

# Sonoro Gold Corp. (TSXV: SGO) – Aggressive Drilling Campaign and Near-Term Cash Flow Potential



## Investment Highlights

- Sonoro Gold Corp. (“SGO”, “company”) is a precious metals explorer with a focus on gold projects in the Mexican state of Sonoro. Its Cerro Caliche Project is located in close proximity to both low-grade bulk tonnage open pit projects and high-grade underground gold mines.
- Existing Resource, Well Explored Asset:** The Cerro Caliche Property has seen over 23,000 meters of drilling and carries an NI 43-101 inferred resource of 201,000 gold-equivalent ounces.
- Near-Term Cash Flow Prospects:** Given the shallow oxide resource at Cerro Caliche, SGO plans to build out a heap leach mining operation (“HLMO”) to begin mineral extraction in the near-term and has received three MoUs from Chinese EPC companies.
- Aggressive Exploration Campaigns:** SGO has commenced its 2020/2021 drilling programs, which includes 50,000 meters worth of RC and diamond drilling. The initial phase of this program, which includes 6,000 meters of deep drilling, has been funded with a recent \$8 million raise.
- Based on our analysis and valuation models, we are initiating coverage with a BUY rating and a fair value per share estimate of \$0.33 per share.**

Current Price (C\$):	\$ 0.26
Fair Value (C\$):	\$ 0.33
Projected Upside:	25.48%
Action Rating:	BUY
Perceived Risk:	VERY HIGH

Shares Outstanding:	84,357,285
Market Capitalization (C\$):	\$ 21,932,894
P/E	-
P/B	196.54
YoY Return	66.67%
YoY TSXV Return	25.94%

2020E Revenue Forecast	N/A
2020E EBITDA Forecast	N/A
2020E Earnings Forecast	N/A
2020E EPS	N/A
EV/ 2020E EBITDA	N/A
P/ 2020E Earnings	N/A

\*Note that all \$ amounts are C\$ unless stated otherwise.

Key Financial Data (FYE - Dec 31)				
(C\$)		2019		Q2-2020
Cash	\$	1,074,652	\$	45,297
Working Capital	\$	(577,432)	\$	(2,076,470)
Mineral Assets	\$	1,432,095	\$	1,927,582
Total Assets	\$	2,762,229	\$	2,241,546
Net Income (Loss) for the 6M	\$	(1,561,899)	\$	(1,257,966)
EPS for the 6M	\$	(0.05)	\$	(0.03)

Rob Stitt, CAIA

October 29, 2020

SGO is a gold junior based in the Mexican state of Sonoro, Mexico's largest gold producing state with a large roster of currently producing gold mines. The company recently embarked on an expansionary drive to advance its operations to the production stage, and as such is looking to develop its flagship asset via multiple initiatives, including aggressive drilling to expand its current resource at surface and depth. If successful in delivering an HLMO, SGO could provide near-term value accretion as future cash flows are used to subsidize future reserve expansionary exploration, without additional equity dilution. SGO's portfolio consists of:

- **The Cerro Caliche Project:** Comprising 1,350 hectares of concession areas on which SGO has the option to acquire 100% ownership, Cerro Caliche is fairly well explored, with over 23,000 meters of drilling and over 6,000 rock and soil samples having been taken. In 2019, SGO completed an NI 43-101 Technical Report on the property, which indicated an inferred resource of 201,000 Au Eq. Oz. Despite Cerro Caliche's resource largely been estimated from the shallow near-surface resource, Cerro Caliche's proximity (9km) to the nearby high-grade Mercedes Gold Mine is prompting SGO to further explore Cerro Caliche's mineralization at depth.
- **The San Marcial Project:** A highly prospective gold-silver property covering over 1,000 hectares, with previous work having uncovered near-surface mineralization. SGO owns 100% of the San Marcial Project.

Based on our analysis of the company's activities, we believe that the Cerro Caliche Project is likely to be the main focus of the company in the near-to-medium term, and therefore the likely driver of investor's value on a forward basis. As such, we will be primarily covering this asset in this initiating report. With the Cerro Caliche flagship project being accelerated to the Preliminary Economic Assessment stage and the subsequent advancement to a producing HLMO, concurrent with an aggressive core drilling program aimed at testing the project's high-grade mineralization at depth, SGO offers investors a number of interesting near-to-medium-term catalysts, including a potential move to the cash flowing stage. Given the current bull market developing in gold, the catalyst mix may offer investors the sort of growth and cash flow characteristics that are rare to find in the junior mining sector.

### *The Cerro Caliche Project*

Located in the Cucurpe municipality within the mineral-rich State of Sonoro, the Cerro Caliche Property's concession total 1,350 hectares, all of which fall within a single private ranch. The aggregated Cerro Caliche concession area has been segmented into separate concession areas outlined in the table below:

### Cerro Caliche Concessions

Concession Number	Title Number	Concession Holder	Area (ha)
Tres Amigos	166174	Jesús Héctor Pavlovich Camou 50%; Raúl Ernesto Seym Gutierrez 50%	20.00
Cabeza Blanca	175488	Héctor Fernando Albelaís Peral	10.00
Guadalupe	211715	Juan Pedro Fernández Duarte	24.59
El Huevo de Oro	212857	Juan Pedro Fernandez Duarte	10.00
El Huevo de Oro	220208	Juan Pedro Fernandez Duarte	510.84
Teresita	220210	Juan Pedro Fernandez Duarte	0.59
Abel Fracc I	220657	Juan Pedro Fernandez Duarte	99.09
Abel Fracc II	220658	Juan Pedro Fernandez Duarte	11.89
Abel	220838	Juan Pedro Fernandez Duarte	147.98
El Centro	221094	Edward Rivas Hoffman	3.77
El Rosario Fracc I	221148	Edward Rivas Hoffman	399.69
Huevo de Oro No. 1	222098	Juan Pedro Fernandez Duarte	3.30
Huevo de Oro No. 2	222099	Juan Pedro Fernandez Duarte	0.03
Teresita	222160	Juan Pedro Fernandez Duarte	99.33
El Colorado	177317	Felipe Albelaís Varela	9.00
<b>Total</b>			<b>1,350.10</b>

*Source: Company*

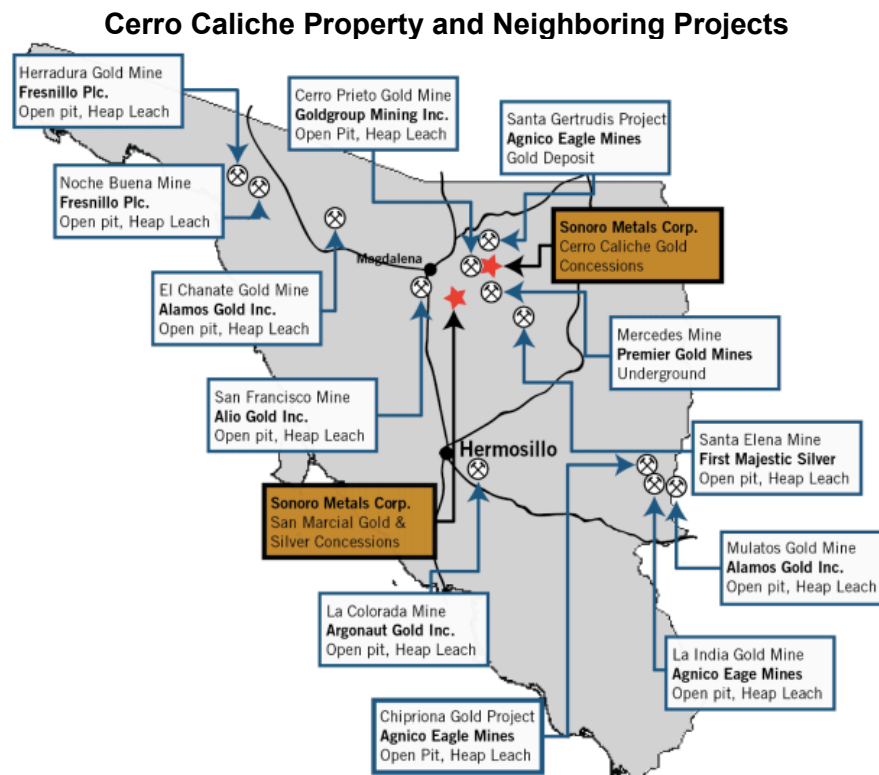
SGO currently has an option to acquire 100% of the Cerro Caliche Project concessions via the completion of payment milestones with the various vendors of the concessions that make up the aggregate property area. It is up to date on all option payments with only \$14,444 coming due this November. In 2021 the option payments total \$628,000. The first payment is \$200,000 and is for the Cerro Caliche Claims with a further \$250,000 due the following July 2021. The next payment is \$150,000 for the Rosario claims this March 2021. The Tres Amigo's claims require two option payments of \$14,444 each in 2021. The first is in May and the second is in November. The terms on the separate agreements by concession area are outlined below.

- **Cerro Caliche Concession Group:** SGO entered into an option agreement with a private Mexican vendor in January 23, 2018 to acquire 100% of the Cerro Caliche group. To exercise the option, SGO must pay US\$2.98 million in ascending cash instalments to the vendor with the final instalment due in January 2024. Post-exercise, the vendor will be entitled to a 2% NSR, with SGO having the option to buy back the NSR at US\$1 million per percentage NSR.
- **Abel Concession Group:** In February 2018, SGO entered into a purchase agreement with a private Mexican vendor to purchase the Abel concessions for \$21,215.
- **Rosario Concession Group:** SGO entered into an option agreement with a private U.S. vendor to acquire 100% of the Rosario group via the payment of cash instalments amounting to US\$1.60 million, with the final payment due March 2024. Rosario's vendor will be entitled to a 2% NSR post-exercise, with identical NSR buyback terms to the Cerro Caliche group.
- **Tres Amigos Concession Group:** In May 2018, SGO entered into an option agreement to acquire 100% of the concession group via the

instalment-based payment of US\$0.13 million in cash, with the final payment due May 2022. There is no NSR entitlement to the vendors.

- **El Colorado Concession Group:** In August 2018, SGO entered into an option to purchase 100% of the El Colorado concessions for cash consideration of US\$0.10 million, which it fully paid between 2018 and 2019.
- **Cabeza Blanca Concession Group:** SGO entered into an option agreement to acquire 100% of the Cabeza Blanca concession for total instalments that total to US\$0.18 million, with the final instalment having been paid prior to October 5<sup>th</sup>, 2020.

As mentioned in our introduction, the Cerro Caliche Project is situated in an area that has a strong gold production footprint (Sonoro was the top gold producing state in Mexico in 2019) and also features a strong concentration of gold assets in close proximity to SGO's own property. As the map below shows, Cerro Caliche neighbors projects held by the likes of Fresnillo PLC. (LSE: FRES), Agnico Eagle Mines Ltd. (TSX: AEM), Magna Gold Corp. (TSXV: MGR), Premier Gold Mines Ltd. (TSX: PG), and Argonaut Gold Inc. (TSX: AR).



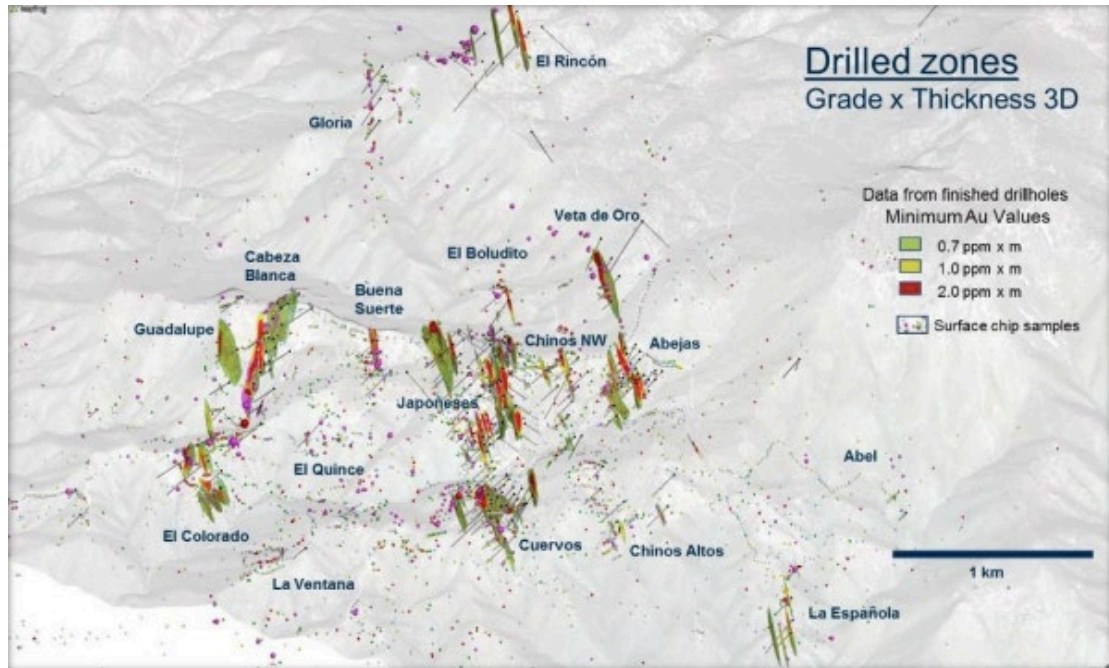
*Source: Company*

Apart from Cerro Caliche's proximity to currently producing mines in Sonoro, there are also eight historic gold mining sites located within the Cerro Caliche concessions. Based on historical exploratory work done by previous owners as well as SGO's own work on the property (which includes over 23,000 meters of drilling and 6,000 soil and rock samples), the company has identified 17 zones of near and at-surface mineralization, forming a cluster of



northwest trending gold-dominant structures that are surrounded by parallel sheeted veinlets and stockwork veinlets. This mineralized footprint is estimated to measure around 3km by 4km, and the high-grade targets are currently believed to largely sit between 1,100 and 1,700 meters above sea level, directly below the shallow gold mineralization. The major mineralized zones are shown in the below visual.

#### Cerro Caliche: Mineralized Zones



Source: Company

In terms of accessibility, the Cerro Caliche Project is accessible via paved Federal Highway 15, which connects the city of Hermosillo (population of over 800,000) over a distance of 185km to the town of Magdalena (population of approximately 25,000), then southeast 40km via the paved Magdalena–Cucurpe two-lane highway, before turning northeast onto an unpaved, all weather road that continues 14km to a locked gate allowing entrance to the project area. A further 4.8km takes one to the center of the property. All-in, estimated duration of travel (if driving) is approximately 1.5 hours from Magdalena and 3.5 hours from Hermosillo. Apart from the highways and roads that connect Cerro Caliche to Hermosillo, Hermosillo also has an international airport that can facilitate air travel access. The airport at Hermosillo services flights to several domestic destinations, such as Mexico City, as well as external destination such as Phoenix, Arizona. Basic services and supplies can be obtained from the town of Magdalena, and given the strong mining footprint in the state, we expect that the company could likely source most of its mining equipment and manpower needs from the city of Hermosillo.

According to management, the state-owned utility, *Comision Federal de la Electricidad* supplies power to the Cerro Prieto mine, located approximately 3 km to the west of the proposed heap leach facility for Cerro Caliche. The project will connect to the utility at Cerro Caliche. As part of the due diligence

requirements for the project's PEA, Sonoro's management team will conduct a review of the power line to Cerro Prieto to determine what, if any, system upgrades may be required.

Water will be supplied to the Cerro Caliche mine through the drilling of one or more water wells within the Cerro Caliche watershed region. Sonoro's management indicates that they have commenced negotiations with the holders of the water rights for in the district, and these negotiations will follow a recognized process which is utilized throughout Mexico.

In terms of climate and geography, the property area is situated within a region that exhibits both hot and temperate semi-arid climates. Temperatures are cooler than may be expected more generally for Mexico (due to the elevation), and typically average 16.5 degrees Celsius, though it can exceed 40 degrees Celsius during the peak of summertime. Annual average precipitation is approximately 467mm, though rain typically falls between June through September and December through January. Despite the potential for rainfall to cause obstructions on unpaved roads, mineral exploration work can typically be done year-round. Vertical relief in the project area is approximately 710 meters, from a maximum elevation of 1,720 meters at Cerro Caliche to a minimum elevation of 1,080 meters. Local vegetation includes short grasses, mesquite, ocotillo, and cacti species.

### *Exploration Work & Resource Profile*

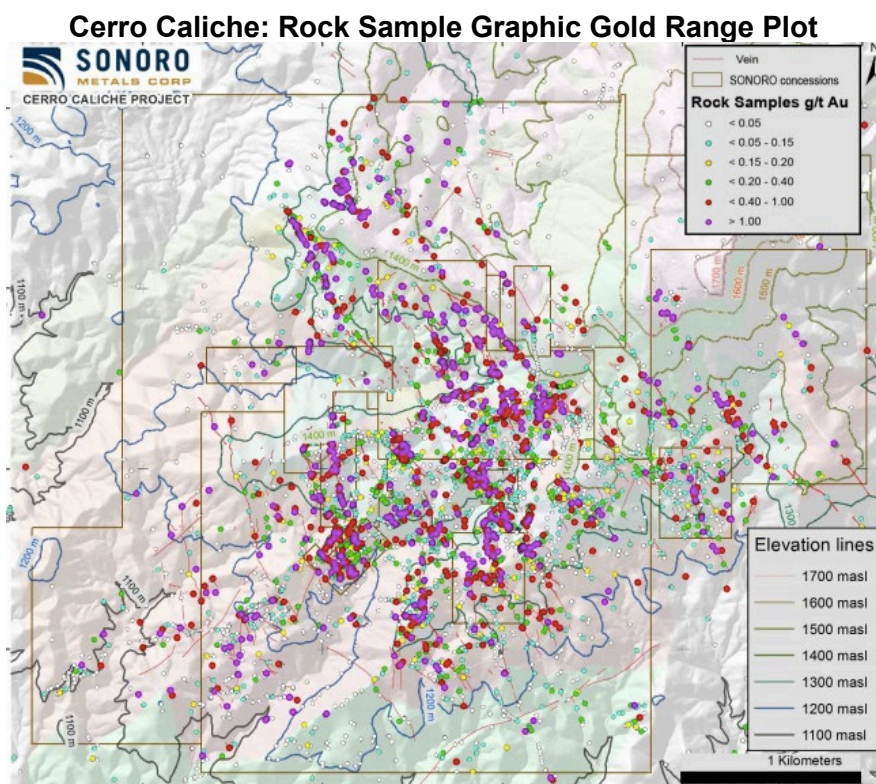
As we earlier discussed in our project summary, Cerro Caliche has seen over 23,000 meters of previous drilling (both by SGO and previous operators), as well as over 6,000 rock and soil samples. To be specific, total drilling to date includes 23,679 meters over 212 holes, with 96 holes covering 10,328 meters having been drilled by the company itself. SGO's portion of existing drill work was largely completed throughout 2019 in the run up to a NI 43-101 Technical Report it published later in the year, and the holes were all drilled on a typical dip of approximately 45 degrees to an average depth of 107.6 meters. A summary of the highlights from SGO's 2019 drilling campaigns is provided below:

#### **SGO Previous Drilling Highlights**

<b>Drill Target</b>	<b>Included Zones</b>	<b>Highlighted Intercepts</b>
<b>Central Zone:</b>	<b>Japoneses-Curvos, Abejas-Chinos, Altos-Chinos NW</b>	Up to 37.44m @ 0.95 g/t Au Eq., and 9.15m @ 1.26 Au Eq.
<b>Western Zone:</b>	<b>Cabeza Blanca-Guadalupe-El Colorado, Buena Suerte- El Quince</b>	12.19m @ 11.3 g/t Au Eq., 15.24m @ 1.05 g/t Au Eq., 4.57m @ 4.69 Au Eq., and 22.86m @ 0.77 g/t Au Eq.
<b>North-Central Zone:</b>	<b>Veta de Oro-Boludito</b>	10.67m @ 2.73 Au Eq., 6.09m of 4.35 g/t Au Eq., 9.14m @ 2.09 g/t Au Eq., and 3.05m @ 5.48 g/t Au Eq.
<b>Northwest Zone:</b>	<b>El Rincon-Gloria</b>	10.67m @ 0.74 g/t Au Eq., and 4.57 @ 1.29 g/t Au Eq.
<b>Southeast Zone:</b>	<b>La Espanola-Magdalena-Abel-Tres Naciones</b>	Up to 9.14m @ 1.33 g/t Au Eq.

*Source: Company, Couloir Capital*

In addition to extensive drilling, SGO also undertook major sampling initiatives at Cerro Caliches, with a total of 6,199 rock chip samples collected. Of these, 2,188 were recent samples taken by the company, with the rest taken by the four previous operators of the Cerro Caliche Property (further details in the history section further below). Average gold grade on a selection of 4,397 chip and channel samples was 0.48 g/t Au, whilst average silver grade was 6.7 g/t Ag. On 495 of these samples, the average gold and silver grades were 3 g/t Au and 35 g/t Ag, respectively. However, we note that sample values that were greater than 20 g/t Au and 500 g/t Ag were reduced to those higher-end cut-off grades, reducing the impact of bonanza grade samples on the total sample average grade. As a result of the sampling work, SGO identified the earlier mentioned concentrated mineralization zone, which has a domain of 3km by 4km and elevation restriction between 1,100 and 1,700 meters above sea level.



Based on the aggregated exploratory work done, SGO filed an NI 43-101 Technical Report, which estimated Cerro Caliche's inferred resource base at 201,000 gold-equivalent ounces. The inferred resource was estimated largely from work done on the Japanese Vein, with that particular mineralized zone contributing over 90% of the project's resource estimate. Apart from formalizing an inferred resource estimate, the report also confirmed that the currently identified resource is amenable to open pit extraction methods.



**Cerro Caliche: Inferred Resource**

Cut-off AuEq (g/t)	Tonnes (000)	Average Grade			Contained Metal		
		AuEq (g/t)	Au (g/t)	Ag (g/t)	AuEq (koz)	Au (koz)	Ag (koz)
0.15	13,511	0.493	0.448	4.0	214	195	1,720
0.2	12,634	0.515	0.469	4.1	209	190	1,674
<b>0.25</b>	<b>11,470</b>	<b>0.545</b>	<b>0.495</b>	<b>4.3</b>	<b>201</b>	<b>183</b>	<b>1,601</b>
0.3	10,099	0.581	0.529	4.6	189	172	1,491
0.35	8,622	0.625	0.570	4.9	173	158	1,347
0.4	7,164	0.676	0.618	5.2	156	142	1,189
0.45	5,873	0.732	0.670	5.5	138	126	1,037
0.5	4,771	0.791	0.725	5.8	121	111	891

*Source: Company*

Based on the new understanding around the shallow oxide resource profile at Cerro Caliche and its extension past the confines of the Los Japoneses Zone, SGO has used internal geological modeling and conceptualization to identify a larger shallow exploration target. It is believed that this exploration target would be exclusive of the inferred resource already identified via the 2019 Technical Report and would be suitable as a feeder deposit for SGO's planned HLMO, given its near-surface positioning.

Without considering Cerro Caliche's mineral potential at depth (discussed later), SGO has pointed out that current exploration work suggests continuity and openness of the mineralized zone to the northwest and southeast. In addition, the currently drilled area at Cerro Caliche covers a broad tract of acreage, especially in comparison to the net area used in the resource estimation in the 2019 Technical Report. Using existing shallow drill results to inform estimations around the potential mineralization to be tested, SGO has announced its belief that a shallow target of between 75 and 100 million tons at 0.3-0.5 g/t Au Eq. could be explored on a forward basis. Whilst we advise caution around SGO's estimations around the potential scale of the exploration target, given it is conceptual in nature, we would emphasize that such a target implies 723,392 Oz Au Eq. on the lower end and 1.61 million Oz Au Eq. on the higher end. If any future discovery by SGO comes close to the implied scale, it would vindicate the company's belief in Cerro Caliche's candidacy for a bulk tonnage deposit – without considering its potential mineralization at depth.

### *Plans for a Heap Leach Mining Operation – Near-Term Cash Flow Potential*

One of the potential near-to-medium-term value drivers for SGO is its plans to build out a HLMO to begin mineral extraction of the identified near-surface oxide body at Cerro Caliche. The currently identified mineralization is



centered on the Japonese Zone, which as we mentioned earlier is the biggest contributor to the current inferred resource estimate but extends over a cluster of 17 mineralized areas. As SGO believes that there is a significant shallow exploration target underlying the Cerro Caliche mineralized zone (measuring 3km by 4km between 1,100 meters and 1,600 meters above sea level), the company believes an HLMO may be a feasible way to monetize the project's gold potential.

In order to move forward with its plans to advance Cerro Caliche to an HLMO, SGO is currently in discussion with four Chinese EPC companies that have come forward as prospective partners for the development of Cerro Caliche, including mine design, construction/ build-out and project financing. Based on the company's commentary, the project financing is likely to come in the form of debt financing, which we see as common for the industry. Thus far, the company has entered into three MoU's for the provision of EPC services and project financing from its prospective EPC counterparties, and we see this as a positive indicator for SGO given the multiple parties stepping forward to fill necessary EPC and financing needs for SGO at Cerro Caliche. However, until terms are announced, we will consider any discussions with EPCs to be early-stage and any project financing to be speculative and conditional.

Based on our review of the company's public disclosures and our own analysis of capital costs for comparable projects in Mexico, we have made the following as the speculative economic characteristics of the proposed HLMO:

- Production to commence in Q4-2021, depending on a positive Preliminary Economic Assessment and the pre-requisite development financing being secured.
- Plans to produce at a run-rate of 8,000 tpd, which we estimate to produce 40,000 net gold-equivalent ounces per annum.
- We have assumed a 72% gold recovery on processed tonnages.
- An estimated capital cost (exclusive of sustaining capital upon operational start) of US\$13 million.

Given that the company is currently in the early stages of the mining development cycle, we think it is too early for investors to take these estimates at face value, and advise caution. The sensitivity of these inputs is uncertain and may be liable to be significantly different in actuality. However, we do think that the estimates can be helpful in providing reference points for the potential economics of the HLMO.

### *Exploration Campaigns & Upcoming Catalysts*

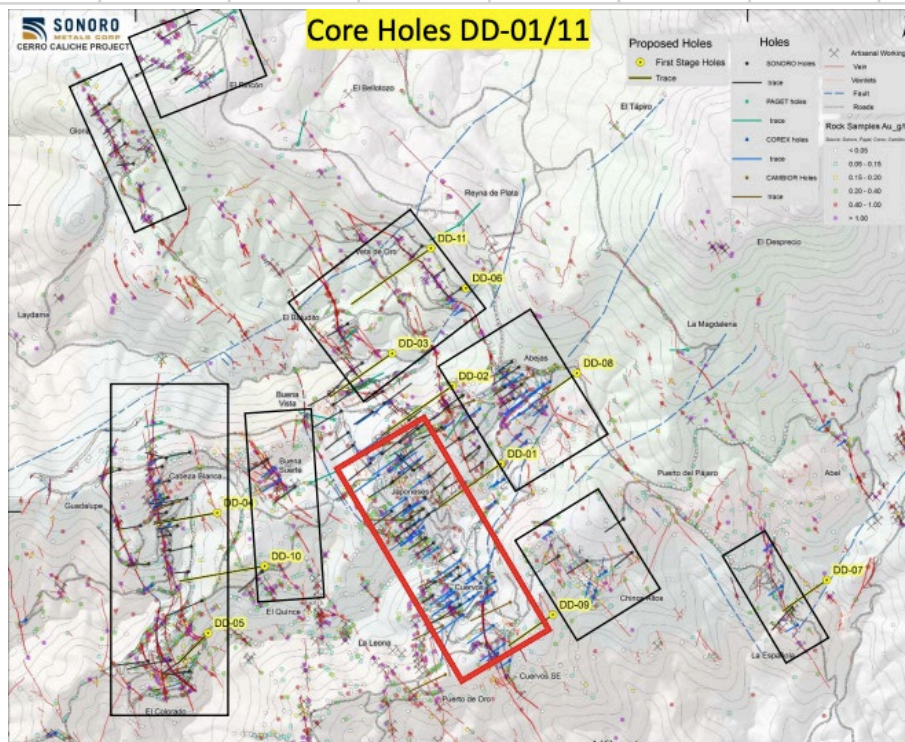
On a forward basis, SGO is embarking on a multi-pronged strategy that comprises both an aggressive deep diamond drilling campaign aimed at significantly expanding Cerro Caliche's resource, as well as a separate shallow RC drilling program aimed at expediting a Preliminary Economic Assessment on the existing NI 43-101 compliant resource. The simultaneous campaigns are designed to test key high-grade targets whilst also

accelerating the move to the production stage, with a focus on advancing the HLMO to access organic funding of ongoing exploration.

To this end, SGO is targeting 50,000 meters of total RC and diamond drilling between 2020 and 2021, with the first phase of drilling high grade targets together with a shallow drilling campaign having commenced in September 2020. Phase one of the 2020/2021 high grade drilling program is expected to comprise 6,000 meters of deep core drilling over 20 holes, with 11 of these prospective hole locations identified, seven identified on a tentative basis, and the final two dependent on results from the initial drill hole assays.

#### Proposed Phase One Diamond Drill Holes: DD-01 to DD-11

Zone	Hole	East	North	Elevation (m)	Dip	Azimuth	Length (m)
Japoneses	DD-01	537193.68	3365155.73	1320	-45	235	350
Japoneses	DD-02	537034.69	3365409.95	1357	-45	235	400
Japoneses	DD-03	536838.12	3365516.47	1285	-45	235	350
Cabeza Blanca	DD-04	536266.93	3364996.42	1361	-45	260	300
El Colorado	DD-05	536236.77	3364603.98	1254	-45	225	200
Veta de Oro	DD-06	537079.43	3365729.44	1409	-90	0	200
La Española	DD-07	538258.65	3364776.78	1120	-45	235	250
Abejas	DD-08	537442.28	3365451.87	1374	-60	235	300
Cuervos SE	DD-09	537363.75	3364663.74	1349	-45	235	250
Cabeza Blanca	DD-10	536421.83	3364822.23	1358	-45	260	400
El Boludito	DD-11	536965.33	3365859.16	1406	-45	235	450
Total =							3450

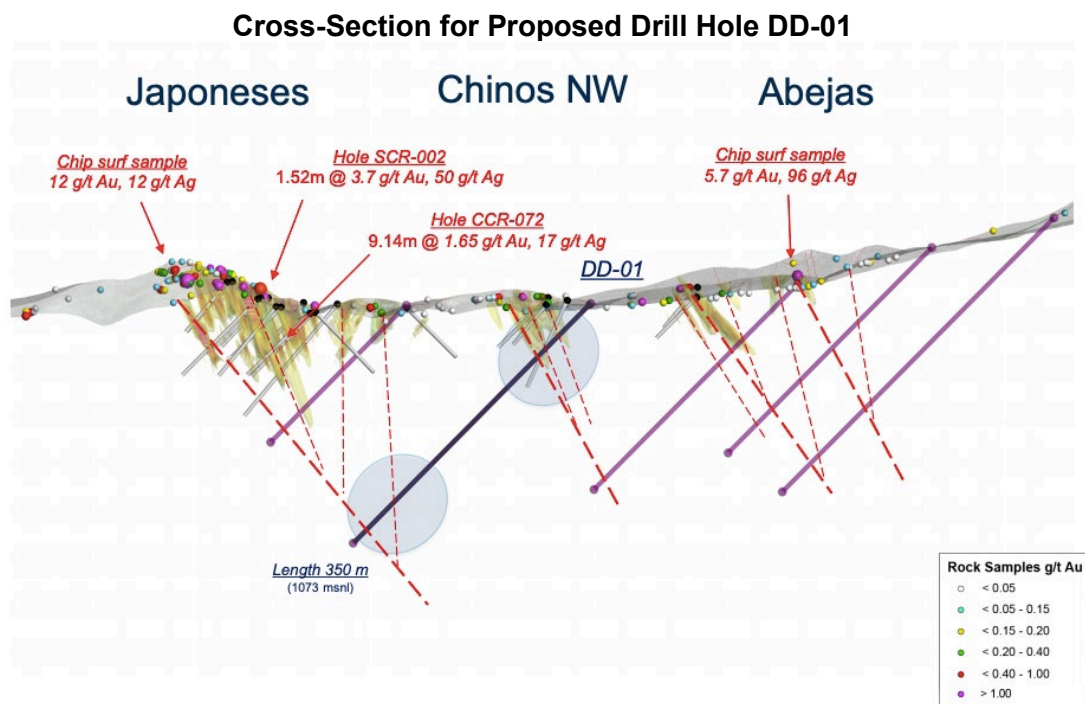


Source: Company

It is expected that the phase will last about five months, with expectations that around 5,000 meters will be drilled by the end of December 2020. The first high-grade targets consist of mineralized zones that are believed to be supporting vein zone coalescences at elevations favorable for the formation of

high-grade gold deposits. As a result, it is expected that SGO's phase one drilling will go to a depth averaging approximately 200 to 300 meters, with range allowances for between 150 and 350 meters.

One of the key drivers behind SGO's decision to pursue a drilling campaign targeted at deeper high-grade targets at Cerro Caliche is the mineralization at the nearby Mercedes Gold Mine owned by Premier Gold, which lies 9km southeast of Cerro Caliche. The Mercedes gold mine is a mainly underground operation that has a run rate feed of 2,000 tpd to the on-site mill, which has operated since 2011. Mercedes is in the same mineralized epithermal district and related hydrothermal-igneous system that hosts the Cerro Caliche mineralized zone. With this in mind, SGO has noted that the average mine-mill grades at Mercedes have ranged between 3-6 g/t Au with up to 100 g/t Ag. Due to the geological similarities between Cerro Caliche and Mercedes, SGO see the potential for the Mercedes UG operation's characteristics to be mirrored in the underlying deposit at Cerro Caliche, prompting an active investigation of the project's high-grade gold mineralization at depth. If it yields, SGO will have a project that not only has confirmed shallow, low-grade, bulk-tonnage potential sufficient to support an open pit operation, but perhaps also the high-grade potential at depth to support the economics for an underground mining operation similar to the Mercedes Mine.



*Source: Company*

Concurrent to phase one deep diamond drilling, SGO has also commenced a shallow RC drilling campaign focused on the Japoneses zone, where the majority of the current resource is concentrated. The RC drilling program, which is expected to run through to mid-2021 and comprise 30,000 meters over 250 holes, will differ from the deep diamond drilling campaign in that it will be focused on expanding the known mineralized zone that was already

identified by SGO via its 2019 NI 43-101 Technical Report. As a result, we expect the RC drilling campaign to be less exploratory in nature (relative to the deep drilling campaign), and will focus on the already drilled and partially drilled mineralized zones that SGO has previously identified. The RC drilling will be a comparatively simpler infill and step-out program with a depth cut-off of 150 meters. Due to the lower depth of drilling as well as the more streamlined focus of the RC drilling campaign, SGO expects that the RC drilling will move faster relative to the diamond drilling campaign it has going on concurrently, and management has advised that it expects 8,000 meters over 50-60 shallow holes to have been completed by mid-December 2020.

The exploration target we outlined in an earlier section is the key focus of the RC drilling campaign, with key target zones outlined in the list below. As we have covered, the company believes that there is viable exploration target exclusive of the current NI 43-101 inferred resource for Cerro Caliche that could range between 75 million and 100 million tons grading between 0.3-0.5 g/t Au Eq. Apart from the implied scale if such a deposit is identified through the RC drilling, the grade of such a discovery is still economic by local standards, with grades of 0.3 g/t Au Eq. still being mined by the likes of Argonaut Gold. As a result, there is reason to believe that if SGO is successful in discovering a deposit of similar scale and grade to the exploration target it has concluded exists as a result of its models and geological analysis, it would likely be an economically viable near-surface feeder deposit to a small to medium-scale HLMO.

**Key Target Zones for the SGO 2020 RC Drilling Campaign**

<b><u>Zones/Trends</u></b>	<b><u>Vein/Structure</u></b>
VETA DE ORO	Veta de Oro, Abejas, and El rincón
CHINOS	Chinos NW and Chinos Altos
JAPONESES	El Boludito, Japoneses, and Cuervos-Gloria
BUENA SUERTE	Buena Suerte, El Quince, and San Quintín
CABEZA BLANCA	Cabeza Blanca, Guadalupe, and El Colorado
LA ESPAÑOLA	La Española and Magdalena
ABEL	Abel

*Source: Company*

With both the RC and diamond drilling campaigns having commenced, there are now a number of significant catalysts that could potentially lead to value accretive events. We believe the below table outlines major catalyst that shareholders can anticipate throughout the remainder of 2020 and through to mid 2021:



### Key Catalysts for SGO at Cerro Caliche

Timeline	Milestone / Catalyst
<b>End of 2020:</b>	Complete 5,000 meters of deep diamond drilling and 8,000 meters of shallow RC drilling. Define Cerro Caliche's mineralization at depth. Expand the existing resource via shallow infill and step-out drilling.
<b>January 2021:</b>	Update the NI 43-101 Technical Report inferred resource estimate. Complete metallurgical testing.
<b>February 2021:</b>	Complete a Preliminary Economic Assessment.
<b>March 2021:</b>	Implement plans to design and develop the HLMO.
<b>Through 2021:</b>	Continue drilling with a focus on completing the entire 50,000 meter program.

Source: Company

### History of Cerro Caliche

The history of mining in the broader Cucurpe mining region dates back to the 1800s, with evidence of this lying in the locally abundant artisanal mine remains and surface cuts. The project area is littered with surface cuts, prospect pits and small underground mines that were developed on steeply to moderately dipping, structurally controlled mineralized zones and quartz veins. At Los Japoneses, a three-level mine was mined as deep as 100 meters. In more recent times, Cambior Exploration amassed a 4,200 hectare concession package in the 1990s that included part of the Cerro Caliche Project, with the overall concession area being referred to as “Los Japoneses”. Cambior completed multiple exploration initiatives, including extensive surface sampling and an RC drilling campaign between 1997 and 1998 that covered 2,245 meters over 15 drill holes. 13 of these holes were drilled in the Japoneses Zone, and two were drilled in the Colorado Zone. Based on historical records, all 15 RC holes hit near-surface gold grades considered anomalous and above. Some of the best intercepts from that historical drill campaign include:

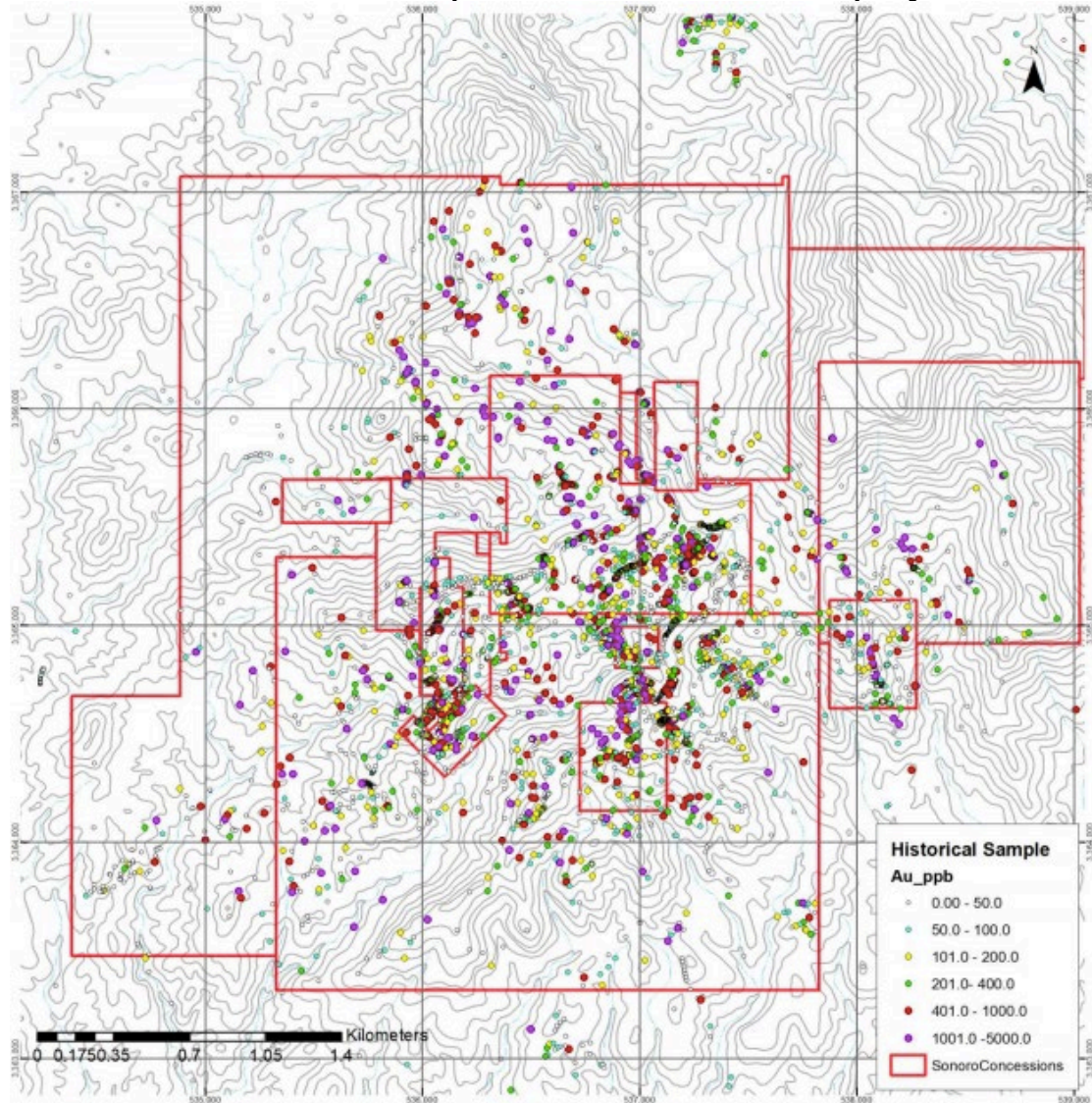
- 24 meters at 1.1 g/t Au.
- 6 meters at 12.9 g/t Au.
- 29 meters at 0.6 g/t Au.
- 8 meters at 3.4 g/t Au.
- 5 meters at 4.7 g/t Au.
- 92 meters at 0.3 g/t Au.

However, none of the original assays or historical drill core are still available, and drill hole location and intercept locations are also unknown. As a result, none of these historical intercepts were used in resource estimation.

Following Cambior abandoning the project post 1998, Corex Gold Corp, now a subsidiary of Minera Alamos Inc. (TSXV: MAI), initiated exploration work on the Cerro Caliche Project. At some point during Corex's tenure, an RC drilling campaign was carried out with most holes being short, inclined holes that cut shallow intercepts below known vein systems in the project area. Most intercepts were low-grade, but some of the holes hit significant intercepts with the best including an intercept from RC hole CCR-18 returning up to 35 g/t Au. Based on the results of the RC drilling, Corex produced an incomplete internal resource estimate on the Cerro Caliche Project, though the most recent NI 43-101 Technical Report filed by SGO superseded this calculation.

Paget Southern Resources was the last mining company to conduct exploratory work on Cerro Caliche prior to SGO, and in 2011 Paget conducted a program consisting of surface geochemistry (including rock, silt and soil) sampling and drilling. Paget's rock samples include historical sampling done by previous operators, whilst the soil and silt datasets were collected by Paget alone. Based on the Paget data, the mineralized segmentation of Cerro Caliche shows that the southeast portion of the project is primarily base metal dominant, whilst the core of Cerro Caliche is gold-silver and base metal dominant. In the northwest portion of Cerro Caliche, there is significant gold-silver-lead-zinc mineralization, as well as some antimony. Paget's drill program consisted of drilling a total of 29 holes covering 4,716.5 meters, with 18 holes covering 3,037.5 meters drilled within SGO's current concession area and the rest drilled up to 1.5km north of the Cerro Caliche Property boundary. Some of the best gold hits from Paget's drilling campaign includes 3 meters at 17.9 g/t Au, 13.9 meters at 3.9 g/t Au including 3 meters at 9 g/t Au, and 16.8 meters at 0.31 g/t Au. These hits were from the Japoneses Zone as well as an area further north. Some other anomalous, but weaker, intercepts were also taken from veins on the southern extension of the Veta de Oro Zone and a splay off of the Japoneses vein. Based on its exploration work, Paget concluded that gold-silver ratios were variable across the concession area, with the Rincon Zone having veins exhibiting silver dominant values, veins at Los Japoneses showing high silver content, and all of the rhyolite-hosted mineralization at Cerro Caliche being gold-dominant with uniformly low silver content.

### Historical Rock Samples on the Cerro Caliche Property



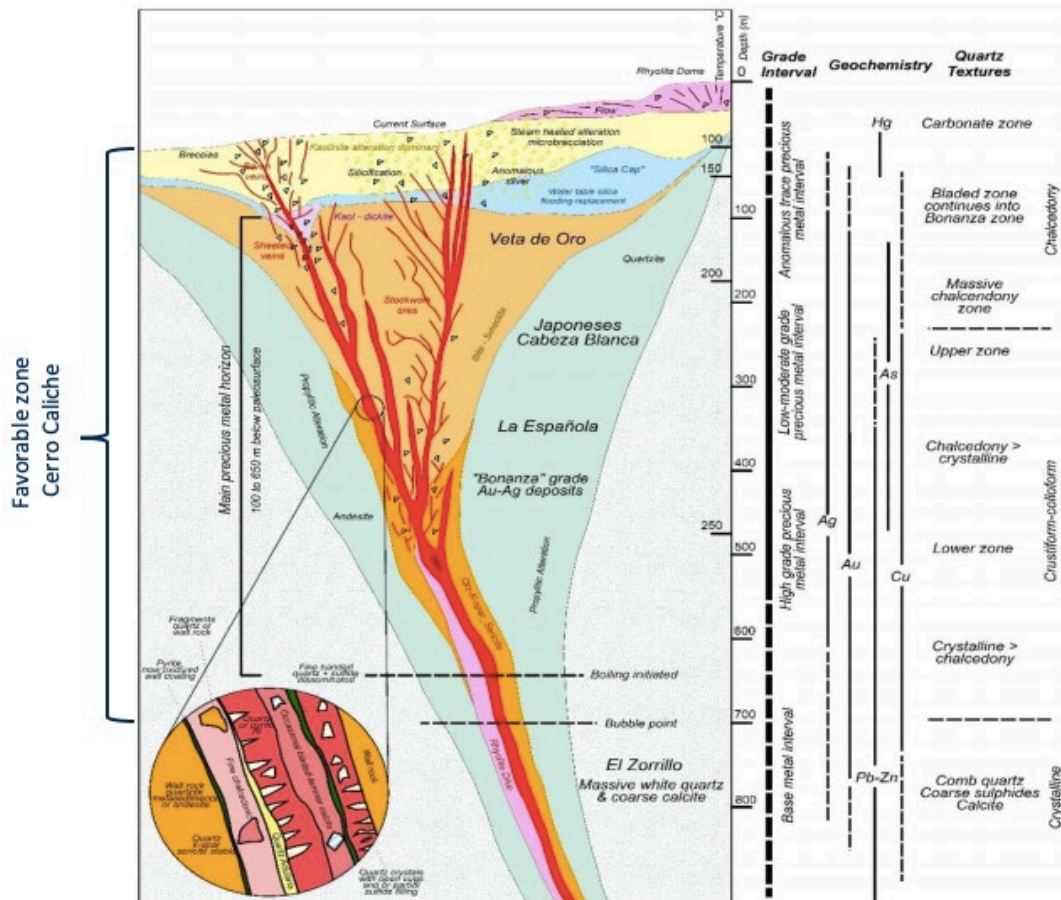
Source: Company

### *Geology & Mineralization*

The Cerro Caliche Project is highly prospective for low sulphidation, epithermal gold-silver deposits and intrusive-related precious metal and polymetallic deposits. These deposits form in predominantly brittle and/ or porous subaerial felsic volcanic complexes in extensional and strike-slip structural regimes. Local groundwater dilutes and cools, upwelling magmatic-derived hydrothermal brines within fractures. Mineralization is usually deposited as multi-zoned veins, stockwork and breccia. Deposit formation occurs in near-surface environments, typically between 200 meters and 400 meters, and down to one kilometer from surface, and at temperatures of between 200 degrees Celsius and 600 degrees Celsius. Gold and silver mineralization can form in deposits under these conditions, depending on a number of factors. The Project itself includes structurally controlled zones of gold-silver mineralization hosted by diorite, granodiorite, siltstone, and arenite.



### Cerro Caliche: Low-Sulphidation Epithermal Vein System Cross-Section



Source: Company

In general, gold-silver low sulphidation, epithermal gold-silver deposits form in the uppermost parts of the Earth's crust, at less than approximately 1,500 meters below the water table. These deposits will typically contain gold and/or silver in structurally controlled veins, breccias and disseminated in larger host rock. These deposits can range in size from tens of thousands to greater than one billion tons of mineralization and have gold contents ranging from 0.1 g/t Au to 30 g/t Au with silver contents of less than 1 g/t Ag to several thousand g/t Ag.

Mineralization identified at the project is consistent with that seen at low sulphidation, epithermal deposits elsewhere locally and in the Sierra Madre and Altiplano provinces of Mexico. These systems have the potential to form economically viable deposits that are either bulk mineable via open pit extraction, or via underground mining methods. In the local vicinity of the Cerro Caliche Project is the Mercedes gold mine owned by Premier Gold Mines. Mercedes is believed to be part of the same hydrothermal event as the Cerro Caliche hydrothermal event, due to geological similarities that imply development during a similar time frame in the tertiary age. The geological similarities imply a potential for the two deposits to also share mineralization characteristics, which would imply a potentially major gold-dominant resource is sitting within Cerro Caliche. It is believed that in the broader region, low



temperature gold-silver mineralized fluids moved upward through steep extensional and open structures, which tapped and channeled the fluids that deposited precious metals in quartz veins that occur throughout the Sierra Madre's epithermal mineralized districts, which would explain the major occurrences of gold through the Sierra Madre region.

The Cerro Caliche Project is prospective for three types of mineralization:

- Stockwork and/ or disseminated zones of gold-silver mineralization.
- High-grade, planar, precious- and base-metal mineralized structural zones or veins.
- Concealed, intrusive-related, precious metal deposits.

#### **Los Japanese Structure**

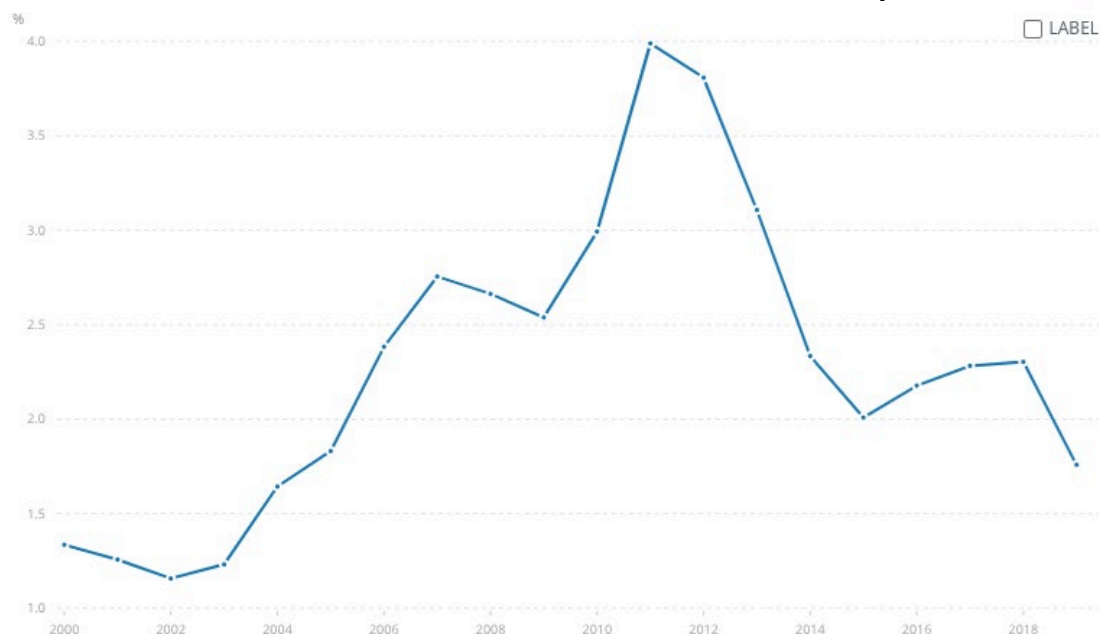


*Source: Company*

### ***Industry Outlook***

With a population of 127.58 million, a 2019 GDP of \$1.26 trillion and a 2019 GDP per capita of US\$9,863, Mexico ranks around the middle of the pack globally for GDP per capita, according to the World Bank. In 2019, Mexico had merchandise exports of \$461.12 billion, with 1.76% of these exports being ores and metals, according to the World Bank. The graph below outlines the contribution of mining products to merchandise exports and imports between 2000 and 2019 (note that the Y axis is measured in percentage terms):

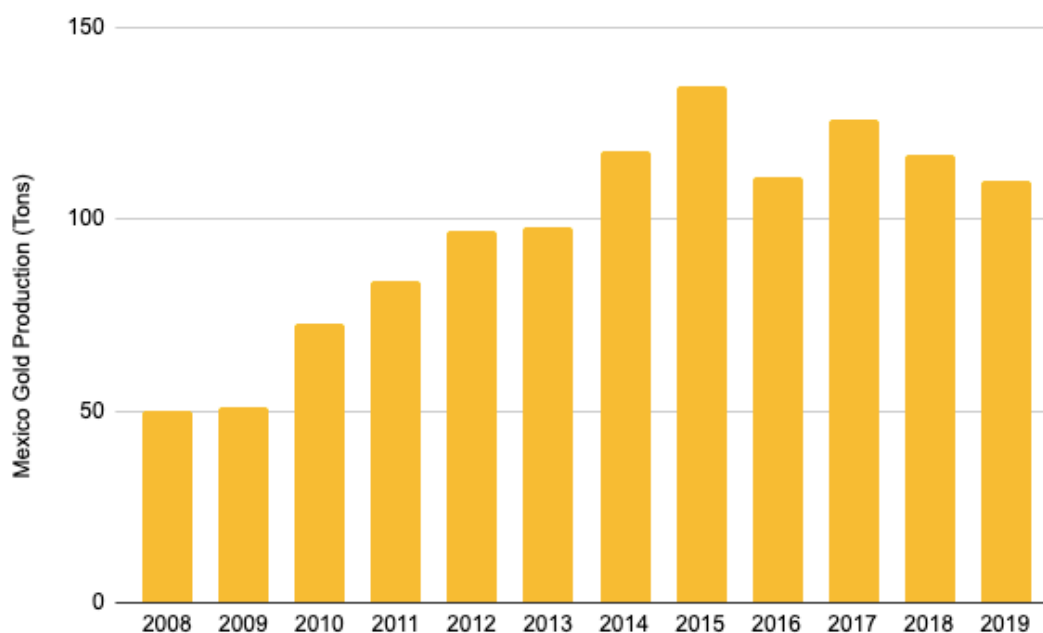
### Ores and Metals as a % of Mexican Merchandise Exports



Source: World Bank

Despite not being a globally top-ranked (top four) gold producer, Mexico does produce significant amounts of gold and consistently ranks in the top ten. Mexico's historical gold production in metric tons is presented in the charts below. Based on the U.S. Geological Survey ("USGS") data underpinning our charts, Mexican gold production has grown at a CAGR of 7.43% between 2008 and 2019. This growth exceeds that of larger producing countries, and we believe that the high growth reflects the increasing foreign mining investment that has poured into Mexico over time.

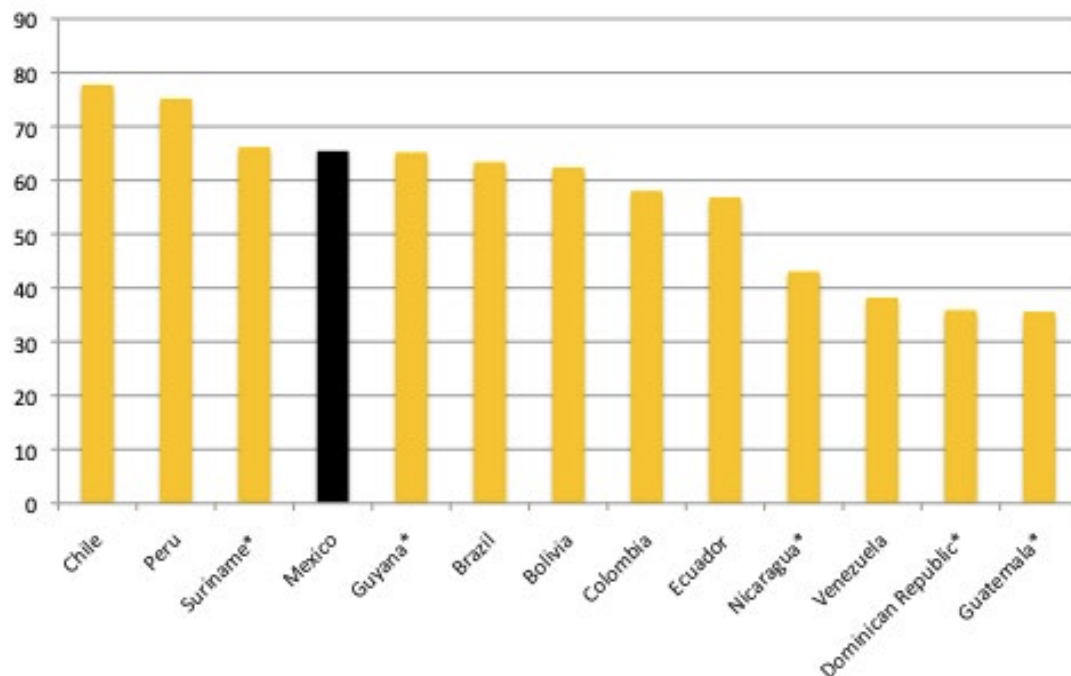
### Mexican Historical Gold Production Data



Source: USGS, Couloir Capital

The below chart demonstrates that in the Fraser Institute's most recent annual mining survey, Mexico ranked 38<sup>th</sup> out of 76 surveyed mining jurisdictions for the institute's 2019 investment attractiveness index, and ranked as the fourth most attractive jurisdiction within the surveyed jurisdictions for Latin America specifically. This is fairly in line with historical performance as it has historically ranked in the top half or middle ground for global mining jurisdictions surveyed as part of the Fraser Institute's annual survey. However, the ranking did reflect a deterioration YoY, as the slide down to 36<sup>th</sup> place was from previously ranking 28<sup>th</sup>. The deterioration in the perceived investment attractiveness of Mexico appears to have stemmed from increased uncertainty regarding the licensing processes in Mexico, which one anonymous survey responder (VP for a +US\$50 million producer) complained was a deterrent to continued investment. However, we note that the survey accounts for Mexico in the aggregate without breaking down how individual Mexican states rank, which we believe leaves out a great deal of the story.

#### Ranking of Latin American Mining Jurisdictions by Investment Attractiveness



Source: Fraser Institute, Couloir Capital

Though the investment attractiveness figure provided by the Fraser Institute might not breakdown by state and therefore reflect the situation for more attractive states, we do believe there are a number of key operating challenges facing miners that look at Mexico. Key cost pressures that face miners include the declining mine grades, leading to higher unit costs and increased over-burden processing, as well as an upward trajectory of energy costs. In addition, locally accessible skilled labor is considered to be in short supply, which poses the issues of high wage inflation as labor demand outpaces supply for mining-specific backgrounds.

Reflecting Mexico's increased involvement in bilateral treaties as well as the current regimes indifference towards the Mexican mining industry, local

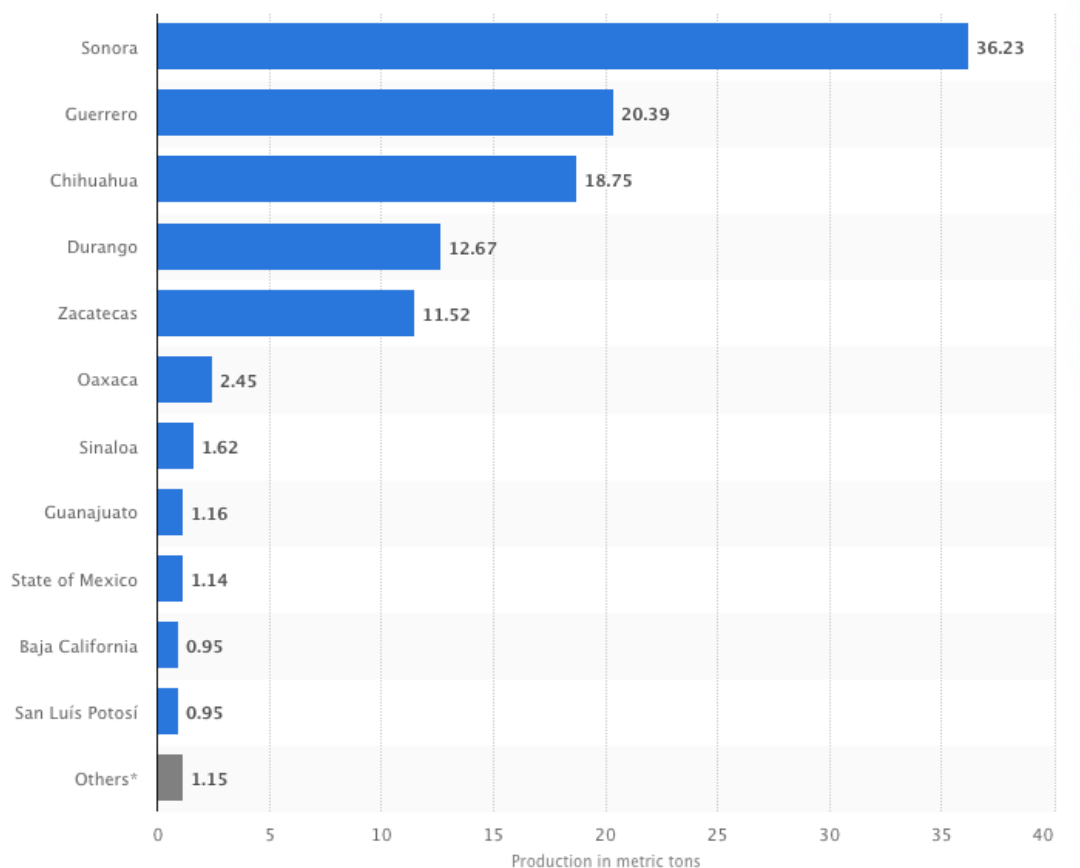
environmental regulations have also become increasingly stringent, forcing miners to go through additional hurdles and red tape to secure permitting to allow things like tailings disposal and wastewater discharge. On the tax and royalty front, miners in Mexico are subject to a 7.5% royalty on mine sales less authorized deductions (a figure similar to EBITDA) and an additional 0.5% royalty on sales, should the miner be selling gold, silver or platinum. Another of the serious issues facing miners is the material impact local crime is having on mining operations in Mexico. Whilst a crackdown on drug cartels is ongoing, frequent incidences of local crime involving mining operations is a major risk factor that many miners are exposed to. As an example, in late 2019 US\$6-8 million in dore bars were stolen from Fresnillo PLC's (LSE: FRES) Noche Buena Mine in Sonora by armed criminals. Whilst armed security has been stepped up generally for Mexican mines, we believe crime is an issue that can represent material impact to ongoing mining operations.

Despite the challenges, Mexico is noted as a mining jurisdiction with major local resource abundance. Apart from its significant gold production outlined earlier, Mexico is also the world's largest producer of silver, and is also a major producer of other metals such as copper and zinc. The abundance of resources can largely be attributed to Mexico's geology – the country has some of the most tectonically active terrain with mountains chains across the country having been pushed up as a result. Due to this, key mineralized regions and belts thread the jurisdiction, with hydrothermal veins and mineralized gaps in the crust providing major precious metals potential. The mineral potential has attracted over 250 private exploration companies to Mexico.

Turning more locally to Sonoro, the state was the largest producer of gold nation-wide, according to data from Statista, with production of 36.23 metric tons or 1.06 million ounces. Based on information derived from USGS statistics, there are 223 producing or past producing mines in Sonora, with 76 of these mines producing or having produced gold as either the major commodity product or as a by-product. In addition to this, there are 68 registered non-producing projects where gold mineralization was identified in some form, with 15 of these being prospects where some degree of geological exploration work has been undertaken with the goal of estimating grade and/ or tonnage.



### Mexico Gold Production in 2019, by State



Source: Statista

As we discussed earlier, the state of Sonoro harbors a great deal of foreign miner presence. The state hosts a large number of producing and non-producing gold assets, with a number of these and key headline statistics being outlined in the table below.

### Major Sonora Gold Deposits

Mine	Owner	Stage	2P Reserves	M&I Resources	Inferred Resources	Net Resource	2019 Gold Production
Herradura Gold Mine	Fresnillo PLC.	Production	6,679,000	9,695,000	105,000	9,747,500	482,772
Noche Buena Mine	Fresnillo PLC.	Production	493,000	493,000	14,000	500,000	127,166
Cerro Prieto Gold Mine	Goldgroup Mining Inc.	Resource		222,000	121,000	282,500	
San Francisco Mine	Magna Gold Corp.	Production	794,272	1,484,197	32,594	1,500,494	36,461
Mulatos Gold Mine	Alamos Gold Inc.	Production	1,563,000	2,608,000	269,000	2,742,500	142,000
Santa Gertrudis Project	Agnico Eagle Mines Ltd.	Resource		104,000	1,168,000	688,000	
La India Gold Mine	Agnico Eagle Mines Ltd.	Production	490,000	238,000	15,000	245,500	82,190
La Colorada Mine	Argonaut Gold Inc.	Production	375,000	555,000	90,000	600,000	55,338
Mercedes Mine	Premier Gold Mines Ltd.	Production	305,000	252,000	310,000	407,000	59,901
Santa Elena Silver Mine	First Majestic Silver Corp.	Production	142,000	491,000	425,000	703,500	45,119

Source: Public Disclosures, Couloir Capital

## Management Overview

Management and insiders own a total of 15.62% of outstanding shares. We see insider shareholding as a positive indicator, as it implies that management and the board are likely to be aligned with investors in their interests and

motivations. Generally speaking, insider share ownership above 10% is seen as relatively high. The table below outlines insider shareholding:

Management Shareholding			
Name	Position	Shares	% of Total
Kenneth MacLeod	CEO, President & Director	5,230,887	6.37%
Salil Dhaumya	CFO	72,727	0.09%
John Darch	Chairman	3,701,000	4.51%
Curtis Turner	Independent Director	60,000	0.07%
Stephen Kenwood	Independent Director	1,516,216	1.85%
Neil Maedel	Executive Director	631,818	0.77%
James Taylor	Independent Director	1,607,000	1.96%
Melvin Hendrick	VP of Exploration	1,134,507	1.38%
Jodge Diaz	COO	2,242,239	2.73%
			<b>19.73%</b>

Source: SEDI, Couloir Capital

The biographies of key management individuals (as provided by the company) are outlined below.

#### **Kenneth MacLeod – CEO, President & Director**

Ken has 35 years' experience as an entrepreneur, financier and executive officer in the resource and energy sectors, having served as President, CEO and director of various public and private companies operating in the Americas, Asia and Africa. He served as President & CEO of *Kakanda Development Corp.* from 1994 until 2001 and for *Western GeoPower Corp.* from 2001 until its acquisition by *Ram Power Corp.* in 2009. Ken also launched and recently sold a private, successful Renewable Energy company currently operating in the Philippines.

#### **Salil Dhaumya – CFO**

Salil previously served as the Chief Financial Officer, Principal Accounting Officer and Secretary of Pan American Goldfields Ltd (Formerly Mexoro Minerals Ltd.) He also served as a Controller and General Manager of Aquilini Investment Group, a private real estate development company. Salil earned a Bachelor of Commerce (Honours) Degree from Panjab University, India in 1985 and obtained a certified management accountant designation in British Columbia, Canada in 2004.

#### **John Darch – Chairman**

John brings over 35-years' experience in the financing and management of natural resource related projects in both the public and private sectors. In 1981 he co-founded the Vancouver-based *Crew Group of Companies* which created various natural resources companies including gold (*Crew Development Corp.* Canada, Greenland & Africa), diamonds (*Botswana Diamond Fields Corp.*, Botswana & South Africa), geothermal (*Western GeoPower Corp.*, Canada), oil & gas (*Crew USA*, USA), coal, antimony, nickel, and copper (*Crew Development Corp.*, Africa, Zambia & Philippines), tin (*South Crofty Holdings*, England) and potash (*Asia Pacific Resources*, Thailand). John has successfully secured over USD 300-million in private and

public funds from North America, UK and Europe, through listings on the Stock Exchanges in Canada, USA, UK, Germany, Norway and South Africa.

### **Jorge Diaz – Chief Operating Officer**

Mr. Jorge Alberto Diaz serves as Vice President of Operations at Sonoro Gold Corp. (Formerly, Sonoro Metals Corp). He has been engaged as an independent consultant to Sonoro since the acquisition of the Cerro Caliche project and his responsibilities will now expand to include the management of all aspects of field operations. Mr. Diaz is a mining engineer with a master's degree in Mining Engineering from the Colorado School of Mines and has an extensive background in mine development. He had a successful and long career with Peñoles and Luismin where he developed underground and open pit operations. He directed the development, Construction and operations of both the La Colorada project for Eldorado Gold and later the Cieneguita heap leach mine for Glamis Gold. As General Manager he led the multinational team that developed Alamos Gold's Mulatos Mine and also directed the design, construction and start of production of Morgain Minerals El Cairo Mine. Through his consulting, engineering design and construction services company, Interminera, Mr. Diaz led the development of Pediment Gold's and later Argonaut Gold's La Colorada mine and the San Antonio deposit. He subsequently discovered a gold deposit in Quiriego, Sonora State, which he is currently operating as an open-pit heap-leach mine.

### **Curtis Turner – Independent Director**

Curtis has over 15 years' experience in business and finance; including mergers and acquisitions, public reporting and operations, as well as community and government relations. He is currently the CFO for Rawhide Mining LLC, a producing heap-leach gold mine in Nevada, which is majority owned by Coral Reef Capital, a Private Investment firm. Previously, Mr. Turner was the CEO and director of Candelaria Mining Corp. and held a senior management position at Argonaut Gold Inc., where he was a key member of the team that successfully completed four acquisitions totaling over \$700 million. Prior to his position at Argonaut Gold, Mr. Turner was CFO at sodium cyanide manufacturer Cyanco International LLC., Director of Finance at Yamana Gold Inc. and Corporate Controller at Meridian Gold Inc.

### **Stephen Kenwood – Independent Director**

Steve has a Bachelor of Science (Geology) degree from the University of British Columbia and over 20 years' experience in the global mining sector including 12 years in the management of junior exploration companies. Steve worked as a geologist with *Cominco Ltd.* on the Snip gold mine and as a project geologist on Eskay Creek polymetallic massive sulphide deposit. He also worked as a geologist at the Petaquilla copper-gold porphyry deposit in Panama.

### **Neil Maedel – Executive Director**

Neil is a Southeast Asia based venture Capitalist with an extensive background in the analysis and finance of small cap companies beginning with The Minicap Analyst in 1988, and later Protrader Finanz AG which were based in Switzerland and which are associated with numerous highly

successful start-ups in North America. Neil was Director, Business Development at Switzerland-based Manas Petroleum, when it assembled a 5-country portfolio of large light oil prospects, ranging from high risk exploration to discovery appraisal. He was also Chairman of Pan American Goldfields, directing the executive team which turned around the troubled company, doubling its interest in its principal asset to 80%, while more than doubling the size of the resource from 800,000 to 2,000,000 AuEq ounces, as defined in a NI 43-101 compliant Preliminary Economic Assessment (PEA). Pilot gold production was also initiated ultimately reaching over 2,000 AuEq ounces per month, with a goal of funding the deposit's development. In 2014 Neil co-founded, as a director, Kenadyr Resources, which is currently drilling to define high-grade gold zones now demonstrated to extend from ZiJin Mining's TBL mine in the Kyrgyz Republic.

### **James Taylor – Independent Director**

Mr. Taylor spent 35-years as an investment advisor with several firms, including Canaccord Investment Corp and Yorkton Securities from 1980 to 2011; Richardson GMP from 2011 to 2014; and Dundee Goodman from 2014 to 2016. During his employment as an investment advisor, Mr. Taylor participated in the financing of numerous exploration and venture companies that grew to success as significant mineral producers. Mr. Taylor also serves as a director at Auston Capital and Captiva Verde Land Corp.

## ***Financials Overview***

At the end of Q2-2020, the company had cash and working capital of \$45,297 and -\$2.08 million, respectively. The company's current ratio of 0.03x demonstrates the inability of current assets to sufficiently cover current liabilities, implying a poor liquidity position at the end of June. Monthly cash burn (negative free cash flow) for the six months ended June 30, 2020 was \$0.26 million, in line with the comparative period in 2019. The company holds related party debt in the amount of \$0.78 million, which carries an interest rate of 10%, has no maturity or fixed terms, and has an exercisable put option. The following table summarizes the company's liquidity position:

<b>Key Financial Data (FYE - Dec 31)</b>				
<b>(C\$)</b>		<b>2019</b>		<b>Q2-2020</b>
Cash	\$	1,074,652	\$	45,297
Working Capital	\$	(577,432)	\$	(2,076,470)
Current Ratio		0.65		0.03
Debt	\$	273,862	\$	784,499
Monthly Cash Burn for the 6M	\$	(251,076)	\$	(258,516)
Cash from Financing Activities (6M)	\$	860,138	\$	521,740

*Source: Company, Couloir Capital*



The following table outlines the company's outstanding options and warrants:

Options	Strike	Exercise Value
200,000	\$ 0.12	\$ 24,000
200,000	\$ 0.15	\$ 30,000
235,000	\$ 0.16	\$ 37,600
150,000	\$ 0.17	\$ 25,500
200,000	\$ 0.16	\$ 32,000
2,140,000	\$ 0.15	\$ 321,000
4,200,000	\$ 0.30	\$ 1,260,000
550,000	\$ 0.30	\$ 165,000
Warrants	Strike	Exercise Value
38,736,597	\$ 0.22	\$ 8,522,051

*Source: Company, Couloir Capital*

The company currently has 7.88 million options (weighted average exercise price of \$0.24 per share), and 38.74 million warrants (weighted average exercise price of \$0.22 per share) outstanding. At this time, 3.13 million of SGO's options and all of its warrants are in-the-money. Should the options and warrants be exercised, SGO will be able to raise \$8.99 million, suggesting significant reserve liquidity.

Whilst our earlier summary of the company's financials would imply a bleak financial position, we note that SGO completed a non-brokered private placement in August 2020, issuing 36.36 million units at \$0.22 per unit to raise \$8 million. Each unit comprised a common share and a warrant carrying a strike at \$0.30 per share. With the raise complete, we expect SGO to use the majority of proceeds to fund the planned diamond drilling program for 2020-2021, as well as RC drilling to expedite a Preliminary Economic Assessment on the shallow oxide HLMO planned for Cerro Caliche.

### *Revenue and EPS Forecasts*

At current, SGO is at the advanced exploration stage and has not completed a PEA nor has it completed advanced engineering or project financing. As a result, we will not be providing near-term revenue and EPS forecasts.

### *Net Asset Valuation Model*

As the company has yet to achieve the Preliminary Economic Assessment milestone, which typically provides the initial projections around potential production scheduling and forecasted cost structure, we will be unable to provide valuation based on a NAV model.

## Comparables Valuation

As our sole source of valuation, we consider SGO's relative valuation against other gold mining companies that we believe to be comparable. The following table outlines the relative valuation metrics of gold miners that are comparable to SGO based on development stage, asset profile, or a similar aspect. Though we consider hectareage as one of the comparable metrics, we believe as SGO is set to advance along the exploration stage and has an existing resource estimate that it would be prudent to consider SGO's valuation solely on its current net resource.

Company	Location	Concession Size (Ha)	Net Au Oz	Enterprise Value (C\$)	EV/ Hectare (\$/Ha)	EV/ Net Resource (\$/Oz)
Sonoro Gold Corp.	Mexico	2,350	100,500	\$ 14,672,096	\$ 6,243.45	\$ 145.99
Orla Mining Ltd.	Mexico, Panama	220,833	11,013,490	\$ 1,098,889,685	\$ 4,976.11	\$ 99.78
Minera Alamos Inc.	Mexico	21,200	314,100	\$ 269,059,035	\$ 12,691.46	\$ 856.60
Golden Minerals Co.	Mexico, Argentina, U.S.	65,370	751,173	\$ 81,645,612	\$ 1,248.98	\$ 108.69
Prime Mining Corp.	Mexico	6,300	722,500	\$ 121,026,992	\$ 19,210.63	\$ 167.51
Radius Gold Inc.	Mexico, Guatemala, U.S.	9,492	-	\$ 21,202,996	\$ 2,233.78	
TriStar Gold Inc.	Brazil	17,177	1,350,000	\$ 59,984,914	\$ 3,492.16	\$ 44.43
Brigadier Gold Ltd.	Mexico, Canada	3,954	-	\$ 16,295,157	\$ 4,121.18	
Aurania Resources Ltd.	Ecuador	208,000	-	\$ 152,248,041	\$ 731.96	
AbraPlata Resource Corp.	Argentina & Chile	134,169	746,500	\$ 114,669,781	\$ 854.67	\$ 153.61
Patagonia Gold Corp.	Argentina	277,102	2,201,500	\$ 79,498,504	\$ 286.89	\$ 36.11
Average					\$ 5,099.21	\$ 201.59

Source: Couloir Capital, Public Disclosures

Based on the above metrics, we believe SGO should be trading at a valuation of \$27.52 million or \$0.33 per share on an EV/ net resource basis, implying that the company is trading at a discount to fair value. Note that we have come to the valuation by converting the implied EV to equity via the addition of cash and removal of debt. We believe investors should note that SGO's net resource is subject to major potential change in the near-term, which could result in a valuation change in a fairly short period (depending on the direction of the change in net resource).

## Conclusion

**After accounting for our valuation methodologies, we have arrived at fair value per share estimate of \$0.33 per share.** We are initiating coverage on SGO with a BUY rating, and expect the following catalysts to materially impact our valuation estimate:

- News regarding drilling results from phase one of the deep diamond drilling campaign at Cerro Caliche.
- News regarding results from the RC drilling campaign aimed at expanding the current NI 431-101 resource and facilitating the completion of a Preliminary Economic Assessment.
- Any news suggesting a delay in the projected development timeline disclosed by the company.
- Financing-related news that in any way significantly alters the company's capital structure.
- The completion of a PEA showing robust economics.

## *Risks*

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

- **Poor Drilling and Exploration Results:** Results from historical exploration work and more recent work done by SGO has thus far yielded positive results pointing to promising mineralization at the Cerro Caliche Property. As SGO ventures into additional drilling work aimed at improving its understanding of the Cerro Caliche Property and its resource profile, poor results may imply a deterioration of the property's mineral potential, making it less valuable as a mining asset. However, we note that a number of the open pit heap leach operations in Sonoro exhibit low gold grades, making the potential for viability at low gold-grade possible.
- **Delays in Achieving Key Development Milestones:** Given that SGO has forecasted the potential completion of a Preliminary Economic Assessment in early 2021, failure to deliver on this could signal a delay in asset development and push back of forecasted cash flows from the planned HLMO. We believe this could significantly impact SGO's equity value, which we believe in part reflects expectation around the HLMO.
- **Small Existing Resource:** The current 201,000 Au Eq. Oz resource, though not insignificant, is fairly small and will impact market perception and valuation of SGO. Upcoming resource expansion initiatives will be critical to improving SGO's upside and valuation growth, as we believe SGO's equity value is in large part driven by the value of its underlying mining assets.
- **Uncertainty Around Permitting:** Given the scale of SGO's planned drilling, the risk exposure to permitting delays and other such licensing issues becomes more material. Whilst it does not appear to be an issue at this point in time, we do note that may change moving forward and the current Mexican administration is not overly pro-mining. As a result, regulatory changes could pose a material threat to SGO.
- **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, SGO's exploration and development activities will be particularly sensitive to market pricing during the current stage given its likely reliance on markets for future funding needs. However, as SGO moves into a project financing deal to facilitate a potentially free cash flowing HLMO, exposure to market pricing (at least on the financing risk side) should decline.
- **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 SGO would do so via equity issuance. Depending on the price of the issuance, such issuance could be dilutive to existing shareholders. Though this risk is mitigated by the

recent closing of a \$8 million raise, liquidity may be an issue in the future depending on various factors (including the ongoing expense associated with aggressive drilling campaigns).



## Disclaimer

*This report has been prepared by an analyst on contract with or employed by Couloir Capital Ltd. The analyst certifies that the views expressed in this report which include the rating assigned to the issuer's shares as well as the analytical substance and tone of the report accurately reflects his or her personal views about the subject securities and the issuer. No part of his / her compensation was, is, or will be directly or indirectly related to the specific recommendations.*

*Couloir Capital Ltd. is affiliated Couloir Capital Securities Ltd., an Exempt Market Dealer. They shall be referred to interchangeably as Couloir Capital herein. Part of Couloir Capital's business is to connect mining companies with suitable investors that qualify under available regulatory exemptions. Couloir Capital, its affiliates and their respective officers, directors, representatives, researchers and members of their families may hold positions in the companies mentioned in this document and may buy and/or sell their securities. Additionally, Couloir Capital may have provided in the past, and may provide in the future, certain advisory or corporate finance services and receive financial and other incentives from issuers as consideration for the provision of such services.*

*Couloir Capital has prepared this document for general information purposes only. This document should not be considered a solicitation to purchase or sell securities or a recommendation to buy or sell securities. The information provided has been derived from sources believed to be accurate but cannot be guaranteed. This document does not consider the particular investment objectives, financial situations, or needs of individual recipients and other issues (e.g. prohibitions to investments due to law, jurisdiction issues, etc.) which may exist for certain persons. Recipients should rely on their own investigations and take their own professional advice before making an investment. Couloir Capital will not treat recipients of this document as clients by virtue of having viewed this document.*

*Company specific disclosures, if any, are underlined below:*

- 1. A member of Couloir Capital team has visited/viewed material operations of the issuer.*
- 2. In the last 12 months, Couloir Capital has been retained under a service or advisory agreement by the subject issuer.*
- 3. In the last 12 months, Couloir Capital has received compensation for investment banking services.*
- 4. Couloir Capital or a member of the Couloir Capital team or household, has a long position in the shares and/or the options of the subject issuer.*
- 5. Couloir Capital or a member of the Couloir Capital team or household, has a short position in the shares and/or the options of the subject issuer.*
- 6. Couloir Capital or a member of the Couloir Capital team own more than 1% of any class of common equity of the subject issuer.*
- 7. A member of Couloir Capital team or a member's household serves as a Director or Officer or Advisory Board Member of the subject issuer.*

### ***Investment Ratings -Recommendations***

*Each company within an analyst's universe, or group of companies covered, is assigned:*

- 1. A recommendation or rating, usually BUY, HOLD, or SELL;*
- 2. A 12-month target price, which represents an analyst's current assessment of a company's potential stock price over the next year; and*
- 3. An overall risk rating which represents an analyst's assessment of the company's overall investment risk.*

*These ratings are more fully explained below. Before acting on a recommendation, we caution you to confer with your investment advisor to determine the suitability of our recommendation for your specific investment objectives, risk tolerance and investment time horizon.*

*Couloir Capital's recommendation categories include the following:*

**Buy**

The analyst believes that the security will outperform other companies in their sector on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) BUY rating.

**Hold**

The analyst believes that the security is expected to perform in line with other companies in their sector on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) HOLD rating.

**Sell**

Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to under-perform other companies on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) SELL rating.

**Tender**

The analyst is recommending that investors tender to a specific offering for the company's stock.

**Research Comment**

An analyst comment about an issuer event that does not include a rating.

**Coverage Dropped**

Couloir Capital will no longer cover the issuer. Couloir Capital will provide notice to clients whenever coverage of an issuer is discontinued. Following termination of coverage, we recommend clients seek advice from their respective Investment Advisor.

**Under Review**

Placing a stock Under Review does not revise the current rating or recommendation of the analyst. A stock will be placed Under Review when the relevant company has a significant material event with further information pending or to be announced. An analyst will place a stock Under Review while he/she awaits enough information to re-evaluate the company's financial situation.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short-term volatility.

**Overall Risk Rating**

**Very High Risk:** Venture type companies or more established micro, small, mid or large cap companies whose risk profile parameters and/or lack of liquidity warrant such a designation. These companies are only appropriate for investors who have a very high tolerance for risk and volatility and who can incur temporary or permanent loss of a very significant portion of their investment capital.

**High Risk:** Typically, micro or small cap companies which have an above average investment risk relative to more established or mid to large cap companies. These companies will generally not form part of the broad senior stock market indices and often will have less liquidity than more established mid and large cap companies. These companies are only appropriate for investors who have a high tolerance for risk and volatility and who can incur a temporary or permanent loss of a significant portion of their investment capital.

**Medium-High Risk:** Typically, mid to large cap companies that have a medium to high investment risk. These companies will often form part of the broader senior stock market indices or sector specific indices. These companies are only appropriate for investors who have a medium to high tolerance for risk and volatility and who are prepared to accept general stock market risk including the risk of a temporary or permanent loss of some of their investment capital.

**Moderate Risk:** Large to very large cap companies with established earnings who have a track record of lower volatility when compared against the broad senior stock market indices. These companies are only appropriate for investors who have a medium tolerance for risk and volatility and who are prepared to accept general stock market risk including the risk of a temporary or permanent loss of some of their investment capital.