

MAKO GOLD LIMITED (MKG)

A compelling risk/reward post recent high-grade hits

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We say

Price

Target

Strategic Target

SPEC BUY **0.105** **0.28** **0.35**

Mako Gold is a gold explorer on the hunt for a multi-million ounce gold project in northern Côte d'Ivoire. With an EV of only ~A\$15m, we believe MKG is a compelling risk/reward opportunity at the current level based on its impressive recent high-grade drilling results (in blue below), its high-quality management team and strong news flow (see p2). MKG is well capitalised with ~\$12m in cash and a 2nd drill rig is due on site in the next few weeks. A maiden resource is due at Tchaga in Q1 CY21.

SHARE PRICE CHART



BEST HITS AT TCHAGA

- 32m @ 7.1g/t from 13m
- 13m @ 20.8g/t from 32m
- 36m at 3.09g/t from 43m
- 28m at 4.86g/t from 83m
- 25m at 3.43g/t from 53m
- 18m at 3.25g/t from 39m
- 23m at 2.46g/t from 15m
- 14m at 5.46g/t from 0m
- 17m at 2.43g/t from 86m
- 7.7m at 11.7g/t from 169m

Source: Company

COMPANY DATA & RATIOS

Enterprise value	\$15m
Diluted market cap*	\$27m
Diluted shares*	261m
Free float	95.6%
12-month price range	\$0.027-0.17
GICS sector	Gold
Board & Management 4.4%. *Diluted for 4.2m in-the-money options.	

IMPLIED RETURN

Implied all-in return	167%
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EXCELLENT TEAM WITH PROVEN TRACK RECORD

The Mako Gold team has been exploring for gold in West Africa for many years and while at Orbis Gold (ASX:OBS) the Mako team led the discovery of Natougou, Nabanga and Bantou. Orbis was acquired by Semafo in Feb 2015. Since at Mako Gold the team has made discoveries at the Niou and Napié gold projects. MKG has since agreed to sell Niou to Nordgold.

MULTI MILLION OUNCE POTENTIAL

Mako Gold's flagship asset is the Napié gold project which covers a strike length of ~30km in highly prospective Birimian greenstone covering 224km². Mako Gold is earning up to 75% of Napié from Perseus by taking the project through to Feasibility. In June 2020 Mako Gold started a 10,000m RC and DD program with additional drilling planned at Tchaga East & Gogbala.

MAINTAIN SPEC BUY, 28C PRICE TARGET

We maintain our Spec Buy rating and 28c Price Target for MKG, an implied potential return of 167%. Given Mako Gold is pre-resource our Target is based on our assessment of the company's potential endowment based on the drilling to date. As at 7 Oct 2020, the company had \$12.1m in cash and receivables including the ~A\$1m in cash receivable from the sale of the Niou gold project.

MAKO GOLD INVESTMENT SNAPSHOT

Mako Gold (MKG) is a pre-resource gold explorer in Cote d'Ivoire which in our view represents a compelling risk/reward proposition. We maintain our Spec Buy recommendation and 28c Price Target, an implied potential return of 167%. We outline the investment snapshot below:

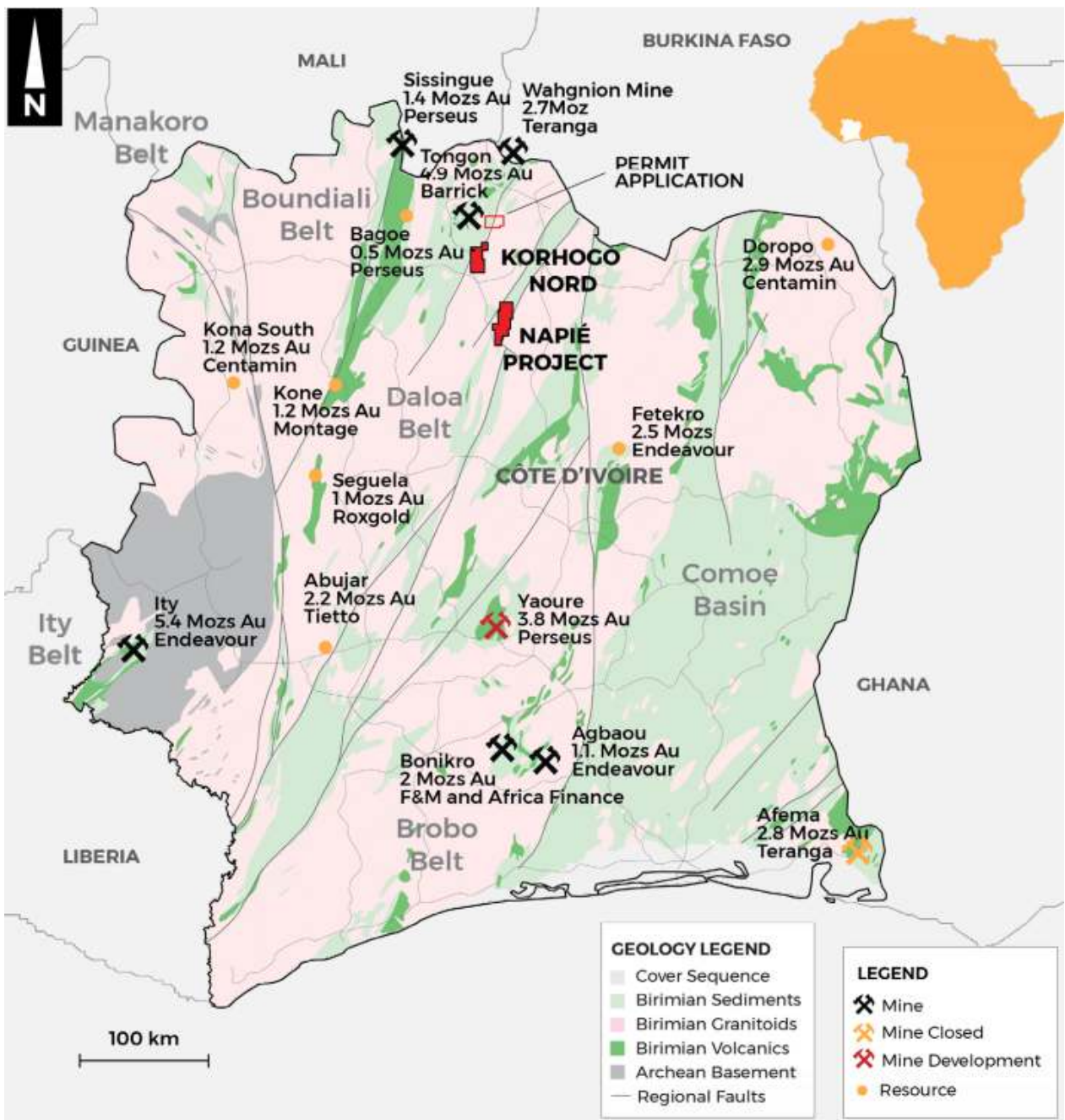
- **EV of only ~A\$15m, cash ~A\$12m:** MKG has a mcap of ~A\$27m and is well capitalised with A\$12.1m in cash and receivables, including ~A\$1m receivable from the sale of its Niou gold project in Burkina Faso to Nordgold.
- **Well regarded Ex Orbis Team:** The Mako Gold team has a proven track record of high-grade gold discoveries in West Africa with most of the team formerly at Orbis Gold, which was acquired by Semafo (TSX:SFM) in Feb 2015.
- **Multi-million ounce potential:** The Mako team see multi-million ounce potential on their ground in Cote d'Ivoire, and given the scale of the company's tenement package and the success to date we agree with this assessment.
- **Impressive high-grade drill results to date:** While MKG is still pre-resource, in our view the company's high-grade drilling results to date at Tchaga are excellent. Best results to date include:
 - **32m @ 7.1g/t from 13m incl 9m @ 22.73g/t from 36m (announced last week)**
 - **13m @ 20.8g/t from 32m incl 9m @ 29.5g/t (announced 11 August 2020)**
 - 36m at 3.09g/t from 43m
 - 28m at 4.86g/t from 83m
 - 25m at 3.43g/t from 53m
 - 18m at 3.25g/t from 39m
 - 23m at 2.46g/t from 15m
 - 14m at 5.46g/t from 0m
 - 17m at 2.43g/t from 86m
 - 7.7m at 11.7g/t from 169m
- **Metallurgy looks good:** Preliminary metallurgical test work on Tchaga has confirmed both oxide and fresh material is **free milling with recoveries of over 94%**
- **Strong news flow due near term:**
 - 28 RC holes completed with assay results due near term (and drilling ongoing)
 - **1st drill rig: A 10,000m+ programme focused on Tchaga**
 - Now drilling follow up holes near recent high-grade hit of 32m @ 7.1g/t
 - Will then return to resource drill out at southern portion of Tchaga (see p5)
 - **2nd drill rig: Coming in the next few weeks:** Drilling Tchaga East, then Gogbala
 - Will drill 1,500m at Tchaga East (see p4)
 - Then move to begin 5,000m RC/DD programme at Gogbala (see p8)
 - **Maiden resource at Tchaga expected in Q1 CY21:** We see potential for 400-500koz @ ~2 g/t excluding the new high-grade zone to the north (see p5)
 - Early-stage exploration to commence at 100%-owned Korhogo permit (see p9)
 - Approval of MKG's 100%-owned exploration permit application is also expected within the next quarter (located north of Korhogo, see p3 & p9)

COMPANY OVERVIEW

Mako Gold Limited (ASX:MKG) is a ~A\$27m market cap gold explorer/developer focused on its Napié gold project in northern Côte d'Ivoire. This area is home to the West African Birimian Greenstone Belts which host more than 70 +1Moz gold deposits.

Mako Gold aims to find a multi-million ounce gold deposit and holds 224km² of ground at Napié (75%) and an addition 185km² at the recently approved Korhogo (100%). An additional permit application to the north is expected to be approved in the next quarter.

At 7 October 2020, MKG had A\$12.1m in cash and receivables including the ~\$1m in cash receivable from the sale of its Niou gold project in Burkina Faso to Nordgold. MKG raised A\$10m at 11.5c in August.

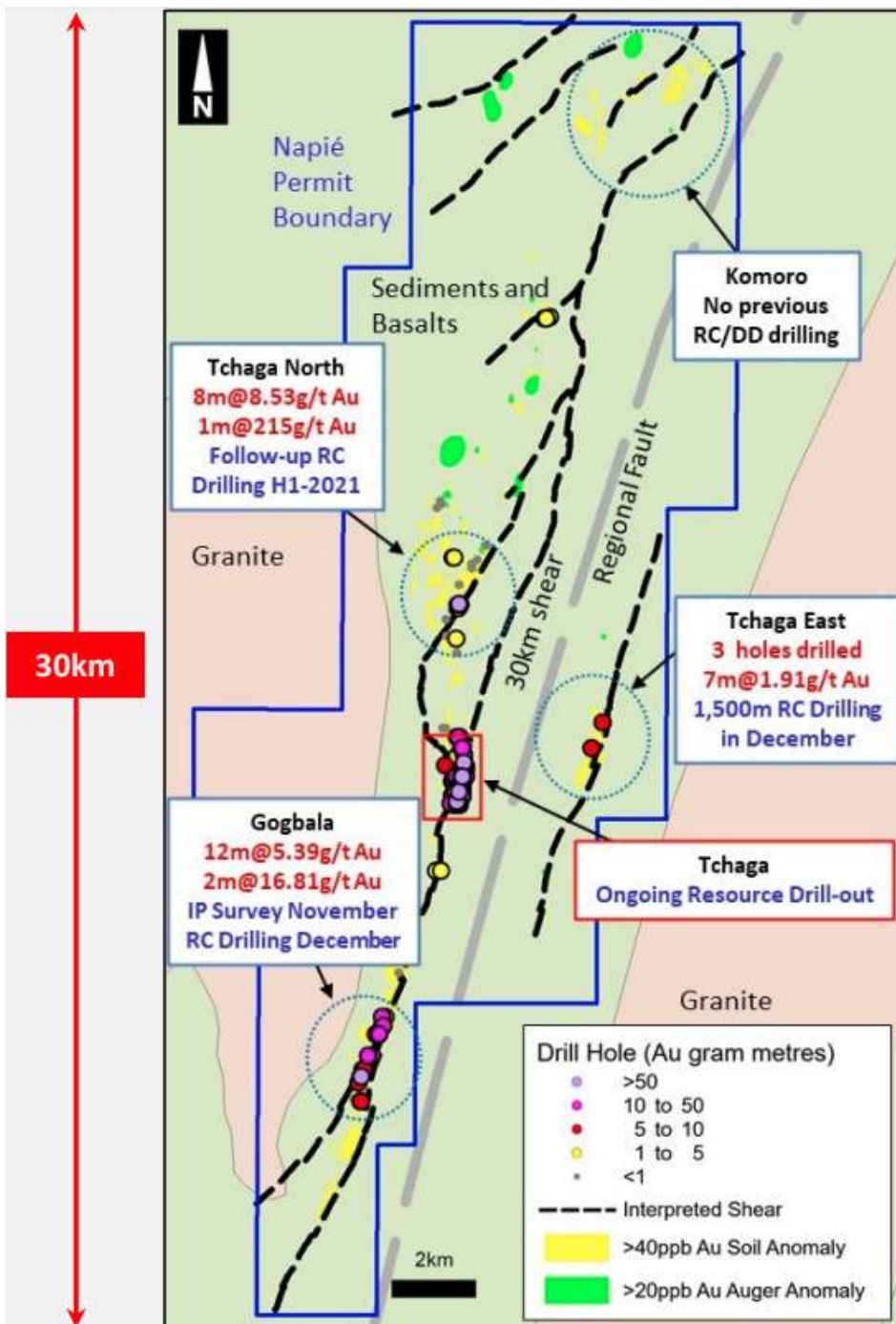


Source: Company

THE NAPIÉ GOLD PROJECT

Mako Gold is farming into the Napié gold project from a subsidiary of Perseus Mining (ASX:PRU) and has already earned 51%. Mako Gold can earn up to 75% of Napié by establishing a resource and taking the project through to Feasibility Study.

The Napié gold project extends over a strike length of ~30km in an underexplored greenstone package covering 224km². As per the picture below the company has identified a number of mineralised structures with less than 10% explored to date. The company is taking a systematic approach to test priority targets. The green and yellow sections in the picture below show gold-in-soil anomalies which are progressively being drill tested.



Source: Company

TCHAGA PROSPECT

Tchaga is the company's most advanced exploration prospect and has a known strike length of ~1.6km with stacked mineralised zones associated with cross-faults. Mineralisation remains open in all directions.

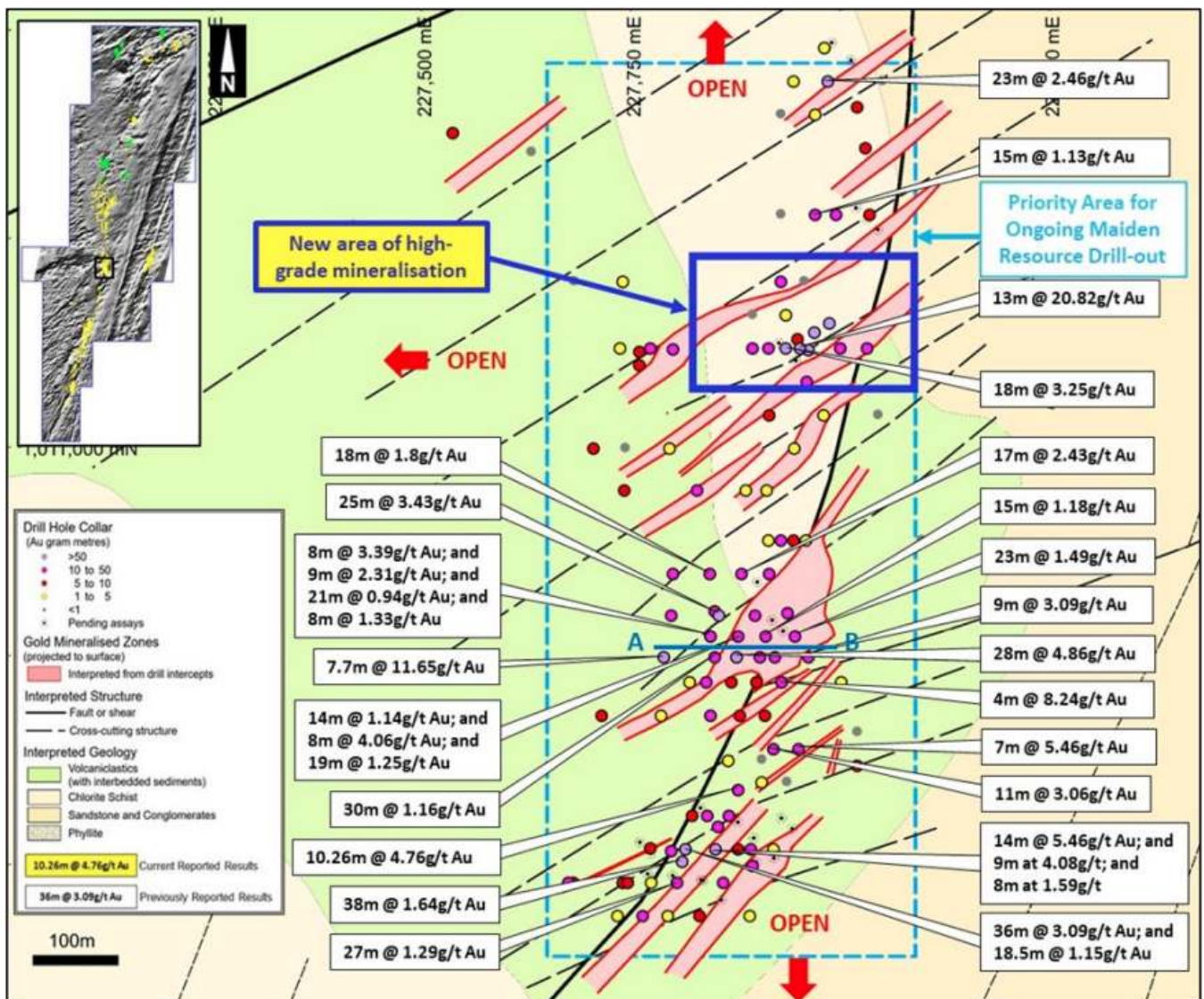
The company recently changed its drilling orientation at Tchaga:

- From drilling to the east, perpendicular to the dark black north/south major structure
- To drilling to the south east, perpendicular to series of cross-cutting faults

The company is aiming to release a maiden resource for Tchaga in Q1 CY21, focused on the bottom half of the light blue dotted rectangle below, which we believe is likely to be in the order of 400-500koz @ ~2g/t. A cross-section for section A-B is shown on p7.

However, it is important to note that the maiden resource at Tchaga is likely to *exclude* the recent high-grade hits in the blue rectangle. A zoomed in section of the dark blue rectangle below is provided on the next page.

Tchaga Prospect Plan View



Source: Company

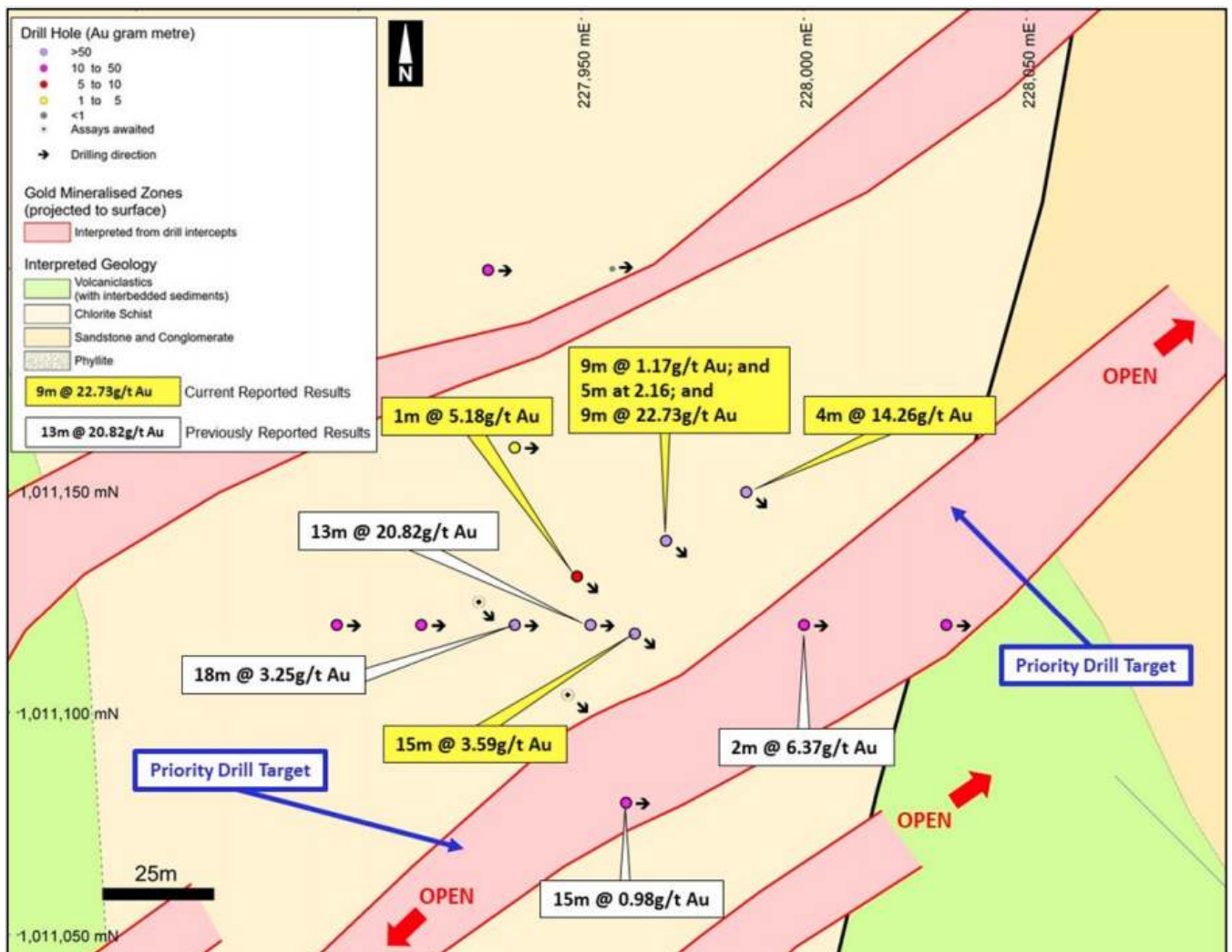
RECENT HIGH-GRADE HITS AT TCHAGA

MKG has reported a number of high-grade hits in the northern area at Tchaga – the plan view below represents a zoomed in section of the dark blue rectangle from the previous page. The company’s recent high-grade hits in the area include:

- 11 Aug 2020: **13m @ 20.8g/t from 32m, incl 9m @ 29.5g/t**
- 17 Nov 2020:
 - **32m at 7.1g/t from 13m** incl
 - 9m at 1.17g/t from 13m; and
 - 5m at 2.16g/t from 27m; and
 - **9m at 22.73g/t from 36m**; incl 2m at 92.95g/t from 36m
 - 15m at 3.59g/t from 16m; incl 1m at 31.66g/t from 26m
 - **4m at 14.26g/t from 33m**
- **MKG’s drill rig is currently drilling follow up holes around these high-grade hits**

As discussed on the previous page, the company recently changed its drilling orientation from drilling to the east to drilling to the south east. In the plan view below, the orientation of each drill hole is denoted by the small arrow next to each hole.

Zoomed in section Plan view of Tchaga prospect



Source: Company

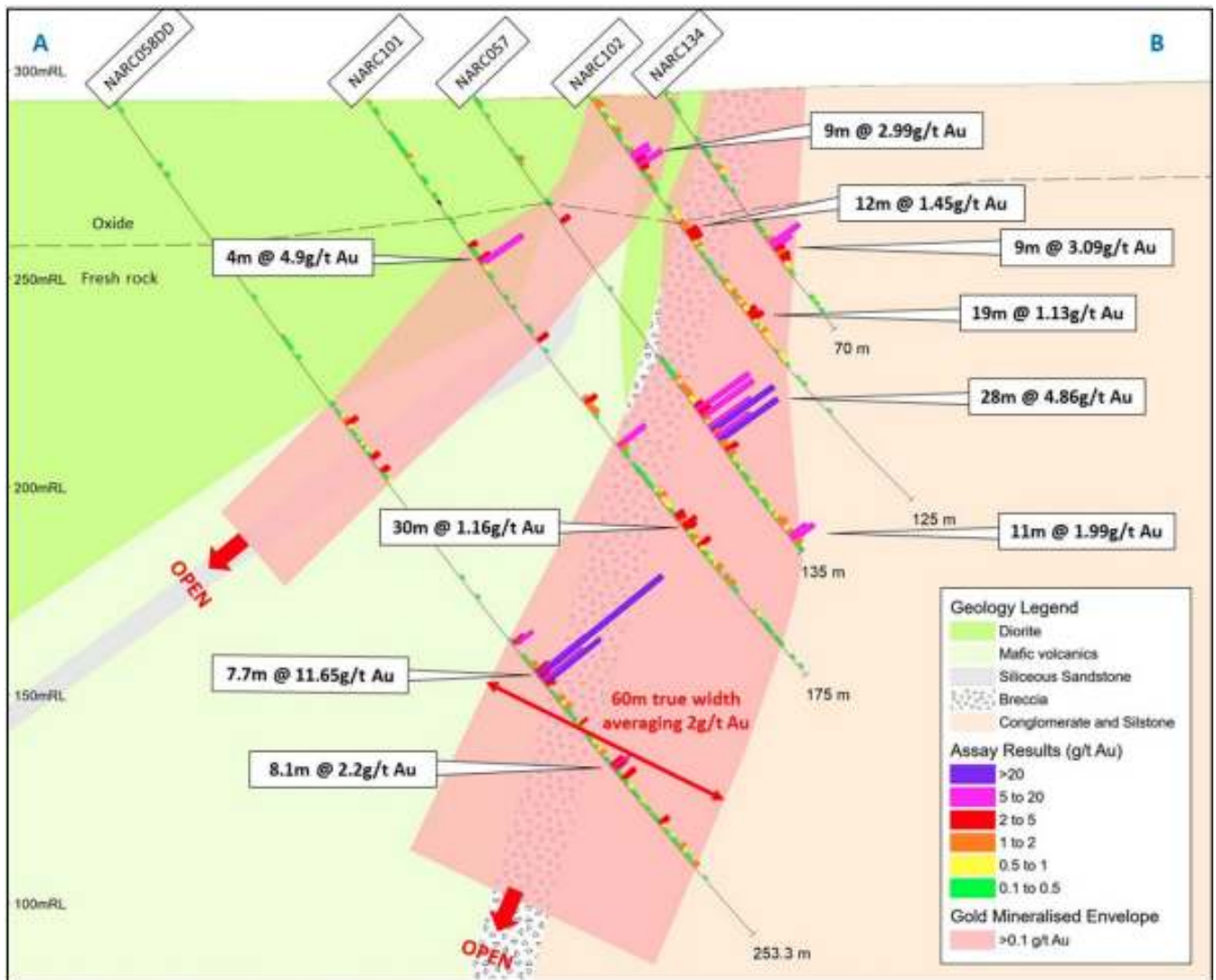
TCHAGA CROSS SECTION AB

Section A-B below for Tchaga is also very encouraging as it shows:

- Shallow hits
- At good grade
- With some very promising widths (like 28m @ 4.86g/t and **60m true width @ 2g/t**)
- Multiple mineralised envelopes
- The deepest hit also shows a relatively wide intercept at high grade (7m @ 11.65g/t) in a broader zone of mineralisation

Mako Gold is in the middle of a 90-hole 10,000m RC and diamond programme and drilling at Tchaga will continue past the 10,000m. The company expects to release a maiden resource at Tchaga in Q1 2021.

Tchaga Prospect Cross Section A-B looking north



Source: Company

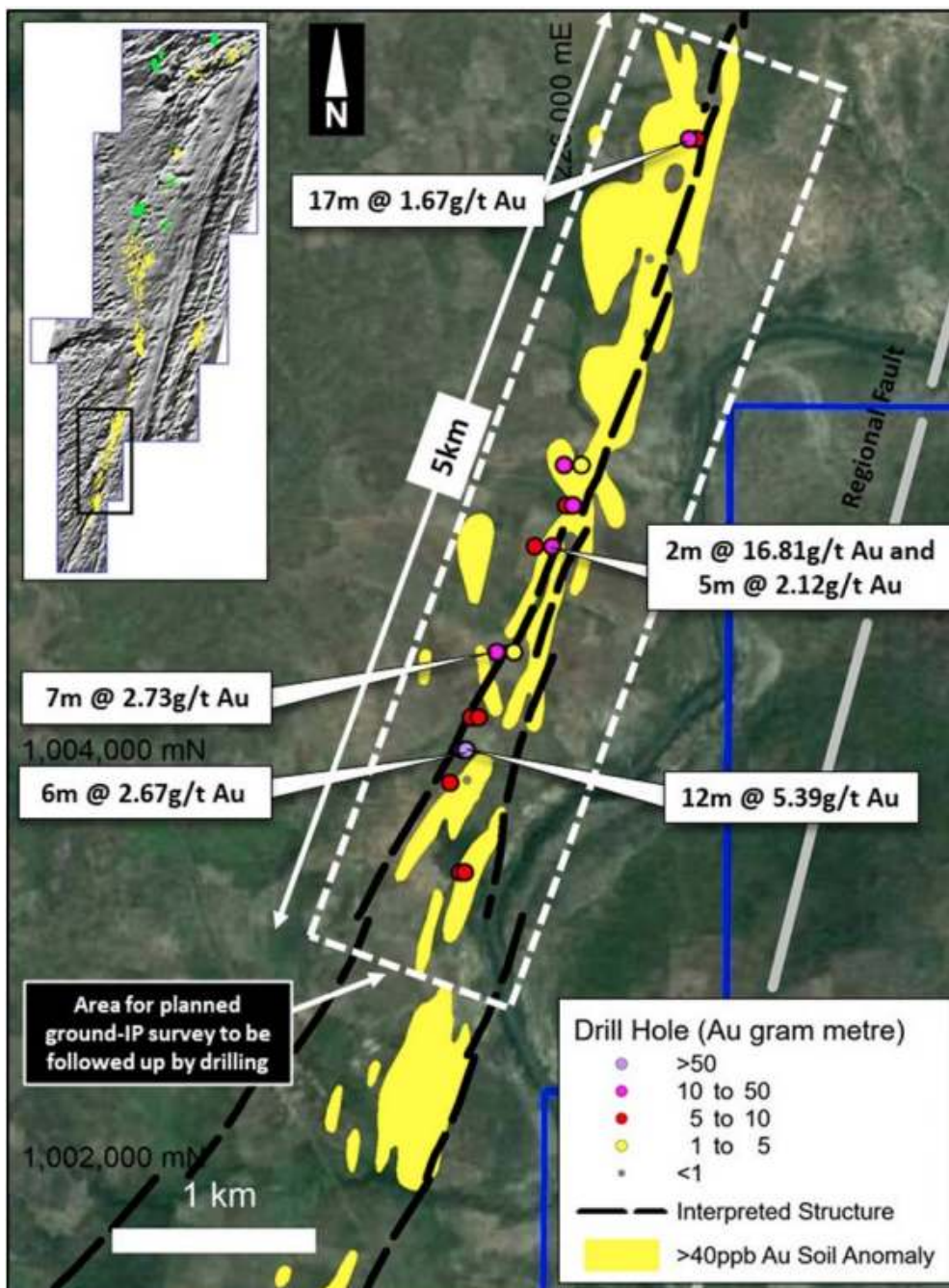
GOGBALA PROSPECT

One of Mako Gold’s next targets is the Gogbala prospect which sits ~6km south of Tchaga on the same mineralised structure. Gogbala comprises a large soil anomaly (~6km long) on an interpreted shear structure.

Gold mineralisation has been identified over ~5km of strike with a number of high-grade hits identified in first pass drilling. Only 24 RC holes have been drilled into this prospect to date.

Mako expects to have a 2nd drill rig on site in the next few weeks, which will drill 1,500m at Tchaga East and then move to Gogbala to begin a 5,000m RC/DD program.

Gogbala Prospect Plan View



Source: Company

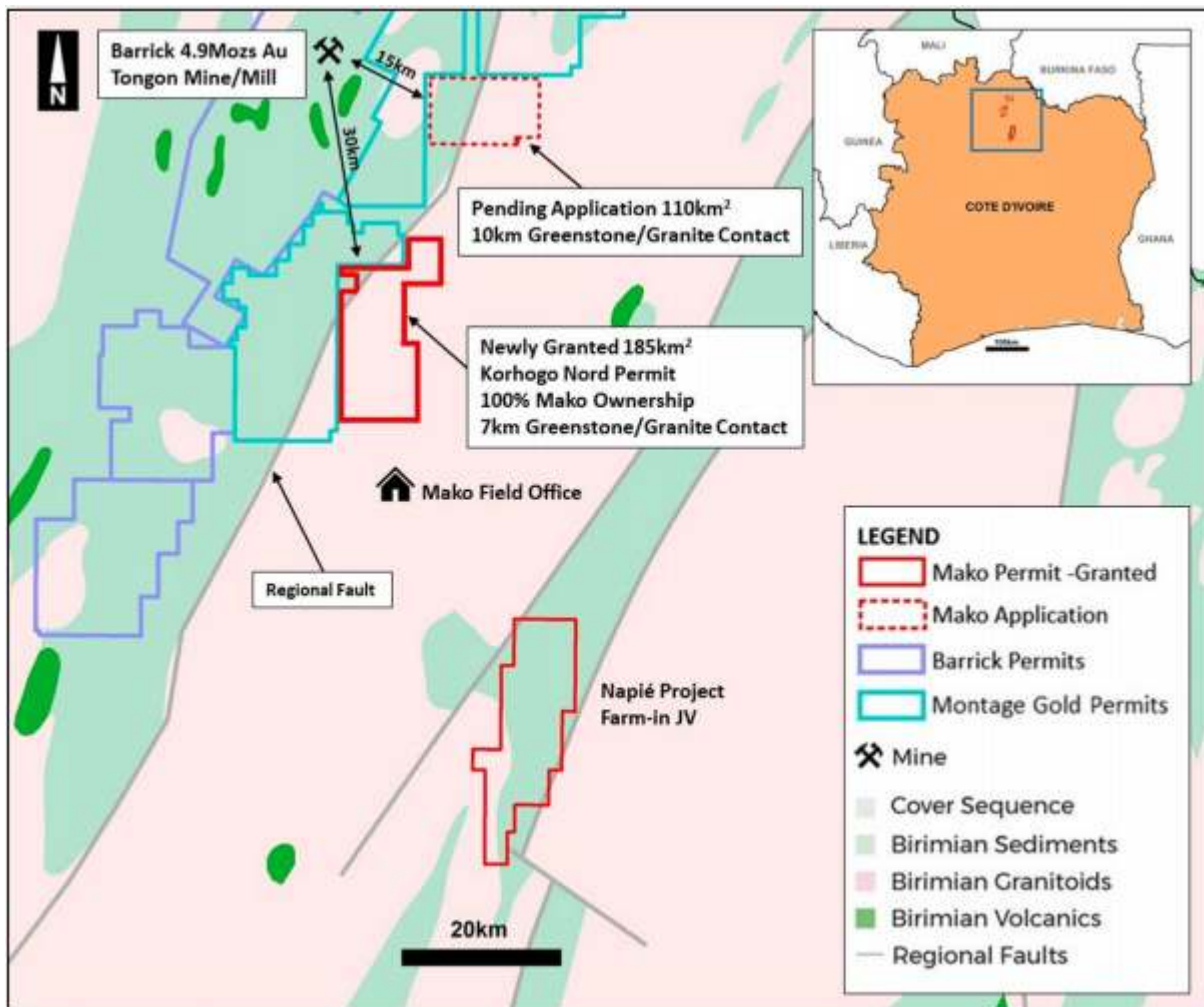
KORHOGO PROSPECT + PERMIT APPLICATION

In late September 2020, the Côte d'Ivoire Ministry of Mines approved Mako Gold's 100%-owned Korhogo permit which covers 185km² of prospective tenure located within ~30km of Barrick's 4.9Moz Tongon Gold Mine.

The Korhogo permit includes 7km of faulted greenstone/granite contact and increased MKG's footprint in Côte d'Ivoire to 519km².

Early stage exploration is expected to commence at Korhogo shortly beginning with soil sampling, geological mapping, and rock chip sampling, followed by Air Core (AC) or Reverse Circulation (RC) drilling. An airborne magnetic and radiometric survey of the Permit is planned in early 2021.

Mako Gold expects to receive approval of its northern exploration permit within the next quarter. The northern permit includes another 10km of greenstone/granite contact.

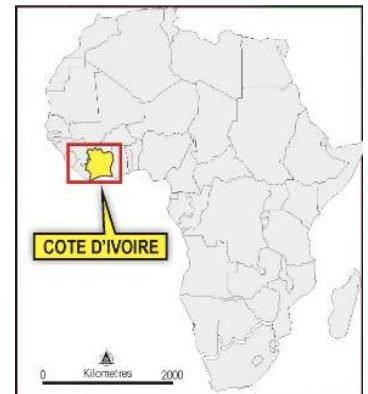


Source: Company

CÔTE D'IVOIRE

Côte d'Ivoire is a French-speaking country located on the south coast of West Africa. Côte d'Ivoire experienced a coup d'état in 1999 and two civil wars, first between 2002-2007 and again during 2010–2011. Côte d'Ivoire has been stable since then.

An election was held in Côte d'Ivoire on 31 October 2020 and the incumbent Alassane Ouattara won a controversial third term in office with 94% of the vote, although his two main opponents boycotted the vote and refused to recognise the outcome. The election was marred by violence and dozens of people have been killed.



Excellent infrastructure

Côte d'Ivoire one of Africa's most developed countries with outstanding infrastructure including an expansive network of high voltage transmission lines distributing hydro-electrical power. There are several high voltage transmission lines in northern Côte d'Ivoire which cross Mako's project area. There are excellent bitumen roads throughout the north part of the country. These roads provide good access to the project areas with only relatively short distances of unsealed roads which are in excellent condition and should provide near all year-round access to the projects.

Mining Code

Côte d'Ivoire introduced a new modern mining code in March 2014 which includes:

- Tax holiday for initial 5 years of production
- Tiered Variable royalty rate based on prevailing gold price. At US\$1,500/oz the royalty would be 3.23%, at US\$1,600/oz the royalty increases to 3.28%. The tiers are:
 - 3.0% up to US\$1,000/oz
 - 3.5% between US\$1,000-1,300/oz
 - 4.0% between US\$1,300-1,600/oz
 - 5.0% between US\$1,600-2,000/oz
 - 6% over US\$2,000/oz.
- 10% government interest in mining companies
- Exemption from VAT and Import Duties for both exploration and mining licences
- Exploration licences valid for initial term of 4 years with the right to further two 3-year renewals and a further 2-years for feasibility (i.e. 12 years in total)
- Mining licences valid up to 20 years with consecutive 10-year renewals
- Right to 12-year Mining Convention (renewable for 10-year periods) to provide long term certainty

VALUATION

Valuation of a pre-resource junior miner is challenging and requires an estimation of both the near term and longer term resource potential.

Near Term Resource Potential

Based on the drilling to date, in the near term we see potential for:

- **Tchaga to host up to 400-500koz at ~2g/t**, but potentially significantly more

Longer Term Resource Potential

The longer term potential at MKG is much harder to assess, but could potentially be much more substantial given the ~30km of interpreted shear. Based on the high quality of the exploration success to date, **we see no reason why a multi-million-ounce target might not be achievable longer term.**

Valuation Benchmarking

Many investors focus on EV/oz metrics... however, while EV/oz may provide a useful starting point, we don't regard it as a particularly useful metric as it makes no allowance for grade, recoveries, strip ratio and ultimately the potential margin that a mine might be able to generate. As a result, an EV/oz approach often makes large, low grade projects look 'cheap' and smaller, high grade project look expensive. When in reality, the low-grade project might not even be viable.

Given the high grades and good widths MKG's exploration programme has already achieved, we decided to:

- Estimate what a 100kozpa project for 8-10 years might be worth
- Apply an appropriate discount given its early stage based on progress to date
- It's important to note, if MKG's exploration success continues and the resource endowment grows, we may need to reassess the potential scale of the project

How much might a Mining Inventory of 1moz @ 2/gt be worth?

Based on our benchmarking work, if Mako Gold can establish a 1moz mining inventory at 2g/t and a 5:1 strip ratio, on our forecasts a 100kozpa operation might have AISC of ~US\$800/oz and at US\$1,800/oz gold would have:

- **A post-tax NPV of ~A\$300-330m (estimated using a DCF, available on request)**
- And MKG's 75% share would be worth ~A\$225-250m
- The stock would probably trade at 0.5x P/NPV, implying a valuation of ~A\$110-125m
- But the stock would probably trade at a higher valuation if the market thought the resource could still grow materially (and become a larger scale operation)

Given MKG's enterprise value today is only ~A\$15m, we see clear potential for the company's valuation to double or triple (and potentially more) if the recent exploration success continues.

PRICE TARGET & RATING

We maintain our Spec Buy recommendation and 28c price target, an implied potential return of 167%.

The basis of our 28c Price Target is outlined on the previous page and assumes Mako Gold is able to delineate a high-grade, shallow gold resource at Tchaga (or elsewhere).

Our valuation of Mako Gold relies on continued exploration success and as such our Spec Buy recommendation carries a higher level of risk relative to our other stocks under coverage.

Since our last note we have:

- Diluted for the A\$10m capital raising at 11.5c in August
- Increased our valuation of MKG's 75% stake of Napié from A\$40m to A\$50m to reflect the promising new drilling results at Tchaga and an improved understanding of the potential at Gogbala
- Increased our valuation of MKG's 100%-owned exploration projects from A\$10m to A\$16m to reflect the recent permit approval of Korhogo and the expectation that the northern permit should be approved within the next quarter. We are excited about the prospectivity of these 100%-owned permits which cover 17km of greenstone/granite contact in close proximity to Barrick's 4.9moz Tongon gold mine.

STRATEGIC TARGET

Our 35c Strategic Target for Mako Gold caters for the possibility that the company is able to delineate a larger gold system than our base case.

KEY RISKS

Mako Gold is exposed to all the normal risks associated with exploring and developing a mining project, including exploration, funding, permitting and construction risks, as well as normal project ramp up and commissioning risks.

In the near term, our valuation of Mako Gold relies on continued exploration success. While we believe the company's success to date bodes well for further success in the future, there can be no guarantee Mako Gold will be able to delineate an economically viable gold project.

Assuming Mako Gold is able to delineate an economically viable project and make the transition into production, its revenues will be derived from the sale of gold. Fluctuations in the prices of gold as well as the Australian dollar could impact the company's reported cash flow (in A\$), profitability and share price.

As Mako Gold's exploration projects are based in Côte d'Ivoire, an investment in Mako Gold also carries Côte d'Ivoire sovereign risk. While Côte d'Ivoire has been relatively stable since 2011, the recent election held on 31 October 2020 was marred by violence and the country carries relatively higher sovereign risk than most Western jurisdictions.

MODEL SUMMARY: FINANCIALS & VALUATION
Stock Details

Recommendation:	SPEC BUY		
Target	\$0.28	Share Price	\$0.105
NAV	\$0.28	52 Week High	\$0.170
Implied Return	167%	52 Week Low	\$0.027

Enterprise Value	\$15m
Diluted MCap	\$27m
Diluted Shares	261m
Free Float	100%
Avg Daily Value	\$0.13m

Macro Assumptions	FY19	FY20E	FY21E	FY22E	FY23E
Gold Price (US\$/oz)	1,263	1,563	1,800	1,800	1,800
Exchange Rate (A\$/US\$)	0.72	0.67	0.68	0.68	0.68

Profit & Loss (A\$m)	FY19	FY20E	FY21E	FY22E	FY23E
Revenue	-	-	-	-	-
Operating Costs	-	-	-	-	-
Operating Profit	-	-	-	-	-
Corporate & Other	(1)	(1)	(1)	(1)	(1)
Exploration Expense	(1)	(1)	-	-	-
EBITDA	(1)	(2)	(1)	(1)	(1)
D&A	-	(0)	(0)	(0)	(0)
EBIT	(1)	(2)	(1)	(1)	(1)
Net Interest Expense	0	(0)	-	-	-
Pre-Tax Profit	(1)	(2)	(1)	(1)	(1)
Tax Expense	-	-	-	-	-
Minorities	-	-	-	-	-
Underlying Profit	(1)	(2)	(1)	(1)	(1)
Significant Items (post-tax)	-	-	-	-	-
Reported Profit	(1)	(2)	(1)	(1)	(1)

Cash Flow (A\$m)	FY19	FY20E	FY21E	FY22E	FY23E
Operating Cashflow	(1)	(1)	(2)	(1)	(1)
Tax	-	-	-	-	-
Net Interest	0	0	-	-	-
Net Operating Cash Flow	(1)	(1)	(2)	(1)	(1)
Exploration	(3)	(3)	(3)	(3)	(3)
Capex	-	-	-	-	-
Acquisitions / Disposals	-	-	1	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(3)	(3)	(2)	(3)	(3)
Equity Issue	1	2	10	10	-
Borrowing / Repayments	-	-	-	-	-
Dividends	-	-	-	-	-
Other	-	-	-	-	-
Net Financing Cash Flow	1	2	10	10	-
Change in Cash Position	(3)	(1)	6	6	(4)
FX Adjustments	(0)	0	-	-	-
Cash Balance	2	1	6	12	8

Balance Sheet (A\$m)	FY19	FY20E	FY21E	FY22E	FY23E
Cash	2	1	6	12	8
Other Current Assets	0	1	0	0	0
PP&E	-	-	-	-	-
Exploration & Development	5	5	9	11	14
Other Non Current Assets	-	0	0	0	0
Total Assets	7	7	15	24	23
Debt	-	-	-	-	-
Other Liabilities	1	0	0	0	0
Net Assets	6	7	15	23	22

Ratio Analysis		FY19	FY20E	FY21E	FY22E	FY23E
Diluted Shares	m	77	113	276	376	378
EPS - Diluted	Ac	(1.8)	(1.6)	(0.5)	(0.3)	(0.3)
P/E	x	n.m.	n.m.	n.m.	n.m.	n.m.
CFPS - Diluted	Ac	(0.8)	(0.7)	(1.0)	(0.3)	(0.3)
P/CF	x	n.m.	n.m.	n.m.	n.m.	n.m.
FCF - Diluted	Ac	(0.7)	(0.6)	(0.7)	(0.3)	(0.3)
P/FCF	x	n.m.	n.m.	n.m.	n.m.	n.m.
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A\$m	26	27	21	15	19
EV/EBITDA	x	(22.1x)	(16.8x)	(21.1x)	(15.0x)	(19.0x)
ROE	%	(20%)	(25%)	(7%)	(5%)	(5%)
ROA	%	(17%)	(23%)	(7%)	(4%)	(5%)
Net Debt or (Cash)	A\$m	(2)	(1)	(6)	(12)	(8)
Gearing (ND/(ND+E))	%	(41%)	(10%)	(76%)	(111%)	(60%)
Gearing (ND/E)	%	(29%)	(9%)	(43%)	(53%)	(37%)

Gold Reserves & Resources

Resource	mt	g/t	koz
Mako is Pre Resource			

Reserve

Earnings Sensitivity		FY20E	FY21E	FY20E	FY21E
Gold Price	US\$/oz +10%	A\$m	A\$m	%	%
FX Translation	A\$/US\$ -10%	n.m.	n.m.	-	-
		n.m.	n.m.	-	-

Valuation	Stake	A\$m	A\$/sh
Napié	75%	50	0.19
Exploration / Other projects		16	0.06
Corporate & Other		(6)	(0.02)
Debt		-	-
Cash*		12.1	0.05
Cash from option strikes		0.4	0.00
Risk adjusted NAV		72	0.28

*As at 7 October 2020 as per latest investor presentation. Includes receivables of ~A\$1m (US\$0.7m) from the sale of the Niou project as announced 1 May 2020

Source: Company data, Blue Ocean Equities

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Steuart McIntyre does not own shares in Mako Gold Limited.