

Mammoth Resources Corp. (TSXV: MTH)

BUY

Current Price: C\$0.075

Fair Value: C\$0.27

Risk: 5

Regrouping After Centerra Terminates Option

Sector / Industry: Junior Resource

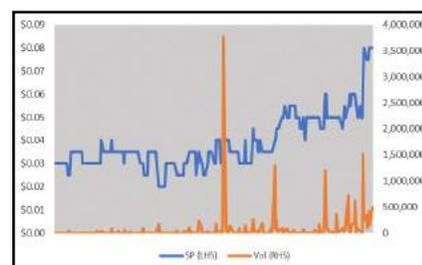
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Highlights

- In September 2020, Centerra Gold Inc. (TSX: CG) notified Mammoth Resources Corp. (“company”, “Mammoth”, “MTH”) that it will not be continuing with its option agreement on MTH’s Tenoriba gold-silver project in southwestern Chihuahua State, Mexico.
- This move was totally unexpected as CG had recently filed a permit application to drill 139 holes, and had two drill companies bidding for a drill contract.
- CG stated that their decision to cease exploration was not a reflection of Tenoriba’s potential.
- CG spent C\$1.2M during the 21 months it had the project under option. **MTH management was quick to regroup, and are currently planning a program to prepare for drilling.** MTH is negotiating agreements with the two communities in the region to obtain surface access for drilling.
- **The deal with CG had valued Tenoriba at US\$13M (US\$9M for 70%). MTH’s current market capitalization is just C\$3M.**
- Tenoriba is only partially tested; it has characteristics associated with high sulphidation epithermal precious metal systems over a large 15 sq. km area (5 km by 3 km).
- Since our previous update in 2019, MTH’s management and board have increased their position from 14.7% to 17.5% of the outstanding shares.
- MTH is **evaluating options to fund up to 7,500 m of drilling across 50 holes** (estimated to cost \$2.5M) either by self financing, by bringing in a JV partner, merging with a cash-rich junior, or some combination of the above. We note that when MTH signed the option with CG, gold was trading at US\$1,250/oz vs the current US\$1,880, implying that market conditions are significantly better.

Sid Rajeev, B.Tech, CFA, MBA
Head of Research

Price Performance (1-year)



	YTD	12M
Ret.	167%	167%
TSXV	27%	42%

Company Data

52 Week Range	C\$0.02 - C\$0.085
Shares O/S	39,874,788
Market Cap.	C\$2.99 million
Yield (forward)	N/A
P/E (forward)	N/A
P/B	1.7x

Key Financial Data (FYE - Jan 31) (C\$)	2019	2020 (6M)
Cash	\$2,618	\$33,391
Working Capital	-\$759,700	-\$577,168
Mineral Assets	\$2,259,698	\$2,266,037
Total Assets	\$2,436,440	\$2,450,003
Net Income (Loss)	-\$60,701	-\$127,819
EPS	-\$0.00	-\$0.00

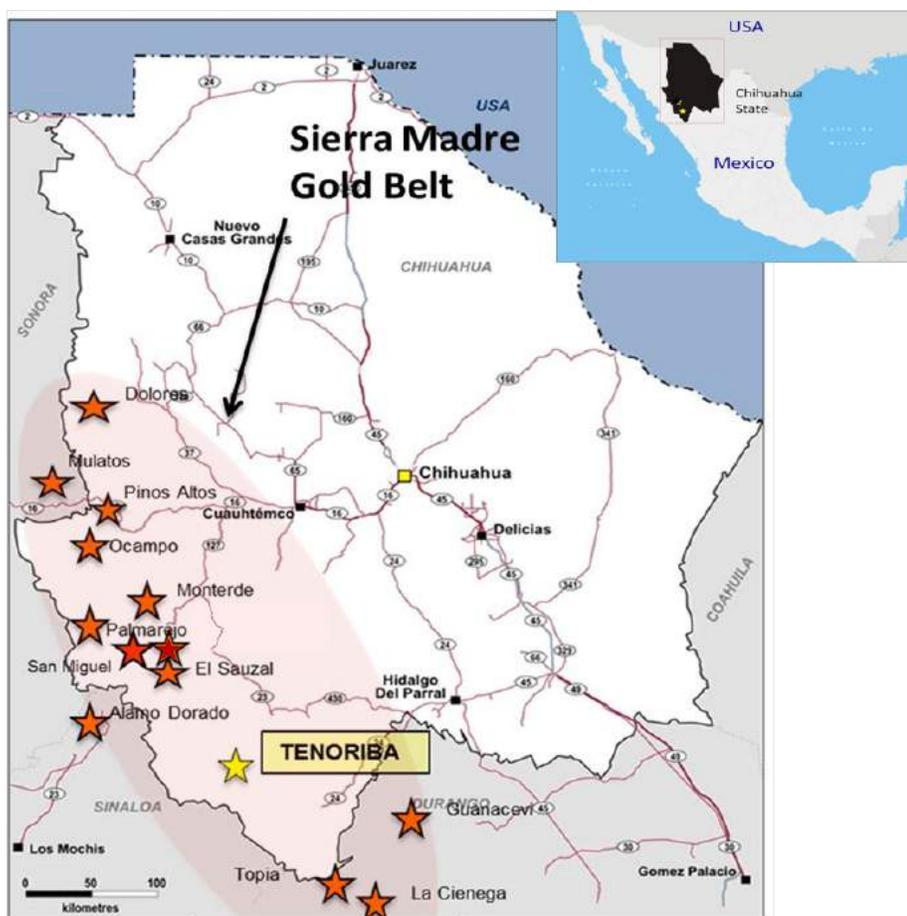
*See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Centerra's decision was unexpected

Regrouping after Centerra terminates option

Our discussion with management indicated that the termination was totally unexpected as CG had recently filed a permit application to drill 139 holes, and had drill contractors bidding. **In their notice to MTH, CG stated that their decision to cease exploration activities in Mexico was “no reflection upon any of the exploration properties it was involved in, including the Tenoriba property.”** As a result of this statement and CG pulling out of Mexico entirely, we believe CG’s decision may have been related to a corporate strategic decision or challenges it faced operating in Mexico. MTH management has confirmed that they have had no issues conducting exploration since MTH optioned the property in 2012.

Project Location



Tenoriba is located in the Sierra Madre belt. The region is host to several well-known mines/advanced stage deposits with over 100 Moz historical gold equivalent (gold and silver) resources.

Source: Company

CG had an option to earn 70% by spending US\$9M

CG and MTH had originally entered into an agreement in late December 2018, wherein CG was granted an option to earn up to a 70% interest by spending US\$9M over seven years, and paying \$990k to MTH. **CG spent C\$1.2M during the 21 months they had the project under option.** Prior to that, MTH and a previous

operator had spent C\$5M from 2007 to 2018. The following table highlights CG’s contribution.

CG’s work to assist MTH in identifying drill targets

2019 (CG spent ~US\$500k)	2020 (CG spent US\$400k)
<ul style="list-style-type: none"> ➤ Reviewed historic exploration data to identify targets for follow-up work; ➤ Reinterpreted geophysical data of a 2015 IP-Mag survey. ➤ Collected and analyzed 137 samples, in addition to the 650+ samples previously collected and analyzed by MTH ➤ Community consultation activities to renew surface access. 	<ul style="list-style-type: none"> ➤ Received surface access in January 2020. ➤ Exploration activities began in March, but suspended in April due to the pandemic, and recommenced in late May. ➤ Completed surface mapping and sampling in July. ➤ Submitted a drill permit application for 139 holes.

Upon receipt of the termination notice, MTH management was quick to regroup, and are currently planning a program to prepare for drilling. The drill permit application submitted by CG (mentioned in the above table) is expected to be approved imminently. MTH believes it will be ready to drill in early 2021.

Upcoming Plans

CG was planning to conduct infill geophysics over areas previously surveyed to identify targets for drilling. **Note that only 60% of a 4 km trend on the property has been surveyed to date.** MTH is conducting 3D interpretations of historical data. MTH is also planning to retain a third-party geologist, with expertise in high sulphidation epithermal systems, to evaluate Tenoriba’s geological system, and exploration potential, based on historical data. Note that historical work has demonstrated that Tenoriba has characteristics associated with high sulphidation epithermal precious metal systems over **a large 15 sq. km area.** Similar systems in the vicinity of Tenoriba include Alamos Gold’s (TSX: AGI) Mulatos mine and Goldcorp’s (now Newmont/NYSE: NEM) El Sauzal mine. Tenoriba also has potential for a porphyry deposit as the source of high sulphidation mineral systems are typically porphyry metal systems. **In total, the project has had 28 holes drilled (15 holes in 2007-2008 and 13 holes in 2017/2018) over a 4 km strike length.** Key results are listed below; the highlighted items show mineralization over long-intercepts, and high-grade values over shorter intercepts.

Preparing for a drill program

29.4 grams of coarse gold nuggets panned below the El Moreno project area



Source: Company

Previous drilling has returned encouraging values

2007-2008

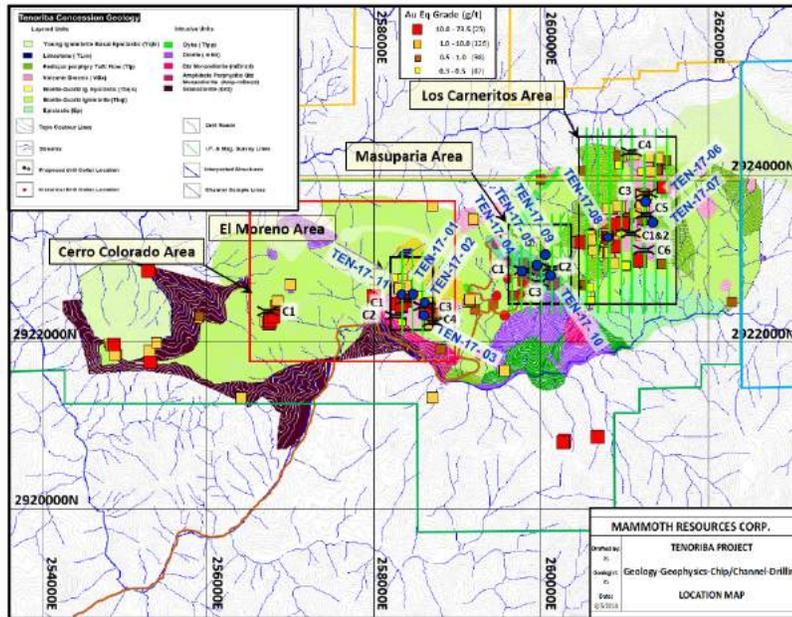
Drill Hole Number	From (metres)	To (metres)	Interval Length (metres)	Gold (Fire Assay) (g/t)
TDH-01	3.50	14.70	11.20	0.54
TDH-07	35.00	51.00	16.00	0.49
	61.00	64.70	3.70	5.33
(including)	62.80	64.70	1.90	45.90
	120.50	132.00	11.50	2.26
(including)	129.50	132.00	2.50	9.21
TDH-11	27.30	67.00	39.70	0.48
(including)	40.80	49.00	8.20	1.45
	110.00	144.40	34.40	1.03
(including)	116.80	124.20	7.40	2.82
(including)	135.00	144.40	9.40	1.37
TDH-12	21.00	46.60	25.60	0.56
TDH-14	4.00	70.00	66.00	0.50
TDH-15	50.00	62.00	12.00	0.64

Drill Results

2018

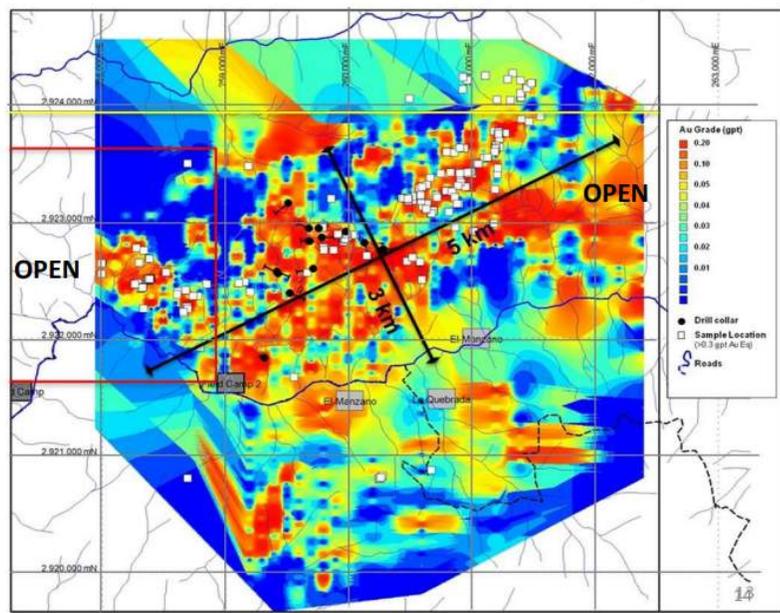
Location	Hole Number	From (m)	To (m)	Total (m)	Au Grade (g/t)	Ag Grade (g/t)	Cu Grade (%)	Au Eq. Grade (g/t)	
El Moreno	TEN 17-01	169.0	209.0	30.0	0.77	2.00		0.79	
	(including)	198.5	204.5	5.9	3.41	7.20		3.51	
	TEN 17-02	180.5	260.5	80.0	0.17	0.30		0.18	
	(including)	187.0	196.0	9.0	0.51	5.30		0.52	
	(including)	180.5	196.0	15.5	0.35	8.60		0.36	
	TEN 17-03	85.0	92.2	7.2	0.23	36.30	3.59	4.34	
	TEN 17-11	96.5	143.0	46.5	0.18	0.50		0.19	
	(including)	230.0	246.5	16.5	0.16	0.90		0.17	
	Masuparia	TEN 17-04	0.0	10.0	10.0	1.12	0.10		1.13
		(including)	45.1	90.5	45.4	0.53	0.10		0.63
(including)		45.1	59.8	14.7	0.61	0.20		0.86	
(including)		72.5	90.5	18.0	0.78	0.10		0.83	
TEN 17-05		28.0	55.0	27.0	0.51	0.10		0.63	
(including)		46.6	55.0	8.4	1.30	0.10		1.39	
(including)		70.0	93.5	23.5	1.30	1.30		1.32	
(including)		83.5	93.5	10.0	2.89	3.17		2.93	
(including)		86.5	92.0	5.5	4.92	5.15		4.99	
TEN 17-09		66.5	69.5	3.0	0.19	10.10		0.42	
TEN 17-10	25.5	30.0	4.5	0.42	7.90		0.52		
	33.0	37.5	4.5	0.44	2.60		0.48		
	58.5	81.0	22.5	0.35	4.30		0.40		
	144.5	147.5	3.0	1.31	50.30		1.99		
	159.5	162.5	3.0	0.65	5.50		0.72		
	170.0	194.0	24.0	0.31	3.70		0.36		
Carneritos	TEN 17-06	43.7	170.5	126.8	0.47	7.20		0.52	
	(including)	70.7	129.0	58.2	0.73	3.90		0.80	
	(including)	70.7	95.7	25.0	1.10	2.70		1.21	
	(including)	95.7	111.0	15.0	0.51	0.40		0.54	
	TEN 17-07	11.5	53.5	42.0	0.21	5.00		0.28	
	(including)	65.5	78.0	12.5	0.33	2.40		0.36	
	TEN 17-08	52.5	67.4	14.9	0.58	3.10		0.62	

2018 Drill Locations



2018 drill hole location map (blue dots) with 2008 drilling (red dots), geophysics lines (green) and chip sample assay distribution.

2,600 geochemical samples with highly anomalous gold over a 15 sq. km area



Source: Company

Requires surface access

A critical step for MTH is to **secure extensions to surface access agreements (to commence drilling)** with the two communities on which the Tenoriba property resides. Previously issued access agreements expire in early 2021. On two prior occasions, Mammoth had negotiated two-year agreements. On November 5, 2020,

MTH announced it had reached an agreement with one of the two communities (ejidos). A meeting with the other ejido will occur later this month. MTH is **evaluating options to fund a drill program** (up to 7,500 m to average depths of approximately 150 m, in up to 50 drill holes), including a capital raise, attracting a JV partner, or merging with a cash-rich junior

FRC's Internal Estimate

The following table shows our estimates (unchanged from our previous report), based on the assumption that only 10% of the three most prospective areas are mineralized at an average grade of 0.65 gpt. These three areas total approximately 4 sq. km. As shown in the table below, the three areas could hold over 2 Moz of gold.

FRC Speculative Resource

	Los Carneritos	El Moreno	Masuparia	Total	Total over 15 sq.km
Strike (km)	1.50	1.50	1.50		
Width (km)	0.70	0.50	1.50		
Area (sq.km)	1.05	0.75	2.25	4.05	
Depth (km)	0.10	0.10	0.10		
Tonnage	273,000,000	195,000,000	585,000,000	1,053,000,000	3,900,000,000
Discount	90%	90%	90%	90%	90%
Net Tonnage	27,300,000	19,500,000	58,500,000	105,300,000	390,000,000
Grade (gpt)	0.65	0.65	0.65	0.65	0.65
Contained Oz	567,840	405,600	1,216,800	2,190,240	8,112,000

Source: FRC

Financials

At the end of Q2-FY2020 (ended July 31, 2020), the company had cash and working capital of \$33k and -\$0.58 million, respectively. The deficit was a result of \$0.51 million due to the CEO and consultants, and \$0.14 million in payables. We estimate the company had a burn rate (cash spent on G&A expenses) of just \$12k per month in the first six months of FY2020, which is very low for a junior.

FRC's internal estimate of 2 Moz gold

Financial Position

(in C\$)	2019	2020 (6M)
Cash	\$2,618	\$33,391
Working Capital	-\$759,700	-\$577,168
Current Ratio	0.05	0.11
LT Debt / Assets	-	-
Monthly Burn Rate (incl. G&A)	-\$14,296	-\$11,998
Exploration and Development	\$65,701	-\$6,339
Cash from Financing Activities	\$3,229	60,463

Source: Company / FRC

Tight cash position

Management intends to do a small financing prior to the proposed drill program in early 2021.

We estimate the company currently has 2.86M options (weighted average exercise price of \$0.08 per share) and nil warrants outstanding. 1.05M options (\$52k) are in the money.

MTH's management holds 7M shares, or 17.5% of the total outstanding. In addition, U.S. Global owns 10%, and Gold 3000 owns 5%.

Management / Directors	Shares	% of Total
Thomas Atkins	4,022,552	10.1%
Richard Simpson	2,762,850	6.9%
Paul O'Brien		
Errol Farr	206,000	0.5%
Total	6,991,402	17.5%

Source: Management Information Circular

Management and board hold 17.5%

Valuation and Rating

We continue to base our valuation on our internal speculative estimate of 2.2 Moz. For conservatism, we are using one-third of our estimate, or 730 Koz for valuation purposes. **The average Enterprise Value to resource ratio of gold juniors is currently \$61 per oz (see table below).** Applying this multiple to 730 Koz, we arrived at a fair value estimate of \$0.27 per share on MTH. As the company has to raise capital, our models had previously accounted for share dilution based on a \$10M financing at \$0.05 per share. As shares are currently trading at \$0.08, we are assuming that a financing will be completed at current prices, implying lower share dilution. **As a result, our fair value estimate on MTH increased from \$0.18 to \$0.27 per share.** A summary of our valuation is shown below.

Valuation Summary

Company	EV / Resource
1 Pure Gold Mining Inc.	\$394.51
2 Osisko Mining	\$301.12
3 Victoria Gold Corp	\$250.64
4 Marathon Gold Corp.	\$121.57
5 Sabina Gold	\$99.89
6 Probe Metals Inc.	\$93.43
7 Maple Gold Mines Ltd.	\$73.84
8 Gowest Gold Ltd.	\$61.29
9 Bonterra Resources	\$58.55
10 Nighthawk Gold Corp.	\$46.15
11 Monarch Gold	\$43.10
12 Renforth Resources	\$42.89
13 GMV Minerals	\$40.52
14 Gold Springs	\$37.89
15 Moneta Porcupine Mines Inc.	\$36.73
16 Gatling Exploration	\$35.84
17 O3 Mining	\$24.41
Average (excl outliers)	\$60.90

* Net Resource = 100% of Measured and Indicated + 50% of Inferred Resources

Source: FRC / S&P Capital IQ / Various Companies

Mammoth's Resource (100% interest) - FRC's preliminary estimate	730,080
Average EV/ Resource Ratio (comparables)	\$60.9
Fair Value of Assets	\$44,461,872
Working Capital	-\$613,163
Fair Value of MTH's Shares	\$43,848,709
No. of Shares [*]	164,874,788
Fair Value per Share	\$0.27

*assumes a \$10M financing at \$0.08 per share

Source: FRC

We reiterate our BUY rating, and raise our fair value estimate from \$0.18 to \$0.27 per share.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Commodity price risks.
- Tenoriba does not have a NI 43-101 compliant resource estimate.
- Exploration and development risks.
- The company has to raise capital to continue exploration.

- Share dilution.

As with most junior exploration companies, we continue to rate Mammoth shares a risk of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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