

Golden Tag Resources (GOG:V)

Exploring San Diego, a large silver-zinc project in Mexico's Velardena district

Mineral resource estimate of 56mn oz Indicated and 156mn Inferred

New management since last year, 4,500 m drill program initiated in October 2020

Fully funded through 2021, moderate dilution over next two years

Rating 3.5, given new management, potential resource expansion, and low valuation

Upside catalysts of drill results, silver rebound, rerating versus comps

Exploring large silver-zinc project in Mexico

Golden Tag is exploring a single project in Durango State, Mexico, in the Velardena district, the silver-zinc San Diego deposit, with a mineral resource estimate of 210mn oz AgEq, with 56mn Indicated and 156mn Inferred, one of the larger undeveloped silver deposits in Mexico. The company sees potential to expand the grade and size of San Diego and the possibility of open pit mining for parts of the project. With the deposit also adjacent to a mine being developed by Penoles, it could also eventually become part of a much larger project.

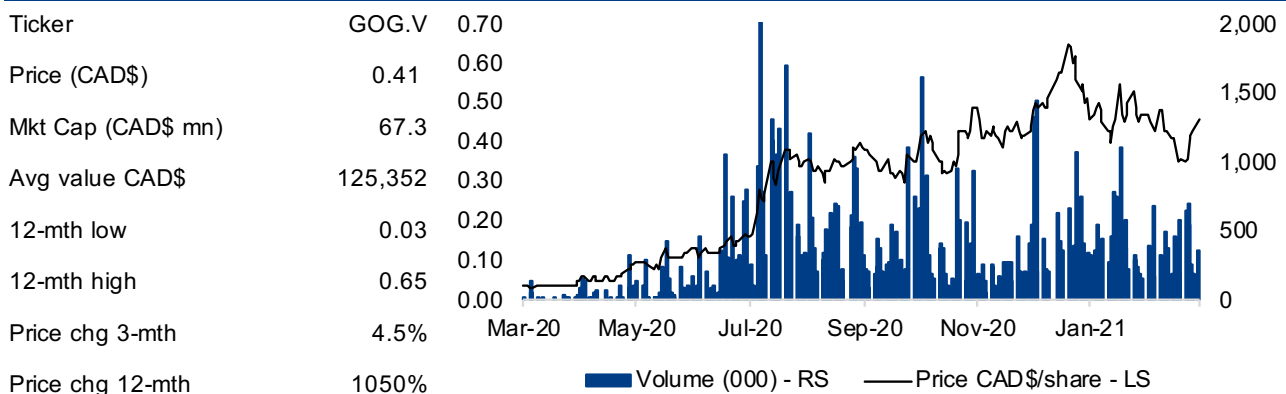
Drill program ongoing, fully funded through 2021

The company saw entirely new senior management takeover in 2020 to advance San Diego, which had seen limited activity since the previous mineral resource from 2013. The team started 4,500 m drill program in October 2020, which is almost complete, and recently released encouraging results from infill sampling. The company is fully funded to continue exploration through 2021 with \$7.4mn in cash, is backed by major shareholders including Eric Sprott, and only moderate dilution is upcoming from existing warrants and options.

Potential to be unlocked, silver price supportive

We rate Golden Tag a 3.5 (out of 5), taking into account the large size of the project, new management team, recent expansion potential shown by infill sampling, sufficient cash, moderately attractive district, our expectation for a continued robust silver price, and a relatively low valuation versus comparables. Upcoming catalysts will include the results of the ongoing drill program, any further gains in the silver price and a possible rerating versus the comps group.

Golden Tag Resources



Source: Yahoo Finance, *Pricing as of Mar 15, 2021

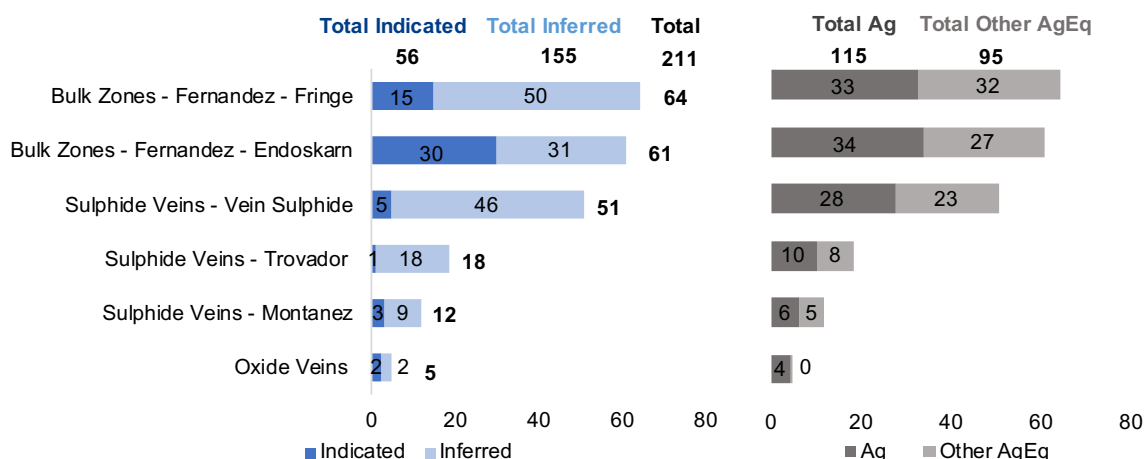
Golden Tag Resources: Overview

Exploring single large silver-zinc project, San Diego, in Mexico

Golden Tag is exploring a single project, San Diego, a silver-zinc deposit in the Velardena mining district in Durango state, Mexico. The project is large in the context of comparable undeveloped silver resources in Mexico, with the most recent mineral resource released in 2013, estimating 210.0mn oz in AgEq. This comprised 31.6mn oz, or 26.3%, in Indicated resources, and 83.8mn oz, or 73.6% in Inferred, and 115.4mn oz of silver, and 95.4 mn oz AgEq of other metals, mostly zinc, with 1,649mn oz, but also lead (Figure 1). The majority of the estimated resource is in the two sections of the Fernandez bulk zone, the Fringe, with 64mn oz, and Endoskarn, with 61mn oz, and in the Vein Sulphide section of the Sulphide Vein zone, with 51 mn oz.

Figure 1: San Diego Silver Project Resources, 2013

	Tonnes Mt	Silver g/t	Lead %	Zinc %	AgEq g/t	AgEq mn oz	Ag mn mn oz	Other AgEq mn oz	Zn mn mn oz
Indicated	16.5	60	0.71	1.22	105	55.5	31.6	23.9	438.1
Inferred	42.0	62	0.90	1.31	115	155.3	83.8	71.5	1,210.9
Total	58.5					210.9	115.4	95.4	1,649.0

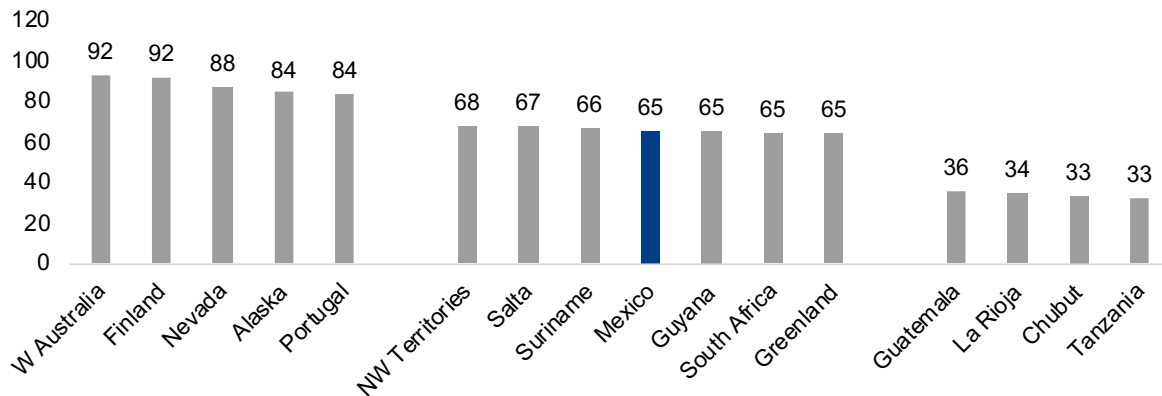


Source: Company

Mexico a moderately ranked district, and top global silver producer

Mexico has a moderately favourable 65 rating for investment attractiveness from the Fraser Institute (Figure 2). The district's attractiveness was improved with foreign ownership limits and specific royalties and taxes for mining being removed by the 1990s, and with Mexico the number one global silver producer, there is significant incentive for government support this industry. To the downside, there are security issues, land disputes with local communities, a populist president with a mixed stance on mining, infrastructure limits, and high energy costs, although there has been improvement especially on the last two issues. Golden Tag's San Diego project is in Durango state, a relatively secure area and key center for Mexico mining, in the Velardena district, considered to be the most economically important mining district in the country. Golden Tag's operations in Mexico are proximate to the Velardena Mine of Penoles, the second largest Mexican mining company, which has made a significant discovery just 2km from the border of the San Diego project.

Figure 2: Mining District Investment Attractiveness Index 2019



Source: Fraser Institute

Figure 3: Golden Tag Resources Management

President, CEO & Director	
Greg McKenzie	Over 20 years investment banking experience, including at Morgan Stanley and CIBC, with transactions of over \$18bn, and previously practiced corporate law
CFO	
Carmelo Marrelli	Principal of the Marrelli Group, Mr. Marrelli is a CPA, CA, CGA, and acts as CFO and Director to several TSX, TSXV and CSE listed firms and non-listed firms
VP Corporate Development and Investor Relations	
Will Aynsley	Over 20 years of mining industry experience, including the development of seven mines in the Americas, with management roles at FNX Mining and Lakeshore Gold
Chairman	
Chad Williams	Founder of Red Cloud Klondike Strike, former Head of Mining Investment Banking at Blackmont Capital, ranked mining analyst at TD Bank and CEO of Victoria Gold
Director	
Tom English	Has 20 years of experience in the financial industry at investment banks including CIBC and Salman Partners covering small and large cap companies
Director	
Dwayne Melrose	Has 30 years of international mining experience in Asia, Africa and the Americas, was former CEO of True Gold Mining and Gold Reach Resources
Director	
Talal Chehab	An Ontario lawyer, operates a law firm in Toronto specializing in corporate-commercial law

Source: Company

New management team enters in 2020

The company underwent a significant change in management in 2020, with a CEO and CFO that had been at the company for decades exiting, and a new team entering to progress San Diego (Figure 3). New CEO Greg McKenzie has over 20 years of investment banking experience, with a focus on mining, CFO Carmelo Marrelli runs the Marrelli Group, a corporate and accounting service provider for Canadian firms, and VP of Corporate Development Will Aynsley has 20 years of mining experience at seven mines in the Americas. Chairman Chad Williams is founder of Red Cloud Klondike Strike, a capital market advisory firm for mining companies, and has an extensive mining investment banking background. Directors Tom English, Dwayne Melrose and Talal Chehab bring investment banking, direct mining, and legal, experience, respectively, to the board.

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ii) Operational Progress

New management team from 2020, drill program ongoing

The company's operational progress as outlined by its press releases over the past year is shown in Figure 4. In March 2020 full permitting was achieved for drilling at San Diego, and in May 2020, the new management team took over, followed by a smaller private placement of \$1.125mn completed in June 2020, enough to support general and administrative costs. In August 2020, the company closed another private placement of US\$7.0mn, enough to begin a drilling, and a 4,500m program at San Diego was initiated in October 2020. In November 2020, approval was received to list on the OTC in the US, in addition to its core TSXV listing. For 2021, there has been a press release on results of an infill sampling program in February, which showed very encouraging results to management in terms of the potential to substantially expand the existing resource.

Figure 4: Golden Tag news flow

Infill Sampling	17-Feb-21	Results reported from infill sampling on historic drill holes A program of infill sampling on historical diamond drill holes have expanded the identified mineralized zones in two holes and increasing previously reported grades in one hole by 10%, with highlights including 88.54 g/t AuEq over 175.30 m
Market Listing	05-Nov-20	Approval for listing on OTC in US The company received approval to trade on the OTCQB market in the US in addition to its main listing on the TSXV
Drill Program	15-Oct-20	Drill exploration program started at San Diego The company began a 4,500 m drill program at its San Diego project focussing on expanding the resource of the existing mineral resources in the Fernandez, 1849, Arroyo and Trovador Zones
Private Placement	14-Aug-20	Private placement of \$7.0mn completed The company completed a private placement for 25mn units for proceeds of \$7.0mn, with Eric Sprott purchasing 42.8%, or 10.7mn units
Private Placement	05-Jun-20	Private placement of \$1.125mn completed The company completed a private placement for 20mn units for proceeds of \$1.125mn, with Eric Sprott purchasing 17.8%, or 3.56mn
Management	29-May-20	New CEO and CFO appointed The company appointed new CEO Greg McKenzie and CFO Carmelo Marrelli and Will Aynsley at VP of Corporate Development and IR, with Bruce Robbins, interim CEO, and Marc Carrier, CFO resigning after 20, and 30 years as directors of the company, respectively
Permitting	25-Mar-20	Permitting achieved for San Diego The company achieved full permitting for exploration work, including a drill program, on its San Diego project, including a 5-year agreement with the local community, and an environmental impact assessment to drill up to 21 holes, which was granted with 2.5 years to complete the proposed work

Source: Company

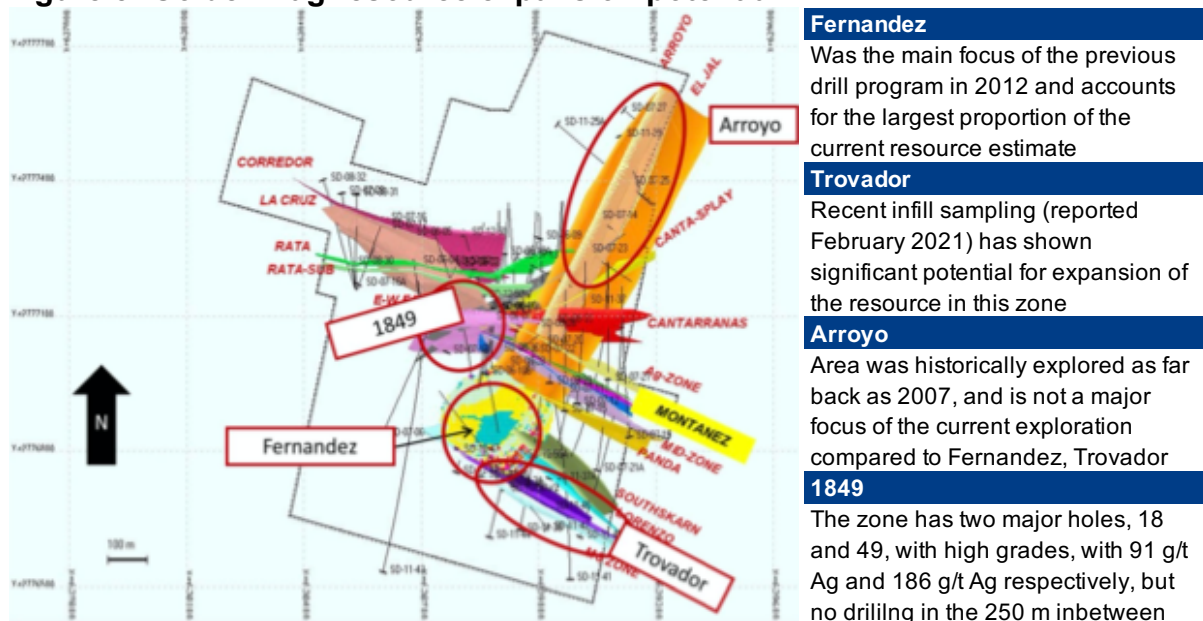
Expansion potential especially at Trovador and 1849 zones

The four main zones of San Diego are shown in Figure 5, with **1) Fernandez**, comprising the Fringe and Endoskarn zones, the main focus of 2012 drilling and comprising the majority of the current resource, **2) Trovador**, a focus of recent infill sampling reported in February 2021, **3) Arroyo**, not a major focus currently, and with exploration dating back to 2007, and **4) 1849**, with two holes previously drilled but with limited exploration between the two, suggesting potential for exploration of the area. While waiting for results from the current drill program, the company analyzed results of the core drilled in previous campaign, dating back to 2011. Many of these, including at Trovador, had not been previously sampled, as the company in the early 2010s had then been looking for high grade underground silver veins, which were eventually discovered in Fernandez, and given a limited budget at the time, it diverted the focus away from these other holes.

Several promising developments from infill sampling in Trovador area: Golden Tag’s recent infill sampling, which is much more comprehensive than what had been performed historically, has increased the company’s assurance that Trovador and the area in between it and Fernandez may be mineralized. For example, the company found that a hole previously stated as 250-350 g/t Ag over around 12m, was actually 88.5 g/t over 175 m. This would potentially be the second bulk tonnage zone of the project, and is close to Fernandez, meaning that the same infrastructure could also be used for Trovador. The company also found mineralized areas above Fernandez, suggesting the possibility for an open pit target there. The sampling additionally saw the grade from one hole previously reported for Fernandez increased by 10%, to 101.96 g/t AgEq, over 298 m. The company also targets a 400 m sq. zone with only a single historical drill hole, and assuming more extensive drilling in this area at a similar average grade, this could be over an additional 40 mn oz AgEq, or over a 20% increase in the overall resource.

Large target between two existing holes in 1849: This is comprised of two holes, hole 49 at the top, with 186 g/t Ag over 42m, and hole 18 at the bottom, with 92 g/t Ag over 101 m, which are in the existing resource, but there is 250 m in between with no previous drilling. The company estimates that this area in between could have an additional 26 mn oz, or adding another 10% or more to the current resource, assuming similar grades to the two main holes.

Figure 5: Golden Tag resource expansion potential



Source: Company

iii) Finances and Share Structure

Golden Tag fully financed to operate through 2021

Golden Tag had average expenses \$359.6k from Q4/19 to Q3/20, but there was limited exploration over this period, and the current drill program only began in Q4/20, which has not yet been reported (Figure 6). However, the company had \$9.0mn in cash as of Q3/20, and the balance had declined to only \$7.4mn as of its latest corporate presentation, indicating \$1.6mn in just expenditure over the past six months, or \$0.8mn per quarter, during the period of the drill campaign. At this rate, the company is fully funded for exploration throughout 2021, and could even expand the program.

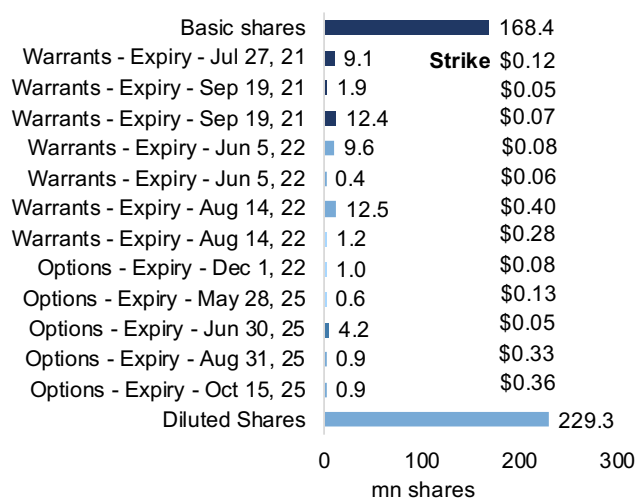
With; 1) the company’s last private placement in August 2020 oversubscribed, and upsized from an original \$5.6mn to \$7.0mn, 2) the major share price gains over the past year, and 3) the supportive environment for mining investment currently, we expect the company to be able to continue to raise cash as needed. Only moderate dilution is expected over the next two years, with total warrants and options outstanding increasing the shares from 168.4mn currently to 229.3mn by 2025 (Figure 7). The company has over 50% longer-term shareholders, with institutions holding 18%, Eric Sprott, 18.6%, high net worth individuals 10% and insiders 5%, with retail holding 48.4% (Figure 8).

Figure 6: Golden Tag Financials

Golden Tag Financials	Q4/19	Q1/20	Q2/20	Q3/20
Income Statement				
Operating expenses	423.6	192.7	312.0	510.1
Share based payments	8.5	0.0	175.2	2,725.8
Financial, other items	104.3	60.3	-90.9	9.2
Total expenses	432.1	192.7	396.3	3,245.1
Balance Sheet				
Cash	1,272	1,263	2,088	9,026
Other assets	318	121	249	377
Total assets	1,589	1,384	2,337	9,403
Current Liabilities	21	9	122	179
Equity	1,568	1,376	2,215	9,223
Total Liabilities, Equity	1,589	1,384	2,337	9,403

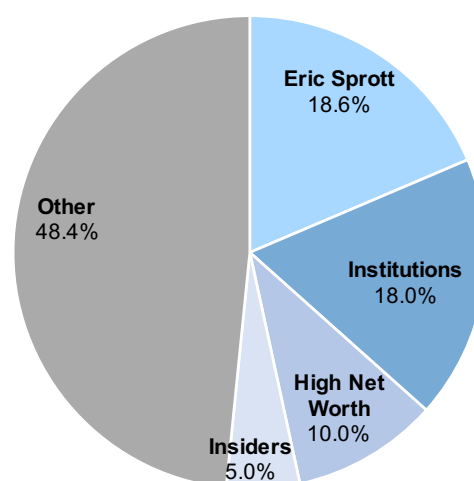
Source: Company

Figure 7: Golden Tag Shares



Source: Company

Figure 8: Golden Tag Shareholders



iv) Macroeconomic Overview

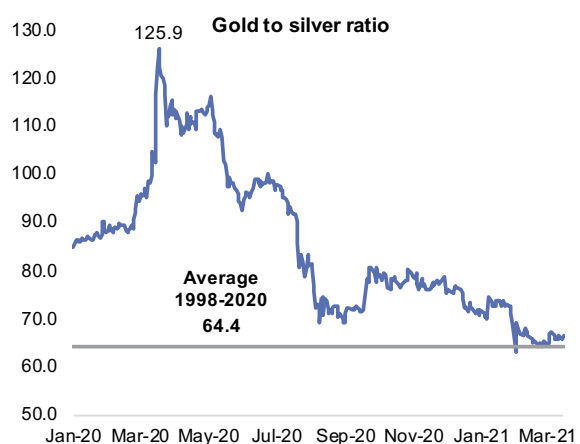
Silver has rebased to US\$25/oz average from mid-2020

The silver price had a very strong H2/20 and has rebased to an average of around US\$25.0/oz over the past nine months, up 50% from an average of US\$16.7/oz over H1/20 (Figure 9). This was driven by two main factors; 1) silver, like gold, is a monetary metal, and thus was buoyed by a massive monetary expansion, especially in the US, that gained pace in the middle of 2020, and 2) silver has broad industrial uses, in contrast to gold, which is less widely used in industry, and therefore had benefited from a pickup in the global economy driven by continued monetary and fiscal stimulus.

Figure 9: Silver price US\$/oz



Figure 10: Gold to silver ratio



Source: Yahoo Finance

Gold to silver ratio at neutral level short-term

The gold to silver ratio, which already look elevated versus historical averages, spiked substantially into the March 2020 crisis, hitting all-time highs, as gold held firm even as silver plummeted on fears of a major economic slowdown leading to reduced demand for silver for industrial uses. However, the spike was short-lived and the ratio trended down since, near halving to 66.6 currently, bringing the ratio in-line with its medium-term average of 64.4 from 1998-2020. In contrast to March 2020, where it seemed clear that the ratio had gotten out of line with long-term fundamentals, the direction it may head now, especially short-term, is not as obvious.

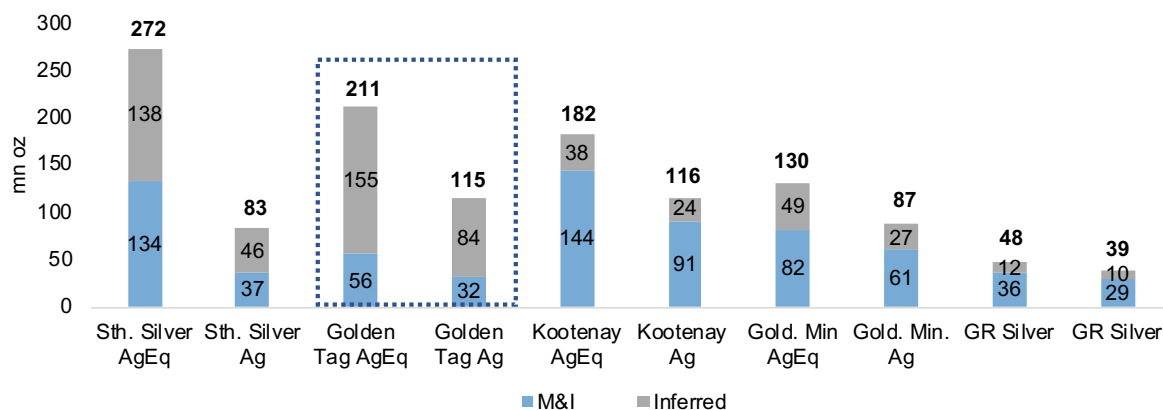
In hypothesizing the ratio's direction from here, we could start with our expectation that gold is unlikely to decline much more its present levels. We are seeing a solid recovery off a brief dip below US\$1,700/oz, and believe that US\$2,000/oz is not out of reach this year, given that extremely loose monetary policy globally does not look to reversed until 2022 at the earliest. This monetary effect should also boost silver to some degree, and if the economy continues to recover, the industrial side of silver demand should buoy the metal's price. Adding to this the particular importance of silver for both electronic devices and vehicles, two huge growth markets, we expect that there is potential over the next year for silver to possibly continue to outperform gold. Overall, therefore we would expect to see both silver and gold up this year, from roughly inline with each other to silver moderately ahead, leading to a flat to down gold to silver ratio.

v) Comparables and Rating

Golden Tag seeing relatively low valuation versus peers

There are a group of reasonably close comparables for Golden Tag, all with major silver projects in Mexico, mineral resource estimates available (Figure 11) and a similar range of market cap (Figure 12), including; 1) Southern Silver, exploring in Faja de Plata, 2) Kootenay Silver, exploring several projects in Sierra Madre 3) Golden Minerals, with four projects, three in Durango and 4) GR Silver, with two projects in Sinaloa. Golden Tag and Kootenay have the largest silver resources currently, at 115mn oz and 116mn oz, respectively, compared to 87mn oz for Golden Minerals and 83mn oz for Southern Silver. However, looking at silver equivalent ounces, with most of these projects also having substantial zinc, lead and other resources, Southern Silver is the largest, with 272mn oz, with Golden Tag second at 211 mn oz.

Figure 11: Resources of comparable companies



Source: Company

Figure 12: Market Cap

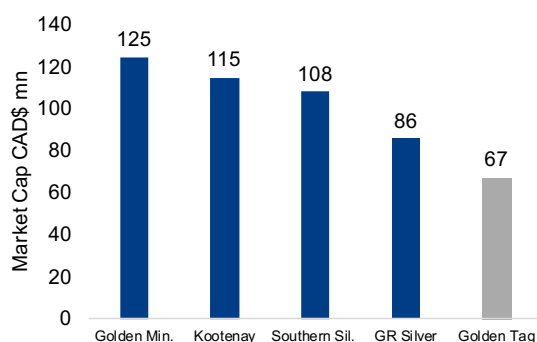
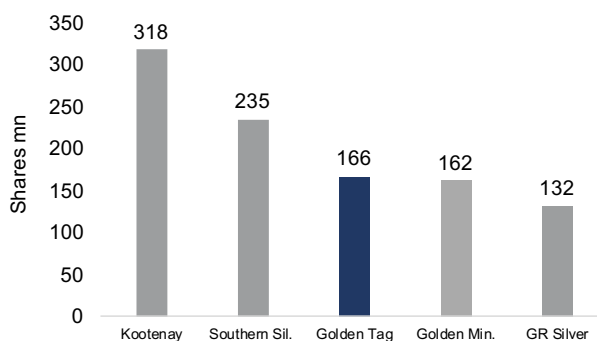


Figure 13: Number of shares



Source: Companies, Yahoo Finance

The company has a reasonably tight share structure versus the comparables group, with 166mn shares, with Kootenay especially having a reasonably high number of shares (Figure 13). Golden Tag trades at reasonably low valuations versus the group, with a Price/NAV of 7.30x, the lowest of the five, and on an EV/Resource of 0.51x, the second lowest of the group (Figures 14, 15). These valuations remain low even after the company's impressive share price performance, surging 975% over the past 12 months, and up 1500% at its peak on January 21, 2021, which seems to demonstrate how the market had largely been disregarding the company prior to the entrance of the new management team, but has highly renewed interest since (Figure 16).

This peak price also shows where the valuation could potentially move to even short-term from an upward move in the silver price alone, apart from direct operational catalysts. Golden Tag’s discount to its peers remains partly it has a much higher proportion of inferred resources than the comps, even though its total silver resource is higher, which likely contributes to the discount. However, this could be viewed as another area where the company has the potential to boost the valuation, especially with the potential outlined above for grade improvement and resource expansion.

Figures 14: Price/NAV*

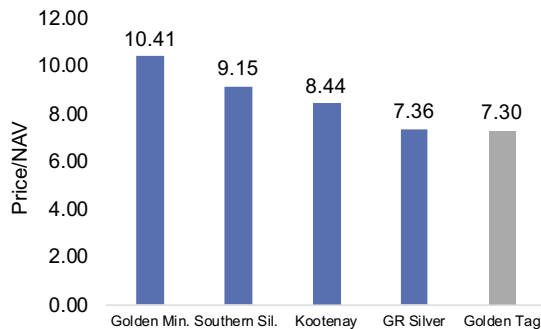
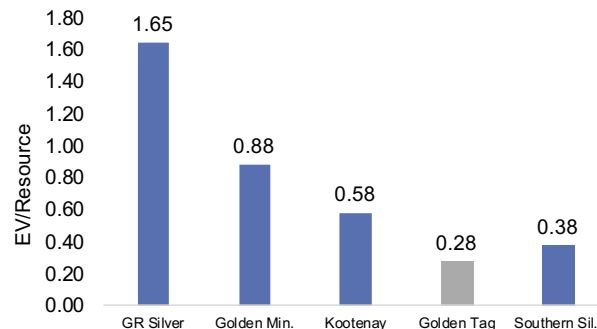
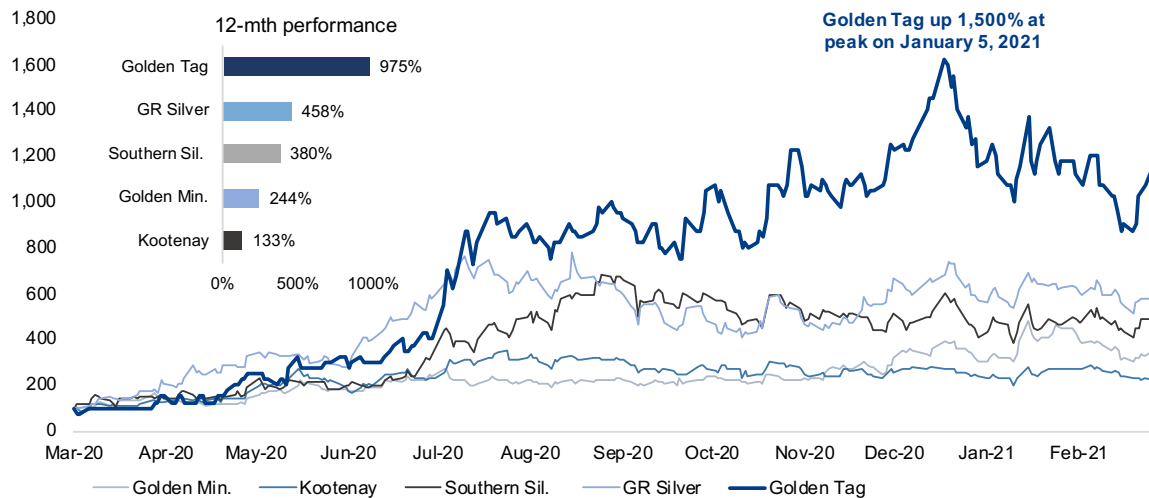


Figure 15: EV/Resource



Source: Companies, Yahoo Finance, *Kootenay financials adjusted to exclude capitalized exploration assets

Figure 16: Golden Tag comparables share price performance



Source: Yahoo Finance

Potential to be unlocked, silver price likely to be supportive

We rate Golden Tag Resources 3.5 out of 5.0. This scale; 1) is relative to junior miners based on potential risk and reward and 2) considers the macro outlook for the specific metal being explored. The company has a large project in a reasonably favourable district, a new management team clearly supported by the market and the first drill program since 2012 ongoing and it is fully funded for 2021. While management has a clear strategy for resource expansion, proof of its hypotheses will still need to be delivered over the next few months to drive up the rating. On the macro side, we expect a pick-up in silver, driven by a both its monetary and industrial factors, will further support upside for Golden Tag. *The main immediate drivers, will be drill results from the near-completed 4,500 m program at San Diego, announcements of further drilling programs, and a rise in the silver price.*

