

Metallic Minerals Corp. (TSXV: MMG)

Resource expansion at La Plata highlights the potential of the project

COULOIR CAPITAL

Analyst: Couloir Research Team September 27, 2023

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Investment Highlights

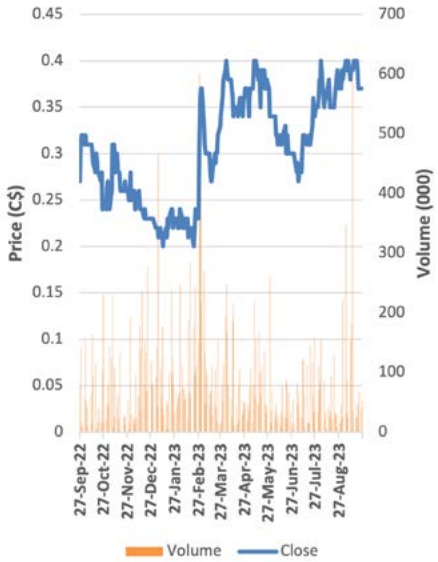
- **Metallic Minerals Corp. (TSXV: MMG)** ("MMG", or "Company") has achieved major exploration milestones at its La Plata Copper Project as it filed an updated NI 43-101 resource estimate.
- **Resource Expansion at La Plata:** MMG announced a resource expansion at its La Plata project centered around the Allard deposit with a 25% increase in tonnage to 147.34 million tons and a 34% increase in contained metal to 1,317 Mlb CuEq. The overall grade of the deposit also increased by 5% to 0.41% CuEq. The Allard deposit resource remains completely open to expansion laterally and to depth. We expect further drilling to add more resources which should lead to an increase in the valuation, particularly with the addition of precious metals.
- **2023 drilling program underway:** The 2023 drill program will test extensions of high-grade mineralization seen in 2022 drill hole LAP22-04 which, due to mechanical issues, ended in 5.39% CuEq recovered over 5.2 m (2.44% Cu, 18.7 g/t Ag, 5.0 g/t Au+PGE). Over 2,200 metres of drilling is done with initial indications from the first two holes suggesting the potential to increase the size of the resource and the overall grade. Further, we expect the 2023 program to add precious metals (gold, platinum, and palladium) to the current copper and silver resource. We note that the July 2023 NI 43-101 does not include Ag+PGM mineralization.
- **Based on our analysis and valuation models, we are maintaining our BUY rating and updating our fair value per share estimate to $0.74 per share, from $0.70 per share.**

Key Financial Data (FYE July 31) in C$		2022		Q3- 2023
Cash	$	4,571,865	$	215,812
Working capital	$	4,274,017	$	978,974
Mineral assets	$	4,135,726	$	4,452,546
Total assets	$	9,103,947	$	5,897,403
Net income (loss) for the 3M	$	(792,287)	$	(667,639)
EPS for the period	$	(0.01)	$	(0.00)

Current Price (C$)*	**0.36**
Fair Value	**0.74**
Projected Upside	**104.45%**
Action Rating	**BUY**
Perceived Risk	**VERY HIGH**
Shares Outstanding	**166,722,027**
Market Cap. (C$)	**60,019,930**
	–
	10.52
YoY Return	**33.33%**
YoY TSXV Return	**-2.94%**

* Note: all $ amounts are C$ unless otherwise stated

TSXV: MMG Price and Volume History



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MMG announced a resource expansion at its La Plata project with a 25% increase in tonnage to 147.34 million tons and a 34% increase in contained metal to 1,317 Mlb CuEq. The overall grade of the deposit also increased by 5% to 0.41% CuEq. The current expansion of the La Plata resource with a modest amount of drilling in 2022 highlights the well-mineralized yet underexplored nature of the project. Hole LAP22-04, which resulted in the majority of the resource expansion, is open to the east, north and at depth and step out from this intercept is the main target of the current 2023 drill program. We expect considerable expansion of the contained precious metals (silver, gold, platinum, palladium) and copper with subsequent drilling and envision La Plata as a Tier 1 asset.

Updated NI 43-101 resource estimate at La Plata; 2023 drilling program underway

In July 2023, Metallic Minerals announced an updated NI 43-101 mineral resource estimate for the project within the central Allard copper-silver porphyry deposit. The new inferred mineral resource estimates 1,317 Mlb CuEq consisting of 147.3 Mt at an average grade of 0.41% CuEq (0.37% Cu and 3.72 g/t Ag) using a 0.25% CuEq cut-off grade. This represents a 25% increase in tonnage and a 34% increase in contained metal compared to the previous resource estimate.

The updated estimate is based on the 2022 drill program focused on the Allard deposit and included 1,730 meters of drilling. The expansion from the inaugural resource was largely driven by the major discovery in drill hole LAP22-04 (drilled in 2022), which intersected 816 meters of 0.41% CuEq (0.30% Cu, 2.47 g/t Ag, 0.038 g/t Au, 0.055 g/t Pd and 0.093 g/t Pd) and ended in 5.39% CuEq over 5.2 meters (2.44% Cu, 18.7 g/t Ag, 5.0 g/t Au+PGE). We note that Hole 22-04 did not reach the target depth and ended in mineralization due to mechanical issues.

Table 1:
Updated La Plata inferred mineral resource estimate at a base case cut-off grade of 0.25% CuEq

Class	CuEq(%)	Tonnes	Cu		Ag		CuEq(%)	
	Cut-off		Grade (%)	MIbs	Grade (g/t)	Ounces	Grade (%)	MIbs
Inferred	0.15	212,243,000	0.32	1,480	3.24	22,131,000	0.34	1,613
Inferred	0.20	187,173,000	0.34	1,391	3.42	20,597,000	0.37	1,515
Inferred	**0.25**	**147,344,000**	**0.37**	**1,211**	**3.72**	**17,604,000**	**0.41**	**1,317**
Inferred	0.30	116,438,000	0.41	1,041	3.95	14,783,000	0.44	1.130
Inferred	0.35	87,871,000	0.44	854	4.20	11,861,000	0.48	925

Source: Company filings

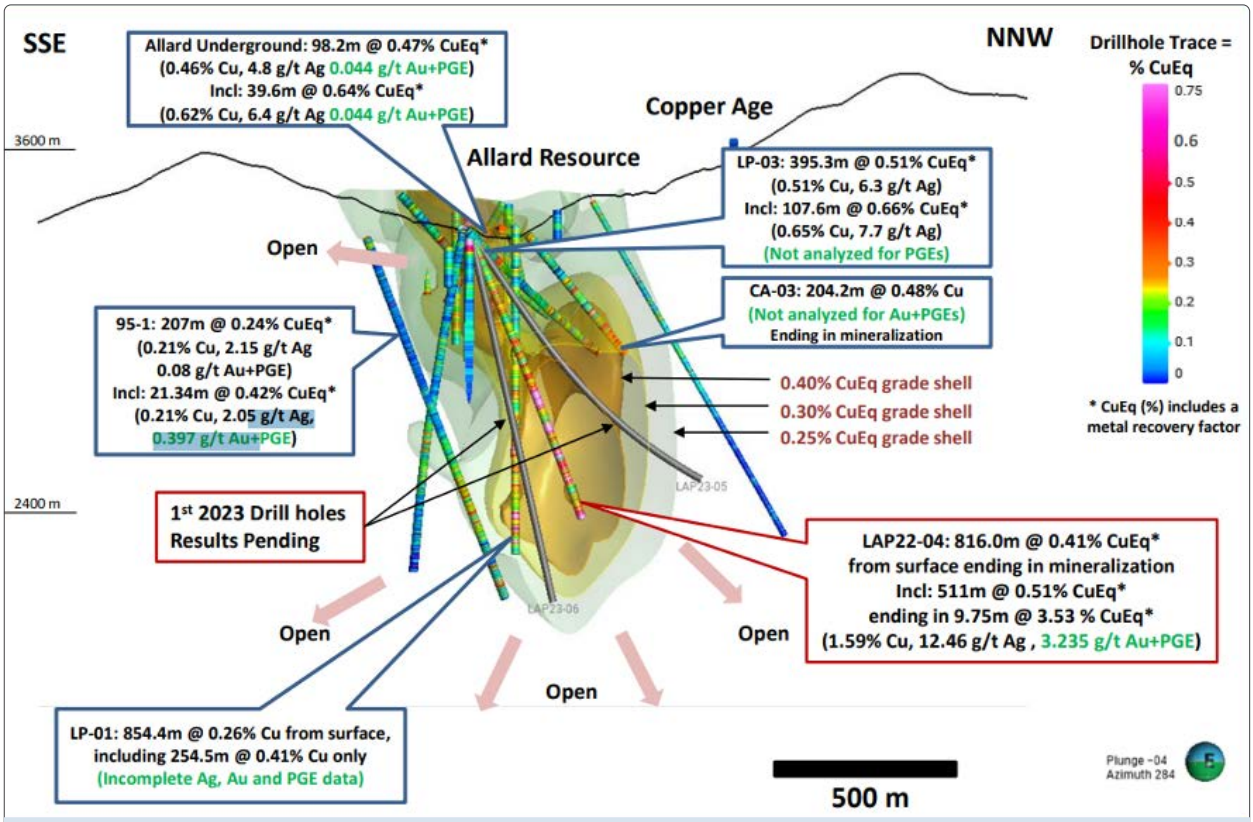
The 2023 drill program intends to follow up on the work done in 2022 and will comprise two phases. The first phase of the 2023 campaign intends to drill up to 5,000 meters and will test extensions of high-grade mineralization seen in 2022 drill hole LAP22-04. The Allard deposit resource remains completely open to expansion laterally and to depth.

Over 2,200 meters of the planned 5,000-meter Phase 1 program has been completed. Two new holes have been drilled which have intersected high-grade mineralization.

- **Hole LAP23-05** was completed to a depth of 909 meters
- **Hole LAP23-06** was completed to a depth of approximately 1,350 meters

Both these 2023 drill holes have intersected porphyry mineralization with visible copper sulfide including chalcopyrite and bornite similar to that seen in LAP22-04. The assay results from these new holes are currently pending but the initial indications are positive.

Allard resource area—new 2023 drill holes



Source: Company filings

The 2023 drill program has the potential to increase the size of the resource and the overall grade with the potential to add precious metals (gold, platinum, and palladium) to the current copper and silver resource. We note that the July 2023 NI 43-101 does not include Au+PGM mineralization. These metals, which are found in high concentrations in the 2022 drilling but are not included in the current resource estimate, are anticipated to be added with additional drilling. The precious metals component of LAP22-04 (silver, gold, platinum, and palladium) can add 50% or more in equivalent value above the copper-only values in that hole.

In addition, the greater La Plata silver-gold-copper project remains underexplored and open to new discoveries of both additional copper porphyry centers as well as high-grade epithermal silver and gold systems.

Financials overview

At the end of Q3-FY2023, the company reported cash and working capital of $0.21 million and $0.97 million, respectively, with the key subsequent event being a 9.5% equity investment by Newcrest totalling $6,300,000. The company's current ratio of 6.1x demonstrates the ability of current assets to sufficiently cover current liabilities, implying a strong liquidity position at the end of April 2023. Monthly cash burn (negative free cash flow) for the three months ended April 30, 2023 was $54,946, lower compared to the prior year period in 2022 primarily due to decline in exploration expenditure. The following table summarizes the company's liquidity position:

Table 2: Liquidity position

Key Financial Data (FYE July 31) in C$		2022		Q3- 2023
Cash	$	4,571,865	$	215,812
Working capital	$	4,274,017	$	978,974
Current ratio		7.73		6.16
Debt	$	–	$	–
Monthly cash burn (3M)	$	(188,028)	$	(54,946)
Cash from financing activities (3M)	$	–	$	–

Source: Company, Couloir Capital

Table 3: Outstanding options and warrants

Options		Strike		Exercise value
1,600,000	$	0.18	$	288,000
818,000	$	0.18	$	147,240
1,600,000	$	0.22	$	352,000
750,000	$	0.43	$	322,500
2,120,000	$	0.60	$	1,272,000
100,000	$	0.65	$	65,000
1,590,000	$	0.41	$	651,900
1,820,000	$	0.41	$	746,200
3,855,000	$	0.23	$	886,650
Warrants		**Strike**		**Exercise value**
1,250,000	$	0.62	$	775,000
4,800,000	$	0.50	$	2,400,000
735,000	$	0.50	$	367,500
11,878,945	$	0.55	$	6,533,420

Source: Company, Couloir Capital

We estimate that the company currently has 14.25 million options (weighted average exercise price of $0.33 per share), and 18.66 million warrants (weighted average exercise price of $0.54 per share) outstanding. At this time, 7.87 million options are in-the-money. Should the options be exercised, MMG will be able to raise $1.67 million, suggesting significant reserve liquidity.

Comparables valuation

As our sole source of valuation, we consider MMG' relative valuation against other mining companies that we believe to be comparable. However, with the La Plata resource estimate, MMG now has exposure to both silver and copper. As a result, in this report we will be updating the valuation of MMG to reflect both Keno Silver and the La Plata copper resource. The table below outlines our peer group selection for MMG on a silver comparables basis:

Table 4: Peer group selection—silver comparables

Company	Location	Stage	Hectares	Enteprise Value (C$)	EV/ Hectares ($/Ha)
Metallic Minerals Corp	**Yukon & Colorado**	**Exploration**	**17,100**	**54,629,071**	**3,194.68**
CMC Metals Ltd.	Yukon	Exploration	13,232	11,972,000	904.78
Dolly Varden Silver Corp.	BC	Exploration	16,300	142,980,000	8,771.78
Klondike Silver Corp.	BC	Exploration	11,400	10,130,000	888.60
Honey Badger Silver Inc.	Ontario	Exploration	36,445	2,450,000	67.22
Blackrock Silver Corp.	Nevada	Exploration	5,066	45,934,000	9,067.11
Electric Metals Ltd.	Nevada	Exploration	3,896	32,400,000	8,315.44
Silver Tiger Metals Inc.	Mexico	Exploration	28,414	55,560,000	1,955.37
Vizsla Silver Corp.	Mexico	Exploration	7,200	252,340,000	35,047.22
Silver Dollar Resources Inc.	Mexico	Exploration	11495	6,180,000	537.63
Zacatecas Silver Corp.	Mexico	Exploration	12,475	14,230,000	1,140.65
Defiance Silver Corp.	Mexico	Exploration	5,740	17,680,000	3,080.14
Silver Mines Ltd.	Australia	Exploration	200,724	239,054,000	1,190.96
Outcrop Silver & Gold Corp.	Colombia	Exploration	61,088	28,850,000	472.27
Silver X Mining Corp.	Peru	Exploration	30,198	31,978,000	1,058.94
Tier One Silver Inc.	Peru	Exploration	63,800	21,270,000	333.39
Average					**$4,855.43**

Source: Couloir Capital, Public Disclosures

Based on the above metrics, we believe that MMG should be trading at an enterprise value of $83.02 million or $0.49 per share on an EV / hectare basis, which is based on the hectarage associated with Keno Silver. In addition to this, we consider the net resource from La Plata in a sum of parts valuation model to come to a total valuation estimate for MMG. The table below outlines our peer group selection for MMG on a copper comparables basis:

Table 5: Peer group selection—copper comparables

Company	Location	Stage	Hectares	Enteprise Value (C$)	EV/ Hectares ($/Ha)
Metallic Minerals Corp	**Colorado**	**Exploration**	**658,500,000**	**54,629,071**	**0.08**
Abacus Mining & Exploration Corp.	British Columbia & Nevada	Development	5,102,041,863	30,630,000	0.01
Dore Copper Mining Corp.	Quebec	Exploration	537,097,368	11,550,000	0.02
Eagle Mountain Mining Ltd.	Arizona	Exploration	531,007,694	30,194,600	0.06
New World Resources Ltd.	Arizona & New Mexico	Exploration	945,495,426	54,425,960	0.06
Lion Copper & Gold Corp.	Nevada	Exploration	1,236,265,000	20,890,000	0.02
NGEx Minerals	Chile	Exploration	18,813,869,709	1,019,050,000	0.05
Regulus Resources	Peru	Exploration	6,050,000,000	81,380,000	0.01
Marimaca Copper	Chile	Exploration	2,139,222,490	351,910,000	0.16
Element 29 Resources	Peru	Exploration	1,965,592,798	16,450,000	0.01
Hot Chili Ltd.	Chile	Exploration	8,319,143,457	128,385,960	0.02
Average					$0.04

Source: Couloir Capital, Public Disclosures

We value La Plata at a 30% premium to the peer group average multiple given the recent resource expansion, investment in the project by Newcrest as well as its presence in Colorado compared to some of the other South American peers which carry higher geographical risk. Based on this, we believe that MMG should be trading at an enterprise value of $35.50 million or $0.21 per share on an EV / net resource basis, which is based on the net resource associated with La Plata.

Table 6: MMG per share value

Valuation Summary	Per share value (C$)
La Plata Project	$0.21
Keno Silver	$0.49
Net cash	$0.04
Total MMG per share value	**$0.74**

Source: Couloir Capital

By combining the total value (implied EV) of both projects and adding net cash value to it, we arrive at the sum-of-the-parts valuation for MMG. Our fair value estimate for MMG is $125.0 million or $0.74 per share, implying that the company is trading at a discount to the fair value.

Conclusion

After accounting for our valuation models, we have arrived at fair value per share estimate of $0.74 per share. We are maintaining our previous BUY rating, and expect the following catalysts to materially impact our valuation estimate:

- Any news regarding new drilling campaigns or large-scale field work programs for Keno silver or La Plata.
- Any news regarding the inaugural resource estimate for Keno Silver.
- Any news regarding 2023 drilling program at La Plata.
- Any news suggesting a delay in exploration, development and/ or permitting timelines.
- Financing-related news that in any way significantly alters the company's capital structure.

Risks

The following outlines some of the key risk considerations that investors should keep in mind when evaluating MMG as an investment opportunity:

- **Poor drilling and exploration results:** Results from historical exploration work and more recent work done by MMG has thus far yielded positive results pointing to promising mineralization at the Keno Silver and La Plata Properties. As MMG ventures into additional drilling work, poor results may imply a deterioration of the property's mineral potential, making it less valuable as an exploration asset.
- **Uncertainty around permitting:** This can lead to material impacts on the company's exploration campaigns in the form of permitting delays, budget overruns due to unexpected costs on permitting or permitting-related matters, or full-on execution risk due to withholding permits or rejecting necessary permit applications.
- **Market price exposure and impact on execution risk:** Sunk capital is relatively low at the exploration stage relative to further along the development cycle. However, on the flipside, MMG's exploration and development activities will be particularly sensitive to market pricing during the exploration stage given its likely reliance on markets for future funding needs.
- **Capital structure deterioration related to ongoing cash burn:** There is the potential that the company's cash burn could sap liquidity to the point of the company needing to raise capital. Assuming no cash flows, there is a chance that MMG would do so via equity issuance. Depending on the price of the issuance, such issuance could be dilutive to existing shareholders.

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