

Goodman Gold Challenge

TEAM MCGILL

Lauren Kirigin
Jesse Li
Sean McNally
Sisi Wang

Meet the Team

Team McGill



Lauren Kirigin

Bachelor's of Commerce,
Honours in Investment
Management 21'

Professional Experience

Investment Banking Analyst
Credit Suisse, Toronto
(Incoming Summer 2020)

Capital Markets Risk Analyst
CIBC, Toronto
(Summer 2019)



Jesse Li

Bachelor's of Commerce,
Honours in Investment
Management 21'

Professional Experience

Private Equity Analyst
Ulysses Management, New York
(Incoming Summer 2020)

Corporate Development Analyst
BRP, Montreal
(Summer 2019)



Sean McNally

Bachelor's of Commerce,
Honours in Investment
Management 21'

Professional Experience

Private Equity Analyst
Altas Partners, Toronto
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Investment Banking Analyst
National Bank, Montreal
(Summer 2019)



Sisi Wang

Bachelor's of Commerce,
Honours in Investment
Management 21'

Professional Experience

Investment Banking Analyst
Morgan Stanley, Toronto
(Incoming Summer 2020)

Real Estate Analyst
Knightstone Capital, Toronto
(Summer 2019)

Executive Summary

TSX: LUG - Attractive fundamentals with significant upside

Upcoming Gold Trends



Rising demand in gold, driving up gold prices and futures rates



Increasing investment in Ecuador following new country mining policies

Evaluation Criteria

Management Experience

Business Risk

Financing Capacity

ESG

Investment Thesis and Valuation

LUNDINGOLD

1

Market is overpricing regulatory and political risk in Ecuador

Lundin Gold has established reputation and strong relations with the government and local community, warranting a lower discount rate

2

Lundin Gold is the ideal M&A candidate for senior gold mining companies

Company has strong developed asset base and attractive exploration potential relative to other gold companies in Ecuador

Current Price (CAD):
\$9.52

Target Price (CAD):
\$11.24

Implied Upside:
16%

We recommend a **BUY** on Lundin Gold due to high potential upside returns with limited downside risk

Investment Overview

SECTION I

“Gold is a way of going long on fear”...

MARKETS | COMMODITIES

Gold at Six-Week High on Caution Over Economy, Trade

The precious metal is on course to rise 16% in 2019, its biggest one-year rise since 2010

MARKETS

Ray Dalio says gold will be a top investment during upcoming ‘paradigm shift’ for global markets

“If we hit any growth bumps in the economy, or geopolitically, or pull back in major markets.... I believe gold will soar as an insurance asset

2019 was a dream come true for gold bugs — 2020 could be even better

The same forces that drove gold to break \$1,500 this year remain, setting the stage for a another massive rally

‘Watch gold in 2020,’ says one of Wall Street’s most influential stock-market investors

Cramer: ‘Endless buying for gold’ could signal a shift to real fear in the stock market

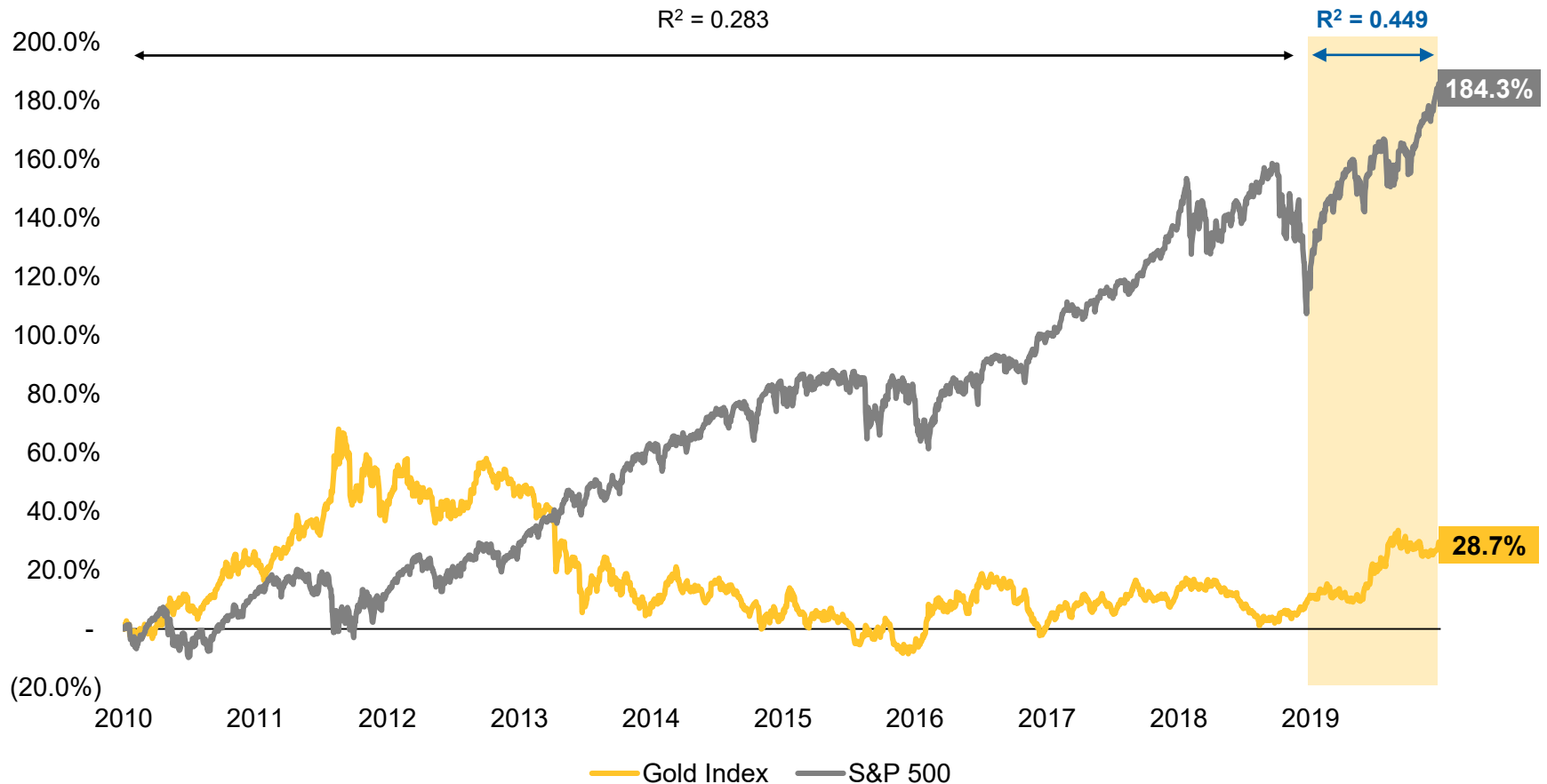
With volatility and fear at all-time highs, gold has been hailed as a safe haven despite S&P 500 nearing all-time highs

Source: WSJ, CNBC, Marketwatch, Financial Post

'Most Hated' Bull Market of All Time

...yet gold performed very well amid the bull market's best year

Gold Price vs. S&P 500



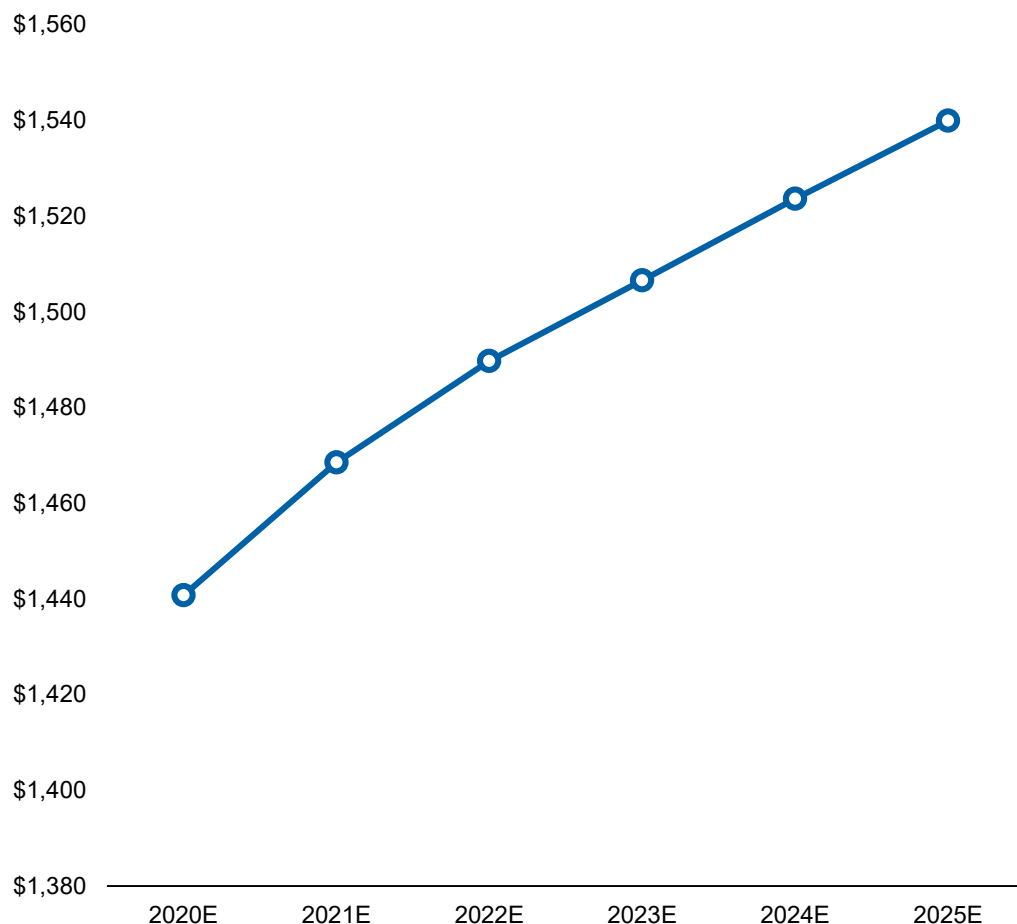
Gold performed well in 2019 alongside the S&P 500 despite being an "insurance" asset

Source: Bloomberg

Gold Trends

Commodity Pricing

Gold Price per Oz Futures Curve (USD)



Drivers of Value



Geopolitical and trade tensions

Ongoing US-China trade tension and Brexit uncertainty



Growing central bank demand for gold

With real rates nearing zero, CB's are buying more gold



Weakening U.S. Dollar

USD to weaken as emerging markets catch up to the US



Technology demands for gold

Advancement in medicine, electronics and engineering

Higher futures spot rates indicate growing uncertainty and cautiousness amongst investors

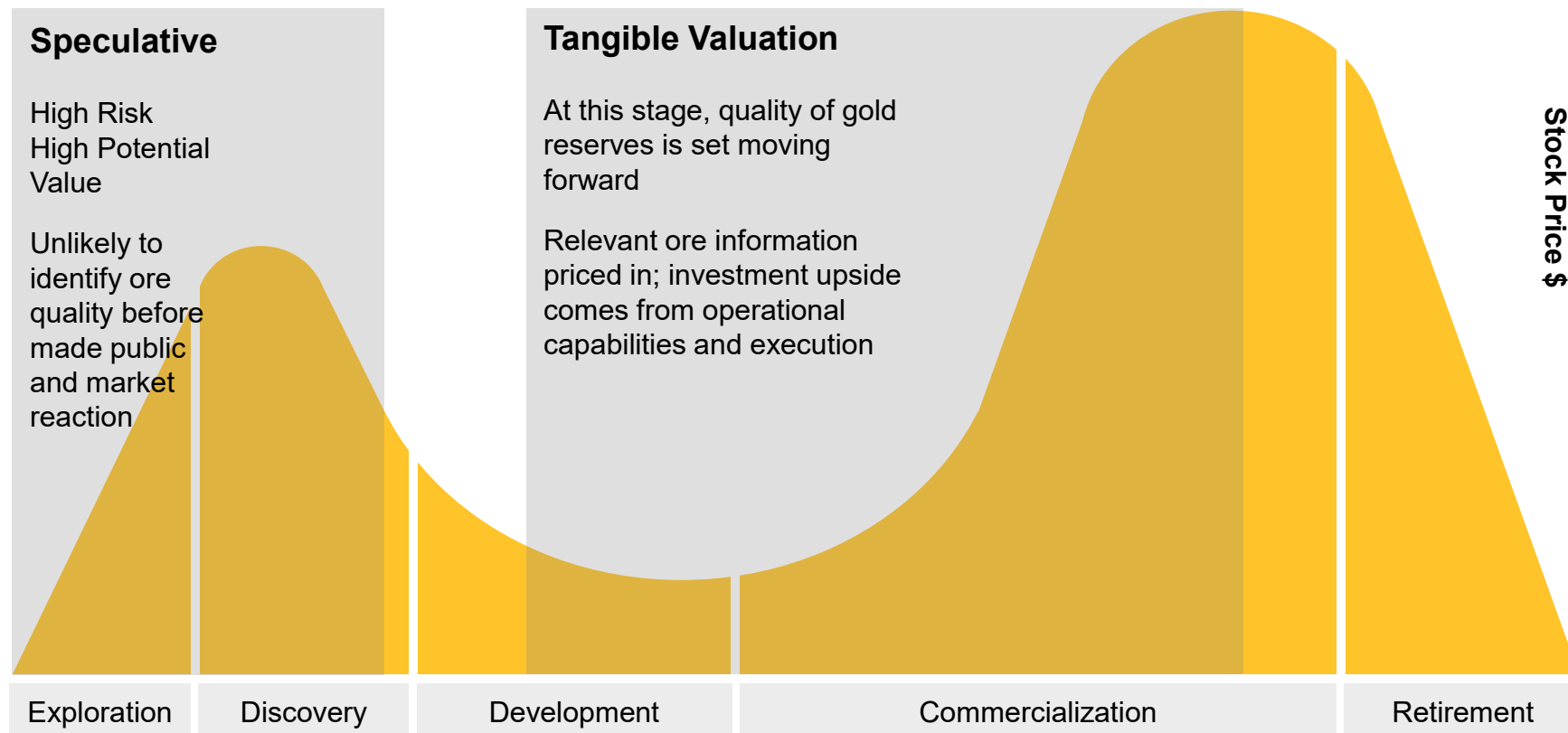
Source: Bloomberg

Long-term value investors with moderate risk tolerance seeking favorable returns

Mining Life Cycle: Stage Selection

Investment Philosophy

Long-term value investors with moderate risk tolerance seeking favorable returns



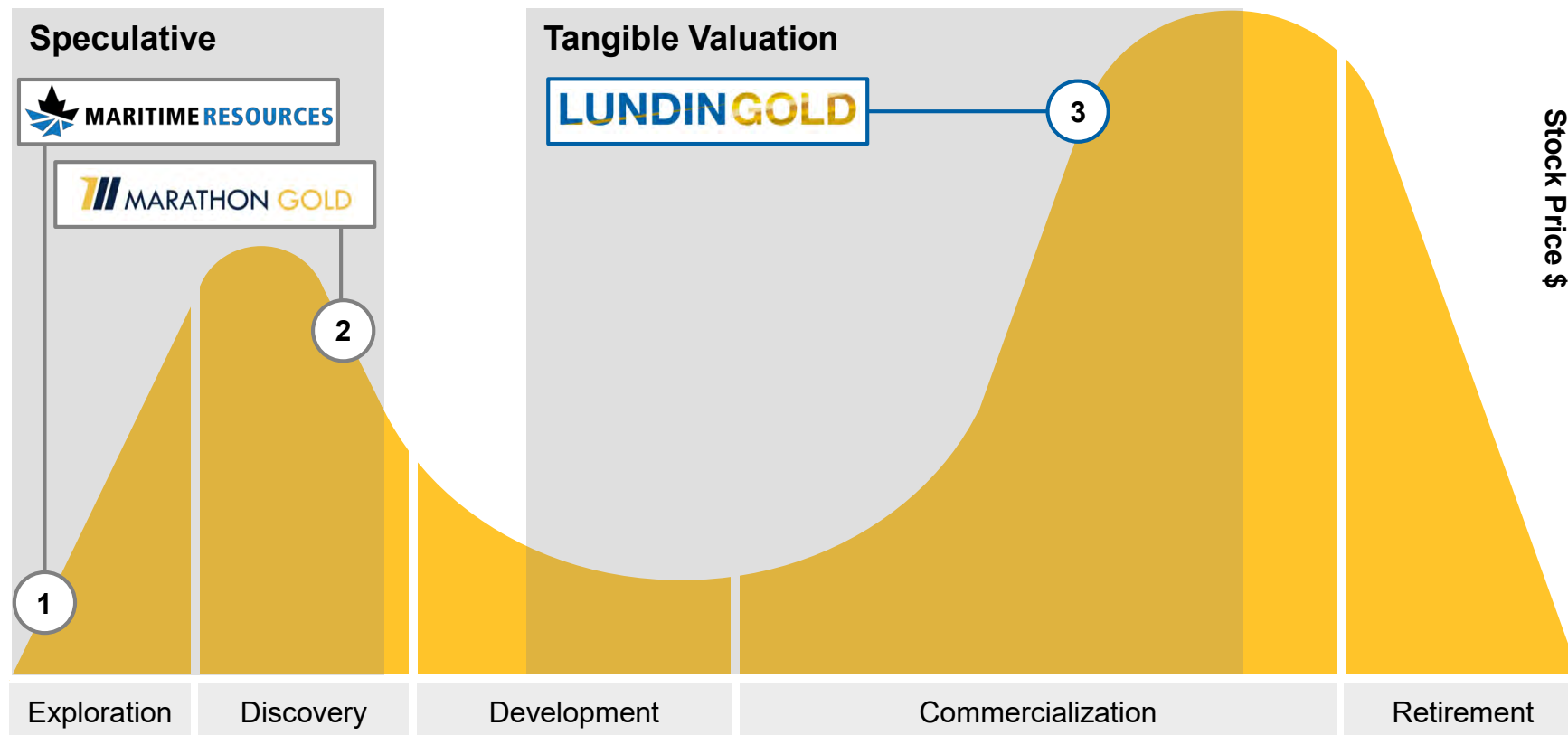
Investment strategy that maximizes returns while minimizing risk prioritizes projects near production

Source: Equity Research, CapitalIQ 02/02/2020, Company Filings

Mining Life Cycle: Stage Selection

Investment Philosophy

Long-term value investors with moderate risk tolerance seeking favorable returns






Investment strategy that maximizes returns while minimizing risk prioritizes projects near production

Source: Equity Research, CapitalIQ 02/02/2020, Company Filings

Evaluation Criteria

Investment Philosophy

Long-term value investors with moderate risk tolerance seeking favorable returns
















Companies	Enterprise Value	Characteristics			
		Management Experience	Business Risk	Financing Capacity	ESG
 MARITIME RESOURCES	\$7.4M	Individual members of management have seen past production success	Newfoundland location ensures limited country risk	No financing limits access to capital	Strong community relationships and environmental compliance
 MARATHON GOLD	\$181.6M	New leadership team assembled with experience in conducting pre and feasibility studies	Newfoundland location ensures limited country risk	Some financing received to develop the Valentine Gold Project	Strong community relationships and environmental compliance
 LUNDINGOLD	\$2,427.3M	Extensive mining experience, commitment to the company, and strong exploration leadership	Ecuador exposure warrants an additional risk premium	FDL project fully financed with commercial extraction imminent in 2Q20	Promising ESG initiatives supported by the Lundin Foundation

Source: Company Filings

Evaluation Criteria

Investment Philosophy

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 LUNDINGOLD	\$2,427.3M				

Source: Company Filings

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 LUNDINGOLD	\$2,427.3M				

Source: Company Filings

Lundin Gold (TSX: LUG)

SECTION II

Company Overview

High quality junior mining gold company

Business Overview

- Junior gold mining company headquartered in Vancouver, Canada with corporate office in Quito, Ecuador
- Incorporated in British Columbia as Fortress Resources in 1987
- Reorganized itself as Lundin Gold in December 2014 after the acquisition of Fruta del Norte mining site
- Focused on sole project developing Fruta del Norte mining project in Ecuador as one of the highest-grade and largest gold project
- Employs a total of 1,645 employees as of 2018
- Produced 28,768 oz. gold in 2019 with full commercialization expected to start in 2020

Company Structure

Project Subsidiaries

Aurelian Ecuador
S.A. (CAD)

Holds concessions
underlying Fruta Del
Norte

Condor Finance
Corp. (CAD)

Provides lending,
working capital and
financial services

Eco Aurelian
Agricola S.A. (CAD)

Holds certain lands
rights related to Fruta
Del Norte

Non-Project Subsidiaries

Aurelianmenor S.A. (CAD)

Holds the company's exploration concessions

Market Capitalization (TSX: LUG)

<i>In millions</i>	<i>As of Jan. 29, 2020</i>
Share Price	\$7.39
Shares Outstanding (M)	224.2
Market Capitalization	1,655.5
- Cash & Cash Equivalents	(130.2)
+ Total Debt	722.5
+ Minority Interest	-
Total Enterprise Value (TEV)	2,297.8



Reserves & Resources Metrics

Probable Ore Reserves (T)	15,490.0
P&P Reserves Grade (g/T)	9.67
P&P Recoverable Reserves (Troy Oz.)	4,816.0
P&P Recoverable Reserves – Silver (Troy. Oz)	6,344.0
Indicated Ore Resources	23,800.0
Indicated Resources Grade (g/T)	9.61



Mining Operations Statistics

Number of Mines	1
Undeveloped Sq. Kms	402.0

Source: CapIQ, Company Filings

Company Overview

Fruta del Norte

Project Overview

- Fruta del Norte is a large, high-grade gold deposit situated in southern Ecuador
- Lundin Gold purchased assets in 2014 from Kinross Corp. for \$240M
- Since purchase, Lundin Gold completed a feasibility study and signed all major agreements with Ecuadorian Government
- Significant exploration upside exists with numerous key targets along the trend that have yet to be drilled
- First gold production was reached in November 2019 with full commercial production projected for Q2 2020
- Mining resources and reserves are expected to last approximately a total of 15 years

Geographic Location



Fruta Del Norte Timeline

Development Timeline		2017			2018				2019				2020			
		Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Infrastructure	Underground Mine Development															
	North Access Road															
	Site Earthworks & Construction Camp															
	Mountain Pass Quarry															
	Zamora River Bridge															
Processing	Process Plant Engineering/Construction															
	Power Line Construction															
	Tailings Construction															
	Process Plan Commissioning															
Prod.	First Ore to Mill															
	Commercial Production															

Source: Sandstorm Gold, Company Filings

Company Overview

Fruta del Norte

Fruta del Norte Project Site



Source: Company Filings

Company Overview

Fruta del Norte

Feasibility Study

- Mineral reserves of 4.82Moz of gold (15.5M tons at 9.67 g/t Au)
- All-in sustain cash cost of \$632/oz, placing Fruta del Norte in lowest cash cost quartile globally
- Approximate gold concentrate of 149.3 g/t over lifetime

Fruta del Norte contains gold in the following forms:

Fine Free Gold

Coarse Free Gold

Gold Contained in
Sulphides

Gold Contained in
Other Forms

Latest Company Projections

Recovery Rate	91.7%
Status	Development & Mining
Estimated Annual production	~325,000 oz. per year

Source: Company Filings

Project Terms



Corporate tax rate of 22%

Agreement with GOE for fixed tax rate and exemption from payment of principal and interest to financial institutions outside of Ecuador from capital outflow tax



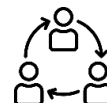
Rights to develop and produce gold from Fruta del Norte for 25 years

Possibility for renewal after term



Fully financed and development of mine close to completion

Project is fully financed through equity and line of credit



Profit sharing and royalty structure

Total of 1% of Net Revenue and 15% of Pre-Tax Income

Net Revenue

1% royalty to Sandstorm Gold (0.9%) and Patrick F.N. Anderson (0.1%)

Pre-Tax Income

3% to mining concessionaire employees
12% paid for GOE for social investment

Advance Royalty Pmt.

\$65M to GOE (already fully paid)

Investment Theses

SECTION III

Lundin Gold identified as the best suited investment candidate given investment philosophy

1

Overpriced regulatory and political risk

Market's Ecuadorian country risk premium is unwarranted given promising developments and strong relationships

2

Strong M&A candidate for senior diversified metals & mining companies

Lundin Gold has a strong developed asset base and attractive exploration upside relative to counterparts

We recommend a **BUY** on Lundin Gold due to high potential upside returns with limited downside risk

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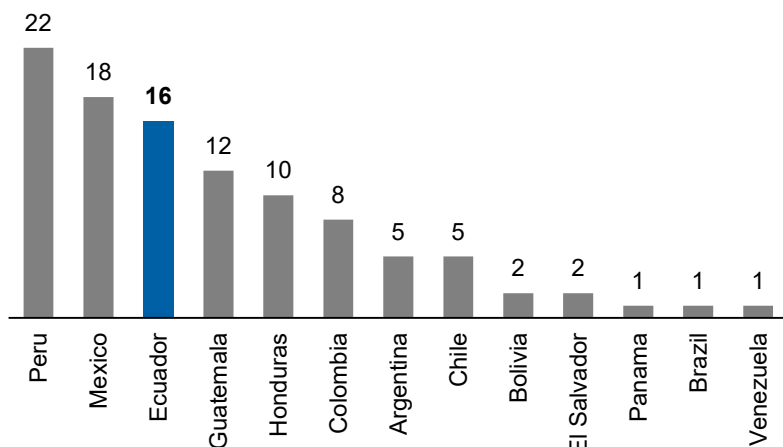
Thesis I: Market Over Discounting Ecuadorian Risk

Change in Ecuador mining environment

Risks

- **Governmental:** Moreno has set measures to cut government spending, reduce its dependence on crude oil exports and austerity measures
 - Fact that there are so few mines in Ecuador now (only 2 out of the 5 mines under development are set to being copper and gold production)
- **Environmental:** fear that mining will cause irreversible environmental damage to vital waterways and agricultural lands
- **Socioeconomic:** Illegal miners who do not want to cede operations to more formal concessions

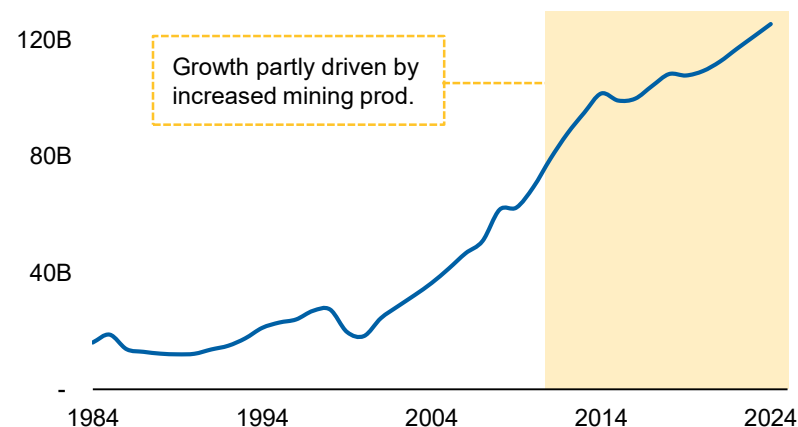
LATAM Criminal Mining Conflicts



Opportunities

- **Resource abundance:** Mining sector is still largely undeveloped with studies revealing an abundance of gold, silver and copper
- **Regulatory:** Open motives by government to attract investment in the mining sector. “We are no longer just a potential mining destination. Instead, Ecuador has already become an investment destination,” says Benalcazar, vice minister of mines in the country
- **Capital inflows:** The country now expects mining investment to continually rise, with expectations that it will total more US\$7 billion by 2021

Ecuador GDP Growth



Despite recent headwinds in Ecuador, the country's new stance towards gold mining eases risks with FDN's operations

Source: Statista, Company filings. Figures in USD.

Thesis I: Market Over Discounting Ecuadorian Risk

A history of strong relationships with the local community and national government

“Countries or regions considered too risky or dangerous for investment are the Lundins' stock in trade”

- The Globe and Mail



Potential Risk

Resistance against foreign mining operations 'exploiting' local territories

Mitigates



Local procurement of supplies from ~300 local vendors



90% Ecuadorian employees, 50% from the local region



Expected to pay \$1B in taxes over mine's lifespan

Under the guidance of the Lundin Foundation, Lundin Gold is able to successfully generate support from local communities

Source: Globe, Company Filings

Different this time


Geopolitical Situation

Kinross

Government focused on oil production, rather than mining – high political uncertainty

Lundin Gold

Government transitioning to encourage mining activities from oil production – more stable environment


Negotiation With Locals and Government

Unsuccessful with gaining government to and local support – resulted in 70% windfall profit tax and pullout

Strong ESG initiatives encourage local and government backing – successfully negotiated favorable tax rates (22%) and regulations


Lessons Learnt from the Ecuadorian Government

Unfavorable regulations lead to companies leaving and the government receiving no cash at all

Cooperation with foreign investments leads to upfront and future cash flows to the government and local community

Lundin Gold is a much better position to profit off Fruta del Norte than Kinross back in 2014

Lundin Gold identified as the best suited investment candidate given investment philosophy

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Overpriced regulatory and political risk

Market's Ecuadorian country risk premium is unwarranted given promising developments and strong relationships

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Strong M&A candidate for senior diversified metals & mining companies

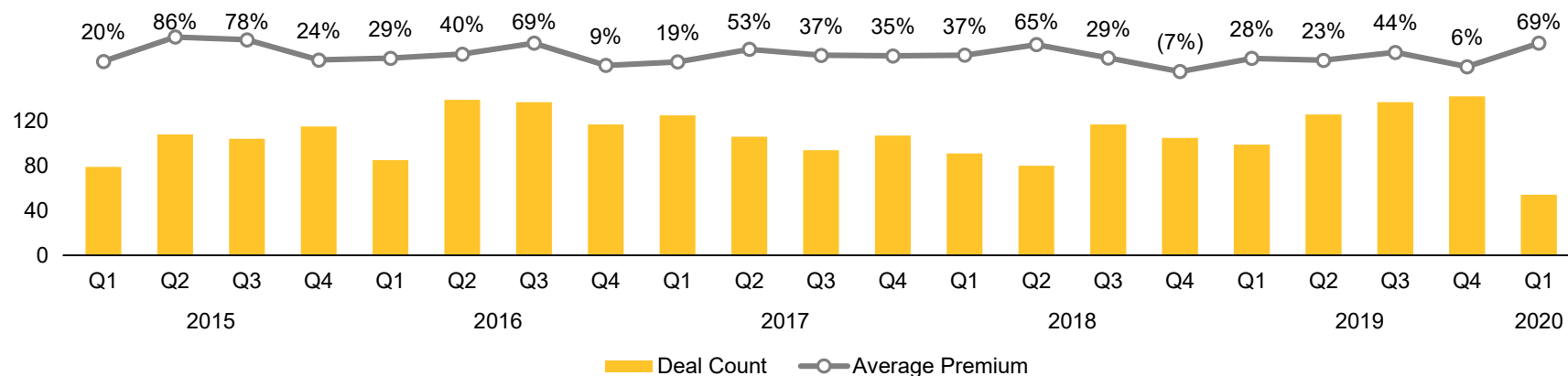
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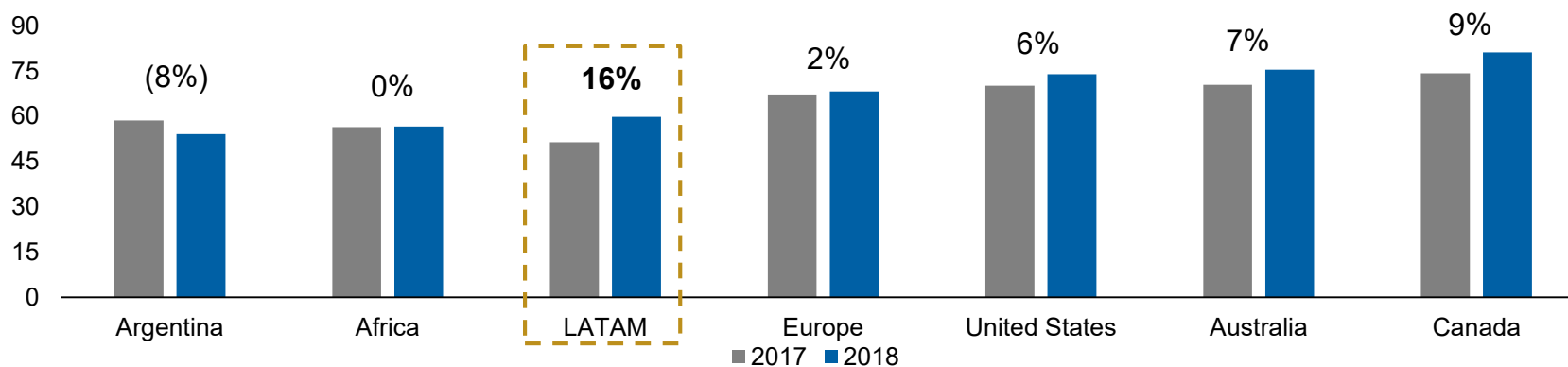
Thesis II: Ideal Acquisition Candidate

Recent uptick in M&A premiums and increased appetite for LATAM

Gold Mining M&A Activity



YoY Investment Attractiveness by Region



Latin America remains attractive with continued investment inflow, resulting in increased acquisition premium

Source: Bloomberg

Thesis II: Ideal Acquisition Candidate

Strong fundamentals with few alternatives within the region

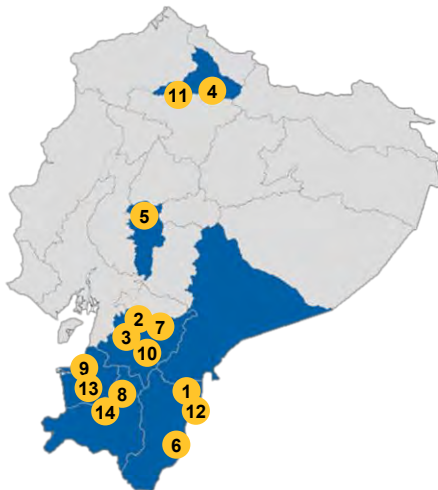
Fully financed project ready to be commercialized following rising gold price

Low cost producer with high quality asset

“Always for sale, never for sale”

- Interview with Ron Hochstein, President and CEO of Lundin Gold

Progress of Mines in Ecuador



Project			Project		
Status			Status		
1	Fruta del Norte	Production	8	Cana Brava	Development
2	Rio Blanco	Suspended	9	Bella Maria	Development
3	Loma Larga	Pending	10	Barranco Colorado	N/A
4	Cascabel	Feasibility Study	11	El Palmar	N/A
5	Curipamba	Feasibility Study	12	Rio Zarza	Exploration
6	Cordor Gold	Exploration	13	Cangrejos	Development
7	Vetas Grandes	Exploration	14	Zaruma	Production

Despite recent headwinds in Ecuador, the country's new stance towards gold mining eases risks with FDN's operations

Source: Bloomberg, Company Filings

Thesis II: Ideal Acquisition Candidate

Much unexplored upside outside of Fruta del Norte



64,000 ha

Unexplored land for future growth

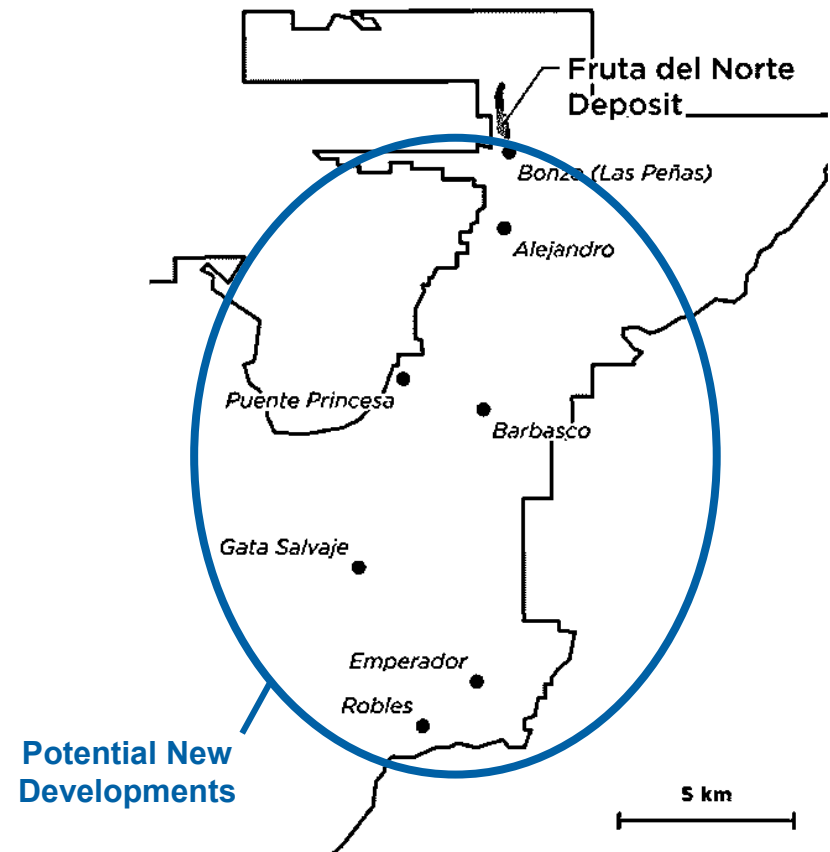
High possibility of of high grade resources around Fruta del Norte project site

Joint Venture with Newcrest



Signed agreement with Newcrest to form a joint venture company to explore 8 early stage concessions to north and south of Fruta del Norte deposit

Unexplored Concessions

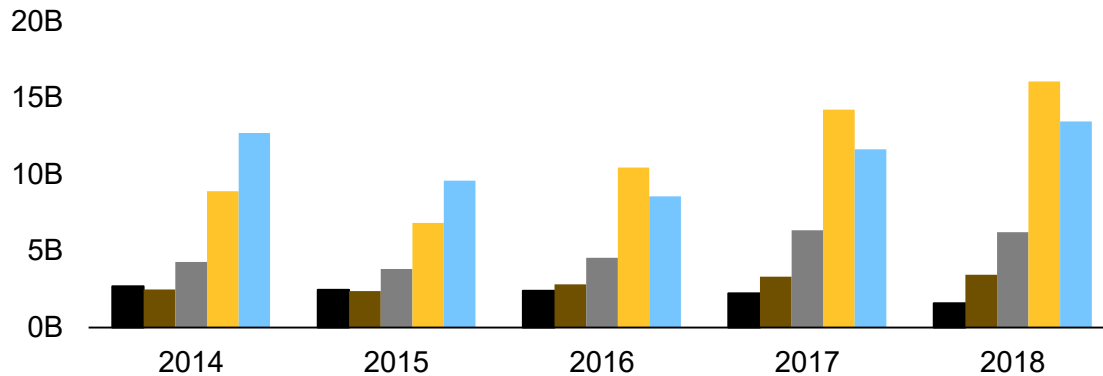


High quality assets of Fruta del Norte signifies high potential for deposits in surrounding areas

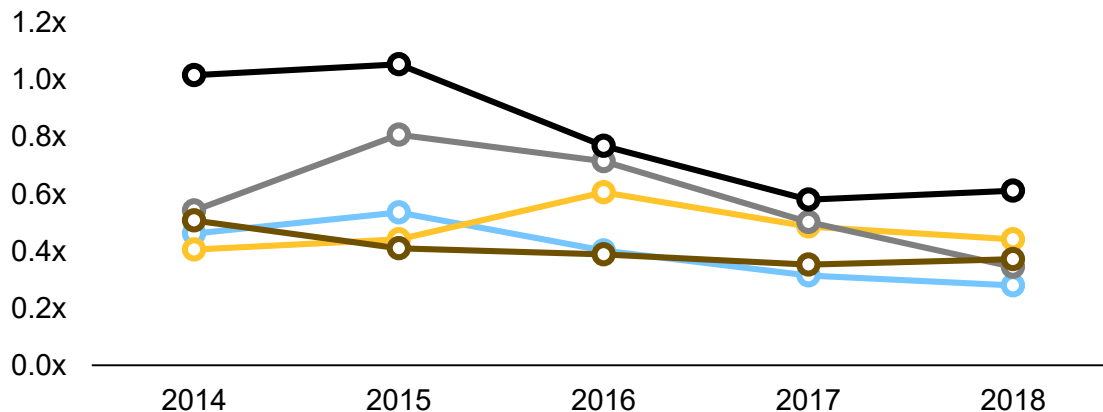
Thesis II: Ideal Acquisition Candidate

Increasing appetite for potential acquirers

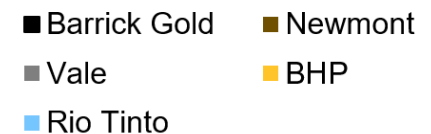
Cash Balance of Top Select Global Metals & Mining Companies



Debt-to-Equity Ratio of Top Select Global Metals & Mining Companies



LATAM Footprint



Increased capacity for senior miners to deploy capital by diversifying into Ecuador

Source: Bloomberg, Company Filings

Valuation

SECTION IV

Valuation

Comparable Company Analysis

	Production (Moz)	Market Cap (B)	Enterprise Value (B)	EV/Production	P/NAV
Equinox Gold Corp.	0.20	0.93	1.14	5.68x	1.15x
Alamos Gold Inc.	0.50	2.39	2.19	4.37x	1.27x
Continental Gold	0.31	0.88	1.19	3.84x	1.30x
Sabina Gold & Silver Corp.	0.20	0.38	0.36	1.81x	1.77x
Osisko Gold Royalties Ltd	0.09	1.51	1.67	19.66x	0.97x
New Gold Inc.	0.50	0.56	1.14	2.29x	1.33x
75th Percentile	0.45	1.37	1.55	5.35x	1.32x
Average	0.30	1.11	1.28	6.27x	1.30x
25th Percentile	0.20	0.64	1.14	2.67x	1.18x
Lundin Gold Inc.	0.31	0.00	2.28	7.34x	0.88x



Lundin Gold is trading at a discount despite its high-quality assets and the company's effort to mitigate geopolitical risks

As Lundin Gold transitions from a developer into a junior producer, we expect further multiple expansion

Valuation

Assumptions

~14 years of resource life

Production projection
by management

No change
in labor productivity

Mining

Concentration

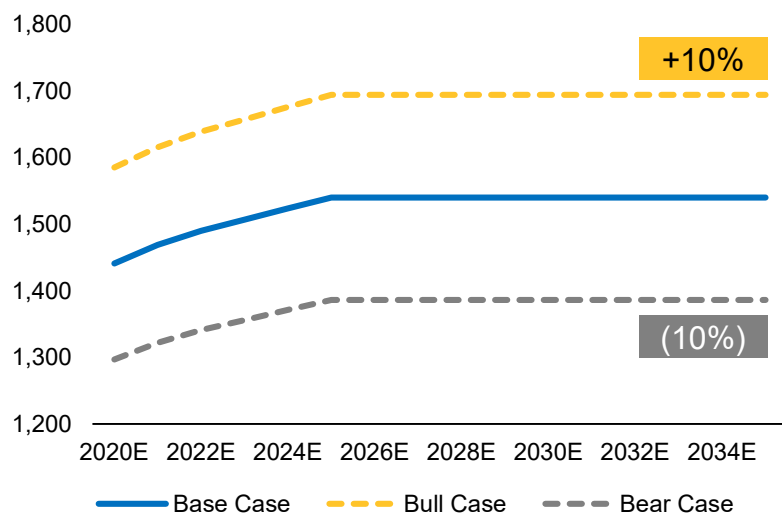
Smelting

Metal Price

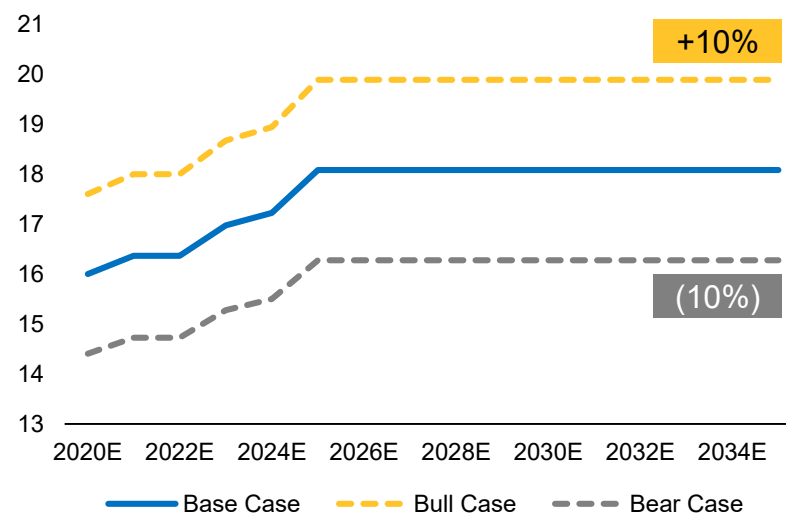
Expected Reserve

Production

Gold Price Projection (USD/oz)



Silver Price Projection (USD/oz)



Valuation

Assumptions

~14 years of resource life

Production projection
by management

No change
in labor productivity

Mining

Concentration

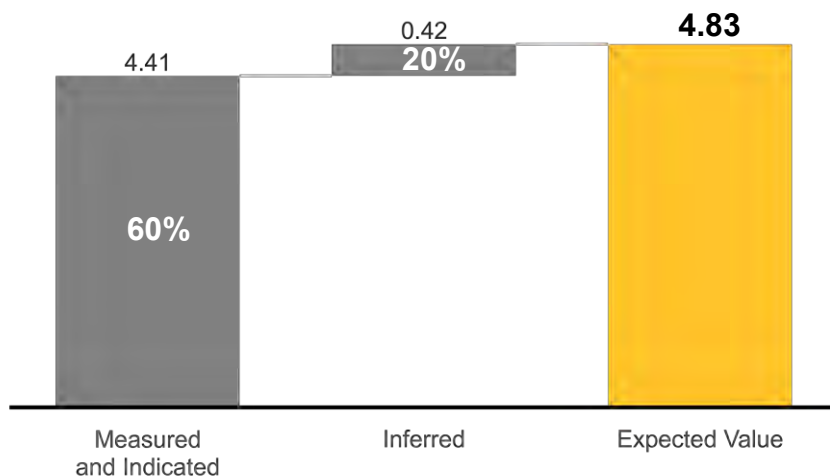
Smelting

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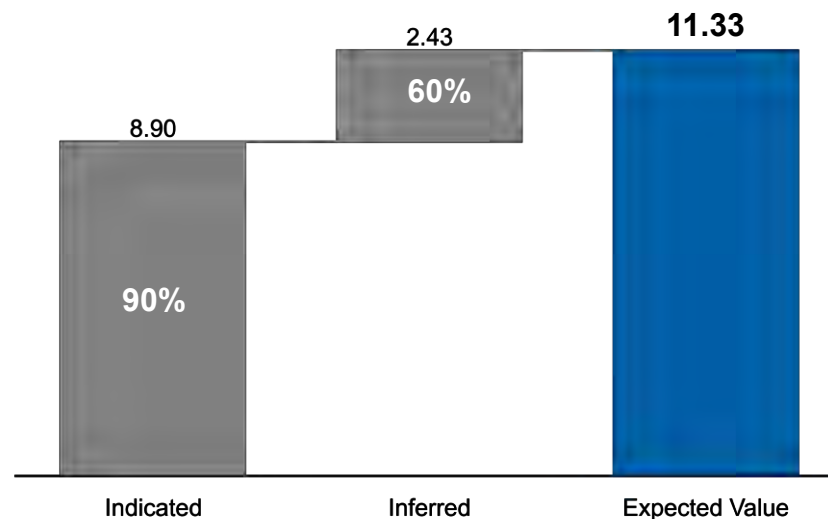
Expected Reserve

Production

Gold Reserve Estimates (Moz)



Silver Reserve Estimates (Moz)



Valuation

Assumptions

~14 years of resource life

Production projection
by management

No change
in labor productivity

Mining

Concentration

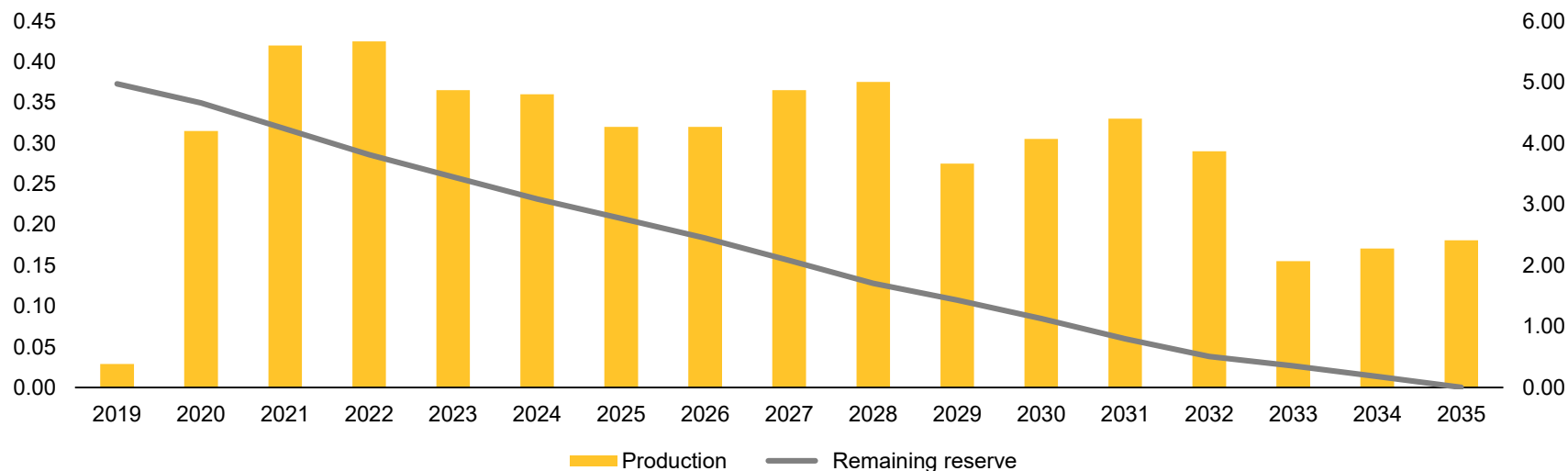
Smelting

Metal Price

Expected Reserve

Production

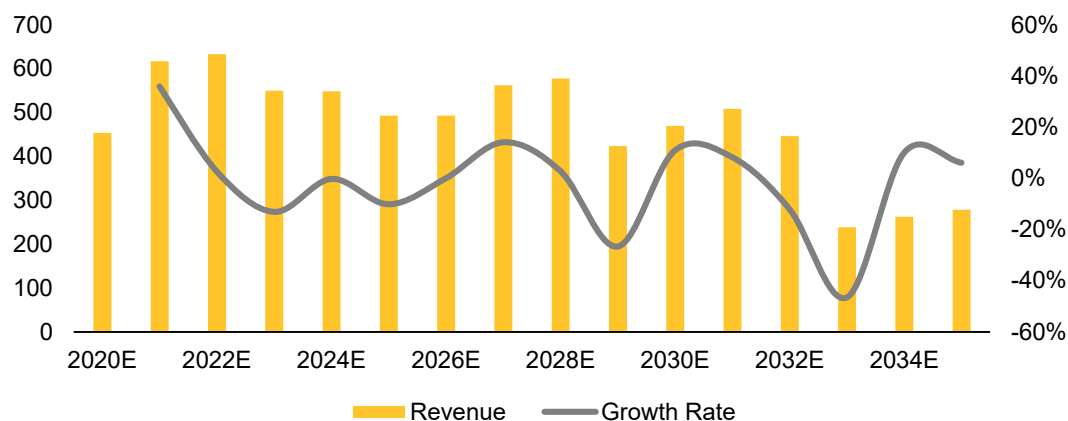
Gold Projected Production (Moz)



Valuation

NAV Model

Revenue Projection



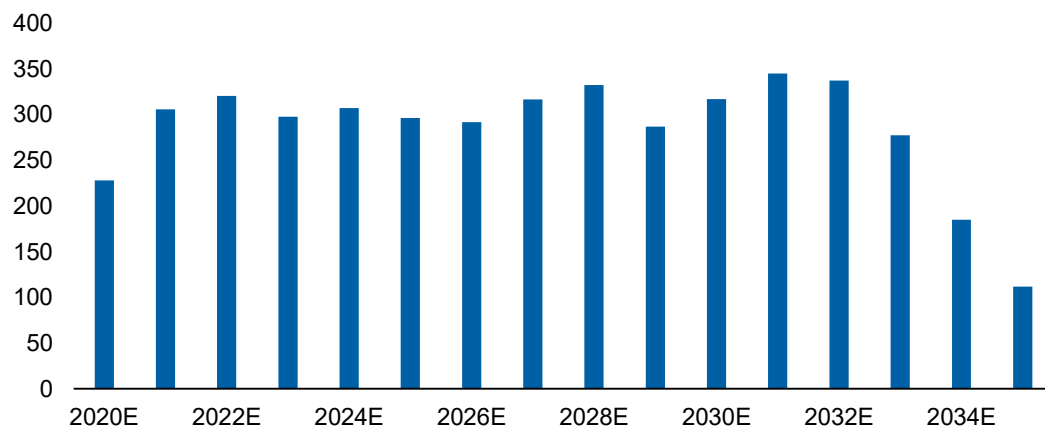
WACC Calculation

% of Debt	61%
Interest Rate	7.50%
Tax Rate	22%
% of Equity	39%
Risk Free Rate	1.37%
Equity Risk Premium	5.67%
Levered Beta	0.3
WACC	4.77%
Country Risk Premium	4.00%
WACC+CRP	8.77%

Cost of Project Calculation

Risk Free Rate	1.37%
Project Cost	4.50%
Country Risk Premium	4.00%
Project Cost +CRP	9.87%

Free Cash Flow Generation






Bridge To Equity

Discount Rate	9.32%
Sum of PV of Cash Flow	2,472
+ Cash	130
- Debt	773
Implied Equity Value	1,829
Shares Outstanding	223
Implied Share Price (USD)	\$8.20
e(USD/CAD)	0.73
Implied Share Price (CAD)	\$11.24
Implied Upside	16%

Valuation

Output and sensitivity analysis

Bull, Base and Bear Cases

		Key Assumptions	Investment Return
	BULL Case	<ul style="list-style-type: none"> Gold Price: Futures Curve + 10% 	<ul style="list-style-type: none"> Implied Share Price (CAD): \$12.98 Implied Upside/Downside: 34%
	BASE Case	<ul style="list-style-type: none"> Gold Price: Futures Curve 	<ul style="list-style-type: none"> Implied Share Price: \$11.24 Implied Upside/Downside: 16%
	BEAR Case	<ul style="list-style-type: none"> Gold Price: Futures Curve - 10% 	<ul style="list-style-type: none"> Implied Share Price: \$9.50 Implied Upside/Downside: (2%)

Sensitivity Analysis: Discount Rate and Profit Sharing

		Discount Rate					
		8.3%	8.8%	9.3%	9.8%	10.3%	0.5%
Profit Sharing	6%	34%	29%	24%	19%	15%	
	9%	29%	24%	20%	15%	11%	
	12%	25%	20%	16%	11%	7%	
	15%	20%	16%	11%	7%	3%	
	18%	16%	12%	7%	3%	-1%	
	3%						



Sensitivity Analysis: Discount Rate & Production

		Discount Rate					
		8.3%	8.8%	9.3%	9.8%	10.3%	0.5%
Production	-20%	-11%	-14%	-18%	-21%	-24%	
	-10%	7%	3%	-1%	-5%	-9%	
	0%	25%	20%	16%	11%	7%	
	10%	42%	37%	32%	28%	23%	
	20%	60%	54%	49%	44%	39%	
	10%						

Attractive valuation target with high upside and limited downside in the long-run

Output and sensitivity analysis

Worst Case Scenario

	Key Assumptions	Investment Return	Likelihood
	Gold price drop to \$1000/oz	Implied Price: \$5.36 Implied Downside: (45%)	Very Unlikely; If this is the case, investors will hedge on the gold price
	Lundin Gold gets nationalized by the Ecuadorian Government	Implied Price: \$0 Implied Downside: (100%)	Very Unlikely; It is not within Ecuadorian Government's interest to discourage foreign investment

Attractive valuation target with high upside and limited downside in the long-run

Catalysts Outweigh the Risks in the Long Term

Risks

Country Risk

Uncertainty surrounding the consistency of current mining policies, given historical political instability

Execution Risk

Profitability variability affected by actual reserve amounts and difficulty to maintain costs

Exogenous Market Dynamics

Volatility in gold price based on changing market conditions

Catalysts

Increased Governmental Support

Ecuadorian government pushes for additional tax deductions or subsidies and favorable mining developments

Boost in Operational Efficiency

Experienced management executes on better-than-expected cost management and gold extraction

Exploration of Undeveloped Territories

Expansion of mining operations in adjacent locations to Fruta del Norte

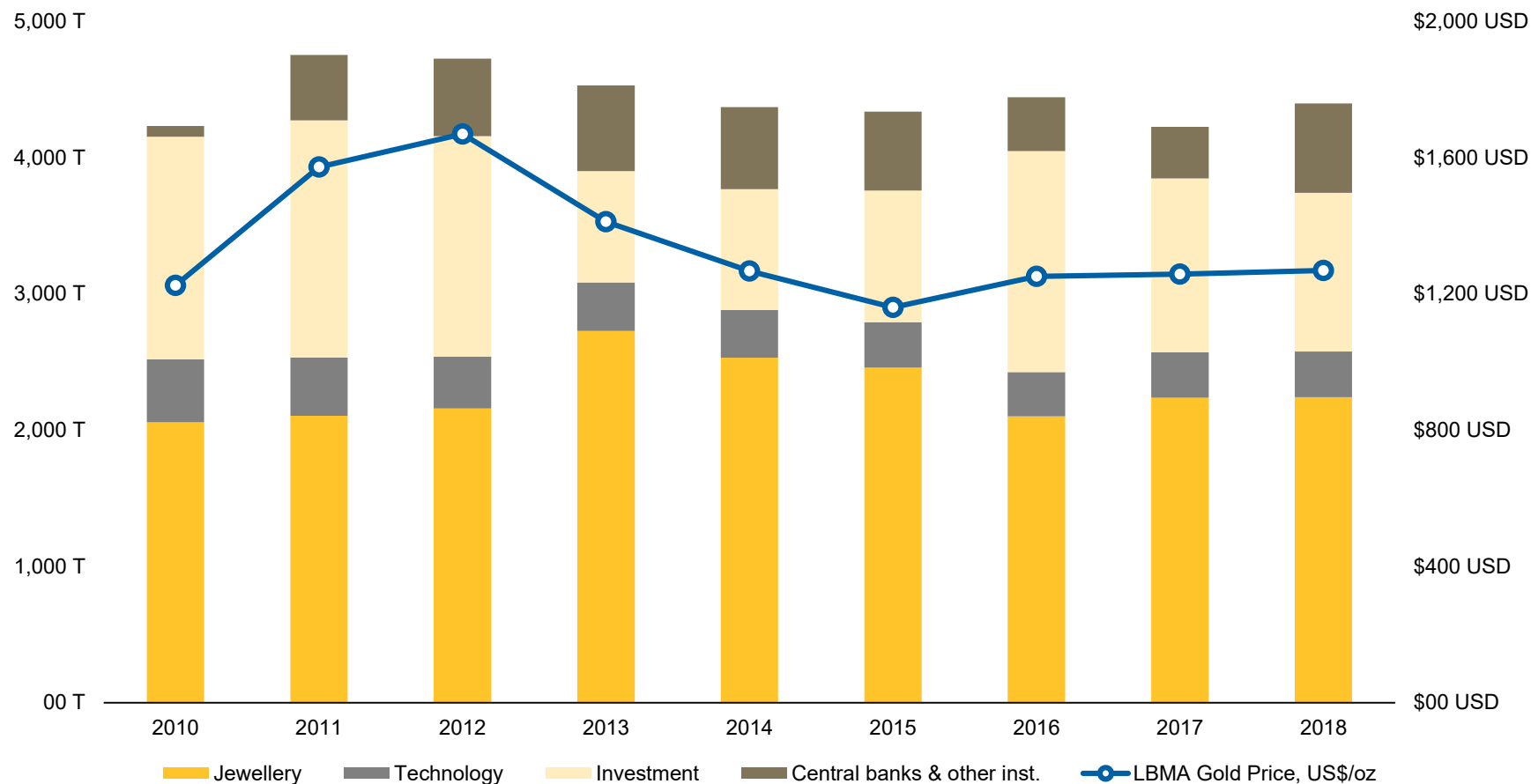
Q&A

SECTION V

Breakdown of Global Gold Demand

Gold is back in demand

Drivers of Global Gold Demand



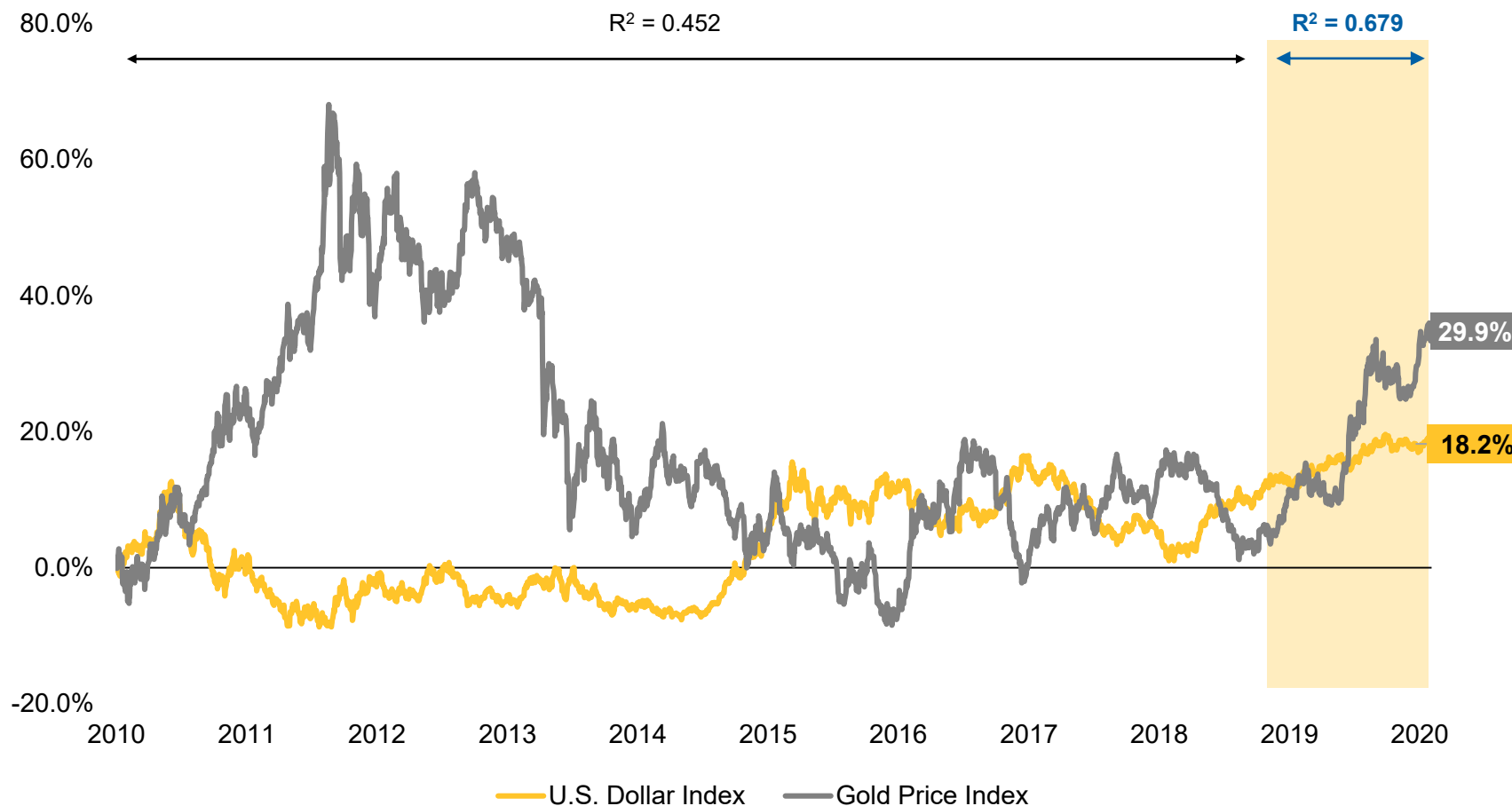
Central banks and investors are diversifying towards gold, driving up price levels from 2015 lows

Source: Fraser Institute Survey of Mining Companies, World Gold Council

U.S. Dollar and Gold Performance

Increasing correlation between assets

Gold Price vs. U.S. Dollar Strength



In 2019, gold prices have been more correlated with the rising U.S. dollar

Source: Bloomberg

Management

Highly experienced in execution and ESG



Ron F. Hochstein, P.Eng
President, CEO & Director

Over 20 years of relevant industry experience
7 Years President & CEO of Denison Mines Corp



Ron F. Hochstein, P.Eng
Vice President, Projects

Over 35 years of relevant industry experience
Experience in Cerro Verde Expansion Project in Peru for Freeport-McMoran and Xstra Copper Project Development in Santiago, Chile



Alessandro Bitelli
Executive Vice President, CFO

Over 30 years of relevant industry experience
Served as CFO of Orca Gold Inc. and Red Back Mining Inc. (2 African gold mining operations)



Nathan Monash
Vice President, Business Sustainability

Led AngloGold Ashanti's sustainability efforts in Americas
Worked for Rio Tinto Alcon for sustainable business development principles



Sheila Colman
Vice President, Legal and Corporate Secretary

Over 20 years of relevant industry experience
Served as VP and Corporate Secretary of Denison Mines Corp.



Iliana Rodriguez
Vice President, Human Resources

Over 20 years of relevant industry experience
Held management positions with Kinross Gold Corporation and Occidental Oil & Gas Corporation working with multi-cultural environmental and diverse industries in South America, U.S. Middle East and Africa

Strong management gives investors confidence in mining operations continuing to develop in Ecuador

Thesis I: Market Over Discounting Ecuadorian Risk

Impact of potential election outcomes



Rafael Correa

**President
2007-2017**

Charged with taking
and giving bribes

Criminal trial to commence
on February 10th, 2020



Lenín Moreno

**President
2017-Current**

Served as Mr. Correa's Vice
President during his term

Began a charge against
correísmo



Jamie Nebot

**Guayaquil Mayor
Four terms**

Presidential aspirant for the
February 2021 elections

Would continue the charge
against correísmo

Foresee a continuation of the charge against correísmo and support of the mining industry moving forward