au and US\$16.47/oz Ag as used throughout this report, Los Ricos grade from SCP long-section + drill analysis; (C/D) Diluted for ITM options + warrants and post period end equity; cash as last reported, plus diluted ITM options / warrants, and post period end equity, at C\$8.06/sh (D) Silvercrest Mines valuation based on acquisition price at October 1 2015 as reported by First Majestic in 2015 Annual Report; (E) SILV costs based on 'total operating costs', GGD based on US\$25/t G&A + processing and US\$2.50/t mining using SCPe mining inventory; (F) Silvercrest Mines PFS dated December 2014, Silvercrest Metals 3Q19 PEA, GoGold based on SCP estimates, adding Parral NAV and deducting central G&A

Upside from belt-control in prolific Mexican silver district

Los Ricos is a cornerstone asset, but we see substantial exploration upside along strike on the belt given the 220km² regional position held by GoGold along the main NW-SE structural trend. This extends from Los Ricos in the SE to Monte de Favor in the NW (Figure 3). The main trend around Los Ricos sees the mineralisation pinch and swell, with wider intervals hit in sparse drilling 1,500m SE at **Cerro Colorado**. There, mineralisation is lower-grade, but is near-surface oxides expressed on a surface dip-slope on the top of a hill. With historic hits of 11.5m @ 216g/t AgEq we see good potential for low-strip satellite feed, with deeper potential interesting but more speculative at this stage. **Monte de Favor** on the NW of the licence holding has over 100 small-scale historic shafts. The area is similar to Los Ricos being a steeply dipping low- to intermediate-sulfidation epithermal vein system. Where this gets interesting is that the alteration system seems larger than Los Ricos, but it lies higher in the stratigraphy than Los Ricos. This potentially points to good depth potential that typically near-surface historic exploration may have overlooked.

Figure 3. Belt-wide position from Los Ricos (SE) to Monte de Favor (NW): red = owned, green=expiring, blue=other



Source: GoGold

Parral: now working well, funding exploration

Parral suffered from teething issues from the outset, mainly based around 10m stacks, which now stand at 5m, while historic stacks saw additional cost from re-laying. GoGold demonstrated the turnaround in SepQ19 with 581koz AgEq produced at US\$13.78/oz AgEq AISC. That quarter saw ~US\$0.6m post tax FCF at \$3.18/oz margin (i.e. US\$16.96/oz Ag). Specifically at our LT US\$1,400/oz Au and US\$16.5/oz Ag, we forecast Parral will generate US\$2m FCF a quarter, including capex allowances for future pad lifts. At spot US\$1,550/oz and US\$18/oz, this lifts to US\$2.2m a quarter, indicating the torque the asset offers. As such, we see the asset at worst covering central costs and leaving commodity price optionality, but more likely covering a portion of exploration, and in a bull / spot case, generating substantial value.

Valuation

For **Los Ricos** we model a 1.5Mtpa tank leach operation on a DCF basis, assuming US\$100m capex in line with peers on a capital intensity basis. We conservatively use US\$2.50/t mining and US\$27.00/t processing and G&A costs, modelling a nine and a half year mine life based on a 100Moz 225g/t AgEq mining inventory estimated in this report. This drives a US\$10.60/oz AgEq AISC, which at a 5% discount supports a US\$244m NPV and 44% IRR based on LT US\$1,400/oz Au and US\$16.5/oz Ag. We model **Parral** on a DCF basis for residual reserves only, including US\$3.5m capex for the residual costs on the SART plant, a US\$4.5m pad expansion in 2021 and again in 2025, with LOM AISC of US\$13.89/oz broadly in line with the prior quarter. The SART plant itself will incur additional costs, but lower cyanide consumption should offset this, as should the addition of ~40t/month of 60% payable copper credits. This drives our US\$72m NPV_{5%} excluding central costs of -US\$27m (at US\$1m pq burn) for a US\$44m net contribution to our NAV. We feel this is conservative given the C\$54m implied value is the lowest GoGold saw its market cap prior to the Los Ricos acquisition in 1Q19, when silver was trading at only US\$15.50/oz.

Table 2 Valuation metrics for Los Ricos and Parral

LOS RICOS (build start)				PARRAL (4Q19 onward)		SCP		SCP	
Mining inventory (000t)	13,824	Mining cost (US\$/t mined)	2.50	Mining inventory (Mt)	13.6	Mining cost (US\$/t mined)	2.72		
Strip ratio (x)	12.0	Proc. cost (US\$/t milled)	22.00	Grade (g/t AgEq)	62	Proc. + G&A (US\$/t milled)	10.91		
Silver of total (%)	62%	G&A (US\$/t milled)	5.00	Silver of total (%)	55%	Royalty (%)	1.7-3.1%		
Grade (g/t AgEq)	225	Royalty (%)	0.50%	Ounces (Moz AgEq)	27	AISC (US\$/oz AgEq)	13.89		
Ounces (Moz AgEq)	100	AISC (US\$/oz AgEq)	10.60	Average stacking rate (Mt pa)	1.6	Discount (%)	5.00%		
Gold and silver recovery (%)	90%	Capex (US\$m)	100	Recovery (AgEq, %)	61%	Ag / Au px (US\$/oz)	1400\16.4		
Peak ROM (Mt pa)	1.50	Discount (%)	5.0%	Avg. prod'n (Moz pa AgEq)	1.9	NPV (US\$m)	72.3		
Y1-2 prod'n (000oz pa AgEq)	11,487	Ag / Au px (US\$/oz)	1400\16.47						
Avg prod'n (Moz pa AgEq)	9.5	NPV (US\$m)	244						
Mine life (years)	9.5	IRR (%)	44%						

Source: SCP estimates

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Recommendation: initiation of coverage with BUY rating and \$1.10 price target

Using our valuation above, we apply a 1xNAV multiple to operating mine Parral net of central G&A costs. Los Ricos is actively growing, but is pre-resource, so we apply a conservative 0.4xNAV multiple to our DCF to account for the approximation of the resource size at this stage. This drives our SOTP US\$304m NAV, with the blended NAV multiples driving a C\$1.08/sh valuation on a fully-diluted (for options, not Los Ricos mine build) basis. As such, we initiate with a BUY rating and rounded C\$1.10/PT. Below we show sensitivities to both the group NAV and 1xNAV equivalent (i.e. without discounting Los Ricos), which ranges from C\$1.18/sh at US\$1300-15.30/oz and 11% discount to C\$2.84/sh at 5% discount and spot commodity prices.

Table 3 Valuation metrics for GoGold

Group-level SOTP valuation					Key assumptions: Los Ricos							
	US\$m	O/ship	NAVx	C\$/sh*	Strike / thickness (m)	800 / 18	Recovery (% AgEq)	90%				
NPV Parral (1Q20)	71.6	100%	1.0x	0.49	Grade (g/t AuEq)	225	Avg prod'n (Moz pa AgEq)	9.5				
NPV Los Ricos (build start)	244	100%	0.4x	0.67	Mining inventory (000oz)	100	Capex (US\$m)	100				
Monte Favor / nominal explo.	10.0	100%	1.0x	0.07	Strip ratio (x)	12	AISC (US\$/oz AgEq)	10.60				
NPV central & finance costs	(27.3)	100%	1.0x	(0.19)	Los Ricos size-potential and NPV @ 3Q21 build start^A							
Est. net cash 4Q19	5.6	100%	1.0x	0.04	NPV at build start (US\$m)							
Cash from options	0.3	100%	1.0x	0.00	200g/t AgEq	131	162	190	209	227		
1xNAV5% 1Q19 US\$1400/oz	304			1.08	225g/t AgEq	171	209	244	268	290		
Group NAV (US\$m)					250g/t AgEq	204	247	289	317	343		
		SCP			spot			1xNAV at build start (C\$/sh)*				
	Au:	\$1300oz	\$1400oz	\$1500oz	\$1573oz	\$1700oz	72Moz	86Moz	100Moz	110Moz	120Moz	
Group 1xNAV (US\$m)	Ag:	\$15.3oz	\$16.5oz	\$17.6oz	\$18.5oz	\$20.0oz	200g/t AgEq	1.31/sh	1.51/sh	1.71/sh	1.84/sh	1.96/sh
11% discount		172	223	273	310	374	225g/t AgEq	1.58/sh	1.83/sh	2.07/sh	2.23/sh	2.39/sh
8% discount		202	259	316	358	430	250g/t AgEq	1.80/sh	2.10/sh	2.38/sh	2.57/sh	2.75/sh
5% discount		239	304	369	416	498						
Ungeared project IRR:		37%	44%	50%	55%	62%						
Group 1xNAV (C\$/sh)*												
	Au:	\$1300oz	\$1400oz	\$1500oz	\$1573oz	\$1700oz						
	Ag:	\$15.3oz	\$16.5oz	\$17.6oz	\$18.5oz	\$20.0oz						
11% discount		1.17/sh	1.52/sh	1.86/sh	2.11/sh	2.55/sh						
8% discount		1.38/sh	1.77/sh	2.16/sh	2.44/sh	2.93/sh						
5% discount		1.63/sh	2.07/sh	2.51/sh	2.83/sh	3.39/sh						

Source: SCP estimates

Risks

- **Resource size and grade** at Los Ricos are the key risks to our assumptions. While we have used conservative inputs such as 45° pit slopes vs. likely 50°, and excluded void material grading ~100g/t AgEq, our estimates can only be considered rough at this stage. Although evened by using a long-section analysis, grade is skewed by a higher-intensity of drilling in high-grade areas, while undrilled areas remain just that. Strip ratio in particular is difficult to assess given complex pit shapes and hit-miss (i.e. pinch and swell) ratios along the ore body
- **Permitting risk** is mitigated by minimal people living in the licence area, but remains important in Mexico. While the new president has indicated a limit on new exploration licences being granted, there is good precedent for issuing mining rights on already granted concessions such as those at Los Ricos.
- **Security risk**: is always an important consideration in Mexico. On our site visit, we saw no evidence of any security issues, and did not require any additional security either on mine areas visited, or in local towns.
- **Infrastructure and plant location**: are yet to be fully assessed. Water should be readily available from nearby rivers, and grid power is close to the operation. The area is moderately hilly, meaning plant and TSF locations will need careful consideration, albeit that we saw several flatter areas nearby to the potential pit area during our site visit.

Catalysts

- 1Q20: SART plant completion at Parral
- CY20: Ongoing drilling at Los Ricos
- CY20: Regional drilling at Cerro Colorado
- 2H20: Regional drilling at Monte de Favor
- 2Q20: Maiden resource Los Ricos
- 2020 year end: PEA for Los Ricos

Ticker: GGD CN	Price / mkt cap: C66c/sh, C\$123m	Group P/NAV today: 0.32x	Asset: L. Ricos / Parral
Author: B Salier / C Tonkin	Recommendation: BUY	Price target: C\$1.1/sh	Country: Mexico

Commodity price	CY19E	CY20E	CY21E	CY22E	CY23E	Reserve / mining inven	Ag Eq	Au Eq
Gold price	1,392	1,400	1,400	1,400	1,400	Parral (SCP mine plan)	16Moz 63.6g/t	193koz 0.75g/t
Silver price	15.9	16.47	16.47	16.47	16.47	Los Ricos (SCPe)	100Moz 225g/t	1,176Moz 2.65g/t

Group-level SOTP valuation	US\$m	O/ship	NAVx	C\$/sh*
NPV Parral (1Q20)	71.6	100%	1.0x	0.49
NPV Los Ricos (build start)	244	100%	0.4x	0.67
Monte Favor / nominal explo.	10.0	100%	1.0x	0.07
NPV central & finance costs	(27.3)	100%	1.0x	(0.19)
Est. net cash 4Q19	5.6	100%	1.0x	0.04
Cash from options	0.3	100%	1.0x	0.00
1xNAV5% 1Q19 US\$1400/oz	304			1.08

Share data	CY19E	CY20E	CY21E	CY22E	CY23E
Basic shares (m)	185.8				
FD with options (m):					193.0

Group NAV (US\$m)	SCP	spot
Au: \$1300oz	\$1400oz	\$1500oz
Ag: \$15.3oz	\$16.5oz	\$17.6oz
Group 1xNAV (US\$m)	\$18.5oz	\$20.0oz
11% discount	172	223
8% discount	202	259
5% discount	239	304
Ungeared project IRR:	37%	44%

Ratio analysis^	CY19E	CY20E	CY21E	CY22E	CY23E
Average shares out (m)	186.1	189.0	189.0	189.0	189.0
EPS (USc/sh)	0.3	1.7	1.2	1.0	0.8
CFPS before w/c (USc/sh)	0.82	(0.38)	(1.88)	2.46	2.39
EV (US\$m)	86.1	91.7	94.4	89.5	84.8
FCF margin (%)	-32%	-2%	-8%	16%	15%
PER (x)	161x	30x	42x	51x	63x
P/CF (x)	0.0x	-	-	0.0x	0.0x
EV/EBITDA (x)	14.0x	10.7x	13.2x	15.5x	15.9x

Group 1xNAV (C\$/sh)*	Au:	\$1300oz	\$1400oz	\$1500oz	\$1573oz	\$1700oz
Ag: \$15.3oz	\$16.5oz	\$17.6oz	\$18.5oz	\$20.0oz		
11% discount	1.17/sh	1.52/sh	1.86/sh	2.11/sh	2.55/sh	
8% discount	1.38/sh	1.77/sh	2.16/sh	2.44/sh	2.93/sh	
5% discount	1.63/sh	2.07/sh	2.51/sh	2.83/sh	3.39/sh	

Income statement^	CY19E	CY20E	CY21E	CY22E	CY23E
Revenue, attrib (US\$m)	31.5	34.3	32.7	31.8	31.8
COGS, attrib (US\$m)	21.7	21.9	21.9	21.9	21.9
D&A, attrib (US\$m)	6.6	5.3	3.5	4.1	4.3
Gross profit, attrib (US\$)	2.9	7.1	7.3	5.8	5.5
Admin (US\$m)	(4.5)	(3.8)	(3.8)	(3.8)	(3.8)
Finance cost (US\$m)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Expln, royalty, derivatives,	(1.0)	(0.0)	(0.0)	(0.0)	(0.0)
Tax (US\$m)	-	-	-	-	(0.1)
Net income, attrib (US\$)	0.6	3.2	2.3	1.9	1.5

Key assumptions: Los Ricos	800 / 18	Recovery (% AgEq)	#REF!
Strike / thickness (m)	225	Avg prod'n (Moz pa AgEq)	0.0
Grade (g/t AuEq)	100	Capex (US\$m)	100
Mining inventory (000oz)	12	AISC (US\$/oz AgEq)	10.60
Strip ratio (x)			

Cash flow^	CY19E	CY20E	CY21E	CY22E	CY23E
EBITDA (US\$m)	6.2	8.0	6.5	5.6	5.4
Less working Δ capital (US\$)	(11.5)	(0.0)	0.9	0.4	-
Less finance costs (US\$m)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Less tax paid (US\$m)	-	-	-	-	(0.1)
Add back other non-cash	(0.8)	0.5	0.5	0.3	0.6

Los Ricos size-potential and NPV @ 3Q21 build start^	72Moz	86Moz	100Moz	110Moz	120Moz
NPV at build start (US\$m)	131	162	190	209	227
200g/t AgEq	171	209	244	268	290
225g/t AgEq	204	247	289	317	343
250g/t AgEq					

Cash flow ops (US\$m)	(6.3)	8.4	7.8	6.2	5.8
PP&E - build (US\$m)	(4.0)	(2.7)	(5.7)	(1.2)	(1.2)
Exploration (US\$m)	(4.3)	(6.5)	(4.9)	-	-
Asset sales (US\$m)	4.6	-	-	-	-

1xNAV at build start (C\$/sh)*	72Moz	86Moz	100Moz	110Moz	120Moz
200g/t AgEq	1.31/sh	1.51/sh	1.71/sh	1.84/sh	1.96/sh
225g/t AgEq	1.58/sh	1.83/sh	2.07/sh	2.23/sh	2.39/sh
250g/t AgEq	1.80/sh	2.10/sh	2.38/sh	2.57/sh	2.75/sh

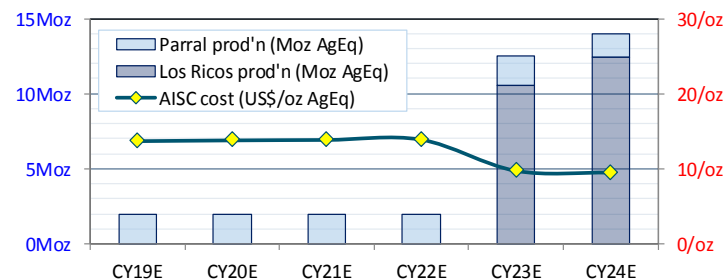
Cash flow inv. (US\$m)	(3.8)	(9.2)	(10.6)	(1.2)	(1.2)
Share issue (US\$m)	-	-	-	-	-
Debt draw (repay) (US\$m)	-	-	-	-	-

Production (Y1 from 3Q20)	CY19E	CY20E	CY21E	CY22E	CY23E
Parral prod'n (Moz AgEq)	1.9	1.9	1.9	1.9	1.9
Los Ricos prod'n (Moz AgEq)	-	-	-	-	10.5
C1 cost (US\$/oz AgEq)	10.99	11.28	11.33	11.36	7.89
AISC cost (US\$/oz AgEq)	13.73	13.83	13.89	13.93	9.75
C3 cost (US\$/oz AgEq)	15.47	14.97	14.59	14.78	14.94

Cash flow fin. (US\$m)	-	-	-	-	-
Net change in cash (US\$rr)	(10.1)	(0.8)	(2.8)	5.0	4.6

AISC = C1 + ug sustaining capex, C3 = AISC + depreciation

Balance sheet^	CY19E	CY20E	CY21E	CY22E	CY23E
Cash (US\$m)	0.8	0.1	(2.7)	2.3	6.9
Acc rec. + inv. (US\$m)	28.6	28.6	27.7	27.5	27.5
PPE (US\$m)	25.4	22.8	25.0	22.1	19.0
Exploration (US\$m)	14.0	20.5	25.3	25.3	25.3
Others (US\$m)	12.8	12.8	12.8	12.8	12.8
Total assets (US\$m)	81.6	84.7	88.1	90.0	91.5
Debt (US\$m)	1.7	1.7	1.7	1.7	1.7
Accnts payable (US\$m)	5.1	5.1	5.1	5.1	5.1
Deferred tax, closure prov	1.9	1.9	1.9	1.9	1.9
Total liabilities (US\$m)	8.7	8.7	8.7	8.7	8.7
Shareholders equity (US\$m)	147.9	147.9	147.9	147.9	147.9
Contributed surplus (US\$m)	8.0	8.0	8.0	8.0	8.0
Retained earnings (US\$m)	(83.0)	(79.9)	(76.4)	(74.6)	(73.1)
Liabilities + equity (US\$)	81.6	84.7	88.1	90.0	91.5



Source: SCP estimates; *diluted for options, but not for Los Ricos mine build; ^excludes Los Ricos

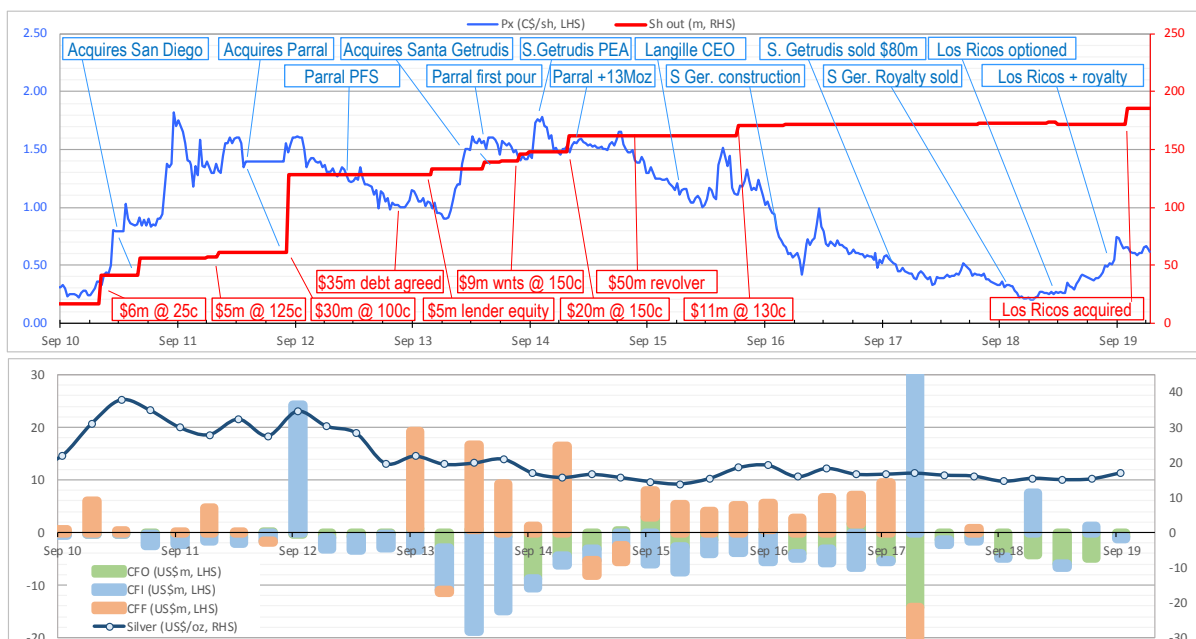
Corporate history

GoGold's 2010 IPO raised C\$500k at 10c/sh as a CPC, initially purchasing Celtic Mineral's **Rambler** project in Newfoundland before acquiring **San Diego** in Mexico in 1H11. While continuing to drill both properties, the **Parral tailings project** was acquired in 2012 via the acquisition of Absolute Gold in an all-paper transaction valuing it at C\$75m. Fred George was the majority shareholder of Absolute, taking him to 19m shares of GoGold, with Absolute holders moving to 52% of the enlarged GoGold. Drilling at San Diego continued, with a PFS for Parral released in 1Q13, which showed 35Moz AgEq production for capex of US\$35m with 1.8Moz AgEq pa (60/40 Ag/Au) over 12 years; silver was ~US\$30/oz at the time. The company raised \$35m in debt and \$5m equity with Orion in 3Q13 and commenced the mine build. In 4Q13, GoGold acquired **Santa Getrudis** in Sonora, with 557koz Au around old pits, for US\$5m. Parral poured first dore in mid-2014, with capex of US\$32.5m, ahead of budget, albeit commercial production wasn't declared until 1Q15.

Post **first production at Parral**, company finances were stretched, resulting in a requirement for C\$20m of equity in 4Q14, and a replacement of the US\$35m project finance facility with a US\$50m revolver in 3Q15. Nonetheless the Parral tailings project continued to grow with +12.5Moz being acquired in 1Q15 at the Promotora TMF 1km away. In 1Q16, the company elected to double Parral's throughput to 10ktpd. With silver prices declining, GoGold undertook a further C\$10m equity raise in 2Q16. These funds were used to elevate Santa Gertrudis to 'semi commercial' production of 2ktpd VAT leach for capex of only US\$10m. By 2Q17, operations were improving but US\$46m of debt was in default. The company sold Santa Gertrudis for US\$80m in cash in 4Q17. This left GoGold debt free with US\$14m in cash at year end CY17, climbing to US\$17m by year end CY18 after sale of a residual 2% NSR in Santa Gertrudis for US\$12m. This marked the low point in GoGold's share price at 20c/sh in December 2018.

The company then **acquired Los Ricos** in March 2018 for US\$1.5m in staged payments and an US\$11m option. Initial drilling showed a 40% improvement in silver grades when compared to historic results. Combined with positive deeper drilling, GoGold accelerated the earn-in option for a total cost of US\$7.1m, under the initial \$12.6m price, and acquired a 2% NSR for US\$2.8m in cash and shares. In combination with rising metal prices in 2H19, Parral reported a record CY3Q19 with 572koz AgEq, well over the 360koz quarterly average for the prior two years, generating US\$2m CFO prior to working capital. Drilling at Los Ricos continued to impress with highlights of 23m @ 352g/t AgEq and 33m @ 200g/t AgEq adjacent to, and ~200m along strike from, historic workings (i.e. no void encountered). Drilling through old workings (i.e. including a void) returned similarly impressive hits including 22m @ 530g/t AgEq, while step down drilling returned highlights of 26m @ 228g/t AgEq from 268m below surface. Drilling is ongoing with the asset the core focus for the company now.

Figure 4 GoGold (A) share prices / shares on issue, and (B) cash flow over time

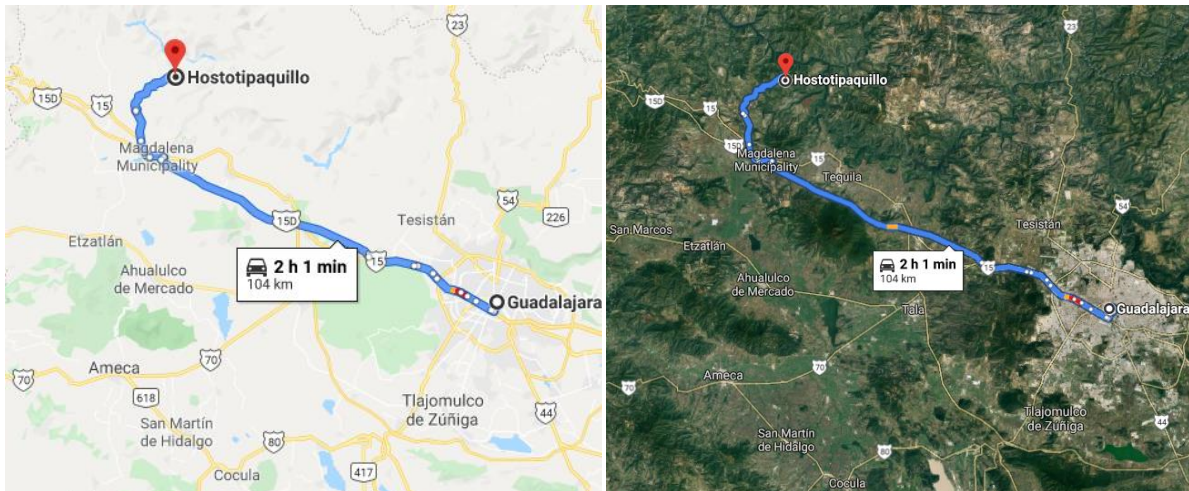


Source: Bloomberg, dollar amounts all USD

Los Ricos (100%) - Jalisco

Los Ricos is a historic silver and gold mine located 90km from Guadalajara, the capital of Jalisco state in Mexico. Access is via ~25km of gravel roads to nearby Magdalena, a town of ~20,000 people. Gold and silver are hosted in a steeply dipping mid- to low-sulfidation epithermal vein, which was itself variably mined over 400 years, peaking in the early 1900s at 500tpd under the Daly family. Low-voltage (220kv) power supplies a local village of ~50 houses that lies ~1km from the mine site, with minor single dwellings on the property but none on the mineralisation itself.

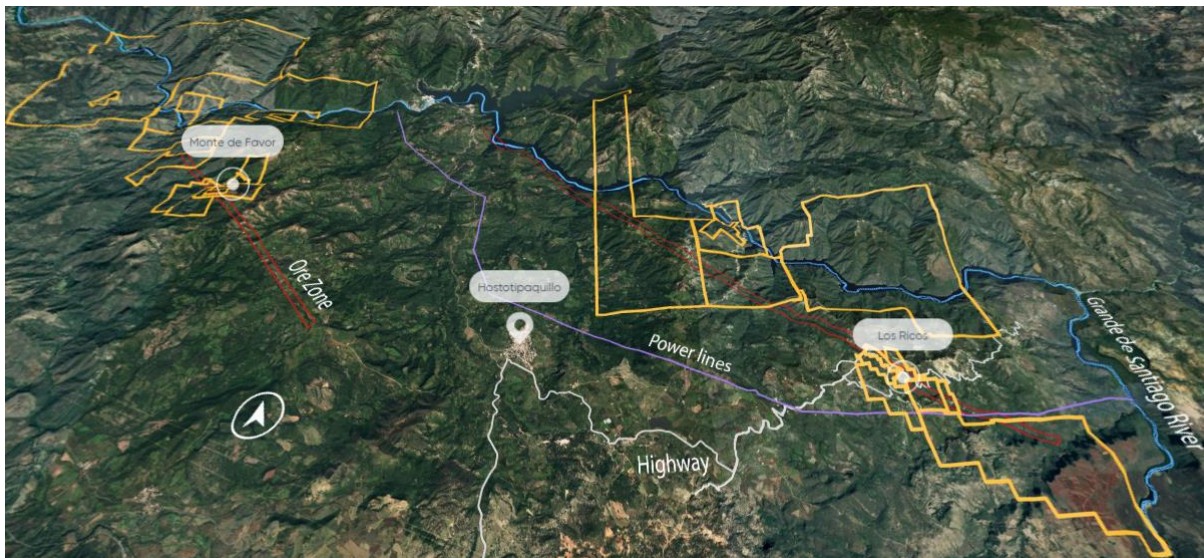
Figure 5 Location of Los Ricos close to Jalisco state capital Guadalajara



Source: Google Maps

In addition to Los Ricos GoGold has built a large regional position along the main NW-SE structural trend, extending from Los Ricos in the SE to Monte de Favor in the NW. At acquisition, GoGold held 29 claims over 22,000ha (220km²).

Figure 6 Los Ricos regional licence holdings including Monte de Favor and Los Ricos



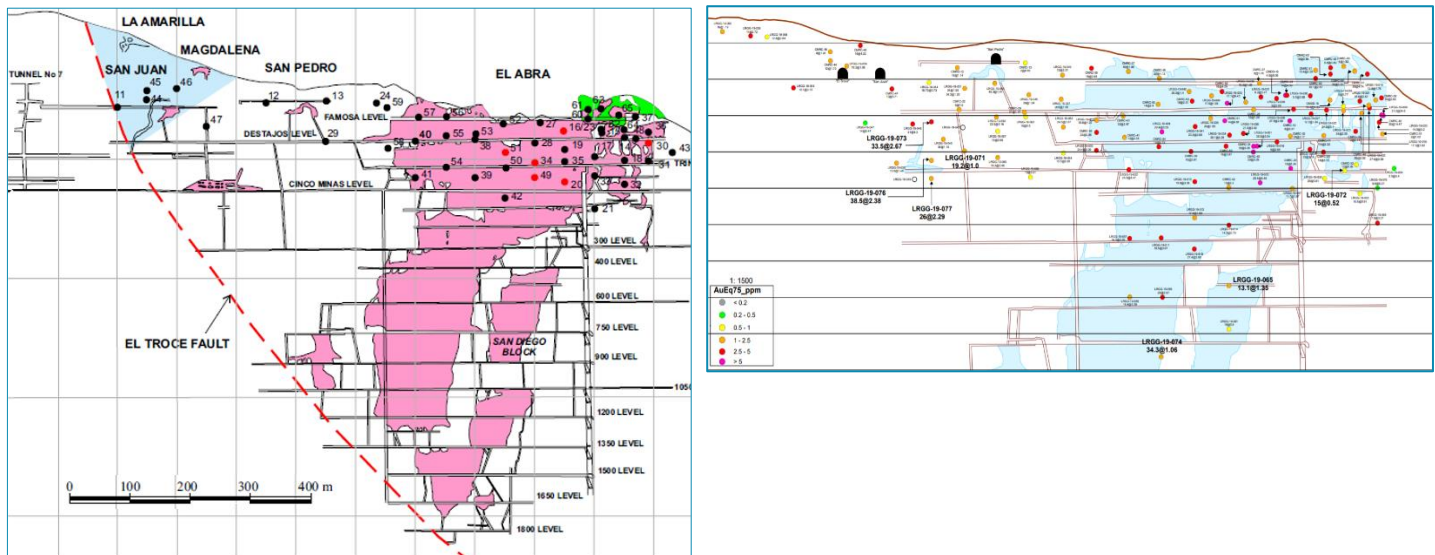
Source: VRIFY

Historic work

Historic: The Spanish originally mined Los Ricos in the early 1500s. First modern production occurred in the 1800s, before being commercialised to 500tpd from ~1911-1930. The Daly family mined the operation (then called Cinco Minas) until the 1930s, with prior owner Tumi estimating overall production of 2.1Mt @ 4.5g/t Au and 637g/t Ag (1,000g/t AgEq) over 700m vertical and 100-450m strike on the El Abra ore shoot.

2000-2005: Limited modern work was carried out in the late 90s, but it wasn't until the early 2000s when optioned by Tumi that meaningful drilling was undertaken. After taking a 60% option for \$2.5m expenditure over three years, Tumi released a scoping study summary (*limited detail*) in 2Q04. This only showed the resource at the time based on 11 underground channel samples two diamond holes and 23 RC holes (<2,000m) for 1.5Mt @ 178g/t Ag and 3.4g/t Au (**23Moz @ 467g/t AgEq**). Around half the holes saw 'bonanza' grade (Figure 7A, red), which was impacted by under reporting silver (*see below*). A more comprehensive resource issued in 4Q04 was based on 5,000m of drilling across 65 holes for 2.7Mt @ 167g/t Ag and 1.2g/t Au (**23Moz @ 268g/t AgEq**) with gold grades dropping by close to 50%.

Figure 7 (A) 4Q04 resource drilling compared to (B) drilling to 4Q19



Source: Tumi Resources 43-101, October 2004; GoGold 4Q19

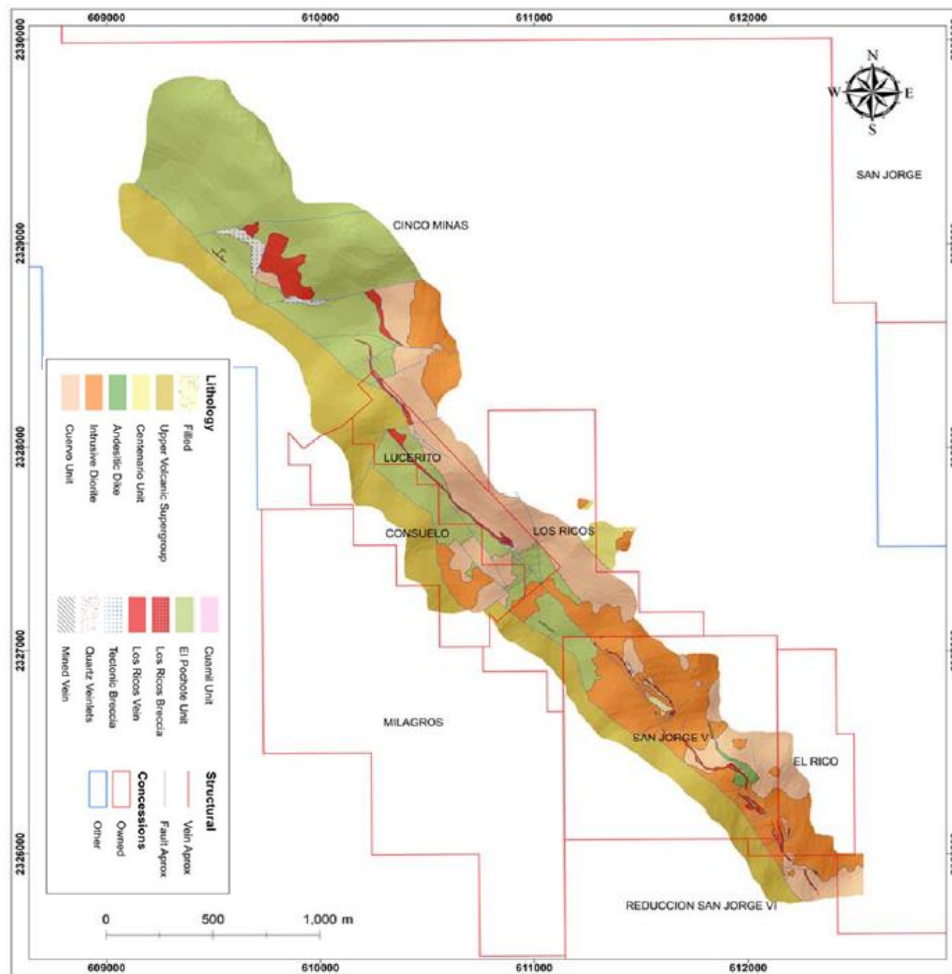
Acquisition: GoGold initially agreed to a staged acquisition for US\$70k up front, with US\$1.5m in staged payments and US\$11m payment to complete the option within a five-year period. After aggressive drilling post acquisition, GoGold decided to accelerate the acquisition for US\$500k cash, US\$3.2m staged over 24M, and 9.05M GoGold shares to be delivered over 24M. Overall, this reduced the cost of the acquisition from US\$12.6m to US\$7.1m. GoGold paid a further US\$2.8m, including US\$1m cash, to purchase a 2% NSR.

Geology

Regional geology: Los Ricos lies at the intersection of the Sierra Madre Occidental and Oriental, the major mountain system above a historic subduction zone characterised by low sulfidation epithermal deposits such as the Ocampo mine. The Hostotipaquillo district's geology is characterised as volcanic and sub-volcanic Oligocene and Pliocene intrusive rocks. These were deformed by two (NW and EW trending) sets of graben-forming normal faults. The older volcanics include andesite flows, rhyolite ash flow and air fall tuffs as well as some flow domes, themselves covered by more recent basalt flows. The Rio Santiago flows northwest through the district (in the northeast) across various groups of historic mines, including, Mololoa-Monte del Favor, Gran Cabrera, Santo Domingo-La Española and Cinco Minas-El Aquila. These faults host mineralised vein systems which form dip slopes in the river canyon walls at various locations. The hanging wall of the Cinco Minas vein presents itself through reddish purple, porphyritic and rest atop andesite tuffs outcropping near the village of Cinco Minas.

Deposit-scale geology: Rhyolite accompanies the andesite mentioned above and overlies the veins in areas to the northeast with andesitic tuffs in the Cinco Minas Creek outcrop and rhyolitic tuffs outcropping in the far northeast of Cinco Minas, close to the San Juan workings (Figure 8). Precious metals were deposits in at least three episodes of quartz veining located in the footwall of a regional fault zone – the fault zone itself is likely responsible for higher-grade shoots. Fracturing in the main zones isn't clear, presenting as sheets ranging to an intense shatter zone. The ore ranges from pure quartz veining through to a jumbled andesite breccia. The veins range from epithermal with banded quartz breccia to later replacement veining. Pyrite and chalcopyrite are the most abundant sulphides, with locally abundant galena and sphaerelite.

Figure 8. Local Geology



Source: GoGold

Resources and reserves

Silver under-reporting: For the maiden 2004 resource, assay analysis was done using fire-assay and ICP for gold and atomic absorption for silver, acid digest was two-acid only (3:1 hydrochloric:nitric), with no blanks, standards or duplicates in initial work. Second phase drilling was assessed with 136g/t Ag and 1.75g/t Au standards with 'no significant discrepancies', and was also undertaken with two-acid digest with an upper limit reported at 1500ppm Ag. However, four crosschecks with another lab showed 'fairly good' correlation, but with **'significantly higher silver values' reported**, notably for high-grade samples >1,000g/t Ag. At the time, nugget effect was blamed.

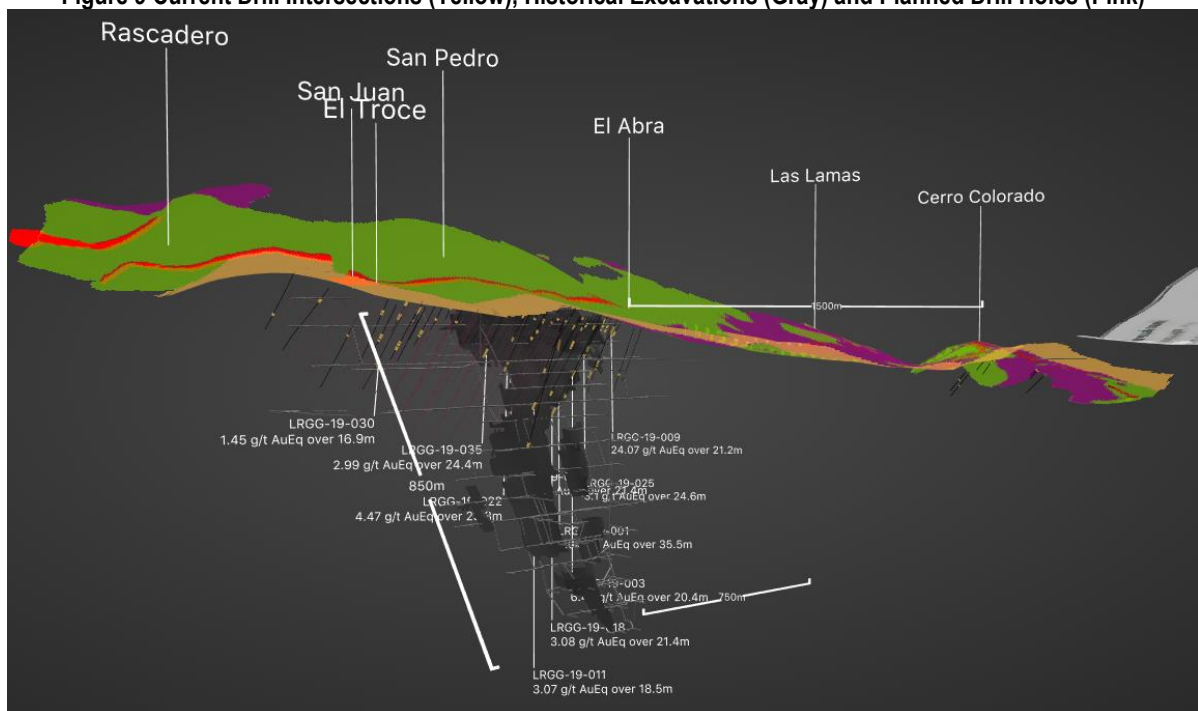
Post acquisition, GoGold drilled HQ diamond core to validate historic RC holes, twinning two Tumi holes from 2003/04. The first hole reported 35.5m @ 1.24g/t Au and 284g/t Ag, **7% under** the 35m @ 1.5g/t Au and 289g/t Ag reported historically. However, the second twin hole returned 27.6m @ 1.56g/t Au and 159g/t Ag vs. 28m @ 0.8g/t Au and 93g/t Ag, **81% over** (silver assays 71% higher) historic assays. This was repeated at higher grade, with a third twin showing 21.2m @ 7.66g/t Au and 1270g/t Ag, **72% over** the historic 20m @ 3.2gt Au and 845g/t Ag, in this case with gold 140% higher and silver 50% higher than historic assays.

Our view: *Given prior operators left the project because the strip ratio was too high / grade too low to pit, we see this QA data as a critical piece of the qualitative puzzle, 'what is different this time'. The consistency of modern twinned data combined with historic holes that saw QA anomalies ignored, particularly in high-grade zones, presents a consistent narrative. The current four-acid digest with detailed duplicates and blanks is clearly 'up to scratch', giving quantitative assurance of the project quality as GoGold continues to drill.*

Mining

Los Ricos presents itself as an open pit operation. We have calculated a strip ratio of 12:1 and have assumed that all material will be blasted. As explained above, the orebody averages ~20m width, dipping at ~59° in shallow portions, with a final pit depth expected to be approximately 230m (but down to 360m in higher-grade portions) with a conservatively modelled pit wall angle of 45° here. We haven't identified any fatal flaws in terms of geotechnical, hydrological or logistical aspects of Los Ricos. Mining costs of larger peers in Mexico range from US\$1.40/t to US\$1.85/t mined vs the conservative US\$2.50/t mined used in our model. We anticipate production of 4,500t of ore per day (1.5Mt pa) for 48,900t of ore and waste per day (19Mt pa). We expect a mining contractor to be used so exclude mining fleet capex. Open pit production should not be a bottleneck at the operation.

Figure 9 Current Drill Intersections (Yellow), Historical Excavations (Gray) and Planned Drill Holes (Pink)



Source: Vrifly

Processing

Los Ricos was historically reported to have >90% recovery for both gold and silver. The deposit doesn't appear amenable to heap leaching, with 50-60% gold and 30% silver recovery on 0.5" crushed material based on work done by the previous owners, Tumi, in the early 2000's. We expect the processing circuit to comprise of conventional crushing and milling, cyanide leach and a Merrill-Crowe plant. We model 4,500t per day (1.5Mt pa) for a 9.5 year mine life, with the mill as the bottleneck of the operation. The economic considerations of the processing plant are discussed in the Los Ricos SCPE economics of this document.

Tailings management

We expect the operation to use dry stack tailings, the operational and capex costs of drying and transporting tailings via conveyor have been considered in processing costs. The area is relatively hilly which would point toward valley fill storage. Being relatively high in the regional topography means only small seasonal rivulets flow in valley floors, limiting the impact on tailings storage.

Regional exploration portfolio

Monte de Favor, whose genesis is associated with the same Cinco Minas fault as Los Ricos, lies along strike to the northwest. Cerro Colorado to the southeast shows a thickening vein but with exploration work having been done. We expect the company to target both of these sections in future. Los Ricos is a cornerstone asset, but we see substantial exploration upside along strike on the belt given the 220km² regional position held by GoGold

along the main NW-SE structural trend. This extends from Los Ricos in the SE to Monte de Favor in the NW (Figure 3). The main trend around Los Ricos sees the mineralisation pinch and swell, with wider intervals hit in sparse drilling 1,500m SE at Cerro Colorado.

Cerro Colorado is predominantly oxide mineralisation, with mineralisation expressed on a surface dip-slope on the top of a hill. Initial drilling was lower grade, but does include highlights of 11.5m @ 2.7g/t AuEq. The physiographic location means there is good potential for low-strip satellite feed, with deeper potential interesting but more speculative at this stage.

Monte de Favor, on the NW of the licence holding, has over 100 small-scale historic shafts. The area is similar to Los Ricos being a steeply dipping low- to intermediate-sulfidation epithermal vein system. However, the stratigraphy at Monte de Favor is above that at Los Ricos, pointing to depth potential that typically near-surface historic exploration may have overlooked.

SCPe economics

We model Los Ricos on a DCF basis using the orebody assumptions described above in the Resources and Reserves section with a mining inventory of 13.8Mt @ 225g/t AgEq (62% Ag, 38% Au). We model flat throughput of 1.5Mtpa of ore mined, 90% recovery of silver and gold in line with peers, for average future production of 9.5Moz AgEq pa with Y1-2 accelerated, targeting a higher-grade 286g/t AgEq starter pit seen in the drilling. Using a mining, processing and G&A cost of US\$2.50, US\$22.00 and US\$5.00/t gives us a forecast AISC of US\$10.60/oz AgEq. This includes a precious metals royalty of 0.5% payable to the state. Corporate tax is 30%, with additional Mexico Mining royalty of 7.5% of income for 37.5% tax rate, with 0.5% precious metals royalty to the state. We note that some peers have excluded this 7.5% royalty, effective since 1 January 2014. These metrics produce an NPV_{5%} of US\$244m with an IRR of 44% over a 9.5 year mining life.

Table 4 Los Ricos Economic Considerations

LOS RICOS (build start)			
Mining inventory (000t)	13,824	Mining cost (US\$/t mined)	2.50
Strip ratio (x)	12.0	Proc. cost (US\$/t milled)	22.00
Silver of total (%)	62%	G&A (US\$/t milled)	5.00
Grade (g/t AgEq)	225	Royalty (%)	0.50%
Ounces (Moz AgEq)	100	AISC (US\$/oz AgEq)	10.60
Gold and silver recovery (%)	90%	Capex (US\$m)	100
Peak ROM (Mt pa)	1.50	Discount (%)	5.0%
Y1-2 prod'n (000oz pa AgEq)	11,487	Ag / Au px (US\$/oz)	1400\16.47
Avg prod'n (Moz pa AgEq)	9.5	NPV (US\$m)	244
Mine life (years)	9.5	IRR (%)	44%

Source: SCP estimates

We have modelled an **initial capex spend of US\$100m** (80:20, plant: other) **No pre-stripping has been capitalised** as this is included in the 12:1 stripping ratio used. Our plant initial capital and operating cost amounts have been modelled on the Santa Elena plant cost as shown in Table 5 below. We estimate a slightly lower operating and capital cost per ton when compared to the Santa Elena plant because of the higher throughput. Santa Elena was not used as a comparison for mining costs given that is an underground mine.

Table 5 Los Ricos Plant Assumptions

	Santa Elena Operations			Los Ricos SCP Estimates
	Initial Estimates	PFS	Actual	
Plant capex (US\$m)	47	58	66	80
Plant throughput (tons per day)	3,000	3,000	2,781	4,500
Capital intensity (US\$/t pa)	48	59	72	54
Silver recovery	95%	95%	89%	90%
Gold recovery	95%	95%	95%	90%
Processing opex (US\$/t milled)	21	21	25	22

Source: (1) Plant Capex from Silvercrest Mining 31/12/2011 Annual Financial Statements with other estimates from the 2013 pre-build PFS by MDM Engineering, (2) 2013 Pre-build PFS by MDM Engineering (3) Plant capex from 31/12/2014 Annual Finance Statements note 7 (PPE). Other actual numbers are an average of 2017 and 2018; (4) SCP Research

Parral (100%) – Chihuahua state

GoGold owns the 100% of the Parral project through its Mexican subsidiary, Coanzamex. The project has been producing silver through the leaching of its dry tailings stack since 2014. The tailings are those of Mina la Prieta which lay to the South and operated as a silver and base metal mine from 1629 to 1990. The tailings, which were layered in ten 5m stacks for a final height of 50m, show a uniform particle size distribution with $P_{80} < 225\mu\text{m}$. After a drilling and assay program, the result was a total reserve of 20 million tons at 38g/t of silver and 0.31g/t of gold. GoGold initially built a sodium cyanide heap leach with a 10m stack height and further recovery from the solution through a Merrill-Crowe process. The nameplate capacity of the plant was 1.8Mtpa with gold and silver recoveries of 65% and 58%, respectively for total production of close to 2.2Moz AgEq pa.

After the commencement of retreatment, low recoveries caused by insufficient seepage of leaching solution into the heap led the company to drop the stack height from 10m to 5m, and restack old heaps, to allow for full seepage to the bottom of the stack. This process carried on from 2016 to mid-2019 and is now complete. Additional work was also done on the agglomeration system to reduce curing times. This is evident in the SepQ19 improvement production and FCF at the operations, with increased conversion from inventory to sellable product. The operations currently sell a 97% payable precipitate, but a SART plant targeting 1Q20 completion will enable a switch back to dore sales.

Infrastructure: Parral lies in the town of Hidalgo Del Parral in southern Chihuahua state ~200km from the capital Chihuahua. Given the in-town location, operations are supplied with sealed roads, grid power and a skilled workforce. Water is available from the local water board.

Figure 10 Map of Project Location



Source: GoGold and Google Maps

Resources and reserves

The block model is based on 58 vertical holes drilled in 2011 and 2012 by GoGold at a spacing of 100m x 50m for 446 assay samples, 188 pit-channelling samples and 295 perimeter channel samples feeding into 5x5x5m model. Grade was interpolated into each block via ordinary kriging with no capping; reserves are shown in Table 6.

Table 6 Mineral Reserve Statement Feb 2013

Parral tailings	Tonnes (Mt)	Grade (g/t Au)	Ounces (koz Au)	Grade (g/t Ag)	Ounces (koz Ag)	Grade* (g/t AgEq)	Ounces (koz AgEq)
Proven	13.3	0.31	132	38.2	16,282	63	26,853
Probable	7.1	0.32	73	38.9	8,896	65	14,751
Total	20.4	0.31	205	38.44	25,179	63.52	41,604

Source: GoGold; *AuEq80 was used for this document (other than for the cut-off grade) rather than AuEq50 which was used by GoGold in the source document. AuEq80 refers to a gold to silver value ratio of 80. We believe that this is a more prudent approach.

Using GoGold’s cut-off assumptions and taking into account the 2013 reserve statement, tons stacked to date and ounces of gold and silver produced, we estimate a residual reserve of 27Moz @ 62g/t AgEq (Table 7).

Table 7 SCPe Reserve Inventory 31 Sep 2019

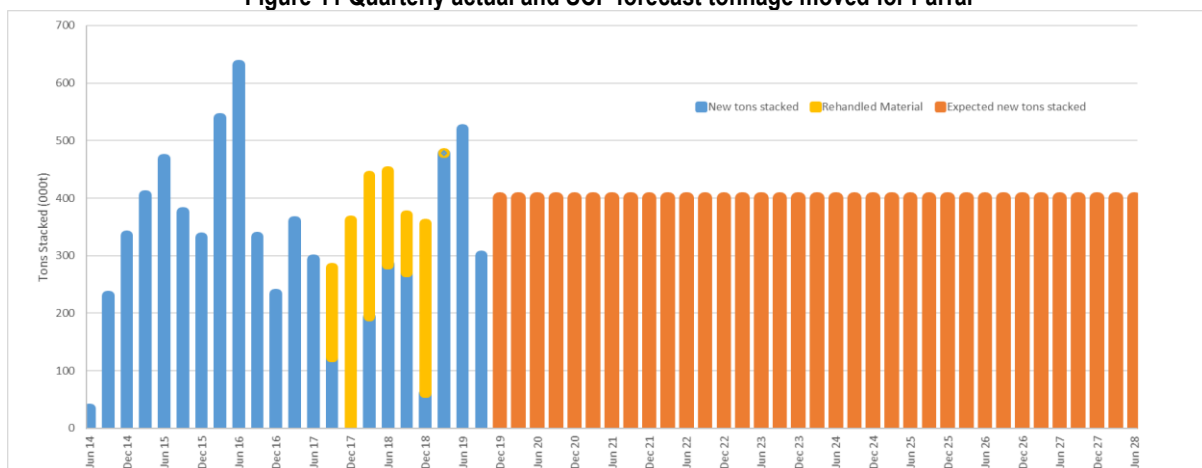
Parral tailings	Tonnes (Mt)	Grade (g/t Au)	Ounces (koz Au)	Grade (g/t Ag)	Ounces (koz Ag)	Grade* (g/t AgEq)	Ounces* (koz AgEq)
SCPe Inventory	13.6	0.32	138	37	16,051	62	27,075

Source: SCP Estimate, AgEq @ 85:1

Mining

The project was developed as a medium scale surface operation with the aim of mining 5200tpd for 1.8Mtpa. The stack adjustment from 10m to 5m meant that tailings were rehandled using more than expected resources and space, hence the above mining rates were not always achieved. Prudently, we believe that the company will be able to mine 1.6mtpa consistently.

Figure 11 Quarterly actual and SCP forecast tonnage moved for Parral



Source: GoGold Quarterly Reports and SCP Research

Processing

Tailings are transferred 10km from the stockpile to the heap leach, agglomerated with cement (15kg/t) with moisture lifted to 18% before stacking with conveyors and radial stackers for 48 hours of pre-leach curing. Sodium cyanide is added via drip feed mechanism; leaching time before flattening of the stacks was anticipated at 60 days for gold and 12-14 months for silver. Maintaining leach times with lower stack and improved agglomeration could potentially see an increase in recoveries for gold, which has residual leach time as it is stacked with silver. The pregnant solution collects at the bottom of the heap leach and flows through a series of ponds before being pumped to the Merrill-Crowe for metal extraction.

Figure 12 Heap Leach showing HDPE lining, collection of pregnant solution and pregnant solution pond

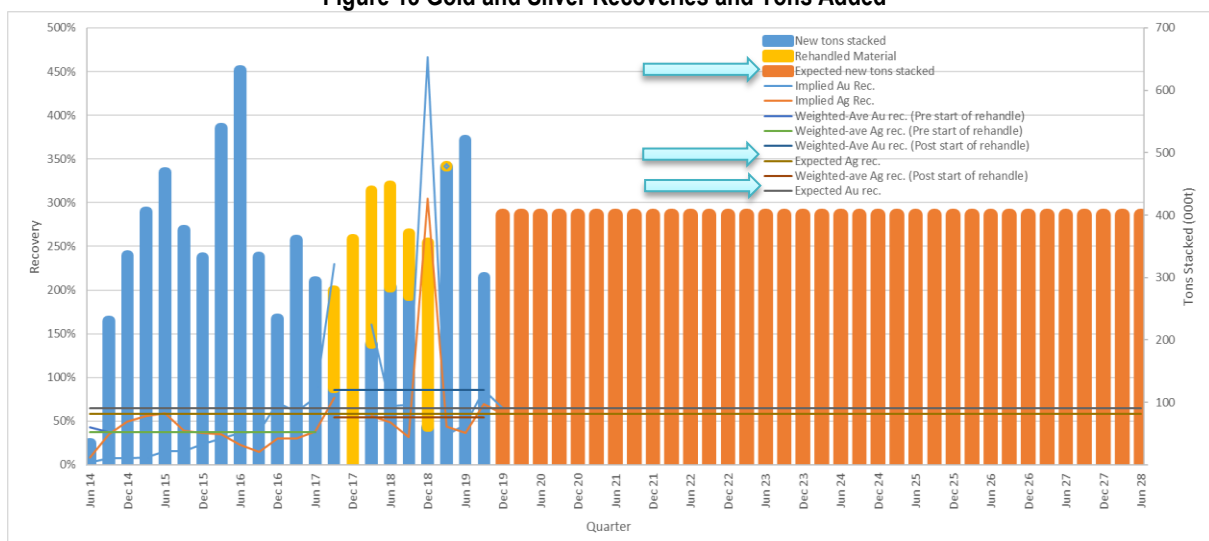


Source: Vrifly

The lower than expected recoveries on the heap leach noted above are shown in Figure 13 with implied recoveries calculated from gold and silver produced vs gold and silver in tailings, both pre and post the start of flattening of the heap leach. As expected with operations of this nature, recoveries are volatile as the lag time between stacking and production is not always constant, i.e. recoveries can exceed 100% in cases where gold and silver are produced from tailings stacked in previous periods this is evident in the acceleration of recovery while very little new tailings were stacked. It is thus more suitable to make use of an average recovery over a longer period. Our model uses nameplate recovery of 58% Ag and 65% Au going forward for 61% AgEq recovery. Actual recovery may be more than this given the use of lower stack heights which were not anticipated in the original design.

The company has recently been selling precipitate at 97% payable due to excess copper in the process. This will no longer be the case from March onwards as the company is building a SART (sulfidation, acidisation, recycling and thickening) plant. The company has targeted a build capex of US\$3m for this, we have modelled US\$3.5m. This may increase silver recovery but SCP has elected to keep recovery as per initial nameplate.

Figure 13 Gold and Silver Recoveries and Tons Added*



Source: GoGold financials, SCPe; *DQ17 recovery, with no stacking, attributed 50% to SQ17 and 50% to MQ18

Economics

We model Parral on a DCF basis using existing unit cash costs. We used a mining inventory of 13.6Mt @ 62g/t AgEq (55% Ag, 45% Au) based on the 2013 reserve, less depletion since that point. We model flat throughput of 1.6Mtpa of ore mined / stacked, with recovery of 58% Ag and 65% Au in line with our assumptions above, for average future production of 1.94Moz Ag pa. Using a mining, processing and G&A cost of US\$4.20, US\$13.00 and US\$0.26/t gives us a forecast AISC of US\$13.82/oz AgEq. This includes a royalty of a maximum implied value of 3.1% payable to the town of Parral on a sliding scale based on the silver price (varies from US\$48-88k/month, ie 1.7% to 3.1% on SCPe revenues). We allocate part of this cost to central and part to site G&A per published financials. Parral profit is taxed at 30%. The 7.5% Mexico Mining Royalty is not payable because Parral is an industrial processing project without specific mining concessions.

Table 8 Parral Economic Considerations

Mining inventory (Mt)	13.6	Mining cost (US\$/t mined)	2.72
Grade (g/t AgEq)	62	Proc. + G&A (US\$/t milled)	10.91
Silver of total (%)	55%	Royalty (%)	1.7%-3.1%
Ounces (Moz AgEq)	27	AISC (US\$/oz AgEq)	13.82
Average stacking rate (Mt pa)	1.1	Discount (%)	5%
Recovery (AgEq, %)	61%	Ag / Au px (US\$/oz)	1400\16.47
Avg. prod'n (Moz pa AgEq)	1.9	NPV (US\$m)	71.6

Source: SCP estimates

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SELL:	0
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NOT RATED:	1
TOTAL	100%

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