WESTPEAK
RESEARCH ASSOCIATION

Global Equity | February 2021

Natural Resources
Industry Primer

ANALYSTS

Tiffany Griesbach
Head Analyst

David Buzza
Senior Analyst

Surav Malla
Senior Analyst

Jake Bunderla
Senior Analyst

Irene Liu
Senior Analyst

Aayush Thakur
Senior Analyst

Global Equity | February 2021

Natural Resources

I. Metals & Mining

ANALYSTS

Jake Bunderla
Senior Analyst

David Buzza
Senior Analyst

Irene Liu
Senior Analyst

WESTPEAK
RESEARCH ASSOCIATION

Metals & Mining - Primer

Growing Optimism Despite Uncertainty

25 February 2021

The metals & mining industry consists of companies that locate and extract metal and mineral reserves. Generally speaking, the industry classified metals into two broad categories: precious metals and base metals. Precious metals, such as gold and silver, have more economic value due to their scarcity. Base metals, such as aluminium and copper, are less scarce, and are primarily used for industrial purposes.

Industry View – Growing Optimism Despite Uncertainty

When pandemic lockdowns began in March, the price of base metals began to decline, reflecting increased uncertainty about future economic productivity. However, this uncertainty led precious metals to increase in value as investors sought to hedge against market risk. Since April, economic conditions have improved, which has led base metal prices to increase. At the same time, market uncertainty has largely preserved the value of precious metals. As a result, the market cap of the 50 largest mining companies has grown by $579B (83%) since March 31st.

Industry Drivers – Base Metals and Precious Metals

Base Metals: Base metals possess unique properties and are commonly used in applications such as construction, electronics, and industrial machinery. Therefore, the health of the global economy is an industry driver for the majority of base metals.

Precious Metals: Relative to base metals, precious metals such as gold are much scarcer, making the commodity a reliable monetary asset and a hedge against traditional market uncertainty and inflation. As the expected return from the market and other alternative assets fall, demand for precious metals often rise.

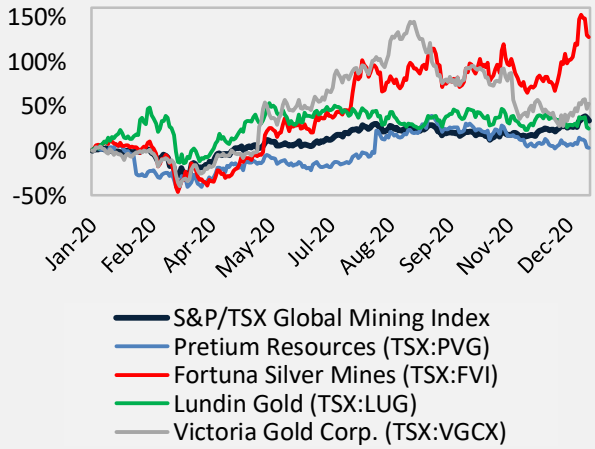
Industry Valuation – Net Asset Value (NAV) Model

Due to the finite lives of mining operations, the valuation of a mining company can be complex and differs slightly from the traditional valuation framework. Depending on the type of mining company, applicable valuation methodologies include the Net Asset Value (NAV) model, Discounted Cash Flow (DCF), Comparable Companies Approach, and Precedent Transactions.

Industry Research	
Metals & Mining	
Global Revenue	US$1.25T
Annual Growth (Past 5 Years)	3.78%
Annual Growth (Next 5 Years)	3.00%
	Source: Bloomberg

Select Companies	
Lundin Gold	TSX: LUG
Net Asset Value	$2.77B
NAVPS	$12.02
Target Price	$10.20
Fortuna Silver Mines	TSX: FVI
Net Asset Value	$1.36B
NAVPS	$7.23
Target Price	$9.40
Pretium Resources	TSX: PVG
Net Asset Value	$3.03B
NAVPS	$15.52
Target Price	$13.20
Victoria Gold Corp.	TSX: VGCX
Net Asset Value	$1.72B
NAVPS	$26.46
Target Price	$17.20

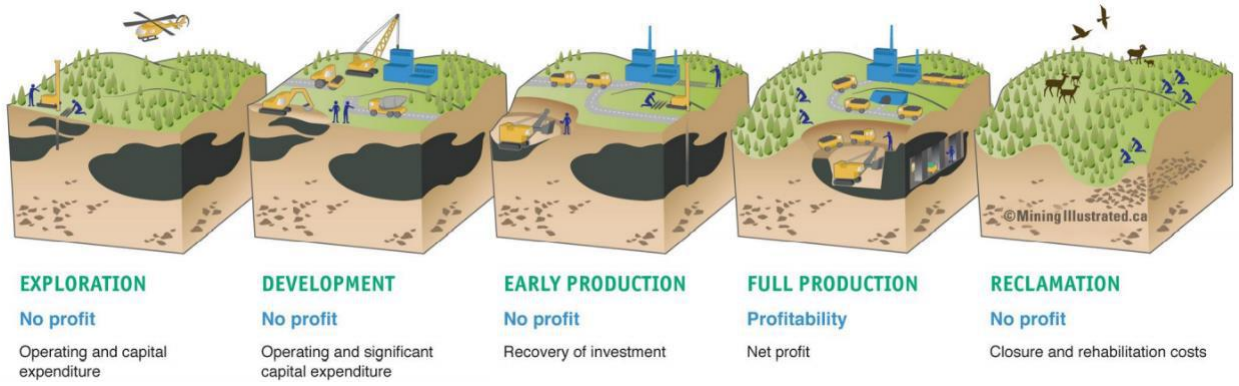
1-Year Return



The Mining Process

Mining companies are responsible for locating and extracting valuable resources from the ground. While this sounds simple, the actual process is time consuming due to legal hurdles, environmental concerns, and technical limitations. At a high-level overview, mining companies explore for the resource, develop the necessary infrastructure, produce the resource, and then restore the landscape to minimize environmental impact. This process is known as the mining cycle. The mining cycle is a long-term project, and in practice, it can take between 20-30 years to progress from exploration to early production.

Exhibit 1: The Mining Life Cycle

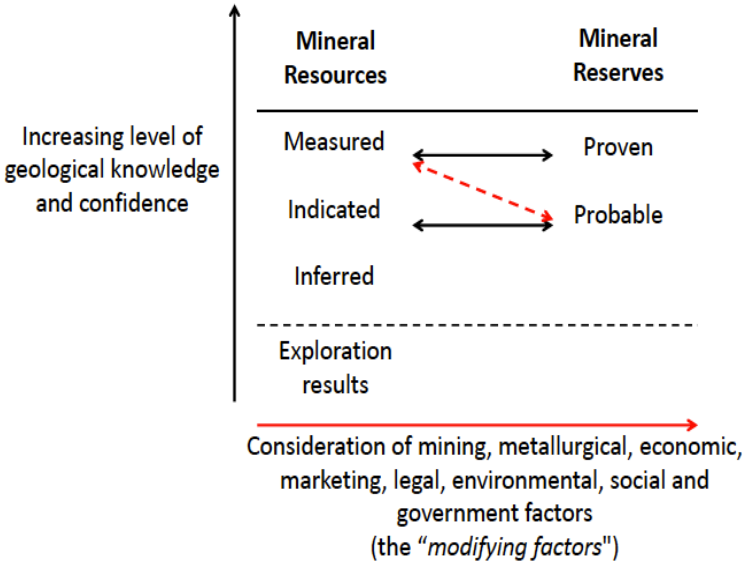


Source: Mining Illustrated

Mineral Resources vs. Mineral Reserves

As the mining company explores and locates valuable material, they classify their findings as mineral resources and mineral reserves. A mineral resource is a concentration of solid material of economic interest, with a grade and quantity that has reasonable prospects for eventual economic extraction. There are three categories of resources: inferred, indicated, and measured. As the mining company gains more geological confidence through surveys and samples drilling, the mineral resource can transition from inferred (lowest geological confidence) to measured (highest geological confidence). A mineral reserve is the economically mineable part of a measured and/or indicated mineral resource. When a company can viably extract the resource considering various modifying factors (economic, legal, environmental, government, social) the resource can be classified as a reserve. Mineral reserves can be further divided into proven and probable, based on the likelihood of commercial extraction.

Exhibit 2: Mineral Classification



Source: CIM Definition

Industry Analysis

Market Size & Growth

As of December 1st, 2020, the global top 25 metals & mining companies had a cumulative market value of $908.36 billion. This represents an increase of $122.76 billion (15.6%) since January 2020. Due to the strong operational value attained through economies of scale, the top 25 companies represent a large percentage of the total industry's market capitalization.

Market Leadership Concentration / Key Players

The mining industry is fragmented, with many players big and small throughout the value chain. However, due to economies of scale as previously mentioned, several companies dominate at the top. The two largest players globally, BHP Group and Rio Tinto, each possess market capitalizations that exceed $100 billion. Combined, BHP Group and Rio Tinto represent more than a quarter of the world's top 25 metals and mining companies' combined market value. Overall, the three largest players are BHP Group, Rio Tinto, and Vale SA. These companies are all diversified, meaning they mine for more than one metal, and as a result, are less exposed to individual commodity prices which stabilizes their year-over-year earnings. Looking past the diversified players, the two largest precious metals companies are Newmont Corporation (market cap of $49.96B) and Barrick Gold ($40.80B), and the two largest base metals companies are Fortescue Metals Group ($59.75B) and Norilsk Nickel ($56.13B). The market share of these companies is very dependent on the price of the commodity they mine, so their year-over-year earnings are more volatile than the diversified players of equal or larger size. In terms of geography, the key metals & mining players are spread out worldwide, however, there is a higher concentration in Australia, China, Canada, and the United States (U.S.). For example, five of the ten largest mining companies are headquartered in either Australia or the U.S.

Exhibit 3: Top 10 Metals & Mining Companies by Market Capitalization (as of Dec. 31, 2020)

Top 10 Metals & Mining Companies by Market Cap					(Figures in mm CAD)
Company Name	**Market Cap**	**Enterprise Value**	**LTM Revenue**	**LTM EBITDA**	**EBITDA Margin %**
BHP Group (ASX:BHP)	166,939	188,728	42,931	20,605	48%
Rio Tinto Group (LSE:RIO)	140,415	150,599	41,805	17,883	43%
Vale S.A. (BOVESPA:VALE3)	96,442	106,891	31,452	12,475	40%
Fortescue Metals Group Limited (ASX:FMG)	59,752	60,055	12,820	8,152	64%
Norilsk Nickel (LSE:MNOD)	56,130	63,976	13,982	6,188	44%
Southern Copper Corporation (NYSE:SCCO)	54,625	60,037	7,489	3,472	46%
Anglo American plc (LSE:AAL)	51,208	66,240	27,572	6,940	25%
Newmont Corporation (NYSE:NEM)	49,960	52,325	11,083	5,255	47%
Glencore plc (LSE:GLEN)	48,714	85,812	178,643	8,469	5%
Freeport-McMoRan Inc. (NYSE:FCX)	44,051	59,901	13,614	3,047	22%

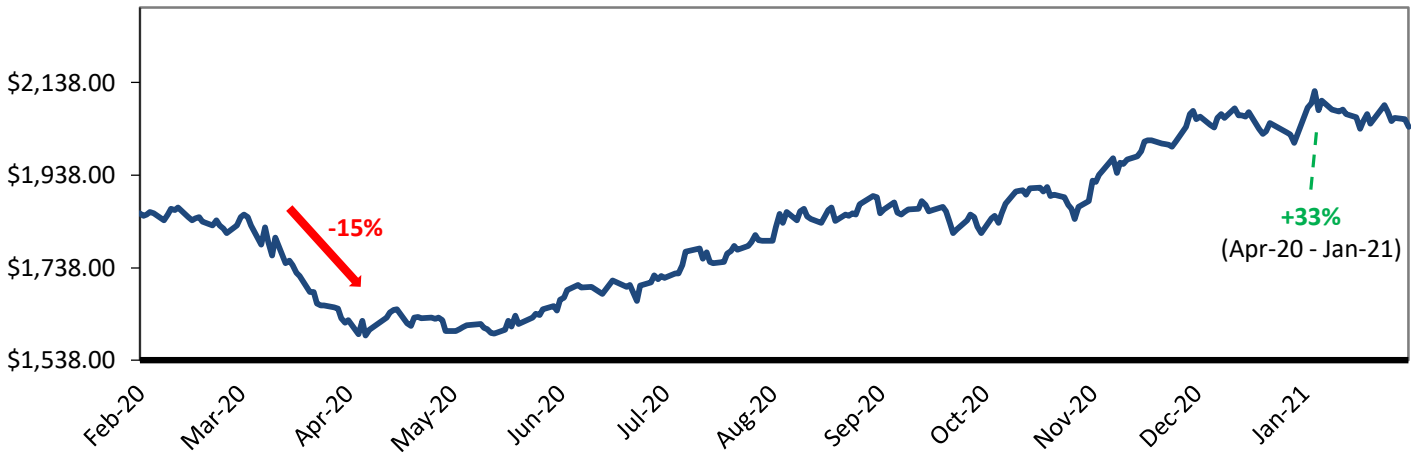
Source: S&P Global

Key Trends – Short-Term Considerations for the Mining Industry

COVID-19

As the global economy shut down in early 2020, the mining industry was forced to deal with several headwinds brought on by COVID-19. Out of an abundance of caution, many mining operations faced government mandates to halt production in late March. In addition, pandemic fears decreased demand for base metals. Both these factors placed pressure on the mining industry, and as result, three months into 2020 almost $289B had been erased from the market capitalization of the top 50 largest mining companies. This pressure led year-over-year capital raising to fall 39% and capital expenditure to fall by 19%. Since the onset of the pandemic, the global economy has improved and lifted demand for industrial metals rapidly.

Exhibit 4: LTM Aluminum Prices (US$/MT)



Source: S&P Capital IQ

Industry Consolidation

Continuing the trend seen in 2020, we expect mergers and acquisitions (M&A) in the mining industry to look different in the near future, as mega-deals slow down in light of continued economic uncertainty triggered by the COVID-19 pandemic. Cross-border transactions have become more cumbersome due to challenges with in-person due diligence, which may catalyze further domestic deals. The Canadian mining industry is highly fragmented with many small to medium-sized players, which has led stakeholders to advocate for industry consolidation to capture the benefit of economies of scale. This trend has recently led to several "merger of equals" deals, where companies have been purchased in all-stock transactions with little to no premium. This trend first started with Barrick Gold's US$6.5B acquisition of Randgold in September 2018, which has since been followed by several deals including SSR Mining's US$1.7B merger with Alacer Gold in May 2020. In general, mining companies have been much more cautious when approaching M&A, as the last bull market led companies to pay large takeover premiums, which was followed by large impairments when the price of the asset decreased. Instead of pursuing M&A, mining companies have been repurchasing shares and issuing dividends as a method to return excess cash to shareholders.

Localized Supply Chains

COVID-19 also provided the catalyst for a new industry trend, de-risking global supply chains. The pandemic has exposed flaws in lean principles when borders are closed, and factories are locked down. With this in mind, mining companies are looking to alleviate this issue by investing in local resources resilient to global restrictions. These local supply chains operated by mining companies are also being analyzed by government agencies to deliver COVID-19 vaccines to remote communities, which are otherwise disconnected from larger cities.

Key Trends – Long-Term Considerations for the Mining Industry

Environmental, Social, and Corporate Governance (ESG)

As investors have become increasingly sensitive to environmental impacts, mining companies are looking to mitigate their carbon footprint. High-profile investors such as BlackRock and Goldman Sachs have recently divested from select natural resource companies, reflecting the increased pressure for the mining industry to meet ESG targets. This is leading mining companies to prioritize environmental initiatives, as recently seen by Teck Resources' pledge to be carbon neutral by 2050.

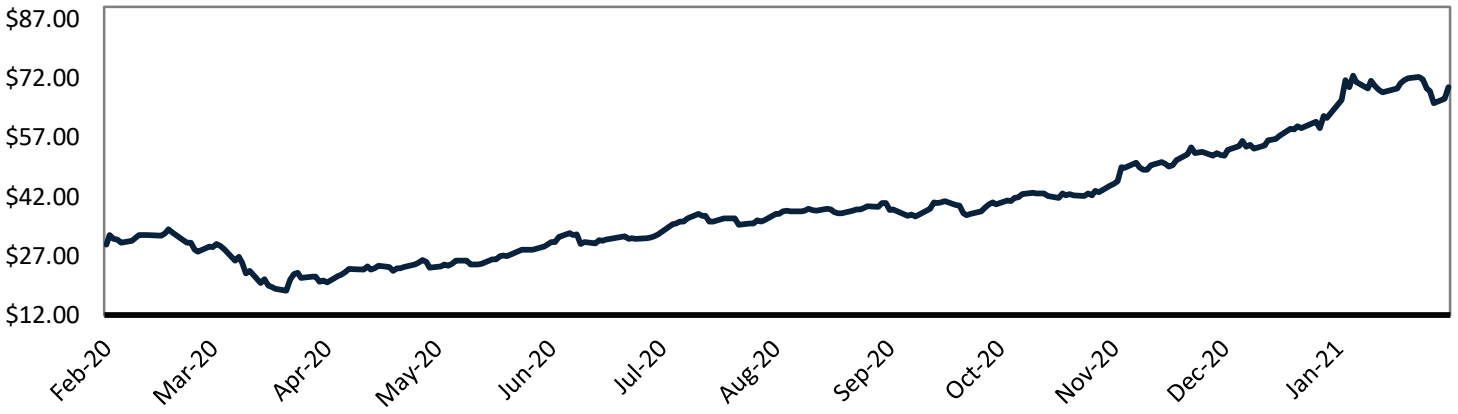
Digital Transformations

The mining industry is currently undergoing a digital transformation. While mining has not traditionally been associated with technological innovation, industry leaders are now turning to machine learning to improve operational performance. Possible outcomes include enhanced geological data collection, improved grade predictability, and efficient energy usage.

The Green Economy

In the past, the mining industry has been plagued by persistent negative media attention due to the long-term effect mining operations have had on climate change. However, less attention has been given to how mining can be a positive influence in creating a more sustainable and eco-friendly future. The global transition away from fossil fuels is expected to be a tailwind for the mining industry, as renewable energy technology fuels demand for certain key metals. For example, electric vehicles and solar panel technology, two pillars to a greener future, require copper, lithium, zinc, and titanium.

Exhibit 5: Global Lithium & Battery Technology ETF Share Price (NYSEARCA: LIT)



Source: S&P Capital IQ

Margin & EPS / Earnings Growth

In the metals & mining industry, revenue is heavily dependent on the price of the commodity. When the price of the commodity is high, the company is more likely to do well, whereas when the price of the commodity is low, the company may be forced to record large impairment expenses that negatively impact net income. With this in mind, margins and earnings per share are not considered key performance metrics for single-asset miners as they tend to be highly volatile, although it can be applied to large, diversified miners who are less dependent on a single commodity price.

In 2011, when the price of metals was at a cyclical peak, the global metals and mining industry recorded large profit margins. However, depressed metals prices between 2014-2017 reduced profit margins and led to frequent write-downs. Since 2017, metal prices have steadily increased, which has led margins to remain positive over a three-year period. Aggregated, the top 40 metals & mining companies recorded an EBITDA margin of 25% and a profit margin of 10% between 2017—2020.

Valuation

Intrinsic Valuation – Net Asset Value

To find the intrinsic value of a mining company, industry practitioners create a Net Asset Value (NAV) model, which differs from a discounted cash flow as it does not have a terminal value and often uses a standard discount rate instead of the CAPM model. For most mining companies, a discounted cash flow is not a useful metric as mining operations have finite lives, and therefore the terminal value approach is not applicable. In addition, mining companies possess unique business risks due to their dependence on commodity prices, and therefore standard discount rates are used in place of the traditional weighted average cost of capital. Discount rates are applied to each individual mining project and are typically 5-15% depending on the type of commodities mined and the experience of the owner. They can be further adjusted higher or lower to reflect business-specific risks which may include the location and development stage of the mining project.

Generally, to calculate the NAV for a mining company, the first step is to find the net present value (NPV) for each individual mine or project. Several assumptions must be made to find the NPV, including the commodity price and operational costs. The second step would be to sum the NPV of all the company's mines (discounted appropriately), and to adjust for corporate-level items such as debt and cash to find the corporate NAV. It is important to keep in mind that while the NAV approach is applicable for companies that extract finite resources from a mine, it is not necessarily applicable to companies involved in smelting and refining, which may employ the traditional DCF method. This is because they are like manufacturing companies that turn raw inputs into finished goods and therefore possess limited exploration risk. In addition, larger, diversified mining companies may also be valued using a DCF, as they are assumed to achieve indefinite revenue through internal development or external acquisitions.

Extrinsic Valuation

The extrinsic valuation approach for a mining company reflects a traditional valuation framework with select industry-specific adjustments. Similar to other sectors, industry practitioners will reference both trading multiples and past transactions to derive a fair value or purchase price. The process for making comparisons involves screening for relevant companies or transactions (similar commodity, geography, and size), determining appropriate multiples, and applying

multiples to the company being valued. The overall process is very similar to valuing non-mining companies, however, mining-specific multiples like P/NAV are used alongside universal multiples like EV/EBITDA.

Price to Earnings (P/E) and Price to Cash Flow (P/CF)

As mentioned previously, valuation in the mining industry is heavily dependent on commodity prices. This external factor can lead to high earnings volatility and frequent impairment expenses. With this in mind, the traditional price-earnings (P/E) multiple is often misleading, and not representative of the overall financial performance of a company. Diversified miners may be valued on a P/CF basis, which tells investors how much cash flow is generated relative to the share price. However, the P/CF multiple becomes less useful when comparing mining companies with different capital structures, as higher leverage leads to higher cash flow per share with all else equal. In general, industry analysts do often use P/E and P/CF for larger stocks, but they are poor indicators of future cash flow and are not particularly telling.

Price to Net Asset Value (P/NAV)

Most commonly, industry practitioners use the P/NAV multiple to assess the current trading price of a mining company relative to their implied intrinsic value. P/NAV is calculated by taking the market capitalization of a company and dividing it by its NAV. P/NAV is commonly used across the industry, especially for miners that focus on fewer commodities, as it allows for easy comparison across commodities to assess relative valuation.

Enterprise Value to Earnings before Interest, Taxes, Depreciation and Amortization (EV/EBITDA)

In the case of a large, diversified mining company, it is acceptable to derive value using EV/EBITDA, as the company possesses more predictable cash flows and will not be as heavily impacted by the outcome of an individual mine.

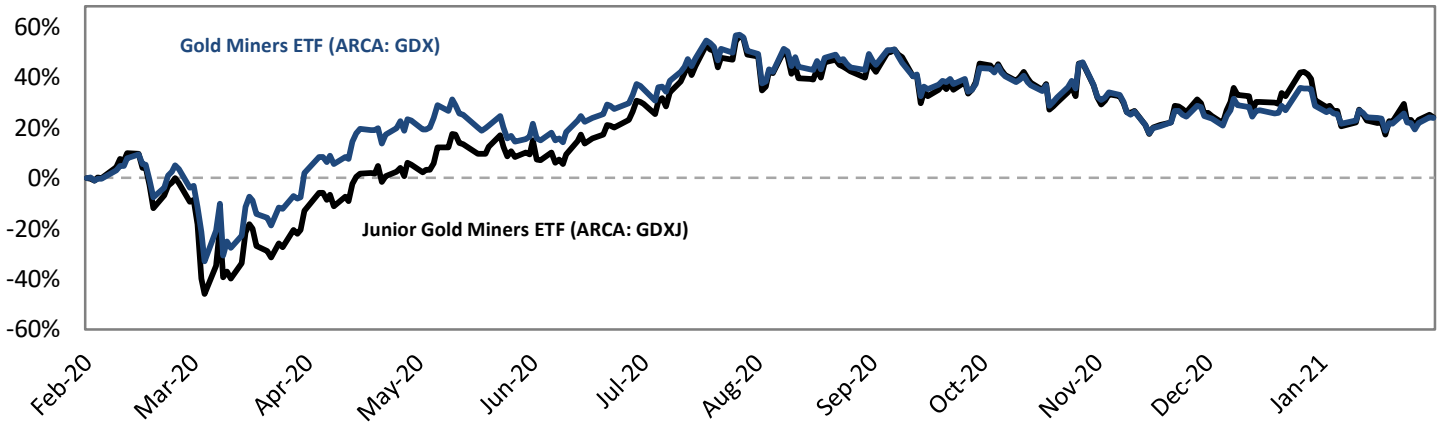
Enterprise Value to Reserves (EV/Reserves) or Enterprise Value to Resources (EV/Resource)

When investors do not have enough information to conduct a NAV analysis, the EV/Reserves and EV/Resource ratios are often used. This ratio is simple and not very useful for larger mining companies, because it does not account for the costs of extracting the metal, but it provides a basic method for valuing early-stage development projects.

Global Competitive Landscape

The global mining industry is dominated by large players with 25% of the top 25 mining companies' market capitalization held by BHP and Rio Tinto. These companies benefit from vertically integrated operations, diverse product offerings, and economies of scale in production. Aside from the top two companies, the industry remains highly fragmented. Although smaller mining companies often lack the economies of scale and vertical integration seen in larger players, they can still profit through the development and operation of high-quality mines. Nonetheless, smaller mining companies are often considered a riskier investment as they possess limited commodity diversification and are often dependant on the performance of only a few mining operations. Due to the factors mentioned above, when the pandemic began in March, the fear of operational shutdowns led investors to sell their holdings in junior mining companies. This led to a steeper decrease in the market value of junior gold mining companies relative to the decrease in the market value of senior producers.

Exhibit 6: Gold Miners vs. Junior Gold Miners (1-Yr Return)



Source: S&P Capital IQ

Lundin Gold (TSX: LUG)

Lundin Gold is based out of Vancouver and is focused on operating its cornerstone Fruta Del Norte gold mine. FDN is located in Ecuador, which has a rocky past with gold mining companies and extreme civil unrest. However, the exceptionally high grade of the mine could provide impressive returns for this risk. A high grade means that there is a higher proportion of metal in the mine's ore, which leads to more of the metal being extracted relative to the associated waste.

Fortuna Silver Mines (TSX: FVI)

Fortuna Silver Mines is a precious metals producer focused on mining opportunities located in Latin America. The company's current mining operations include the Caylloma silver mine in Southern Peru, the San Jose silver-gold mine in Mexico, and the Lindero gold mine in Argentina. As the Caylloma and San Jose mines continue to near the end of their respective mine lives, the Lindero project has become the company's flagship operation with an expected pit life of 13 years.

Pretium Resources (TSX: PVG)

Headquartered in Vancouver, Pretium Resources operates the Brucejack mine in northwestern British Columbia. Brucejack is a high-grade underground gold mine that benefits from year-round access within a stable mining jurisdiction. The mine began production in 2017, and since then has produced 1,056,208 ounces of gold. As of March 2020, the Brucejack operation possessed a 13-year life-of-mine (LOM).

Victoria Gold Corp. (TSX: VGCX)

Victoria Gold Corp. is headquartered in Toronto and engages in the acquisition, operation, exploration, and development of mineral properties (with a focus on gold deposits) in Canada and the U.S. The company's main operation is the 100%-owned Dublin Gulch property located in central Yukon. This property hosts the Eagle and Olive-Shamrock gold deposit which achieved commercial production in July 2020.

Lundin Gold (TSX: LUG)

Natural Resources - Metals & Mining

Analyst: David Buzza, BCom. '22
contact@westpeakresearch.com

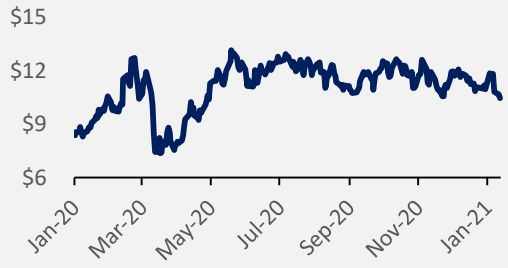
Equity Research	Canada
Price Target	**CAD$ 10.20**
Rating	Hold
Share Price (Feb. 25 Close)	CAD$ 10.32
Total Return	-1.0%

Key Statistics	
52 Week H/L	$13.49/$5.82
Market Capitalization	$2,688M
Average Daily Trading Volume	0.3M
Net Debt	$743M
Enterprise Value	$3,434M
Net Debt/EBITDA	2.8x
Diluted Shares Outstanding	$230M
Free Float	37%
Dividend Yield	NA

WestPeak's Forecast ($US)

	2020E	2021E	2022E
Revenue	$396M	$750M	$740M
EBITDA	$291M	$548M	$553M
Net Income	$150M	$279M	$286M
EV/EBITDA	11.8x	6.3x	6.2x
NAV ($CAD)	$2.77B		
NAVPS	$12.02		
P/NAV	0.85x		

1-Year Price Performance



World-Class Asset Provides a Solid Foundation

25 February 2021

Lundin Gold is a gold mining company based in Vancouver, Canada. The company operates the 100%-owned Fruta Del Norte (FDN) gold mine, located in southeastern Ecuador, which it acquired from Kinross Gold in 2014 for $240M.

Internal Analysis – Exceptional Asset and Management Team

FDN has strong characteristics which should allow the mine to become a cornerstone asset, providing cash flows to fund a multi-asset gold miner in the future. Costs will remain low due to the high grade of the mine (FDN has a reserve grade of 8.7 g/t). Projected all-in sustaining costs (AISC) are $621/oz for the mine, very strong compared to the average AISC of $1,000/oz for elite gold miners. In addition to an impressive asset, Lundin Gold has an experienced management team, which will be crucial as the company navigates its relationship with the Ecuadorian government.

External Analysis – Uncertainty in Ecuador

FDN's location in Ecuador adds additional risk. Kinross Gold sold such a promising asset because Ecuador has a history of a challenging regulatory environment. Although the situation has improved in recent years, mining companies in Ecuador still face obstacles such as the large windfall tax, high royalties, unstable policies, politicians with anti-mining agendas, and frequent civil unrest.

Valuation – Target Price of $10.20

The intrinsic value of Lundin Gold was estimated by conducting a NAV analysis. Key assumptions for the NAV model included commodity prices and AISC for FDN. After the asset level NPV was found, corporate-level adjustments were made to find a total NAV of $2.77B. Our $10.20 price target is calculated at 0.85x the NAV at a 5% discount. The P/NAV of 0.85x was based on trading multiples of Lundin Gold's comparable companies, with an added premium for the quality of the FDN asset and strong managerial track record.

Fortuna Silver Mines (TSX: FVI)

Natural Resources – Metals & Mining

Lindero Project Brings New Beginnings

25 February 2021

Fortuna Silver Mines is based in Vancouver B.C. and has three operating mines in South America. Their Caylloma mine in Peru produces silver, lead, and zinc, and their San Jose mine in Mexico produces silver and gold. These operations have expected mine lives that conclude in 2023. The third mine, The Lindero project in Argentina, produces gold and will begin commercial production starting in early 2021.

Internal Analysis – The Lindero Project

With both the Caylloma mine and the San Jose mine reaching the end of their respective mine lives, Fortuna Silver Mines remains focused on the commencement of their Lindero project in Argentina. The Lindero mine is expected to begin commercial production in Q1 2021 and has an expected mine life of 13 years. The average gold grade is expected to be 1.10 g/t, with AISC between US$520-$620/oz Au.

External Analysis – Shutdowns and Disputed Royalties

In 2020, the company faced several external headwinds. In March, the Government of Argentina and the Government of Mexico both suspended non-essential activities, including mining, until late May. In July, the company voluntarily halted their mining operations in Peru for two weeks to sanitize and disinfect the mine site. In addition to the lockdowns, the company has also faced a disputed royalty at their San Jose mine in Mexico. In a December update, the company stated that they will fight the allegations of an unpaid royalty in court, but if they do not prevail, they will have to pay US$30M to preserve operations.

Valuation – Target Price of $9.40

We performed a NAV valuation of Fortuna Silver Mines by forecasting operating performance, discounting to the present value, and adjusting for corporate-level items, arriving at $1.36B. Our $9.40 price target is calculated at 1.3x the NAV at a 5% discount. The P/NAV of 1.3x used was based on trading multiples of comparable companies, with an added premium to account for FVI's strong operational track record.

Analyst: Jake Bunderla, BCom. '21
contact@westpeakresearch.com

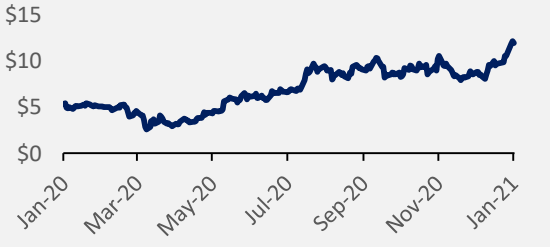
Equity Research	Canada
Price Target	**CAD$ 9.40**
Rating	Hold
Share Price (Feb. 25 Close)	CAD$ 10.03
Total Return	-6.3%

Key Statistics	
52 Week H/L	$12.61/$2.05
Market Capitalization	$1,881.6M
Average Daily Trading Volume	0.79M
Net Debt	$87.6M
Enterprise Value	$1,969.2M
Net Debt/EBITDA	0.6x
Diluted Shares Outstanding	187.6m
Free Float	99%
Dividend Yield	NA

WestPeak's Forecast ($US)

	2021E	2022E	2023E
Revenue	$623M	$634M	$534M
EBITDA	$420M	$412M	$336M
Net Income	$224M	$216M	$175M
EV/EBITDA	5.4X	5.5X	6.7X
NAV ($CAD)	1.36B		
NAVPS	$7.23		
P/NAV	1.3X		

1-Year Price Performance



Pretium Resources (TSX: PVG)

Natural Resources – Metals & Mining

Steady and Profitable Production

25 February 2021

Pretium Resources operates the Brucejack mine in northwestern British Columbia. The company made its initial public offering after purchasing Brucejack and its neighbouring property for $450M from Silver Standard Resources (SSR) in 2017.

Internal Analysis – High Grade and Low Cost

The Brucejack mine is well-positioned to deliver long-term value due to its high-grade gold deposit (8.4 g/t) as well as its location in a favourable mining jurisdiction. In 2020, the company attained strong free cash flow of $191.4M, largely in part due to strong operating margins. The company produced gold at an AISC of $971 per ounce, which was at the bottom range of their AISC annual guidance for 2020.

External Analysis – Snowfield Asset Divestiture

Pretium Resources benefited in 2020 due to its low AISC, as well as the elevated gold prices that resulted from increased market uncertainty. Unlike some of their global competitors, the company's single-asset business model mitigated the concern of border lockdowns or foreign government restrictions. Also, the company was able to raise cash through the sale of their Snowfield property for $100M. The Snowfield property was undeveloped, and therefore management advocated that its value was not incorporated in the stock price and that it was better to sell the asset and pay down existing debt.

Valuation – Target Price of $13.20

Pretium Resources was valued through discounting the cash flow attained from their Brucejack mine and adjusting for cash, debt, and corporate SG&A. This approach resulted in a NAV of $3.03B. Our $13.20 price target is calculated at 0.85x the NAV at a 5% discount. The P/NAV used was based on trading multiples of comparable companies, with an added premium to account for PVG's strong operational track record in a stable mining jurisdiction.

Analyst: Jake Bunderla, BCom. '21
contact@westpeakresearch.com

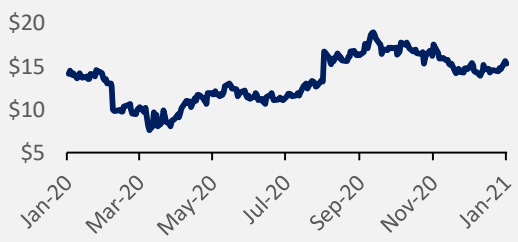
Equity Research	Canada
Price Target	**CAD$ 13.20**
Rating	Hold
Share Price (Feb. 25 Close)	CAD$ 13.58
Total Return	-2.9%

Key Statistics	
52 Week H/L	$19.13/$6.25
Market Capitalization	$2,653.5M
Average Daily Trading Volume	0.41M
Net Debt	$342.1M
Enterprise Value	$2,995.6M
Net Debt/EBITDA	1.01x
Diluted Shares Outstanding	195.4
Free Float	99.9%
Dividend Yield	NA

WestPeak's Forecast ($US)

	2021E	2022E	2023E
Revenue	$668M	$677M	$668M
EBITDA	$444M	$452M	$445M
Net Income	$213M	$218M	$211M
EV/EBITDA	7.3X	7.2X	7.3X
NAV ($CAD)	3.03B		
NAVPS	$15.52		
P/NAV	0.85X		

1-Year Price Performance



Victoria Gold Corp. (TSX: VGCX)

Natural Resources – Metals & Mining

Victoria Gold Sees Royal Returns

25 February 2021

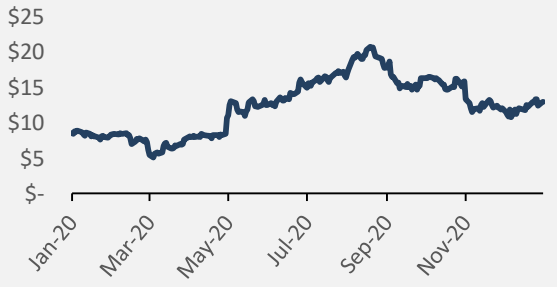
Analyst: Irene Liu, BCom. '23
contact@westpeakresearch.com

Equity Research	Canada
Price Target	**CAD$ 17.20**
Rating	Buy
Share Price (Feb. 25 Close)	CAD$ 11.99
Total Return	43.3%
Key Statistics	
52 Week H/L	$21.04/$4.02
Market Capitalization	$780.3M
Average Daily Trading Volume	0.36M
Net Debt	$115.8M
Enterprise Value	$923.4M
Net Debt/EBITDA	NA
Diluted Shares Outstanding	65.1M
Free Float	44.9%
Dividend Yield	NA

WestPeak's Forecast ($CAD)

	2020E	2021E	2022E
Revenue	$260M	$484M	$539M
EBITDA	$181M	$333M	$365M
Net Income	$113M	$206M	$222M
EV/EBITDA	5.1X	2.8X	2.5X
NAV ($CAD)	$1.72B		
NAVPS	$26.46		
P/NAV	0.65X		

1-Year Price Performance



Victoria Gold Corp. is headquartered in Toronto and engages in the acquisition, operation, exploration, and development of mineral properties in Canada and the US. The company's main operation is the 100% owned Dublin Gulch property located in central Yukon.

Internal Analysis – Increased Cashflows and Raven Mineralization

In November 2020, Victoria Gold refinanced US$200M worth of debt through a secured debt facility with a $100M US term facility and a US$100M revolving credit facility. $175M was used to repay the outstanding amount for the construction of the Eagle deposit. By refinancing ahead of Eagle's first full year of production, the company is well-positioned to capitalize off its free cashflows. Additionally, the company's exploration of the Raven deposit sees optimistic potential as it remains open in all directions. The Raven deposit identified multiple long intersections of gold over a broad interval, including 1.63g/t over 50.8 meters and 4.48g/t over 13.7 meters.

External Analysis – Natural Hedges

Throughout the current COVID-19 pandemic, Victoria Gold has performed well as it operates one sole asset in the Yukon, mitigating impacts from geopolitical and global events. In addition, as 70% of the company's costs are in Canadian dollars, it has prevented the need for additional hedging solutions for the volatility seen in the USD-CAD currency pair. As gold prices trend higher, Victoria Gold will see increased margins as their Canadian dollar costs remain stable.

Valuation – Target Price of $17.20

The intrinsic value of Victoria Gold Corp. was estimated through a NAV analysis, where future cash flows were discounted to present value and adjustments for cash, debt and corporate costs were made. This yielded a corporate NAV of $1.72B. We applied a 0.65x P/NAV multiple which represents a slight premium over the company's peers due to its location in a stable jurisdiction, to the company's approximated $26.46 NAVPS, arriving at an implied share price of $17.20.

Appendices

Appendix 1: Lundin Gold Model Summary

(Figures in mm USD)	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2034
Price Assumptions							
Gold ($/oz)	1,900.0	1,855.0	1,878.0	1,855.0	1,750.0	1,750.0	1,750.0
Silver ($/oz)	20.4	24.0	22.5	22.0	20.0	20.0	20.0
Production Schedule							
Gold (koz)	206.1	398.7	390.4	411.1	381.0	387.4	306.7
Silver (koz)	227.9	440.8	412.1	394.8	422.7	429.5	391.9
Mine Operating Costs							
Mining ($/t milled)	52.5	52.5	52.5	52.5	52.5	52.5	52.5
Processing ($/t milled)	26.7	26.7	26.7	26.7	26.7	26.7	26.7
Transport & Refining ($/t milled)	4.0	4.0	4.0	4.0	4.0	4.0	4.0
General & Admin ($/t milled)	26.7	26.7	26.7	26.7	26.7	26.7	26.7
Total ($/t milled)	109.9	109.9	109.9	109.9	109.9	109.9	109.9
Income Statement							
Revenue	396.3	750.2	742.4	771.2	675.1	686.6	544.5
EBITDA	291.2	548.2	553.4	585.6	487.0	495.4	376.2
Net Income	150.1	279.2	286.1	308.4	240.9	244.2	167.7
Earnings Per Share	$ 0.65	$ 1.21	$ 1.24	$ 1.34	$ 1.05	$ 1.06	$ 0.73
Free Cash Flow							
EBIT	238.2	443.1	454.1	489.5	382.3	387.7	266.3
D&A	53.0	105.1	99.3	96.1	104.7	107.7	110.0
Capital Expenditures	(415.9)	(32.3)	(40.2)	(11.7)	(12.6)	(12.8)	(11.7)
Tax Expenses	(88.1)	(163.9)	(168.0)	(181.1)	(141.5)	(143.4)	(98.5)
Changes in NWC	(139.9)	(154.5)	4.8	(11.0)	37.1	(5.0)	14.7
Reclamation	-	-	-	-	-	-	(4.6)
Unlevered Free Cash Flow	(352.7)	197.4	350.0	381.8	370.0	334.1	276.2
Valuation Summary							

Current Price (CAD)	**$ 10.32**
Target Price	$ 10.22
Total Return	-1.0%
Recommendation	**HOLD**

NAV Valuation (Figures in mm CAD)	
Asset NPV	$ 3341
Exploration Credit	$ 250
Project NAV	$ 3591
Cash & Cash Equivalents	$ 65
ST & LT Debt	$ (809)
Corporate G&A	$ (115)
Working Capital	$ 34
Total NAV	$ 2766
Fully Diluted Shares Outstanding	230
NAVPS	$ 12.02
Comps Valuation	
Median Peer P/NAV	0.71
Implied NAVPS	$ 12.02

Appendix 2: Fortuna Silver Mines Model Summary

(Figures in mm USD)	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2035
Price Assumptions						
Gold	1,855.0	1,878.0	1,855.0	1,750.0	1,750.0	1,750.0
Silver	24.0	22.5	22.0	22.0	22.0	22.0
Production Schedule						
Gold (koz)	199.9	202.4	175.8	106.9	95.6	79.4
Silver (koz)	8,103.9	8,691.4	6,717.5	-	-	-
Mine Operating Costs (Lindero - $/t milled)						
Mine	2.5	2.5	2.5	2.5	2.5	2.5
Plant	5.5	5.5	5.5	5.5	5.5	5.5
General Services	1.2	1.2	1.2	1.2	1.2	1.2
Admin Services	1.0	1.0	1.0	1.0	1.0	1.0
Distribution and Gold Refinancing	0.2	0.2	0.2	0.2	0.2	0.2
Total	10.3	10.3	10.3	10.3	10.3	10.3
Income Statement						
Revenue	623.0	634.2	533.5	187.0	167.4	139.0
EBITDA	420.4	411.7	335.7	114.2	99.8	74.4
Net Income	223.6	215.6	175.4	57.1	50.0	37.2
Free Cash Flow						
EBIT	289.8	283.6	229.7	87.9	76.9	57.3
D&A	130.7	128.1	105.9	26.3	23.0	17.1
Capital Expenditures	(14.5)	(12.3)	(45.1)	(5.5)	(2.2)	(4.6)
Tax Expenses	(66.2)	(68.1)	(54.3)	(30.8)	(26.9)	(20.1)
Changes in NWC	-	-	-	-	-	-
Unlevered Free Cash Flow	339.8	331.4	236.3	77.9	70.7	49.8
Valuation Summary						

Current Price	**$ 10.03**
Target Price	$ 9.39
Total Return	-6.3%
Recommendation	**Hold**

NAV Valuation	
Lindero	$ 772
San Jose	$ 379
Caylloma	$ 61
Asset NAV	$ 1212
Cash & Cash Equivalents	$ 85
ST & LT Debt	$ (133)
Corporate G&A	$ (71)
Working Capital	$ (26)
Total NAV ($US)	$ 1067
Total NAV ($CAD)	$ 1356
Fully Diluted Shares Outstanding	187.6
NAVPS	$ 7.23
Comps Valuation	
Median Peer P/NAV	0.75
Implied Price	$ 5.40

Appendix 3: Pretium Resources Model Summary

(Figures in mm USD)	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2032
Price Assumptions						
Gold	1,855.0	1,878.0	1,855.0	1,750.0	1,750.0	1,750.0
Silver	24.0	22.5	22.0	20.0	20.0	20.0
Production Schedule						
Gold (koz)	360.3	360.3	360.3	351.9	360.3	257.1
Silver (koz)	385.9	444.0	473.1	581.0	2,149.6	3,325.7
Mine Operating Costs ($/t milled)						
Mining	70.8	70.8	70.8	70.8	70.8	70.8
Processing	21.3	21.3	21.3	21.3	21.3	21.3
Overall Site Services	35.9	35.9	35.9	35.9	35.9	35.9
General & Admin	34.8	34.8	34.8	34.8	34.8	34.8
Total	162.8	162.8	162.8	162.8	162.8	162.8
Income Statement						
Revenue	668.3	676.6	668.3	615.8	630.4	449.9
EBITDA	443.6	452.5	444.7	394.0	439.5	340.1
Net Income	213.6	217.9	210.7	173.4	205.3	158.5
Free Cash Flow						
EBIT	296.6	302.7	292.7	240.8	285.2	220.2
D&A	147.0	149.8	152.0	153.2	154.3	120.0
Capital Expenditures	(51.9)	(26.1)	(18.6)	(8.8)	(6.9)	(3.7)
Tax Expenses	(83.1)	(84.8)	(82.0)	(67.4)	(79.9)	(61.6)
Changes in NWC	0.4	(0.2)	0.1	0.8	(1.6)	0.0
Unlevered Free Cash Flow	309.1	341.5	344.3	318.6	351.1	274.8
Valuation Summary						

Current Price	**$13.58**
Target Price	$13.19
Total Return	-2.9%
Recommendation	**HOLD**

NAV Valuation	
Brucejack	$ 2725
Asset NAV	$ 2725
Cash & Cash Equivalents	$ 175
ST & LT Debt	$ (435)
Corporate G&A	$ (78)
Total NAV ($USD)	$ 2388
Total NAV ($CAD)	$ 3032
Fully Diluted Shares Outstanding	195.4
NAVPS	$15.52
Comps Valuation	
Median Peer P/NAV	0.70
Implied Price	$10.82

Appendix 4: Victoria Gold Corp Model Summary

(Figures in mm CAD)	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2031
Price Assumptions						
Gold	**1,855.0**	**1,878.0**	**1,855.0**	**1,750.0**	**1,750.0**	**1,750.0**
Production Schedule						
Gold (koz)	**11,000.0**	**12,800.0**	**13,700.0**	**13,200.0**	**13,700.0**	**12,300.0**
Mine Operating Costs (Lindero - $/t milled)						
Mining	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**
Processing	**4.9**	**4.9**	**4.9**	**4.9**	**4.9**	**4.9**
General & Admin	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**	**2.7**
Total	**12.4**	**12.4**	**12.4**	**12.4**	**12.4**	**12.4**
Income Statement						
Revenue	**484.4**	**539.3**	**492.8**	**469.1**	**489.2**	**307.7**
EBITDA	**333.0**	**364.7**	**307.8**	**290.6**	**304.2**	**233.7**
Net Income	**206.3**	**222.2**	**176.9**	**163.8**	**170.4**	**117.6**
Earnings Per Share	**2.3**	**27.0**	**1.7**	**3.2**	**3.4**	**1.8**
Free Cash Flow						
EBIT	280.7	302.4	240.7	222.8	231.9	160.1
D&A	52.4	62.4	67.1	67.8	72.3	73.7
Capital Expenditures	(13.4)	(15.5)	(16.6)	(16.0)	(16.6)	(31.7)
Tax Expenses	(74.4)	(80.1)	(63.8)	(59.0)	(61.5)	(4.6)
Reclamation	-	-	-	-	-	(5.8)
Unlevered Free Cash Flow	**245.3**	**269.1**	**227.3**	**215.5**	**226.1**	**191.6**
Valuation Summary						

Current Price	**$**	**11.99**
Target Price	$	17.20
Total Return		43.4%
Recommendation		**BUY**

NAV Valuation		
Asset NAV	$	1850.32
Cash & Cash Equivalents	$	12.32
ST & LT Debt	$	(128.10)
Corporate G&A	$	(8.00)
Working Capital	$	(4.75)
Corporate NAV	$	1721.79
Fully Diluted Shares Outstanding		65.1
NAVPS	$	26.46
Comps Valuation		
Median Peer P/NAV		0.59
Implied Price	$	17.20

Global Equity | February 2021

Natural Resources

II. Forestry & Forest Products

ANALYSTS

Tiffany Griesbach
Head Analyst

Surav Malla
Senior Analyst

David Buzza
Senior Analyst

WESTPEAK
RESEARCH ASSOCIATION

Forestry & Forest Products - Primer

Promising Runway Despite Recent Volatility

25 February 2021

Industry Summary

The Forestry & Forest Products industry includes companies in the businesses of logging and forest management, solid wood product manufacturing, and pulp and paper product manufacturing.

Industry View – Challenges and Opportunities in the Subsectors

Over the next five years, pulp and paper products are expected to be an industry laggard, exhibiting slower growth due to lower demand in paper products in part driven by the increasing use of technology and digitization. However, the logging and solid wood product manufacturing subsectors are expected to experience faster growth due to rapidly growing demand for home construction as well as renovating and remodelling activity.

Industry Drivers – Housing Market a Strong Driver for Demand

U.S. housing starts are forecasted to grow at an annualized rate of 2.9% over the next five years through 2025. In Canada, that figure is larger at 6.5%, a stark contrast to recent times after falling by roughly 28.3% in 2020. Growing per capita disposable income and low interest rates are expected to continue contributing to this growth.

Industry Valuation – Traditional Valuation Methods

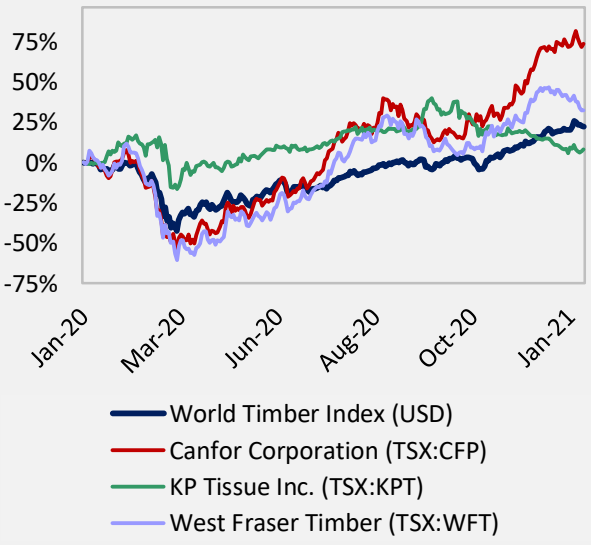
Unlike other natural resource industries such as metals & mining and oil & gas, forestry commodities are renewable resources. Hence, traditional valuation methods can be employed. However, due to the volatility of input prices that are beyond companies' control, intrinsic valuation methods such as the DCF method often take a back seat in favour of extrinsic approaches such as comparables and precedent transactions. Industry practitioners tend to favour using the EV/EBITDA multiple, with some analysts choosing to overlay a "Trend EBITDA", which reflects normal operating conditions and overlooks some degree of volatility.

Industry Research	
Forestry & Forest Products	
Global Revenue (2019)	US$509.8B
Annual Growth (Past 5 Years)	1.6%
Annual Growth (Next 5 Years)	2.2%

Source: Statista, IBIS World

Select Companies Covered	
KP Tissue	TSX: KPT
Enterprise Value	$105M
Target Price	C$12.25
West Fraser Timber	TSX: WFT
Enterprise Value	$5.63B
Target Price	C$85.50
Canfor Corporation	TSX: CFP
Enterprise Value	$3.97B
Target Price	C$24.15

1-Year Return



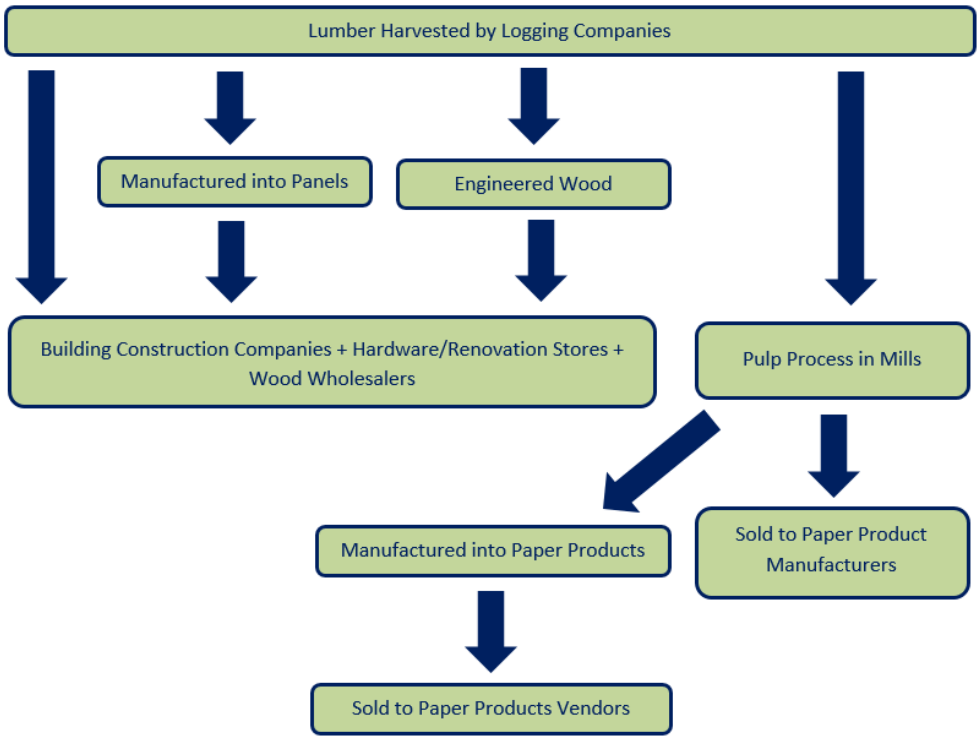
Industry Analysis

Market Size & Growth

The global forestry industry was valued at close to $509.8 billion in 2019, having declined at a compound annual growth rate (CAGR) of -0.1% since 2015. The logging products market was the largest segment of the industry in 2019 at 89.9%. Factors that have supported the growth of the industry include strong economic growth in emerging markets, growth in e-commerce driving demand for packaging, as well as growth in residential construction activity. On the other hand, forest fires and the pine beetle epidemic represent major factors that has negatively affected growth in recent years.

Moving forward, the global forestry industry is expected to grow at a CAGR of 3.5% to nearly $584.7 billion by 2023. Among the growth drivers behind this are, rising demand for housing (increasing construction of wooden buildings), and faster economic growth. The timber tract operations market is expected to be the fastest-growing segment going forward at a CAGR of 7.9%. Factors that could hinder the growth of the forestry and logging products market in the future include stringent regulations, continued weakening of global demand for paper (due to increasing use of digital products), and alternate construction materials.

Exhibit 1: Forest Products Value Chain



Source: IBIS World

Market Leadership Concentration / Key Players

In the global market for wood product exports, China leads with a market share of 12.8%, followed by Canada not far behind at 12.3% and the U.S at 8.4%. In all, the top 5 producers (including Germany and Russia) control nearly half (47%) of the global market share. The primary wood product export in all countries excluding China is raw lumber, whereas wood panelling is the main Chinese export. Key players in this lucrative industry can be found primarily headquartered within these countries. In China, the largest player is Jilin Forest Industry Group, a private forestry and forest products company that produces raw lumber as well as manufactured wood boards. In Canada, the largest company is West Fraser Timber Company and is the largest producer of lumber in North America. In addition, it produces panels, pulp and newsprint. It trades on the Toronto Stock Exchange at a market capitalization of $4.68 billion. Lastly, the biggest player in the U.S. is Weyerhaeuser, a registered REIT with 12 million acres of forest in the U.S. and 14 million in Canada. It is listed on the New York Stock Exchange and has a market capitalization of $21.19 billion.

Exhibit 2: Top 10 Global Forestry Companies by Production Capacity

Rank	Company	Headquarters	Production Capacity (m3/yr)	Market Capitalization (Million US$)
1	West Fraser Timber	Canada	8,460,000	8,437.0
2	Canfor	Canada	6,900,000	2,559.5
3	Weyerhaeuser	USA	6,449,000	25,326.9
4	Stora Enso	Finland	4,646,000	15,624.8
5	Georgia Pacific	USA	4,300,000	8,320.0
6	Resolute Forest Products	Canada	3,550,000	754.2
7	Interfor	Canada	3,200,000	1,446.0
8	Sierra Pacific Industries	USA	3,100,000	NA
9	Hampton Lumber	USA	2,800,000	71.6
10	Parque Arauco	Chile	2,500,000	1,665.6

Source: Statista

U.S. & Canada

With Canada and the U.S. possessing the third and fourth-largest forest areas in the world respectively, it is no surprise that the forestry industry is a key contributor to both economies. On the demand side, U.S. housing starts is forecasted to grow at an annualized rate of 2.9% over the next five years through 2025. In Canada, that figure is larger at 6.5%, a stark contrast after falling by roughly 28.3% in 2020. Relating the two, the importance of U.S. housing starts (especially single-family homes) to Canadian sawmills also cannot be overstated: over 65% of Canadian softwood lumber is exported to the U.S.

On the supply side, the full extent to which the mountain pine beetle has negatively affected forests in North America over the past decade will become clearer with time. In British Columbia (B.C.), timber supply as determined by the Annual Allowable Cut (AAC) is expected to steadily decrease to approximately 58 million cubic meters by 2025, despite initial forecasts of a long-term supply of about 70 million cubic meters. This lowered supply is expected to continue for the next ~50 years, returning to approximately 65–70 million cubic meters per year by 2075. A similar situation is observed in Western U.S. In an effort to counter the devastation wreaked by the pine beetles, many large Canadian and western U.S. players have invested in the southeastern U.S. as well as Nordic regions, reducing their dependence on the local Canadian

supply. Given these challenges and countermeasures, IBISWorld forecasts industry revenue will grow at a modest CAGR of 0.8% over the five years to 2025, reaching a total of $12.5 billion.

In the U.S., after a punishing performance in 2020, the value of residential construction is expected to surge back in 2022, rising 20.5% and increasing an annualized 6.2% during the outlook period. Backed by this surge in residential construction as well as a rise in industry exports, revenue for the U.S. Logging industry is projected to rise at an annualized rate of 3.5% to total $15.6 billion in 2025. In addition, over the next five years, the number of industry enterprises is expected to return to growth as well, at an annualized rate of 1.3% to 51,713 companies.

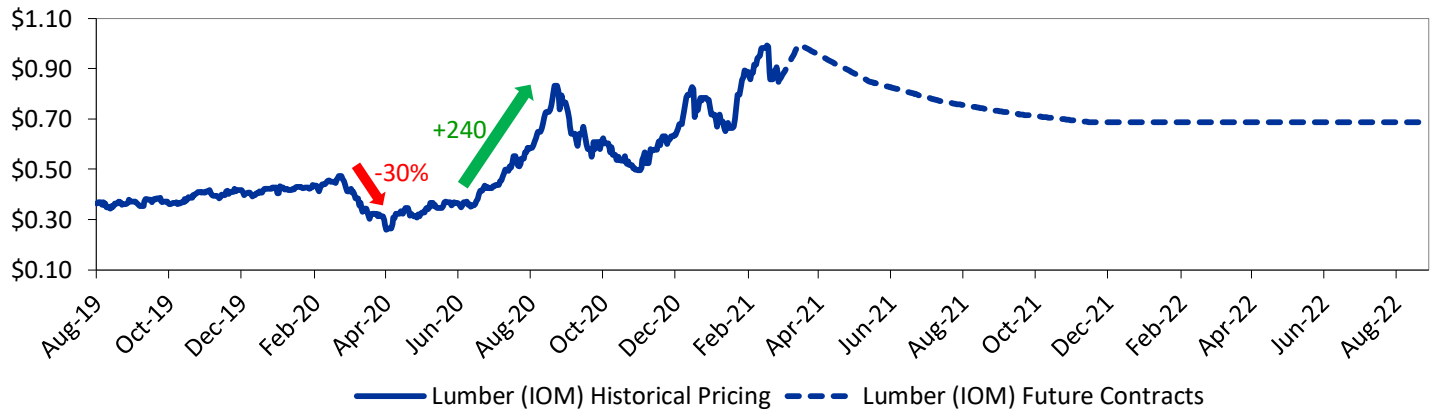
Key Trends – Drivers

Raw Lumber (Logging)

Lumber is a key raw material in the construction of residential facilities. As such, housing starts have historically been a key driver of wood products. Globally, housing starts have had significant declines following the pandemic's effects on the markets and by extension, on real estate investment. However, housing starts increased dramatically in July 2020 as home buyers and investors look forward to post-pandemic housing needs. In Canada and the U.S., housing starts increased by nearly 60% in a single quarter. Furthermore, as people spend more time at home, interest in undertaking renovation projects and home improvement initiatives like furniture purchases have likewise increased. One the one hand, this has had a significant positive impact on short-term wood supplier (logging) revenue, as the rapid demand increase created a strain on lumber supply, increasing prices. However, as a consequence, undiversified manufacturers of derived solid products have faced a challenge to their bottom line, as their cost of raw material expense has increased.

Western SPF (spruce, pine, fir) lumber prices rose to a four-digit close for the first time on 23rd February 2021, reaching US$1,000 per thousand board feet – double the price from three months ago. Similarly, the North American composite lumber price rose about one per cent to an all-time high of US$979. Despite a moderation in sales pace due to cold weather during the winter, lagging supply still caused prices to trend higher, as heavy rain hampered logging in many regions. However, while demand for housing is expected to continue to be a tailwind for lumber prices, this sharp increase in price is likely unsustainable and some price gains may be reverted come 2022 with major increases in production capacity.

Exhibit 3: 3Y Lumber Prices (US$/board feet)



Source: S&P Capital IQ

Derived Solid Products

A key driver of derived solid product demand is its use in industry, which include uses such as storage crates and pallets. Success in industrial sectors will serve to benefit the wood products industry, as higher production output will increase the demand for wooden material. Furthermore, expansionary interests in industrial and commercial institutions will create demand for non-residential buildings as well as associated wooden products, such as furniture. In key wood production countries, much of what is produced is exported globally. As such, currency exchange rates can have a notable impact on companies' bottom line, as fluctuations in the currency's value make products cheaper or more expensive for import countries. Some manufacturers may choose to enter forward contracts for lumber in order to mitigate this risk.

Additionally, the ongoing global container shortage has resulted in significant slowdowns and disruptions to supply chains, resulting in higher freight costs and continued upward pressure on the prices of wood products, expected to last through Q2. In addition, unexpected shutdowns and prolonged winter maintenance schedules, as well as the lack of new capacity in 2021 are also expected to contribute to supplier power via record low inventory levels. However, major capacity addition in 2022 would most likely put a lid on long-term prices, potentially even reverting some price gains seen in 2021.

Pulp and Paper Products

Packaging is a key driver of the pulp and paper industry and has experienced success in recent years due to the continued expansion of e-commerce deliveries. Demand has been further amplified by the surge in online shopping driven by the pandemic. Additionally, paper is a renewable resource and is made more attractive as a packaging resource as companies attempt to phase away from more environmentally destructive plastic packaging. Paper designed for literary use falls under graphic paper, another historically important driver. This sector has declined in recent years, and is poised to contract as the digitization of common graphic paper uses such as newspapers and books continues to take place.

Lastly, paper is consumed in household use, in the form of tissues and other hygiene products. In this sense, global population growth and development will result in higher demand for such products. As demand for such products is dependent on a country's population and prosperity, this segment is expected to grow at the same rate as GDP. Zooming into China, we expect its recent ban on recovered (recycled) paper to drive demand for softwood pulp, supporting an increase in prices.

Similar to lumber and solid products, gains in pulp prices are supported by continued supply constraints due to unexpected shutdowns, persistent supply chain challenges, and limited additions to capacity. However, again, some price gains may be reverted come 2022 with major increases in production capacity.

Margin & EPS / Earnings Growth

In this industry, EBITDA margins are not only a function of cost but also dependent on the average selling price. As a result, companies with higher market power and superior offerings may have their higher production cost offset by higher average selling price. Over the last twelve months, the median EBITDA margin among the ten largest forestry companies in North America was 14.8%. In the pulp industry specifically, margins have historically been quite volatile, with EBITDA margins averaging ~10% between 2001 and 2009 but has since reached up to ~17%. The average cash flow return on average invested capital has hovered around ~13% over the past ten years. Over the next few years, the industry is anticipated to

experience a modest increase in profitability, driven in part by rising demand and accompanying rise in the price of sawlogs and forest products, coupled with increasing consolidation of operations, lowering costs.

In the U.S., although wages are expected to increase at an annualized rate of 2.6% over the five years to 2025, industry wages as a share of revenue are expected to fall as a result of industry revenue growth outpacing wage growth, which is expected to drive margin expansion. IBISWorld expects profit, defined as earnings before interest and taxes, to increase slightly to 6.4% of revenue in 2025, aided by further growth in the price of wood products and stable demand from the U.S. housing market. The main risk to this would be one posed by the COVID-19 pandemic, which has contributed to relatively weak. In terms of earnings, the ten largest forestry and logging companies in the U.S. and Canada are expected to report a median EPS of $2.63 over the next twelve months.

Valuation

Similar to other commodity industries, the top-line of forestry companies are largely a function of price and production. While production can be uncertain at times, pricing tends to be the more volatile factor of the two. In general, the most common valuation method employed by investors is EV/EBITDA multiples, assuming the company operates as a going concern. To smoothen out the effect of volatility, some analysts choose to overlay a “Trend EBITDA”, which reflects normal operating conditions and overlooks some degree of volatility. Using EV/EBITDA multiples also have the benefit of normalizing for leverage and non-cash charges of the companies, and is preferred over P/E multiples as the latter has historically been more volatile for the industry. Based on historical analysis, an EV/EBITDA multiple in the 5.0x – 7.0x range is appropriate for pulp companies, while 4.0x – 6.0x is often observed for lumber companies. However, the sharp decline in prices and global demand near the beginning of the pandemic caused multiples to jump, with both EV/EBITDA and P/E reaching over 20.0 – 50.0x for many large companies. This is not the norm, however, and most likely is not a cause for concern with the last twelve months seeing these multiples steadily decreasing, reflecting the recovery in global demand and stabilization of prices, EBITDA, and earnings.

Precedent transactions are sometimes used due to their usefulness in understanding valuations in the context of M&A transactions. However, this method may be misleading due to variations in the characteristics of assets acquired (e.g. location, facility age, environmental liabilities). In addition, financial metrics may be highly volatile given that commodity pricing has a considerable impact on profitability. To combat this volatility, capacity metrics are often used instead.

The Replacement Cost method is also frequently used, which often results in the lowest valuations. The Discounted Cash Flow method may sometimes be applied, although this is not commonly used as companies have no control over commodity prices and therefore can only control the production side of revenue.

Competitive Landscape in Canada

The Canadian forestry & forest products industry has a low to medium level of market share concentration, depending on the subsector. The logging industry has a relatively low level of market share concentration, with the two largest companies accounting for only 5% of revenues in 2020. This is largely because logging operators tend to be highly localized, and more than 90% have fewer than 20 employees, despite the few large and vertically-integrated companies also present. The Canadian sawmills and wood production subsector also has a low level of market share concentration. The top four largest

companies in the industry are Canfor Corporation, West Fraser Timber Co. Ltd., Western Forest Products Inc. and Resolute Forest Products Inc., and together they account for 28.3% of industry revenue in 2020. The pulp and paper subsector is relatively the most concentrated, with the four largest companies generating roughly 40% of revenues. The pulp and paper subsector features large timber companies which operate across North America such as West Fraser Timber and Domtar Corporation, as well as many smaller operators which manage a single mill.

In all subsectors, industry concentration has declined over the five years to 2020, with revenue for the largest players declining at a faster rate than the industry as a whole. However, those large operators have increasingly invested in expanding capacity, which we expect will drive smaller firms out of the industry as the remaining establishments get larger.

KP Tissue (TSX: KPT)

Founded in 2012 and headquartered in Mississauga, Canada, KP Tissue Inc. produces, distributes, markets and sells a wide range of disposable tissue products in North America through its 15% interest in Kruger Products L.P. The company operates through two segments, namely Consumer and Away-From-Home (AfH). Marketed under brands such as Cashmere, Purex, SpongeTowels, Scotties, White Swan, and Chalet, their products include bathroom and facial tissues, paper towels, and napkins. In recent times, demand in their Consumer segment has remained strong while the impact of COVID-19 in the foodservice and hospitality industry has led to a substantial drop in their AfH segment. However, year-on-year, the decline in the AfH end-market demand appears to have stabilized in the -15% to -20% range, up from the very bottom of a 40-50% decline, although further recovery is expected to be slow. On the brighter side, the company's shift away from AfH markets and into Consumer tissue consumption presents a tailwind, given that customers are spending more time at home.

West Fraser Timber (TSX: WFT)

West Fraser Timber Co. is a diversified wood products company producing lumber, plywood, pulp, newsprint and wood chips amongst other products. The company was founded in 1955 and is headquartered in Vancouver, Canada. West Fraser is the largest producer of lumber in the world, with an output of 5.9 billion board feet (bf) in 2019, sourcing from locations in Western Canada and Southern U.S. It recently noted industry-wide struggles with wood supply due to the infestation of the Mountain Pine Beetle in BC which caused supply for 2020 to decrease by approximately 10%. However, the company has benefited from the recent increase in housing starts and anticipates benefiting from pandemic recovery. It recently completed a $3 billion acquisition of Norbord Inc. for its oriented strand board products as well as to increase its presence in the European market.

Canfor Corporation (TSX: CFP)

Founded in 1938 and based in Vancouver, Canada, Canfor Corporation manufactures and sells integrated forest products, such as softwood lumber, pulp and paper products, remanufactured lumber products, engineered wood products, wood pellets, wood chips, logs, kraft paper, as well as produces green energy. Their products are commonly used in residential, commercial, and industrial construction. As one of the largest lumber producers in North America with ~6.7 billion bf/year of capacity, Canfor is well-positioned to benefit from the robust U.S. housing market expected to persist over the next few years. The company's shareholder minority recently rejected a $982 million take-private deal by Great Pacific Capital, who asserted that the lumber industry faced difficulty, citing in part that the deal undervalued the company.

KP Tissue (TSX: KPT)

Natural Resources – Forestry & Forest Products

KPT is on a Roll

25 February 2021

KP Tissue produces and sells disposable tissue products in North America through its stake in Kruger Products L.P. The company markets its products through several brands with a dominant market share. KP Tissue serves both corporations and households, with the Consumer segment making up the majority of sales (83% In FY 2019).

Internal Analysis – Defensive Attributes are Nothing to Sneeze at

KP Tissue has several characteristics that render it more defensive than other forestry companies. The products sold by the company are non-discretionary; demand for KP Tissue's products, such as paper towels, are likely to remain relatively robust despite the economy. These products also hold a leading market share position in North American markets, including top market share for both bathroom and facial tissue in Canada. Although exposure to commodity prices makes many forestry companies more volatile, KP Tissue has the proven ability to pass on input price increases to consumers.

External Analysis – Mixed Impacts of COVID-19 Pandemic

The COVID-19 pandemic has had differing impacts on KP Tissue's business segments. On one hand, the Away from Home (AfH) segment has been hurt by the pandemic, shrinking by 27% year-on-year in Q2 2020, due to its reliance on heavily impacted industries like lodging and foodservice. However, this revenue decline is offset by boosted performance of the Consumer segment, where the pandemic has been a massive tailwind for demand. In addition to the frantic pantry-loading behaviour in early March, demand has also been helped by a shift to work-from-home and increased personal hygiene habits, leading to Q2 Consumer segment revenue increasing by 23% year-on-year.

Valuation – Target Price of $12.50

Intrinsic value of KP Tissue was found by first finding the intrinsic value of Kruger Products L.P. (KPLP). A DCF analysis was used to find the implied equity value of KPLP, which was then multiplied by KP Tissues' stake in KPLP. Extrinsic value of KP Tissue was found through comparable company analysis on an EV/EBITDA and P/E basis. Both intrinsic and extrinsic valuation found an implied share price of approximately $12.25.

Analyst: David Buzza, BCom. '22
contact@westpeakresearch.com

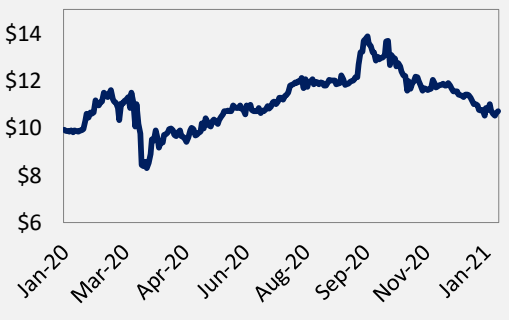
Equity Research	Canada/US
Price Target	**CAD$ 12.25**
Rating	Buy
Share Price (Feb. 25 Close)	CAD$ 10.67
Total Return	14.8%

Key Statistics	
52 Week H/L	$14.00/$8.00
Market Capitalization	$105M
Average Daily Trading Volume	$0.17M
Net Debt	$0M
Enterprise Value	$105M
Net Debt/EBITDA	3.5x
Diluted Shares Outstanding	$33M
Free Float	50%
Dividend Yield	10%

WestPeak's Forecast

(KPLP)	2020E	2021E	2022E
Revenue	$1.49B	$1.63B	$1.72B
EBITDA	$208M	$233M	$195M
Net Income	$83M	$125M	$93M
EPS	$1.28	$1.95	$1.43
P/E	8.5x	5.6x	7.6x
EV/EBITDA	3.4x	3.0x	3.6x

1-Year Price Performance



West Fraser Timber (TSX: WFT)

Natural Resources – Forestry & Forest Products

A Lumber Powerhouse

25 February 2021

West Fraser Timber is a diversified wood products company operating primarily in Western Canada and Southern U.S. It is the largest producer of lumber in the world, although it also generates revenue from its panels and pulp & paper segments. The company recently acquired Norbord Inc, an engineered wood products company, allowing them to expand their product offerings and acquire new sourcing locations.

Internal Analysis – A Compelling Growth Strategy

West Fraser is an industry leader and actively works to maintain this position. It does so by focusing on a low-cost provider of wood products and seeks to provide value to investors through carefully maintained balance sheets and prudent spending. This has allowed the company to achieve an investment-grade debt rating, giving it the financial flexibility to more easily access capital for growth opportunities. Such a growth opportunity was recently taken advantage of in the acquisition of Norbord Inc. for $3 billion, which gave access to engineered wood products, like oriented strand boards (a construction material used in housing), as well as access to facilities in eastern North America and Western Europe.

External Analysis – A World of Opportunities

The company's inherent exposure to worldwide commodity prices makes revenues highly volatile. For instance, lumber prices fell over 30% in 2020 following the impact of the pandemic on the markets, before spiking over 250% in a little over five months. Despite this, the company predicts strong demand for wood products in the near future, evidenced by the encouraging number of housing starts in 2019, as well as household renovation interest spurred during the pandemic. In addition, with respect to supply chain disruptions resulting in higher prices, we expect West Fraser to benefit more than its peers due to its high percentage sales to Asia, where pricing is more responsive to changes in supply.

Valuation – Target Price of $85.50

Intrinsic value through a DCF analysis factored in the recent acquisition of Norbord Inc. in Q4 2020. Extrinsic value was determined through comparable company analysis based on EV/EBITDA and P/E multiples. Ascribing equal weightings, we derived an implied share price of ~$85.50.

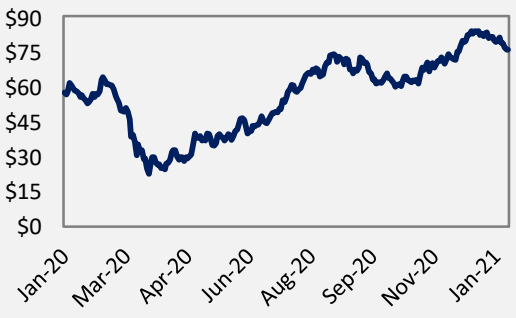
Analyst: Surav Malla, BCom. '23
contact@westpeakresearch.com

Equity Research	Canada/US
Price Target	**CAD$ 85.50**
Rating	Hold
Share Price (Feb. 25 Close)	CAD$ 85.54
Total Return	-0.1%

Key Statistics	
52 Week H/L	$99.88/$21.60
Market Capitalization	$10.54B
Average Daily Trading Volume	$24M
Net Debt	$1.94B
Enterprise Value	$5.63B
Net Debt/EBITDA	1.6x
Diluted Shares Outstanding	120.9M
Free Float	73%
Dividend Yield	1%

WestPeak's Forecast	2019E	2020E	2021E
Revenue	$4.87B	$5.22B	$1.20B
EBITDA	$139M	$989M	$1.15B
Net Income	-$150M	$524M	$725M
EPS	-$2.17	$7.62	$10.53
P/E	N/A	10.7x	7.8x
EV/EBITDA	46.5x	7.3x	6.1x

1-Year Price Performance



Canfor Corporation (TSX: CFP)

Natural Resources - Forestry

Continued Acquisition Activity

25 February 2021

Canfor Corporation is one of the largest diversified wood products companies in the world, generating revenues primarily through its lumber and pulp & paper segments. The company operates in Western Canada, the U.S., and most recently Sweden, following the acquisition of Vida Group, and distributes its goods worldwide.

Internal Analysis – Not Just Lumbering Along

Canfor follows a higher growth strategy than other lumber companies, following acquisition activity happening every year over the last five years and numerous large acquisitions in that time span. Most acquisitions by the company took place in North America. However, following the challenges faced by the forestry industries in North America in 2019, a long-term goal of the company is geographic diversification to minimize such risk. The first step of which was the majority acquisition of Vida Group in 2019. This high-growth acquisition strategy has resulted in the company not offering dividend payouts since 2003.

External Analysis – Shared Challenges Ahead

As a global forestry products leader, Canfor faces the same opportunities and challenges as other players in the space worldwide, such as its exposure to lumber price volatility and fluctuating global demand. However, its overreliance on supply locations in Canada and the U.S. has left them highly exposed to local risks such as the recent pine beetle infestation of western North American forests, which has resulted in 13 curtailments of Canfor mills as well as one major mill closure, and spurred expansion to other countries.

Valuation – Target Price of $21.60

Numerous acquisitions by the company in recent years pose a challenge to finding its intrinsic value, as the combined performance of multiple newly acquired assets are difficult to predict. For this reason, modest growth assumptions of the company were used in a DCF analysis to find its intrinsic value. Extrinsic value was determined through a comparable companies analysis based on EV/EBITDA and P/E multiples. The average of the two weighed equally produced an implied share price of approximately $21.60.

Analyst: Surav Malla, BCom. '23
contact@westpeakresearch.com

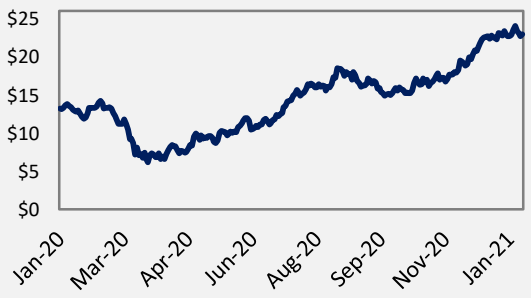
Equity Research	Canada/US
Price Target	**CAD$ 24.15**
Rating	Hold
Share Price (Feb. 25 Close)	CAD$ 25.36
Total Return	-4.7%

Key Statistics	
52 Week H/L	$29.00/$6.11
Market Capitalization	$3.18B
Average Daily Trading Volume	$5M
Net Debt	$2.21B
Enterprise Value	$3.97B
Net Debt/EBITDA	2.9x
Diluted Shares Outstanding	125M
Free Float	76%
Dividend Yield	–

WestPeak's Forecast

	2019E	2020E	2021E
Revenue	$4.66B	$5.02B	$5.37B
EBITDA	$67.9M	$711M	$854M
Net Income	-$270M	$236M	$352M
EPS	-$2.15	$1.88	$2.81
P/E	N/A	12.2x	8.2x
EV/EBITDA	67.0x	7.5x	6.3x

1-Year Price Performance



Appendices

Appendix 1: KP Tissue Model Summary

(Figures in mm CAD)	FY2015	FY2016	FY2017	FY2018	FY2019	Q1-2020	Q2-2020	Q3-2020	Q4-2020	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Income Statement															
Revenue	1,138.9	1,227.9	1,280.0	1,370.4	1,434.1	375.1	386.8	369.1	362.4	1,493.4	1,626.9	1,724.5	1,828.0	1,937.7	2,054.0
EBITDA	121.0	154.5	144.5	107.3	136.3	47.1	62.7	46.0	51.8	207.6	232.6	194.9	206.6	219.0	232.1
Net Income	1.5	35.5	15.3	45.4	2.1	8.4	28.9	18.5	27.1	82.9	125.3	92.9	100.3	108.2	116.6
Earnings Per Share	$ 0.17	$ 3.89	$ 1.65	$ 4.83	$ 0.22	$ 0.87	$ 2.97	$ 1.89	$ 2.78	$ 8.51	$ 12.85	$ 9.53	$ 10.29	$ 11.09	$ 11.95
Cash Flow Statement															
Capital Expenditures	(57.4)	(82.0)	(69.3)	(61.3)	(171.5)	(69.8)	(71.3)	(67.5)	(76.0)	(284.5)	(119.8)	(122.3)	(126.4)	(130.6)	(134.9)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet															
Current Assets	331.2	352.5	325.0	507.9	382.0	466.5	444.4	432.5	344.0	344.0	459.2	536.9	612.7	696.0	787.3
Non-Current Assets	966.3	984.5	974.8	997.0	1,241.6	1,336.7	1,358.1	1,424.4	1,481.6	1,481.6	1,521.5	1,562.3	1,604.4	1,648.0	1,692.9
Assets	1,297.4	1,337.0	1,299.8	1,504.9	1,623.6	1,803.2	1,802.5	1,856.9	1,825.6	1,825.6	1,980.8	2,099.3	2,217.1	2,344.0	2,480.3
Current Liabilities	209.9	245.4	406.4	269.5	296.8	314.8	318.8	360.6	302.2	302.2	332.1	357.7	375.2	393.9	413.7
Non-Current Liabilities	699.1	709.0	569.7	844.9	1,022.0	1,077.2	1,170.6	1,182.1	1,182.1	1,182.1	1,182.1	1,182.1	1,182.1	1,182.1	1,182.1
Liabilities	909.0	954.3	976.2	1,114.4	1,318.8	1,392.0	1,489.4	1,542.7	1,484.3	1,484.3	1,514.2	1,539.7	1,557.3	1,576.0	1,595.7
Shareholders' Equity	388.4	382.6	323.6	390.5	304.8	411.2	313.1	314.2	341.3	341.3	466.6	559.5	659.8	768.0	884.5
Cash	25.5	36.5	8.8	169.9	93.1	144.6	144.2	117.5	30.3	30.3	106.6	164.1	217.8	277.6	344.2
Debt	436.0	424.2	416.3	577.9	591.1	723.5	705.3	710.0	710.0	710.0	710.0	710.0	710.0	710.0	710.0
Net Debt	410.6	387.7	407.5	408.0	497.9	578.8	561.1	592.5	679.7	679.7	603.3	545.9	492.2	432.3	365.8
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	3.4 x	2.5 x	2.8 x	3.8 x	3.7 x					3.3 x	2.6 x	2.8 x	2.4 x	2.0 x	1.6 x
Operating Metrics															
Return on Equity (ROE)															
Return on Assets (ROA)															
Return on Invested Capital (ROIC)															
Valuation Metrics															
Stock Price (High)	$ 12.19	$ 12.03	$ 12.40	$ 11.06	$ 9.01				$ 10.67	$ 10.67	$ 10.93	$ 10.93	$ 10.93	$ 10.93	$ 10.93
Stock Price (Low)	$ 7.58	$ 6.96	$ 10.34	$ 5.61	$ 6.77				$ 10.67	$ 10.67	$ 10.93	$ 10.93	$ 10.93	$ 10.93	$ 10.93
Stock Price (Average)	$ 9.88	$ 9.50	$ 11.37	$ 8.33	$ 7.89	#DIV/0!	#DIV/0!	#DIV/0!	$ 10.67	$ 10.67	$ 10.93	$ 10.93	$ 10.93	$ 10.93	$ 10.93
Diluted Shares Outstanding (Average)	9.0	9.1	9.3	9.4	9.7	9.7	9.7	9.8	9.8	9.7	9.8	9.8	9.8	9.8	9.8
Market Capitalization (Average)	89.0	86.6	105.2	78.4	76.2	#DIV/0!	#DIV/0!	#DIV/0!	104.1	103.8	106.6	106.6	106.6	106.6	106.6
Enterprise Value (Average)	499.5	474.4	512.7	486.4	574.1	#DIV/0!	#DIV/0!	#DIV/0!	783.8	783.5	709.9	652.5	598.8	538.9	472.4
P/E	59.5 x	2.4 x	6.9 x	1.7 x	36.3 x					1.3 x	0.9 x	1.1 x	1.1 x	1.0 x	0.9 x
EV/EBITDA	4.1 x	3.1 x	3.5 x	4.5 x	4.2 x					3.8 x	3.1 x	3.3 x	2.9 x	2.5 x	2.0 x
FCF Yield to Market Capitalization	35.5%	81.0%	25.8%	97.0%	-47.5%					-143.2%	54.5%	41.1%	36.6%	41.3%	46.4%
FCF Yield to Enterprise Value	6.3%	14.8%	5.3%	15.6%	-6.3%					-19.0%	8.2%	6.7%	6.5%	8.2%	10.5%
Free Cash Flow															
EBIT	78.4	105.9	92.1	54.9	75.6	30.3	45.8	30.1	33.1	139.1	152.8	113.3	122.3	131.9	142.1
Tax Expense	(7.4)	(3.6)	(12.8)	3.2	(2.5)	0.1	(8.8)	0.6	(9.9)	(41.7)	(45.8)	(34.0)	(36.7)	(39.6)	(42.6)
D&A	42.5	48.6	52.4	52.4	60.7	16.8	16.9	15.9	18.8	68.4	79.9	81.5	84.2	87.1	90.0
Capital Expenditures	(57.4)	(82.0)	(69.3)	(61.3)	(171.5)	(69.8)	(71.3)	(67.5)	(76.0)	(284.5)	(119.8)	(122.3)	(126.4)	(130.6)	(134.9)
Changes in NWC	(24.5)	1.4	(35.2)	27.0	1.5	(21.5)	47.5	1.1	(57.1)	(30.0)	(9.0)	5.3	(4.5)	(4.8)	(5.1)
Unlevered Free Cash Flow	31.6	70.2	27.2	76.1	(36.2)	(44.1)	30.1	(19.8)	(91.2)	(148.7)	58.0	43.9	39.0	44.0	49.5
Valuation Summary															

Current Price	**$ 10.67**
Target Price	$ 12.25
Total Return	14.8%
Recommendation	**BUY**

DCF Valuation	
Perpetuity Growth Implied Price	$ 11.77
Exit Multiple Implied Price	$ 13.36
Comps Valuation	
Comps - EV/EBITDA Implied Price	$ 13.62
Comps - P/E Implied Price	$ 8.74

Appendix 2: West Fraser Timber Model Summary

(Figures in mm CAD)	Dec-15 FY2015	Dec-16 FY2016	Dec-17 FY2017	Dec-18 FY2018	Dec-19 FY2019	Dec-20 FY2020	Dec-21 FY2021	Dec-22 FY2022	Dec-23 FY2023	Dec-24 FY2024	Dec-25 FY2025
Income Statement											
Revenue	4,100.0	4,450.0	5,134.0	6,118.0	4,877.0	5,218.5	5,790.8	6,465.1	7,236.3	8,118.8	9,129.7
EBITDA	417.0	674.0	1,112.0	1,336.0	139.0	988.8	1,146.6	1,280.1	1,432.8	1,607.5	1,807.7
Net Income	104.0	326.0	596.0	810.0	(150.0)	524.4	724.6	741.1	845.4	965.8	1,104.7
Earnings Per Share	$ 1.23	$ 4.02	$ 7.55	$ 10.79	$ (2.17)	$ 7.62	$ 10.53	$ 10.77	$ 12.29	$ 14.04	$ 16.06
Cash Flow Statement											
Capital Expenditures	(220.0)	(273.0)	(336.0)	(370.0)	(410.0)	(281.5)	(354.5)	(361.1)	(376.2)	(391.9)	(408.1)
Acquisitions	(76.0)	-	(526.0)	-	-	-	-	-	-	-	-
Divestitures	-	-	-	11.0	14.0	13.0	-	-	-	-	-
Dividend Payment	(23.0)	(22.0)	(28.0)	(37.0)	(55.0)	(54.7)	(54.9)	(54.9)	(54.9)	(54.9)	(54.9)
Dividend Per Share	$ -	$ -	$ 0.36	$ 0.80	$ 0.80	$ 0.80	$ 0.80	$ 0.80	$ 0.80	$ 0.80	$ 0.80
Dividend Payout to Earnings	22.1%	6.7%	4.7%	4.6%	-36.7%	10.4%	7.6%	7.4%	6.5%	5.7%	5.0%
Dividend Payout to Core FCF	3.8%	2.5%	2.2%	2.7%	12.0%	4.2%	5.1%	5.0%	4.5%	4.0%	3.6%
Dividend Yield			0.6%	1.0%	1.3%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Balance Sheet											
Current Assets	971.0	938.0	1,291.0	1,345.0	1,147.0	1,291.8	1,623.1	2,012.6	2,464.3	3,021.4	3,706.7
Non-Current Assets	2,664.0	2,662.0	3,226.0	3,446.0	3,521.0	3,583.0	3,648.9	3,743.3	3,841.3	3,942.8	4,048.0
Assets	3,635.0	3,600.0	4,517.0	4,791.0	4,668.0	4,874.8	5,272.0	5,756.0	6,305.5	6,964.2	7,754.6
Current Liabilities	606.0	459.0	583.0	595.0	837.0	453.7	478.8	609.3	673.4	740.7	817.7
Non-Current Liabilities	882.0	900.0	1,208.0	1,300.0	1,357.0	1,490.0	1,490.0	1,490.0	1,490.0	1,490.0	1,490.0
Liabilities	1,488.0	1,359.0	1,791.0	1,895.0	2,194.0	1,943.7	1,968.8	2,099.3	2,163.4	2,230.7	2,307.7
Shareholders' Equity	2,147.0	2,241.0	2,726.0	2,896.0	2,474.0	2,916.6	3,586.3	4,272.5	5,063.0	5,973.9	7,023.6
Cash	13.0	50.0	258.0	160.0	16.0	388.6	651.2	726.5	1,028.6	1,410.6	1,895.3
Debt	1,488.0	1,359.0	1,791.0	1,895.0	2,194.0	1,943.7	1,968.8	2,099.3	2,163.4	2,230.7	2,307.7
Net Debt	1,475.0	1,309.0	1,533.0	1,735.0	2,178.0	1,555.1	1,317.6	1,372.8	1,134.8	820.0	412.4
Minority Interests	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	3.5 x	1.9 x	1.4 x	1.3 x	15.7 x	1.6 x	1.1 x	1.1 x	0.8 x	0.5 x	0.2 x
Operating Metrics											
Return on Equity (ROE)	4.8%	14.5%	21.9%	28.0%	-6.1%	18.0%	20.2%	17.3%	16.7%	16.2%	15.7%
Return on Assets (ROA)	2.9%	9.1%	13.2%	16.9%	-3.2%	10.8%	13.7%	12.9%	13.4%	13.9%	14.2%
Return on Invested Capital (ROIC)	2.5%	4.0%	6.8%	6.3%	-1.0%	3.7%	3.1%	5.1%	5.3%	5.5%	5.6%
Valuation Metrics											
Stock Price (High)	$ 78.55	$ 54.18	$ 83.50	$ 97.99	$ 80.13	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54
Stock Price (Low)	$ 40.56	$ 35.35	$ 42.98	$ 60.44	$ 43.93	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54
Stock Price (Average)	$ 59.56	$ 44.77	$ 63.24	$ 79.22	$ 62.03	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54	$ 85.54
Diluted Shares Outstanding (Average)	84.4	81.1	79.0	75.1	69.2	68.8	68.8	68.8	68.8	68.8	68.8
Market Capitalization (Average)	5,026.4	3,630.3	4,992.8	5,949.3	4,290.6	5,885.2	5,885.2	5,885.2	5,885.2	5,885.2	5,885.2
Enterprise Value (Average)	6,501.4	4,939.3	6,525.8	7,684.3	6,468.6	7,440.3	7,202.8	7,258.0	7,020.0	6,705.2	6,297.5
P/E	48.3 x	11.1 x	8.4 x	7.3 x	n/a	11.2 x	8.1 x	7.9 x	7.0 x	6.1 x	5.3 x
EV/EBITDA	15.6 x	7.3 x	5.9 x	5.8 x	46.5 x	7.5 x	6.3 x	5.7 x	4.9 x	4.2 x	3.5 x
FCF Yield to Market Capitalization	1.3%	10.3%	9.3%	10.6%	-3.2%	10.8%	8.7%	6.9%	11.0%	12.6%	14.5%
FCF Yield to Enterprise Value	1.0%	7.6%	7.1%	8.2%	-2.1%	8.5%	7.1%	5.6%	9.2%	11.0%	13.6%
Free Cash Flow											
EBIT	226.0	477.0	902.0	1,079.0	(120.0)	721.3	873.1	1,001.5	1,142.5	1,305.1	1,492.8
Tax Expense	(52.0)	(118.0)	(250.0)	(282.0)	69.0	(187.5)	(227.0)	(260.4)	(297.0)	(339.3)	(388.1)
D&A	191.0	197.0	210.0	257.0	259.0	267.5	273.5	278.6	290.3	302.4	314.9
Capital Expenditures	(220.0)	(273.0)	(336.0)	(370.0)	(410.0)	(281.5)	(354.5)	(361.1)	(376.2)	(391.9)	(408.1)
Changes in NWC	(79.0)	90.0	(62.0)	(74.0)	65.0	113.5	(52.6)	(249.8)	(112.2)	(137.0)	(156.9)
Unlevered Free Cash Flow	66.0	373.0	464.0	630.0	(137.0)	633.3	512.5	408.8	647.3	739.3	854.5

Valuation Summary

Current Price	**$ 85.54**
Target Price	$ 85.49
Total Return	-0.1%
Recommendation	**HOLD**

DCF Valuation	
Perpetuity Growth Implied Price	$ 71.93
Exit Multiple Implied Price	$ 77.67
Comps Valuation	
Comps - EV/EBITDA Implied Price	$ 62.62
Comps - P/E Implied Price	$ 129.75

Appendix 3: Canfor Corporation Model Summary

(Figures in mm CAD)	*Dec-14* FY2015	*Dec-15* FY2016	*Dec-16* FY2017	*Dec-17* FY2018	*Dec-18* FY2019	*Dec-19* FY2020	*Dec-20* FY2021	*Dec-21* FY2022	*Dec-22* FY2023	*Dec-23* FY2024	*Dec-24* FY2025
Income Statement											
Revenue	3,925.3	4,234.9	4,563.3	5,044.4	4,658.3	5,024.5	5,369.9	5,739.7	6,135.5	6,559.4	7,013.1
EBITDA	355.0	544.8	807.3	879.1	67.9	719.3	892.5	954.7	1,018.5	1,088.9	1,164.2
Net Income	91.9	203.9	393.6	439.0	(269.7)	241.7	382.2	432.5	487.2	546.3	608.7
Earnings Per Share	$ 0.69	$ 1.54	$ 3.06	$ 3.44	$ (2.15)	$ 1.93	$ 3.05	$ 3.45	$ 3.89	$ 4.36	$ 4.86
Cash Flow Statement											
Capital Expenditures	(240.0)	(233.8)	(252.1)	(401.4)	(302.8)	(183.2)	(295.9)	(289.4)	(279.3)	(269.4)	(259.9)
Acquisitions	(263.4)	(83.9)	(59.8)	-	(628.1)	(105.0)	-	-	-	-	-
Divestitures	15.0	-	47.5	2.6	3.0	57.7	2.8	2.8	2.8	2.8	2.8
Dividend Payment	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividend Payout to Earnings	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet											
Current Assets	990.8	986.9	1,207.0	1,349.3	1,410.5	1,371.4	1,457.1	1,638.4	1,887.2	2,207.5	2,602.6
Non-Current Assets	2,303.8	2,290.2	2,281.3	2,495.8	3,116.5	3,119.3	3,052.2	2,986.5	2,923.0	2,861.6	2,802.4
Assets	3,294.6	3,277.1	3,488.3	3,845.1	4,527.0	4,490.7	4,509.3	4,624.9	4,810.1	5,069.2	5,405.0
Current Liabilities	635.1	502.3	519.8	512.2	987.5	644.6	641.2	676.7	714.6	755.3	798.8
Non-Current Liabilities	1,031.8	1,036.3	967.5	993.0	1,490.6	1,567.4	1,567.4	1,567.4	1,567.4	1,567.4	1,567.4
Liabilities	1,666.9	1,538.6	1,487.3	1,505.2	2,458.1	2,212.0	2,208.6	2,244.1	2,282.0	2,322.7	2,366.2
Shareholders' Equity	1,330.9	1,483.7	1,731.4	2,056.4	1,645.3	1,911.5	2,293.7	2,726.2	3,213.4	3,759.7	4,368.5
Cash	97.5	156.6	288.2	252.7	60.1	171.8	176.7	270.6	425.7	645.8	933.6
Debt	1,666.9	1,538.6	1,487.3	1,505.2	2,458.1	2,212.0	2,208.6	2,244.1	2,282.0	2,322.7	2,366.2
Net Debt	1,569.4	1,382.0	1,199.1	1,252.5	2,398.0	2,040.2	2,031.9	1,973.5	1,856.3	1,676.9	1,432.6
Minority Interests	296.8	254.8	269.6	283.5	423.6	417.6	417.6	417.6	417.6	417.6	417.6
Debt/EBITDA	4.4 x	2.5 x	1.5 x	1.4 x	35.3 x	2.8 x	2.3 x	2.1 x	1.8 x	1.5 x	1.2 x
Operating Metrics											
Return on Equity (ROE)	6.9%	13.7%	22.7%	21.3%	-16.4%	12.6%	16.7%	15.9%	15.2%	14.5%	13.9%
Return on Assets (ROA)	2.8%	6.2%	11.3%	11.4%	-6.0%	5.4%	8.5%	9.4%	10.1%	10.8%	11.3%
Return on Invested Capital (ROIC)	-0.9%	-2.6%	-4.7%	-4.6%	2.2%	-1.9%	-3.9%	-4.3%	-4.7%	-5.0%	-5.2%
Valuation Metrics											
Stock Price (High)	$ 31.67	$ 15.59	$ 26.57	$ 32.53	$ 18.12	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36
Stock Price (Low)	$ 15.91	$ 13.85	$ 14.19	$ 18.65	$ 9.48	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36
Stock Price (Average)	$ 23.79	$ 14.72	$ 20.38	$ 25.59	$ 13.80	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36	$ 25.36
Diluted Shares Outstanding (Average)	134.1	132.8	128.6	127.7	125.2	125.2	125.2	125.2	125.2	125.2	125.2
Market Capitalization (Average)	3,189.5	1,954.9	2,621.8	3,268.9	1,728.0	3,175.6	3,175.6	3,175.6	3,175.6	3,175.6	3,175.6
Enterprise Value (Average)	5,055.7	3,591.7	4,090.5	4,804.9	4,549.6	5,633.4	5,625.1	5,566.6	5,449.5	5,270.0	5,025.7
P/E	34.7 x	9.6 x	6.7 x	7.4 x	n/a	13.1 x	8.3 x	7.3 x	6.5 x	5.8 x	5.2 x
EV/EBITDA	14.2 x	6.6 x	5.1 x	5.5 x	67.0 x	7.8 x	6.3 x	5.8 x	5.4 x	4.8 x	4.3 x
FCF Yield to Market Capitalization	0.9%	17.8%	13.4%	7.5%	-1.5%	15.8%	11.4%	14.0%	15.5%	17.2%	18.9%
FCF Yield to Enterprise Value	0.6%	9.7%	8.6%	5.1%	-0.6%	8.9%	6.4%	8.0%	9.0%	10.3%	12.0%
Free Cash Flow											
EBIT	141.0	302.5	557.4	608.6	(294.3)	347.4	532.2	602.4	678.6	760.9	847.8
Tax Expense	(18.5)	(63.9)	(132.8)	(149.8)	95.2	(98.0)	(150.1)	(169.9)	(191.4)	(214.6)	(239.1)
D&A	214.0	242.3	249.9	270.5	362.2	371.8	360.2	352.3	339.9	328.0	316.4
Capital Expenditures	(240.0)	(233.8)	(252.1)	(401.4)	(302.8)	(183.2)	(295.9)	(289.4)	(279.3)	(269.4)	(259.9)
Changes in NWC	(66.3)	101.0	(72.1)	(82.8)	114.4	62.1	(84.1)	(52.0)	(55.7)	(59.6)	(63.8)
Unlevered Free Cash Flow	30.2	348.1	350.3	245.1	(25.3)	500.2	362.4	443.4	492.2	545.3	601.4
Valuation Summary											

Current Price	$	25.36
Target Price	$	24.16
Total Return		-4.7%
Recommendation		HOLD

DCF Valuation		
Perpetuity Growth Implied Price	$	28.94
Exit Multiple Implied Price	$	21.86
Comps Valuation		
Comps - EV/EBITDA Implied Price	$	16.83
Comps - P/E Implied Price	$	29.00

Global Equity | February 2021

Natural Resources

III. Oil & Gas

ANALYSTS

Aayush Thakur
Senior Analyst

Irene Liu
Senior Analyst

WESTPEAK
RESEARCH ASSOCIATION

Oil & Gas - Primer

Opportunities Amidst Turbulence

25 February 2021

Industry Summary

The oil & gas (O&G) industry encompasses crude oil and natural gas —two of the most commonly used energy sources in Canada. With transportation through tankers becoming relatively inexpensive over the years, these commodities have come to be viewed as global sources of energy.

Industry View – Commodity Prices and Impact of COVID-19

The O&G industry is largely driven by prices of underlying commodities, which in turn are driven by supply and demand. Global supply is heavily influenced by the Organization of the Petroleum Exporting Countries (OPEC), an intergovernmental organization of 13 countries, although non-OPEC countries are increasingly gaining market share. Demand is primarily influenced by countries' energy usage. In early 2020, national lockdowns due to COVID-19 led to a drastic fall in consumption activity, leading to an oversupply of crude. Prices fell to a historic low of -$38 per barrel in April before rising back to $40 in June.

Industry Drivers – Return of Demand and Lowering of Supply

As previously mentioned, oil prices took a hit in early 2020 due to the COVID-19 pandemic. However, recent evidence of COVID-19 vaccination success has contributed to a partial recovery in prices and positive outlook going forward. Other factors such as the move by OPEC+ to restrain output into mid-2021, as well as the Biden Administration's tougher climate stance will also likely contribute to a lowered supply and thus support higher prices.

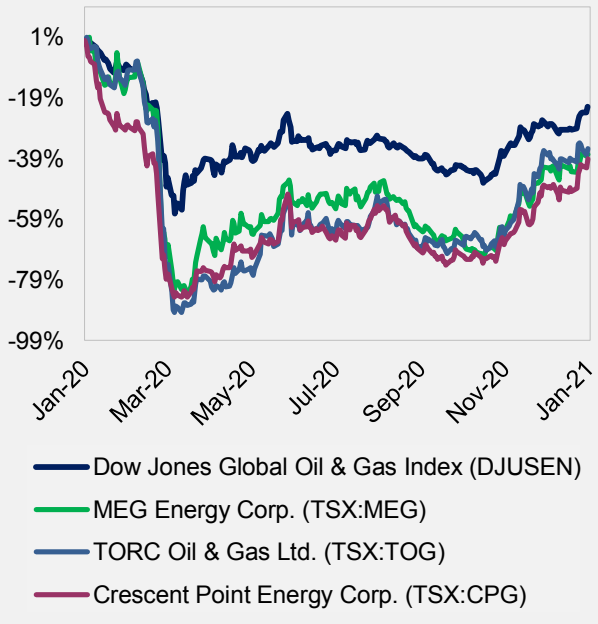
Industry Valuation – Net Asset Value (NAV) Model

The valuation methodology of the O&G industry differs from other industries due to its dependency on demand and inability to control revenue, as well as the finite nature of the commodity. Common valuation methodologies for O&G producers are the net asset value (NAV) model and comparable company analysis using various industry-unique trading multiples.

Industry Research	
Oil & Gas	
Global Revenue	US $3.32T
Annual Growth (Past 5 Years)	(7.9%)
Annual Growth (Next 5 Years)	0.7%
	Source: IBIS World

Select Companies	
MEG Energy	(TSE: MEG)
Enterprise Value	$4.88B
Target Price	$7.90
Crescent Point Energy	(TSE: CPG)
Enterprise Value	$5.05B
Target Price	$5.80
TORC Oil and Gas	(TSE: TOG)
Enterprise Value	$1.05B
Target Price	$4.50

1-Year Return

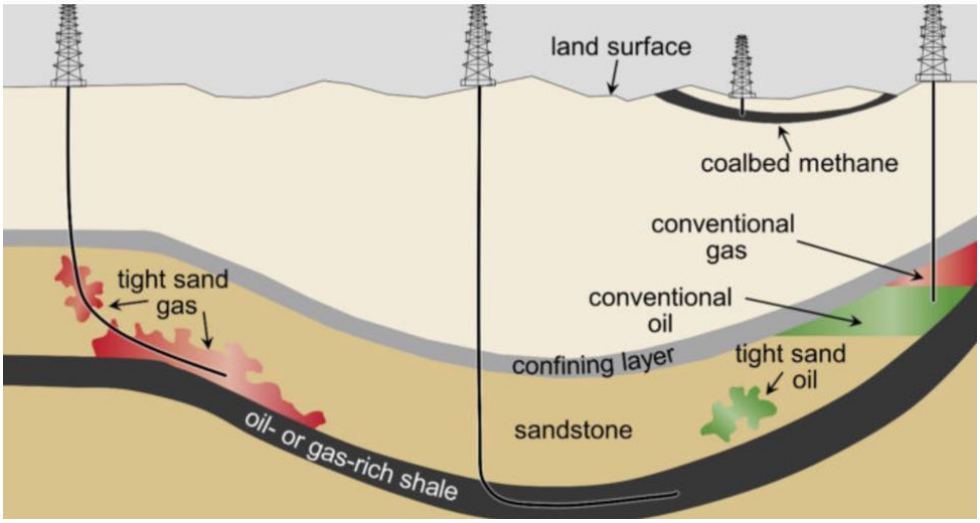


Industry Analysis

Energy Commodities Overview

Crude oil is a natural mix of liquid hydrogen and carbon atoms found within sedimentary rocks in underground reservoirs. In its raw form, it is often mixed with natural gas and other elements; however, it is separated as it progresses through the value chain. The crude oil embedded within sedimentary rocks can be found at numerous sources including conventional oilfields found underneath land, and deep-water basins within oceans. They can also be found at unconventional sources such as oil sands, which are either loose sands or partially consolidated sandstone containing bitumen. Conventional sources refer to oil that is produced from oil drilling through oil rigs. On the other hand, unconventional sources of oil extraction include horizontal drilling methods like hydraulic fracturing (also known as "fracking").

Exhibit 1: Oil & Gas Formation



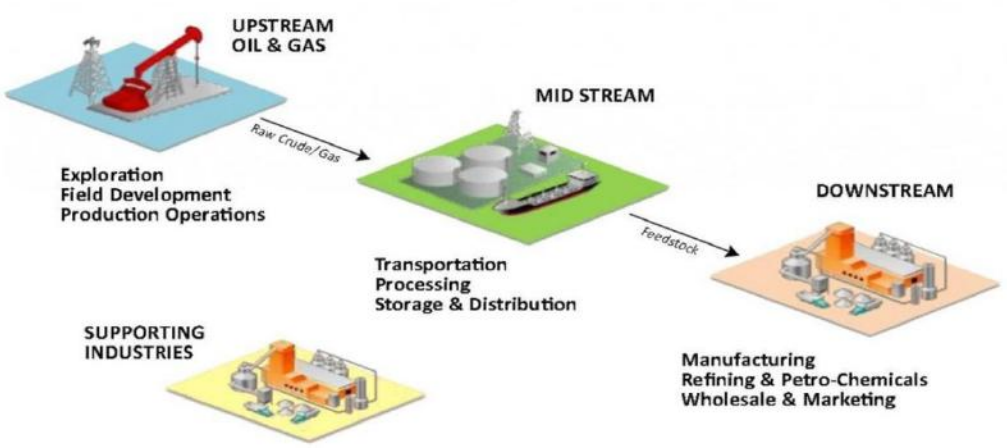
Source: Upstream Petroleum Management, Inc.

Natural gas is often found in conjunction with crude oil and is referred to as associated gas. It is most commonly a mixture of methane and varying amounts of other heavier hydrocarbons—such as ethane, propane, butane, and pentane—known as natural gas liquids (NGLs). However, the NGLs and non-hydrocarbons are separated from the methane gas at processing plants prior to transportation and distribution to end-users. Natural gas accumulates by being trapped in an impermeable formation, called a seal, when it migrates from its source rock into the overlying sandstone formation. There are two common forms of natural gas: tight-sand gas and shale gas.

Value Chain

The O&G value chain is classified broadly into three segments: upstream, midstream, and downstream.

Exhibit 2: Oil & Gas Industry Value Chain



Source: Bloomstein Analytics

The **upstream** segment includes the exploration and production of crude oil and natural gas. Companies found within this segment tend to be service companies such as rig operators, seismic and drilling contractors, pressure pumpers, and engineering and scientific firms. Many of these companies are suppliers of O&G to those further down the value chain.

The **midstream** segment acts as an intermediary between the upstream and downstream segments. Companies in this segment transport crude oil and natural gas from the upstream production sites to the downstream refineries. Outside of transportation, the midstream segment also focuses on the processing, storing, and marketing of energy. Companies in this segment tend to transport the O&G through building a pipeline or through land travel using trucks, rails, or tankers to the downstream segment.

The **downstream** segment includes all activities post-processing up until the point-of-sale, such as refining the O&G which it receives from the midstream segment and then marketing and distributing it to end-users. Once refining is completed, the initial product becomes commonly used energy sources by consumers, such as gasoline, pharmaceuticals, heating oil, diesel, propane, etc. Companies active in the downstream segment are petroleum distributors, natural gas distributors, petrochemical companies, and retail outlets.

Market Size & Growth

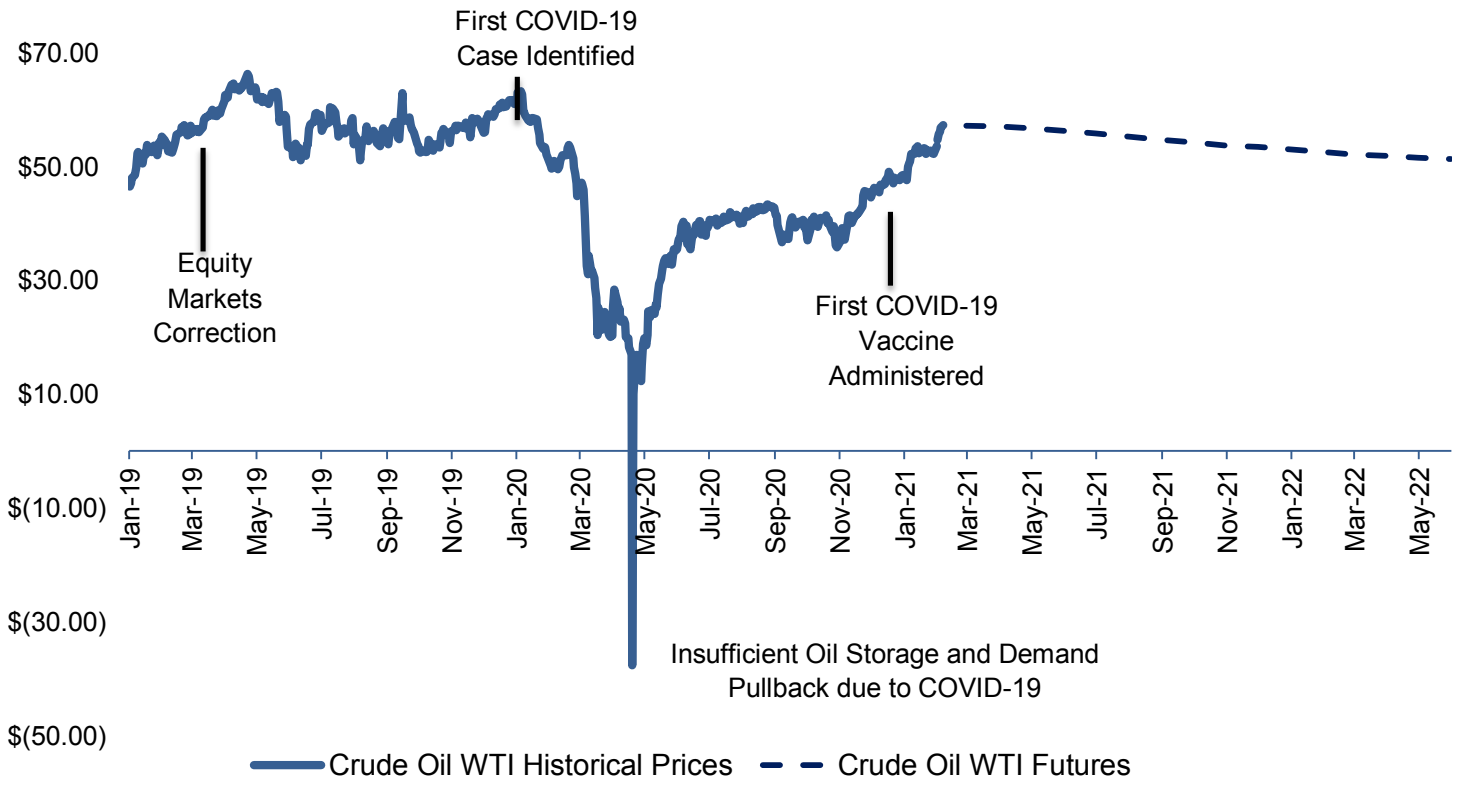
Global Market

Over the last five years from 2014 to 2019, crude oil and natural gas prices have fluctuated significantly despite steady growth in production. As a result, revenue has seen pronounced fluctuations. Numerous geopolitical events have impacted

the price of energy, including various decisions by the Organization of Petroleum Exporting Countries' (OPEC) and Iran's expansion of production following the removal of sanctions in 2016. However, slowing global demand in 2015 and 2016 due to the deceleration in the growth of oil-importing countries and the strengthening of the US dollar caused prices to plummet. This sharply cut into firms' profit margins, resulting in the industry seeing a decline in a CAGR of –7.9% since 2014. The global O&G exploration and production industry was valued at approximately $3.3 trillion in 2019. Within this market, crude oil accounted for approximately 75% of revenue.

Over the last 12-months, oil prices have been extremely volatile due to the supply and demand imbalances caused by COVID-19. With curbed oil demand, WTI oil prices have plummeted from an average price of $56.99 in 2019 to $39.68 in 2020, with record lows of –$37.63 recorded in April 2020. Most recently, crude oil has recovered to near pre-pandemic prices and crude oil futures have stabilized to an average price of $54.13 on vaccine optimism and recovering economies. This expected price increase is also driven by an expected lowering of supply due to the announcement by OPEC+ to restrain output into mid-2021, and the Biden Administration's tougher stance on climate policies.

Exhibit 3: L2Y Annotated Crude Oil Price Chart

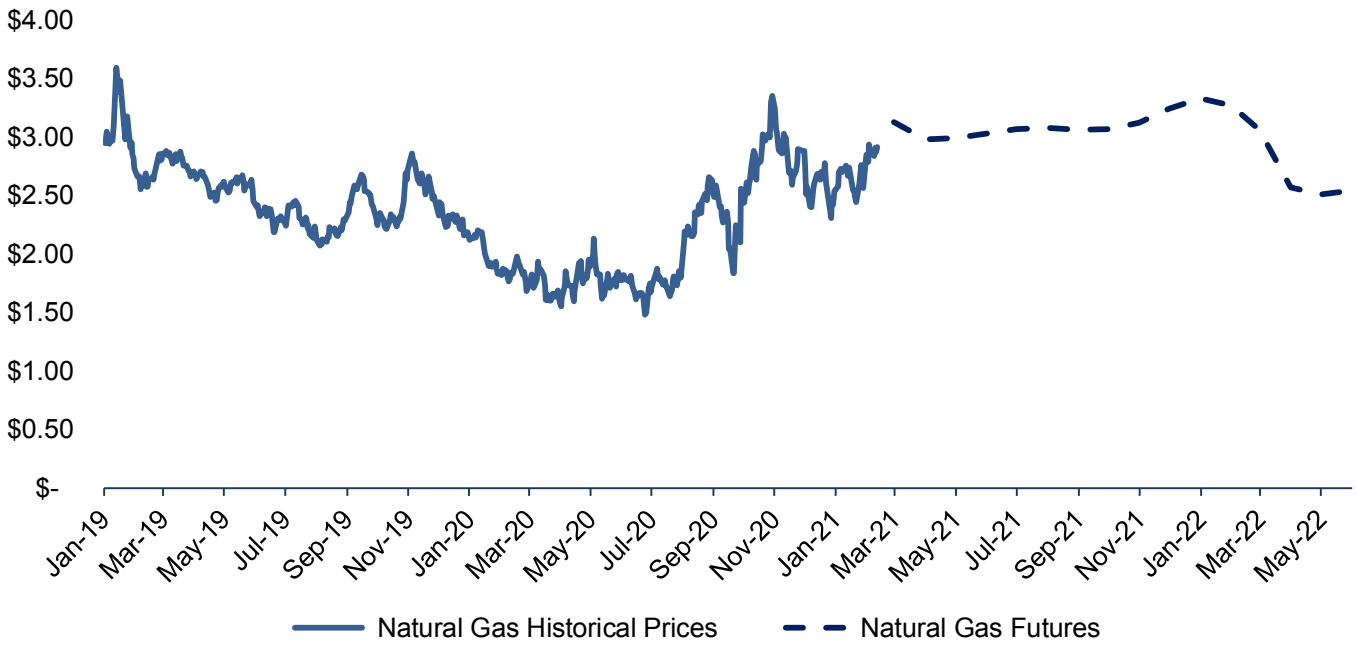


Source: Yahoo Finance

Nevertheless, the crude oil production industry is forecasted to grow at a CAGR of 0.4% from 2019 to 2024, with the natural gas production industry forecasted to grow at a CAGR of 0.8% over the same period. Key external drivers supporting this growth rate are the increase of the industrial production index by the Organisation for Economic Co-operation and Development (OECD) countries and the rising GDPs of Brazil, Russia, India, and China (BRIC nations). Continued growth in

these emerging markets has increased demand for O&G through consumption of petroleum products and energy. Conversely, headwinds facing the industry include the increasing focus on renewable energy and battery technology, which would have a negative impact on demand. Overall, we expect modest growth in the near term as we anticipate renewable energy and battery technology to require many years still to mature, ramp up supply, and achieve widespread adoption.

Exhibit 4: L2Y Natural Gas Price Chart



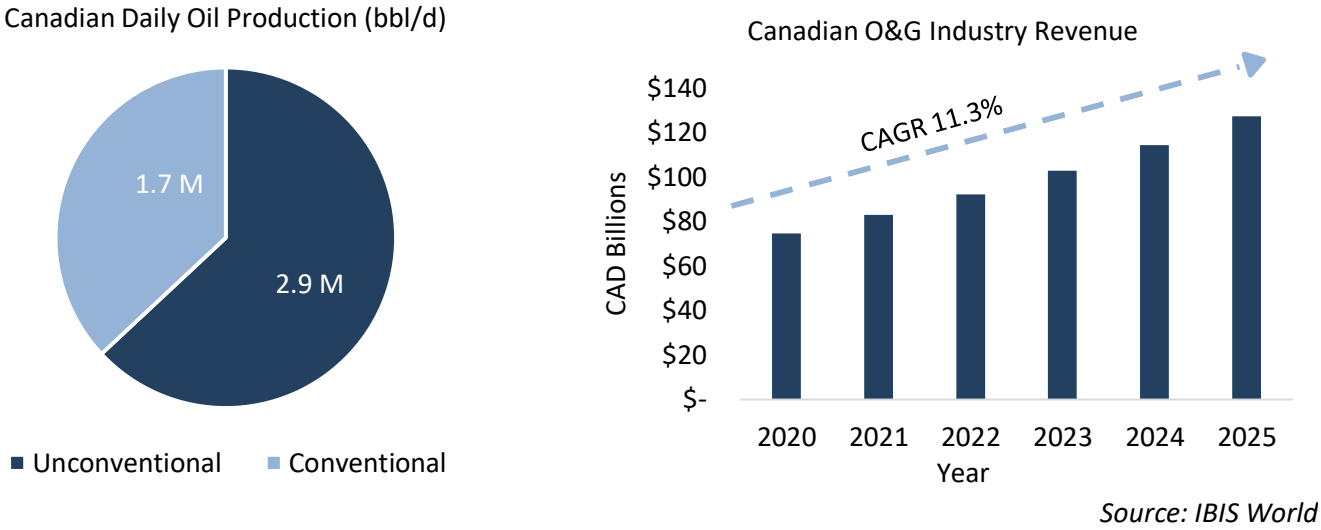
Source: Yahoo Finance

Canadian Oil & Gas Industry

As the world's fourth-largest oil-producing (and third-largest oil-exporting) country, the energy sector plays a key role in Canada's economy. The country produces 4.6 million barrels-per-day (bbl/d) of crude oil with 2.9 million bbl/d coming from unconventional oil sands and 1.7 million bbl/d coming from conventional oil production (shale, tight oil). Alberta is the major contributor to these numbers and produced approximately 80.5% of Canada's total crude oil and 71% of Canada's total marketable natural gas in 2019. 97% of Canada's proven oil reserves are located in oil sands and 98% of Canadian oil exports are to the United States (U.S.) The five largest companies (Suncor, Canadian Natural Resources Limited, Imperial Oil, Husky and Cenovus) are responsible for over half of crude oil production in Canada.

The O&G sector in Canada generates approximately $66.9 billion a year in revenue, and although it has experienced a decline of 5.8% from 2015 to 2020, it is expected to recover and grow at an annual rate of 11.3% from 2020 to 2025 due to recovery of commodity prices and increasing focus on offshore oilfields, particularly deepwater reserves. In addition, the construction of 18 liquefied natural gas (LNG) export plants, which were previously delayed due to COVID-19, are currently underway. LNG represents a significant opportunity for Canada given its abundant natural gas reserves – an estimated 300-year supply – and high demand from Asia, where Canada has a maritime distance advantage over its competitors.

Exhibit 5: Canadian Oil & Gas Industry Production and Revenue



Source: IBIS World

Key Trends / Drivers

Active Rig Count Decline

The North American market saw a steady decrease in rig activity in 2019 due to the decline and volatility of prices along with funding problems for smaller operators. Baker Hughes reported that the North American rotary rig count as of April 24, 2020 had declined to just 491, a 53.4% decline year-on-year due to energy firms slashing spending after global lockdowns caused energy prices to collapse. This count considers rigs in the U.S., Canada, and the Gulf of Mexico.

The Natural Gas Export Boom and Canada's Competitors

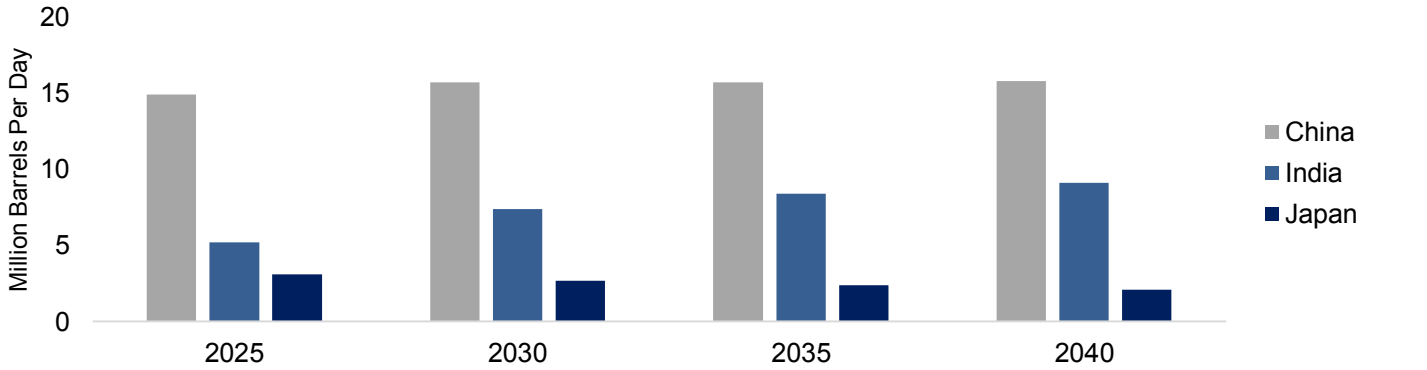
When natural gas consumption soared worldwide between 2000 and 2018, so too did production with a 51% rise. Exports rose in tandem, by 79%. While Canada was still among the top six exporters of natural gas in 2017, it was mostly excluded from the boom because its main export market, the U.S., produced 42% more natural gas in 2018 than in 2000, which dampened U.S. need for Canadian gas. While U.S. natural gas production soared, Canada failed to secure new export markets offshore, resulting in a 13% decline in Canadian natural gas production and 17% in exports relative to 2000. Canada's case was an anomaly when comparing 2018 numbers with 2000: Russia (up 13%); Norway (up 146%); Australia (up 562%); Qatar (up 801%) and the U.S. (1,200%). With COVID-19 further hampering the energy supply chains, Canada's global competitors have all been looking out to establish competitive advantages. However, the aforementioned abundance of natural gas and relatively short maritime distance to major export demand destinations (China and India) compared to its competitors are expected to allow Canada to regain market share as demand continues to stabilize.

Asia's Dependence on Oil Imports to Reach 81% by 2025

Current oversupply and the impact of COVID-19 on demand should not be a reason for complacency when it comes to the security of supply. Global oil demand in Asia is expected to rebound in 2021, and the region accounts for 77% of oil demand

growth through 2025. Subsequently, oil production in the region is declining due to lower oil prices and the severe cuts to upstream capital expenditure on mature assets which has increased decline rates. All major Asian economies are heavily dependent on oil imports, and as a consequence, Asian oil import requirements in 2025 will surpass 31 million bbl/d.

Exhibit 6: Oil Demand Forecasts of the 3 Largest Asian Economies

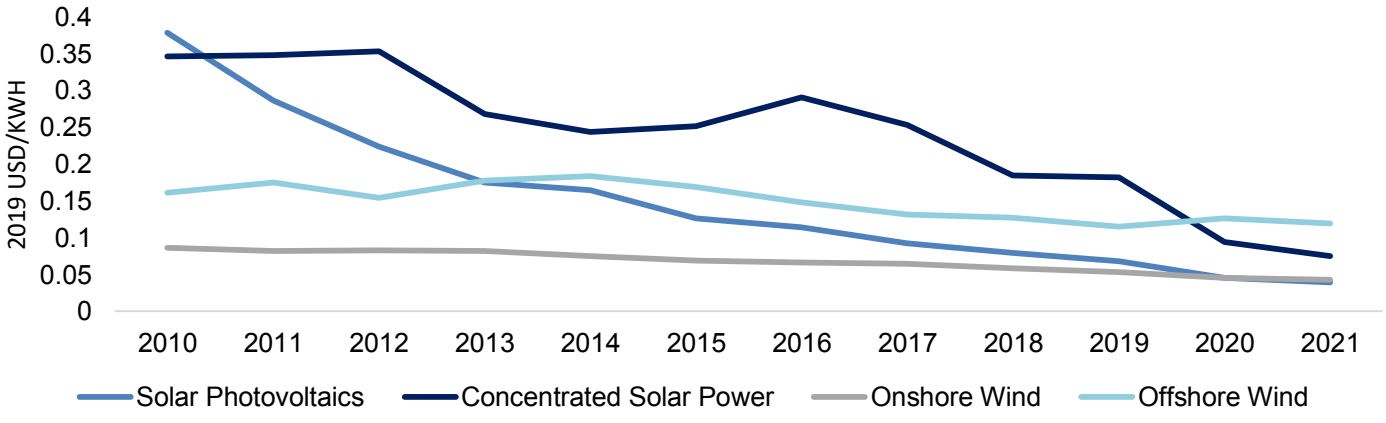


Source: IBIS World

Transition to Renewable Energy

Global attention is increasingly focused on transitioning to renewable (or "clean" or "alternative") energy to mitigate the impacts of climate change. As a result, more capital has been invested in creating innovative technologies to increase the efficiency of clean energy harnessing, lowering prices and increasing accessibility. For instance, from 2010 to 2020, the price of solar photovoltaic energy and concentrated solar power decreased by over 80%, making it an increasingly viable substitute. Consequently, demand growth for gasoline and diesel between 2019 and 2025 is expected to weaken as countries around the world implement policies to improve efficiency and cut carbon dioxide (CO2) emissions. Electric vehicles rapidly gaining popularity among consumers and receiving increasing support from governments are a key example.

Exhibit 7: Clean Energy Prices



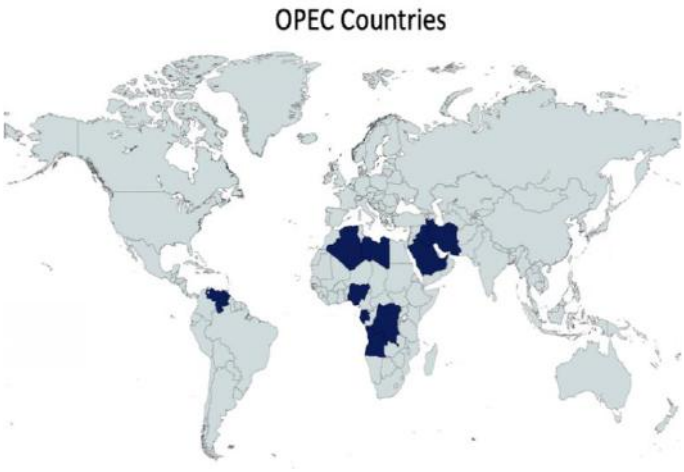
Source: International Renewable Energy Agency

Global Market Leaders and Key Players

Countries involved in global oil production are either members of OPEC, OPEC+, or non-OPEC nations. These groups make changes to their oil production capacities to respond to the dynamic macro and geopolitical developments which impact the oil supply levels and results in volatility in oil prices. Firms in the industry may be state-owned or independent.

OPEC Countries

As of April 2020, OPEC countries included the following 13 nations: Algeria, Angola, Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates, and Venezuela. These countries cumulatively control approximately 35% of the global oil supply and 79% of proven reserves as of September 2020. Moreover, OPEC nations produced approximately 36% of the world's crude oil in 2019, and OPEC's oil exports accounted for roughly 60% of the total petroleum traded worldwide. The International Energy Agency (IEA) also reports that more than 80% of the world's proven crude oil reserves lie within the boundaries of the OPEC countries. Of that figure, roughly two-thirds lay within the Middle Eastern region as of 2018.



Within OPEC, Saudi Arabia is the second-largest oil producer in the world via its state-owned company Saudi Aramco and controls 12% of the world's crude oil supply. As the most dominant member of the OPEC cartel, changes in their oil production levels can lead to sharp changes in global oil prices.

OPEC+ Countries

In 2016, Russia leading a group of 10 additional oil-exporting countries agreed with OPEC countries to form a new cartel called OPEC+. The OPEC+ control over 50% of global oil supplies and about 90% of proven reserves. This gives the OPEC+ members significant leverage in fixing the global crude oil prices—they decide on production quotas so that global production is below the global demand/consumption. Moreover, the OPEC+ countries encourage unnecessary excess capital investment in the global oil sector instead of encouraging their cheaper oil production at lower capital investment.

Non-OPEC Countries

Some of the top oil-producing countries are non-OPEC nations, which include the U.S., Canada, and China. However, due to the high internal consumption levels of these countries, the capacity to export had been limited and thus these countries were ineffective participants in the oil price determination process. However, with the discovery of shale oil and shale gas, non-OPEC oil producers, especially the U.S, have enjoyed increased production and larger market share in recent times. While this has been game-changing, shale oil technology requires relatively higher setup costs—a barrier to producers.

With regards to China, Sinopec is a vertically integrated state-owned O&G company of the Chinese government. It is the world's largest oil refining, gas and petrochemical company with annual revenues of around $394 billion. Sinopec has significantly expanded its assets by exploring and drilling in African territories, providing China with a major foothold in the continent. In fact, Chinese O&G organizations now operate in 20+ African countries, with Sinopec regularly beating major western O&G competitors to secure lucrative offshore deep-water prospecting blocks.

Supermajors ("Big Oil")

Apart from the state-owned corporations, the seven largest publicly traded O&G companies are collectively known as the supermajors, or "Big Oil". These companies hold global economic power and influence on politics and are often associated with the fossil fuels lobby. The companies are:

1) **Royal Dutch Shell:** Shell is the largest non-state-owned O&G company in the world incorporated in the Netherlands and England. Shell is a vertically-integrated company and has operations in over 70 countries, producing around 3.7 million barrels of oil equivalent per day (boe/d), and has 44,000 service stations worldwide. Shell is also involved in renewable energy activities, including biofuels, wind, energy-kite systems, and hydrogen.

2) **ExxonMobil**: ExxonMobil is a vertically integrated O&G company based in the U.S. With a market capitalization of $175 billion and proved reserves of 22.4 billion boe, ExxonMobil is the largest O&G company in North America. ExxonMobil produces 2.28 million boe/d of energy daily making it the third-largest oil producer in the world. This also makes them the producer of 3% of global oil and 2% of global energy. It also owns hundreds of smaller subsidiaries such as Imperial Oil Limited (69.6% ownership) in Canada.

3) **British Petroleum (BP):** BP is a vertically integrated O&G company based out of London, United Kingdom. BP has operations in nearly 80 countries worldwide, producing around 3.7 million boe/d, and has total proven reserves of 19.945 boe. The company has around 18,700 service stations worldwide and owns a 19.75% stake in Rosneft, the world's largest publicly traded O&G company by hydrocarbon reserves and production. It also holds renewable energy interests in biofuels, wind power, smart grid and solar technology.

4) **Chevron Corporation**: Chevron is an American multinational corporation that was a part of the "Seven Sisters" that dominated the global O&G industry from 1940-1970. it continues to be an influential company in modern markets, with operations in over 180 countries and a production rate of 1.8 million bbl/d. Chevron's O&G interest lies in upstream and downstream activities. It is also involved in chemical and mining operations as well as non-energy activities such as technology development.

5) **Eni S.p.A:** Eni is an Italian multinational energy company headquartered in Rome, with operations in 66 countries, and a market capitalization of US$55.61 billion, as of 31 December 2019. It is primary interest lies in upstream activities with a hydrocarbon production volume of approximately 1.87 million bbl/day. However, over the years, Eni has diversified into many fields including contracting, nuclear energy, mining, chemicals and plastics, refining/extraction and distribution machinery, hospitality industry and even textile industry and news.

6) **Total SE:** Total is a French multinational integrated O&G company involved in covering the entire chain of O&G business. Total produces 2.8 million boe/d and transports 143 million metric tons of crude oil and refined products. Of it's US$200.3 billion revenue the downstream business contributed to over 87%— 44% via the refinery and chemical segment, and 43% via the marketing and services segment. The upstream business accounted for a 5.25% share of the total revenue.

7) **ConocoPhillips:** ConocoPhillips is an American Upstream Oil & Gas company. It is the world's largest independent exploration and production company based on reserves and oil production, with hydrocarbon reserves of 14.3 billion bbls and production of 5.3 million bbl/d. 49% of ConocoPhillips production takes place in the U.S., followed by 12% in Australia, 10% in Norway, 5% in Canada, and the rest 24% across Asia.

Clean (Alternative) Energy: O&G's Biggest Threat?

COVID-19 has also accelerated the continued drop of gas prices as well as led to a collapse in demand for fossil fuels. The IEA's World Energy Investment 2020 report, released in May, predicts a 20% drop in total global energy investments this year. However, renewable energy did not experience a drop in demand during the pandemic but instead increased by 3%. This was primarily due to three reasons: The priority given to renewable generation in most power systems, the lower running costs of renewable energy generation compared to fossil fuels, and large renewable power projects which have come online before lockdown began.

Free from the fluctuations of the international oil market, clean energy is more resilient in cases of falling demand and economic decline—clean energy is not dependent on oil imports or oil price volatility. The volatility in fossil fuels demonstrates instability to investors, who are by nature risk-averse. Moreover, renewables remained the only energy source to experience demand growth for the rest of 2020. Alongside this, the U.S. saw clean energy to surpass fossil share of power generation for the first time this year. In May, the EU announced a robust green recovery package as a central component to its growth strategy that leverages private sector investments to scale development and create jobs in clean energy.

Impact on O&G

The O&G sector in Canada play a vital role in the national economy and accounts for 5.6% of nominal GDP. However, given the sector's uncertain future outlook and negative externalities associated with consuming fossil fuels, the Canadian

government is now trying to structurally steer the economy away from its carbon-intensive energy sector and take the opportunity to push for a green recovery from COVID-19's economic crisis just like other economies.

However, the impact of clean energy transitions on oil supply remains unclear, with many companies prioritising short-cycle projects for the coming years, and significant capital expenditure required to develop efficient renewable energy innovations hampering rapid growth of supply. Nevertheless, investors continue to put pressure on the industry to sharpen its focus on sustainability issues while activists, especially in Europe and North America, seek to curb new oil developments. Thus, in a bid to remain competitive, announcements by major oil companies on reducing their CO2 emissions have tended to focus on long-term objectives. With uncertainties over demand, supply, investment strategies and business models, the outlook on global O&G includes significant challenges – while meeting growing demand, companies must also address the need to curb emissions and improve sustainability.

Valuation

In the oil drilling and gas extraction industry, margins are primarily dictated by changes in pricing, labour costs, and input costs. Revenue and EBITDA margins fluctuate with changes in the price of O&G, and operating costs expand or contract with changes in the pricing of labour and input costs. The greatest impact on a company's bottom line is the market price of O&G. Companies within this industry perform well when the price of O&G is high—this commonly occurs as a result of macroeconomic and geopolitical factors outside of the company's control. When O&G prices are low, companies are at an increased risk from the impairment of asset due to lower future profits from it. Ultimately, margins and earnings per share are not reliable metrics and do not provide an indication of a company's performance.

Net Asset Value

The net asset value (NAV) is an important metric and is the most commonly employed method by industry players, analysts, and investors to determine the value of O&G producers. Most NAVs are calculated using the present value of after-tax future cash flows (applying the appropriate discount rate) and adjusting for the estimated value of land and other balance sheet items. After arriving at a total asset NAV, corporate adjustments are made and net debt is subtracted to derive a residual equity value, which can then be used to determine an implied share price. Most producers are required to have their reserves evaluated annually by a third party. These third-party evaluators will report net present value estimates for the reserves, which are highly dependent on future price assumptions. In order to make the NAV calculation more reflective of actual value, it accounts for proven and probable reserves, which are booked reserves as of the most recent year-end.

Near-Term Trading Multiples (Extrinsic Valuation)

Trading multiples are another common valuation methodology used in the O&G industry to allow investors to compare the valuation of one company against its peers. Common multiples that are used include:

Enterprise Value to Barrels of Oil Equivalent Per Day (EV/BOE/D)
This multiple compares enterprise value to daily production and allows investors to compare the price of the company to the production volumes of the company. It can also be referred to as price per flowing barrel. It is calculated by dividing the enterprise value (market capitalization + debt – cash) by boe/d.

Enterprise Value to Proven and Probable Reserves (EV/2P)

Similar to EV per flowing barrel, this multiple compares the price of the company to barrels of oil that are still in the ground. It helps determine the future potential of a company's assets and how well the company resources will support operations without the need for assumptions. It is calculated by dividing the enterprise value by the sum of proven and possible reserves. One key factor to note is isolation to value a company.

Enterprise Value to Earnings before Interest, Taxes, Depreciation, Amortization, and Exploration (EV/EBITDAX)

EV/EBITDAX is a variation on the common EV/EBITDA ratio used by upstream companies when reporting earnings. The acronym stands for exploration costs which include the cost of research to drill and the actual cost of drilling. Since exploration assists in increasing multi-year assets, it is capitalized. Therefore, in essence, EBITDAX gives the true EBITDA (earnings before interest, taxes, and depreciation, and amortization) of the firm. By omitting exploration, EV/EBITDAX helps to compare between different firms by adjusting for the accounting differences.

Competitive Landscape in Canada

The Canadian O&G industry is dominated by large companies with the top 25 oil and liquids producers owning 92% of production in Q1 of 2020, and the top 25 gas companies controlling 86% of production in Q1 of 2020. Among these, the big five O&G companies (Suncor, Canadian Natural Resources Limited, Imperial Oil, Husky and Cenovus) are responsible for producing more than half of the country's daily production. However, zooming in on other players in the landscape, the following are some relatively smaller but strong players operating in the Canadian upstream O&G business:

MEG Energy (TSE: MEG)

MEG Energy Corp., an energy company, focuses on sustainable in situ thermal oil production in the southern Athabasca region of Alberta, Canada. The company owns a 100% interest in approximately 750 square miles of mineral leases. The company is known for its innovative steam-assisted gravity drainage extraction methods to improve the recovery of oil, as well as lower carbon emissions. However, being an oil-only producer renders its share price highly volatile.

Crescent Point Energy (TSE: CPG)

Crescent Point Energy is an upstream oil & gas company based in Calgary, Alberta which focuses primarily on exploration, development, and production of light oil in Saskatchewan's Williston Basin. CPG in recent years has shown significant financial flexibility with a CA$ 1.8bn decrease in net debt since YE18 with a further CA$600mm reduction expected in 2020. Moreover, with no material near-term maturities, the company shows significant liquidity and has been able to weather the pandemic remaining in a healthy condition.

TORC Oil and Gas (TSE: TOG)

TORC Oil & Gas Ltd engages in the exploration, development, and production of oil and natural gas reserves in the southeast Saskatchewan area. TORC gains access to its assets through government-issued royalties and is known for its innovative use of artificial intelligence (AI) to identify hydrocarbon reservoirs. The company focuses heavily on light oil resource plays and relies on a three-phased strategy of resource capture.

MEG Energy Corporation (TSE: MEG)

Natural Resources – Oil & Gas

MEG Energy Drives Toward Sustainability

25 February 2021

MEG Energy Corporation (MEG) is an Alberta-based pure-play energy company focused on sustainable in situ thermal oil production. MEG transports and sells its thermal oil production to refineries in North America and globally.

Internal Analysis – ESG Initiatives and Proprietary Technologies

With an increasing focus on sustainability, MEG Energy is drastically reducing its energy and water use, as well as greenhouse gas (GHG) intensity. MEG does not use any surface or fresh water in its operations and has seen an 82% reduction in make-up water withdrawal intensity since 2013. Additionally, MEG Energy's GHG intensity is 20% below its peer average as a result of new technologies.

External Analysis – Volatility of Commodity Prices

Natural gas inputs are a significant component of MEG's cost structure, specifically for the steam-assisted gravity drainage (SAGD) process. Another input for MEG is a condensate which is used to decrease the viscosity of bitumen. In recent years, oil and electricity prices have been positively correlated with the prices of gas and condensate. As a result, the increase in input costs was offset by the increase in revenue. With the changes in demand brought by COVID-19, commodity prices have been very volatile, posing a significant risk to MEG's operations.

Valuation – Target Price of $7.90

The intrinsic value of MEG Energy was estimated through forecasting future cash flows and then discounted them to the present, subsequently adjusting for cash and debt. This resulted in a Residual Equity Value (Corporate NAV) of $1.3B. Using a comparable companies analysis, MEG Energy is currently trading at an 9.5x EV/EBITDA, lower than its peer group, which is trading at an average of 12.1x multiple. Our $7.90 price target is based on comparable 2021 EV/EBITDA multiples (50% weighting), given a slight premium due to the company's innovative technologies, and our NAVPS of $4.22 (50% weighting).

Analyst: Irene Liu, BCom. '23
contact@westpeakresearch.com

Equity Research	Canada
Price Target	**CAD$ 7.90**
Rating	Buy
Share Price (Feb. 25 Close)	CAD$ 6.57
Total Return	20.2%

Key Statistics	
52 Week H/L	$8.07/$1.13
Market Capitalization	$1.97B
Average Daily Trading Volume	$3.06M
Net Debt	$2.92B
Enterprise Value	$4.88B
Net Debt/EBITDA	3.6x
Diluted Shares Outstanding	299.51M
Free Float	99.3%
Dividend Yield	N/A

WestPeak's Forecast

	2020E	2021E	2022E
Revenue	$2.68B	$2.59M	$2.58B
EBITDA	$529M	$611M	$749M
Net Income	$(323M)	$(143M)	$82M
EPS	$(1.08)	$(0.48)	$0.20
NAV	1.3B		
EV/EBITDA	9.5x	3.2x	6.7x

1-Year Price Performance

Crescent Point Energy (TSE: CPG)

Natural Resources – Oil & Gas

Crescent Point Energy Hedges Market Volatility

25 February 2021

Crescent Point Energy explores, develops, and produces light and medium crude oil and natural gas reserves in Western Canada and the U.S. CPG is headquartered in Calgary, Alberta.

Internal Analysis – 2021 Budget Aimed to Maximize FCF Generation

CPG's share price has reduced by 85% YoY in the last 5 years. However, Q4 2020 saw gains of 63% on Q3 2020, and the company plans to keep this upward trend going through strategic planning and maximizing FCF generation. For example, CPG is currently implementing a flexible production plan which involves producing 40% of their annual production in H1 2021 and the remaining larger 60% in H2 2021. This strategy, along with a predicted rise in commodity prices, is expected to generate shareholder value while also strengthening the balance sheet.

External Analysis – Vaccine Boost and market outperformance

Widespread vaccination success is expected to lead to higher consumption activity and increased energy demand, raising oil & gas prices. This anticipated rise in price is essential for CPG given that its debt currently exceeds its equity by 50—90% over the industry average. Despite this, we remain optimistic regarding the outcome of COVID-19 vaccines, with signs of success already observed in multiple countries. Moreover, CPG's LTM return of 27.9% has not only exceeded the Canadian Oil and Gas industry which returned -9.3% in the same time, but also the Canadian Market which returned 11.1% over the past year.

Valuation – Target Price of $5.80

The valuation of CPG was conducted utilizing a discounted cash flow (DCF) analysis, ultimately resulting in a NAV of $3.7B. Using comparable companies analysis, CPG is currently trading at a 4.2x EV/EBITDAX, significantly lower than its peer group which is trading at an average 7.13x multiple. Our $5.80 price target is based on applying a slight premium to the company's 2021 EV/EBITDAX multiple (50% weighting) as we expect rising oil prices to decrease some of CPG's financial pressure, and the calculated NAVPS of $6.23 (50% weighting).

Analyst: Aayush Thakur BA'21
contact@westpeakresearch.com

Equity Research	Canada
Price Target	**CAD$ 5.80**
Rating	Buy
Share Price (Feb. 25 Close)	CAD$ 4.81
Total Return	20.5%

Key Statistics	
52 Week H/L	$6.3/0.75
Market Capitalization	$2.75B
Average Daily Trading Volume	4.02M
Net Debt	$2.3B
Enterprise Value	$5.05B
Net Debt/EBITDA	4.3x
Diluted Shares Outstanding	$530M
Free Float	99.6%
Dividend Yield	7.46%

WestPeak's Forecast	2021E	2022E	2023E
Revenue	$5.3B	$3.5B	$3.5B
EBITDA	$3.7B	$2.2B	$2.3B
Net Income	$2.4B	$1.1B	$1.4B
EPS	$(4.50)	$2.00	$2.06
NAV	$3.1B		
EV/EBITDAX	4.2x	5.5x	

1-Year Price Performance

TORC Oil and Gas (TS: TOG)

Natural Resources – Oil & Gas

TORC Oil and Gas Looks to Ride the Market

25 February 2021

TORC Oil & Gas Ltd. engages in the exploration and production of petroleum and natural gas in the Western Canadian Sedimentary Basin. TORC was founded in 2010 and is headquartered in Calgary, Canada.

Internal Analysis – ESG Commitments and Asset Quality

TORC has shown immense commitment to responsibly developing the company's natural resources by placing ESG measures at the forefront of future developments. For the coming years, the company looks on track to reduce it's greenhouse gas, methane, and fugitive emissions, all the while reducing the use of freshwater. These ESG commitments and a strong record of follow-through, along with the company's high-quality, low decline light oil assets, position them well to provide value creation through a disciplined, long-term focused growth strategy.

External Analysis – CPP Backing and Industry M&A Wave

TORC is backed by the Canadian Pension Plan (CPP), which owns ~30% of the company, providing a credible seal of approval to other investors who may be looking to invest in the sector. Moreover, the significant CPP backing makes TORC a favourable candidate for government support. Additionally, the recent pick-up in M&A activity given COVID-19 vaccination news makes TORC well-positioned for buyers given its undervalued stock price relative to peers, significant undrilled inventory and FCF capabilities. Additionally, according to the latest reports, Whitecap resources are interested in acquiring TORC.

Valuation – Target Price of $4.50

TORC's intrinsic value was estimated through a DCF analysis; forecasting FCF, discounting them to present value and adjusting for net debt. This resulted in a NAV of $1.0B. Additionally, a comparable company analysis suggests that TORC is trading slightly lower than its peer group, with TORC currently trading at 7.0x EV/EBITDAX compared to its peer average of 6.23x. Our $4.50 price target is based on applying a slight premium to the company's 2021 EV/EBITDAX multiple (50% weighting), assuming that rising O&G prices will decrease some of TORC's financial pressure, as well as our calculated NAVPS of $4.76 (50% weighting).

Analyst: Aayush Thakur, BA'21
contact@westpeakresearch.com

Equity Research	Canada
Price Target	**CAD$ 4.50**
Rating	BUY
Share Price (Feb. 25 Close)	CAD$ 3.32
Total Return	35.9%

Key Statistics	
52 Week H/L	$4.78/$0.41
Market Capitalization	$712M
Average Daily Trading Volume	$1.3M
Net Debt	$336M
Enterprise Value	$1.05B
Net Debt/EBITDA	2.5x
Diluted Shares Outstanding	$230M
Free Float	97.7%
Dividend Yield	1.87%

WestPeak's Forecast	2021E	2022E	2023E
Revenue	$810M	$461M	$409M
EBITDA	$531M	$263M	$238M
Net Income	$233M	-$1.5M	$1.3M
EPS	$1.1	-$0.18	$0.01
NAV	$999M		
EV/EBITDA	7.0x	6.1x	5.4x

1-Year Price Performance

Appendices

Appendix 1: MEG Energy Model Summary

(Figures in mm CAD)	Dec-21 FY2021	Dec-22 FY2022	Dec-23 FY2023	Dec-24 FY2024	Dec-25 FY2025	Well Life AVG 2026-2040
Price Assumptions						
Oil	70.0	52.7	58.6	59.8	61.0	71.7
Production Schedule						
Oil (MM bbls)	31.4	28.2	25.4	22.9	20.6	9.8
Operating Costs						
Non-Energy Operating Costs	131.4	120.3	110.0	100.7	92.1	48.7
Energy Operating Costs	67.8	62.1	56.8	52.0	47.5	25.1
Diluent and transportation	1,034.6	946.6	866.2	792.5	725.2	383.1
Total	1,233.8	1,128.9	1,033.0	945.2	864.8	456.9
Income Statement						
Revenue	3,551.7	2,575.5	2,525.6	2,319.7	2,130.6	677.1
EBITDA	1,545.5	749.1	842.7	772.1	706.7	358.4
Net Income	582.0	60.1	182.9	178.5	174.3	81.8
Earnings Per Share	1.94	0.20	0.61	0.60	0.58	0.27
Free Cash Flow						
EBIT	280.7	302.4	240.7	222.8	231.9	160.1
D&A	52.4	62.4	67.1	67.8	72.3	73.7
Capital Expenditures	(13.4)	(15.5)	(16.6)	(16.0)	(16.6)	(31.7)
Tax Expenses	(74.4)	(80.1)	(63.8)	(59.0)	(61.5)	(4.6)
Reclamation	-	-	-	-	-	(5.8)
Unlevered Free Cash Flow	245.3	269.1	227.3	215.5	226.1	191.6
Valuation Summary						

Current Price	$	6.57
Target Price	$	7.90
Total Return		20.2%
Recommendation		BUY

NAV Valuation		
Asset NAV		4,179.87
Cash & Cash Equivalents		206.00
ST & LT Debt		(3,123.00)
Residual Equity Value	$	1262.87
Comps Valuation		
Mean Peer EV/EBITDA		12.07
Implied EV/EBITDA Price	$	11.58

Appendix 2: Crescent Point Energy Model Summary

	Dec-21	Dec-22	Dec-23	Dec-24	Dec-25	Well Life
	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2041
Price Assumptions						
Oil	75.0	52.7	58.6	59.8	61.0	72.4
Gas	2.35	2.55	2.68	2.73	2.79	3.3
Production Schedule						
Total Production boe/yr	59.2	53.9	49.0	44.6	40.6	20.0
Oil bbl/yr	53.9	49.0	44.6	40.6	37.0	18.2
Gas Mcf/yr	32.0	29.1	26.5	24.1	21.9	10.8
Mine Operating Costs (Lindero - $/t milled)						
Operating	675.8	628.5	584.5	543.6	505.6	288.3
Purchased Products	25.9	26.4	27.0	27.5	28.0	33.3
Transport	115.0	107.0	99.5	92.5	86.1	49.1
G&A	93.7	95.6	97.5	99.5	101.5	120.6
Total	910.5	857.5	808.5	763.1	721.1	491.3
Income Statement						
Revenue	5,351.4	3,455.9	3,491.6	3,240.9	3,008.2	1,692.7
EBITDAX	3,798.8	2,183.6	2,264.1	2,088.8	1,926.1	998.2
Net Income	2,442.3	1,098.9	1,405.2	1,401.1	1,344.1	724.8
Earnings Per Share	4.5	2.0	2.6	2.6	2.5	1.3
Free Cash Flow						
EBIT	2,442.3	1,505.3	1,924.9	1,919.3	1,841.3	992.9
D&A	1,356.5	678.3	339.1	169.6	84.8	5.3
Capital Expenditures	(1,180.0)	(1,139.0)	(966.0)	(569.0)	(70.0)	(14.9)
Tax Expenses	-	(406.4)	(519.7)	(518.2)	(497.1)	(268.1)
Reclamation	(138.7)	(138.7)	(138.7)	(138.7)	(138.7)	(138.7)
Unlevered Free Cash Flow	2,480.1	499.5	639.6	862.9	1,220.2	576.5
Valuation Summary						

Current Price	**$**	**4.81**
Target Price	$	5.79
Total Return		20.5%
Recommendation		**BUY**

NAV Valuation		
Asset NAV		5572.2
Cash & Cash Equivalents		326.1
ST & LT Debt		2765.0
Residual Equity Value	$	3133.3
Comps Valuation		
Median Peer EV/EBITDAX		7.13
Implied EV/EBITDAX Price	$	8.58

Appendix 3: TORC Oil & Gas Model Summary

	Dec-21	*Dec-22*	*Dec-23*	*Dec-24*	*Dec-25*	*Well Life*
	FY2021	FY2022	FY2023	FY2024	FY2025	AVG 2026-2041
Price Assumptions						
Oil	75.0	52.7	58.6	59.8	61.0	72.4
Gas	2.35	2.55	2.68	2.73	2.79	3.3
Production Schedule						
Total Production boe/yr	9.1	7.3	5.8	4.7	3.7	0.9
Oil bbl/yr	8.1	6.5	5.2	4.2	3.3	0.8
Gas Mcf/yr	6.0	4.8	3.9	3.1	2.5	0.6
Mine Operating Costs (Lindero - $/t milled)						
Operating	110.6	90.7	74.4	61.0	50.0	13.6
Purchased Products	-	-	-	-	-	-
Transport	11.1	9.1	7.4	6.1	5.0	1.4
G&A	19.2	19.6	20.0	20.4	20.8	24.7
Total	140.8	119.3	101.7	87.4	75.8	39.7
Income Statement						
Revenue	810.2	461.1	409.4	334.1	272.6	72.6
EBITDAX	531.7	263.4	238.0	189.8	150.5	20.6
Net Income	233.4	(1.5)	1.3	(14.9)	(26.7)	(48.9)
Earnings Per Share	1.1	(0.0)	0.0	(0.1)	(0.1)	(0.0)
Free Cash Flow						
EBIT	233.4	(2.0)	1.8	(20.4)	(36.6)	(59.4)
D&A	298.2	265.4	236.2	210.3	187.1	80.0
Capital Expenditures	12.0	12.0	12.0	12.0	12.0	12.0
Tax Expenses	-	(0.6)	0.5	(5.5)	(9.9)	(10.4)
Reclamation	5.0	5.0	5.0	5.0	5.0	5.0
Unlevered Free Cash Flow	548.7	279.9	255.5	201.3	157.6	27.2

Valuation Summary

Current Price	**$**	**3.32**
Target Price	$	4.51
Total Return		35.9%
Recommendation		**BUY**

NAV Valuation		
Asset NAV		1335.9
Cash and Cash Equivalents		134.3
ST & LT Debt		470.3
Residual Equity Value	$	999.87
Comps Valuation		
Median Peer EV/EBITDAX		6.23
Implied EV/EBITDAX Price	$	2.22

Legal Disclaimer

The content, opinions, estimates, and projections contained in this report are those of WestPeak Research Association (known as "WestPeak" or "WestPeak Research") and its directors, analysts, and affiliates and are subject to change without notice. The content, opinions, estimates, and projections on this report may not have been updated directly by WestPeak and its directors, analysts, and affiliates and may also have been altered or without your or our knowledge. WestPeak and its directors, analysts, and affiliates, without exception, do not accept any liability for factual, typographical, and grammatical errors, omissions, or content in this report. WestPeak and its directors, analysts, and affiliates do not accept any liability for damages arising from the use of or reliance on any of the content, opinions, estimates, and projections on this report. WestPeak and its directors, analysts, and affiliates endeavor to ensure that the content, opinions, estimates, and projections have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. Information may be available to WestPeak and its directors, analysts, and affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This report is for information purposes only and is not an offer to sell or the solicitation of an offer to buy any security. WestPeak and its directors, analysts, and affiliates may have a personal long or short position in any of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that WestPeak and its directors, analysts, and affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein. The reader, by the viewing of and use of the content, opinions, estimates, and projections contained in this report is assumed by WestPeak and its directors, analysts, and affiliates to have fully read, understood, and unconditionally agreed to all the terms and conditions set forth in this legal disclaimer.

Tiffany Griesbach
Head Analyst

Jake Bunderla
Senior Analyst

David Buzza
Senior Analyst

Irene Liu
Senior Analyst

Surav Malla
Senior Analyst

Aayush Thakur
Senior Analyst

WestPeak Research Association
contact@westpeakresearch.com