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Matador Mining (MZZ)

Rating: Buy | Risk: High | Price Target: $0.80

Running with the Gold Bulls – Initiation of Coverage

Key Information

Current Price ($ps)	0.46
12m Target Price ($ps)	0.80
52 Week Range ($ps)	0.10 - 0.50
Target Price Upside (%)	76.7%
TSR (%)	76.7%
Reporting Currency	AUD
Market Cap ($m)	70
Sector	Materials
ASX 200 Weight (%)	0%

Fundamentals

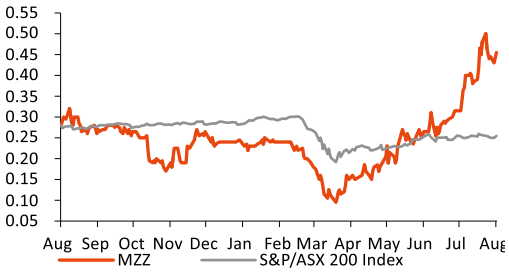
YE 30 Jun (AUD)	FY19A	FY20E	FY21E	FY22E
Sales ($m)	0	0	0	0
NPAT ($m)	(3)	(5)	(6)	(7)
EPS (cps)	(5.8)	(4.6)	(3.8)	(3.2)
EPS Growth (%)	(79.1%)	20.2%	19.1%	13.9%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	0%	0%	0%	0%

Ratios

YE 30 Jun	FY19A	FY20E	FY21E	FY22E
P/E (x)	(4.8)	(9.8)	(12.1)	(14.1)
EV/EBITDA (x)	(21.6)	(14.0)	(13.7)	(13.4)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	44.7%	71.1%	86.1%	71.6%
Absolute (%)	44.4%	71.7%	97.8%	62.5%
Benchmark (%)	(0.3%)	0.6%	11.7%	(9.1%)



Price performance indexed to 100 *Source:*

Major Shareholders

Maple Mining	13.5%
Nero Funds	6.0%
Terra Capital	5.0%

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Event

We initiate coverage on Matador Mining (MZZ) with a Buy recommendation and A$0.80ps price target. Matador Mining is a gold exploration company focussed on the Cape Ray Gold Project in Newfoundland, Canada.

Highlights

- Matador has exploration tenements in the lightly explored but highly prospective Cape Ray Shear Zone in Newfoundland, Canada. The Cape Ray Shear Zone is a geological structure that extends approximately 400 km through Newfoundland.
- Matador is the largest holder of ground along the Cape Ray shear, with approximately 120km of continuous strike along the shear. The Company's total holding in Newfoundland stands at 425km2.
- The Company's tenement boundary is located approximately 50km along strike from Marathon Gold's (MOZ.TSX, market cap C$431m) 4.2Moz Valentine Lake Gold Project.
- Matador released a Scoping Study in 2020 proposing a 1.2 Mtpa standalone mining and processing operation. The preliminary economics indicate the Project has positive financial metrics over an initial mine life of 7 years with capital payback during the first 1.75 years of the Project's life
- Cape Ray's current resource stands at 840koz at 2g/t, with 96% of the resource less than 200m from surface.
- Matador appears relatively cheap compared to a sector average EV/oz multiple of A$93/oz for ASX listed gold exploration companies. Matador trades at A$66/oz.
- Matador's corporate strategy is to increase its resource base to a size that will support a 10 year operation. This will come from a combination of expanding the resource at existing discoveries and drilling at greenfield targets.
- Matador recently completed an A$8.7m share placement which will fund its 2020 and 2021 drilling programs. The company is also expecting to receive $2.1m from the exercise of in the money options which expire in August 2020.
- Matador has commenced a 12,000m drilling program. The program will be focussed on Window Glass Hill (3,000m of drilling), Isle Aux Mort (2,000m) and greenfield targets at Granites, Bigpond-sleeper and Grandy's Lake - Benton (2,000-7,000m).
- The A$ gold price recently hit an all-time high of A$2,800/oz and we expect the US$ gold price to remain well supported with US interest rates in negative real territory.
- The Matador board has recently been restructured including the appointment Executive Chairman Ian Murray who helped build Gold Road from an explorer into a +$1bn company. Justin Osborne (Gold Road) and Mick Wilkes (Oceania Gold) have also joined Non-Executive Directors.

Recommendation

We initiate coverage on Matador Mining (MZZ) with a Buy recommendation and A$0.80ps price target. We have set our price target at a fully diluted DCF valuation.

Catalysts for the stock to reach our price target include;

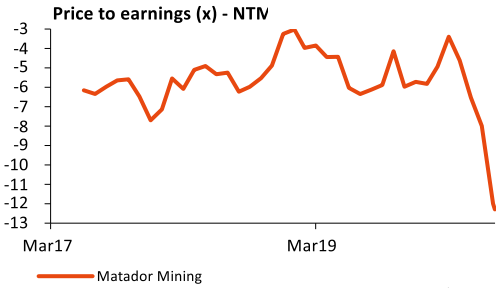
- Exploration activities (12,000m of drilling) have commenced and are on-going through the rest of 2020
- Resource upgrades following further exploration success.
- Further increases in the gold price in a negative real interest rate environment.

Matador Mining
Materials
Materials
FactSet: MZZ-AU / Bloomberg: MZZ AU

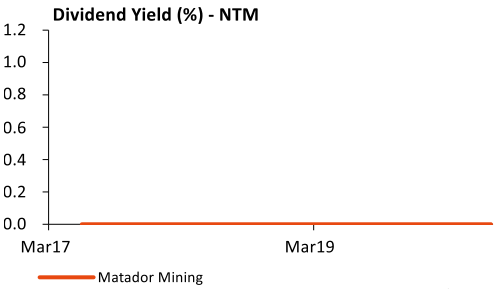
Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.46
Target Price ($ps)	0.80
52 Week Range ($ps)	0.10 - 0.50
Shares on Issue (m)	154
Market Cap ($m)	70
Enterprise Value ($m)	70
TSR (%)	76.7%

Company Description

Matador Mining Ltd. is a mineral exploration company, which is focussed on the Cape Ray gold project in New Foundland, Canada.



Source: Shaw



Source: Shaw

Financial Year End: 30 June

Investment Summary (AUD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPS (Reported) (cps)	**(3.2)**	**(5.8)**	**(4.6)**	**(3.8)**	**(3.2)**
EPS (Underlying) (cps)	**(3.2)**	**(5.8)**	**(4.6)**	**(3.8)**	**(3.2)**
EPS (Underlying) Growth (%)	n/a	(79.1%)	20.2%	19.1%	13.9%
PE (Underlying) (x)	**(9.5)**	**(4.8)**	**(9.8)**	**(12.1)**	**(14.1)**
EV / EBIT (x)	**(62.7)**	**(21.5)**	**(14.0)**	**(13.7)**	**(13.4)**
EV / EBITDA (x)	**(62.7)**	**(21.6)**	**(14.0)**	**(13.7)**	**(13.4)**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Profit and Loss (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Sales	0	0	0	0	0
Other Operating Income	0	0	0	0	0
EBITDA	**(1)**	**(3)**	**(5)**	**(5)**	**(5)**
EBITDA Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Depreciation & Amortisation	0	0	0	0	0
EBIT	**(1)**	**(3)**	**(5)**	**(5)**	**(5)**
EBIT Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Net Interest	0	0	0	(1)	(4)
Pretax Profit	(1)	(3)	(5)	(6)	(9)
Tax	0	0	0	0	2
Tax Rate (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*(25.0%)*
NPAT Underlying	**(1)**	**(3)**	**(5)**	**(6)**	**(7)**
Significant Items	0	0	0	0	0
NPAT Reported	**(1)**	**(3)**	**(5)**	**(6)**	**(7)**

Cashflow (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
EBIT	(1)	(3)	(5)	(5)	(5)
Payments to Suppliers	(1)	(7)	(5)	(5)	(5)
Receipts from Customers	0	0	0	0	0
Tax Paid	0	0	0	0	0
Change in Working Capital	0	0	0	(0)	0
Depreciation & Amortisation	0	0	0	0	0
Other	0	0	0	(1)	(4)
Operating Cashflow	**(1)**	**(7)**	**(5)**	**(6)**	**(9)**
Capex	0	0	0	(43)	(110)
Acquisitions and Investments	(0)	(3)	(5)	(5)	(5)
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	**(0)**	**(3)**	**(5)**	**(48)**	**(115)**
Equity Raised / Bought Back	5	6	8	30	50
Dividends Paid	0	0	0	0	0
Change in Debt	0	1	0	40	80
Other	0	0	0	0	0
Financing Cashflow	**5**	**6**	**8**	**70**	**130**
Exchange Rate Effect	0	0	0	0	0
Net Change in Cash	**4**	**(4)**	**(2)**	**16**	**7**

Balance Sheet (AUD) (m)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	7	3	1	17	23
Accounts Receivable	0	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	4	10	15	63	178
Total Assets	**11**	**13**	**16**	**80**	**201**
Accounts Payable	4	1	1	0	0
Short Term Debt	0	1	1	1	1
Long Term Debt	0	0	0	40	120
Total Liabilities	**4**	**2**	**2**	**42**	**120**

Ratios	FY18A	FY19A	FY20E	FY21E	FY22E
ROE (%)	n/a	(35.7%)	(39.8%)	(23.7%)	(11.0%)
Gearing (%)	(1,698.0%)	(27.9%)	(1.7%)	38.7%	54.5%
Net Debt / EBITDA (x)	6.0	0.7	0.0	(4.7)	(18.6)

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Matador Mining Key financials

Profit & Loss	FY19	FY20f	FY21f	FY22f	FY23f
Revenue	0.0	0.0	0.0	0.0	256.0
Expenses	-3.2	-5.0	-5.1	-5.2	-100.2
Underlying EBITDA	**-3.2**	**-5.0**	**-5.1**	**-5.2**	**155.7**
Depreciation & Amort	0.0	0.0	0.0	0.0	-22.9
Underlying EBIT	**-3.3**	**-5.0**	**-5.1**	**-5.2**	**132.9**
Net Interest	0.0	0.0	-1.0	-3.5	-4.3
Profit Before Tax	**-3.3**	**-5.0**	**-6.1**	**-8.8**	**128.5**
Tax	0.0	0.0	0.0	2.2	-32.1
NPAT (Underlying)	**-3.3**	**-5.0**	**-6.1**	**-6.6**	**96.4**
Exceptional items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**-3.3**	**-5.0**	**-6.1**	**-6.6**	**96.4**

Balance Sheet	FY19	FY20f	FY21f	FY22f	FY23f
Cash	3.0	0.8	16.6	23.3	104.9
Net Receivables	0.4	0.4	0.0	0.0	21.0
Other	0.1	0.1	0.1	0.1	17.6
Current Assets	**3.4**	**1.2**	**16.7**	**23.3**	**143.6**
Property, Plant & Equipment	0.1	0.1	42.9	152.5	131.0
Other	10.0	15.0	20.0	25.0	30.0
Non Current Assets	**10.1**	**15.1**	**62.9**	**177.5**	**161.0**
Total Assets	**13.4**	**16.2**	**79.6**	**200.8**	**304.6**
Trade Creditors	0.5	0.5	0.0	0.0	13.0
Borrowings	0.5	0.5	0.5	0.5	0.5
Other	1.3	1.3	1.3	1.3	1.3
Current Liabilities	**2.3**	**2.3**	**1.8**	**1.8**	**14.8**
Borrowings	0.0	0.0	40.0	120.0	80.0
Other	0.0	0.0	0.0	-2.2	32.1
Non Current Liabilities	**0.0**	**0.0**	**40.0**	**117.8**	**112.1**
Net Assets	**11.1**	**13.9**	**37.8**	**81.3**	**177.6**
Shareholder Capital	13.1	20.9	50.9	100.9	100.9
Retained earnings	-4.7	-9.7	-15.9	-22.4	74.0
Minorities/others	2.8	2.8	2.8	2.8	2.8
Total Equity	**11.1**	**13.9**	**37.8**	**81.3**	**177.6**

Cash Flow	FY19	FY20f	FY21f	FY22f	FY23f
Receipts	0.0	0.0	0.0	0.0	256.0
Payments	-6.9	-5.0	-5.1	-5.2	-100.2
Other Operating Cash Flow	0.1	0.0	-1.2	-3.5	-27.7
Operating Cash Flow	**-6.8**	**-5.0**	**-6.3**	**-8.8**	**128.0**
Capex	0.0	0.0	-42.9	-109.6	-1.4
Other Investing Cash Flow	-3.4	-5.0	-5.0	-5.0	-5.0
Investing Cash Flow	**-3.4**	**-5.0**	**-47.9**	**-114.6**	**-6.4**
Net Equity raised	6.0	7.8	30.0	50.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.5	0.0	40.0	80.0	-40.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Cash flow	**6.5**	**7.8**	**70.0**	**130.0**	**-40.0**
Total Cash Change	-3.7	-2.2	15.9	6.7	81.7

Company Information	
Financial Year End Date	30-Jun
Share Price	0.455
Market Capitalisation	67
Valuation	0.80
Recommendation	Buy

Per Share Data (c)	FY19	FY20f	FY21f	FY22f	FY23f
Shares (m)	67	148	178	228	228
Normalised EPS	-5.8	-4.6	-3.8	-3.2	42.3
Dividends	0.0	0.0	0.0	0.0	1.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	2.2%
Book Value	0.17	0.09	0.21	0.36	0.78
P/E (x)	-7.8	-9.8	-12.1	-14.1	1.1
EV/EBITDA (x)	-8.7	-5.6	-5.5	-5.4	0.2

Valuation (fully diluted)	A$m	A$ps
Cape Ray	176	0.61
Net cash	16	0.06
Exploration upside	50	0.17
Corporate costs	-10	-0.03
Total Valuation	**232**	**0.80**

Assumptions	FY19	FY20f	FY21f	FY22f	FY23f
Prices					
A$/US$	0.71	0.67	0.70	0.73	0.74
Gold (US$/oz)	1289	1570	1764	1896	1967

Operating Metrics	FY19	FY20f	FY21f	FY22f	FY23f
Ore processed (ktpa)			0	0	1200
Average grade (g/t)				2.00	2.60
Gold produced (koz)				0	96
AISC (US$/oz)				0	746
AISC (A$/oz)				0	1008
Average price (A$/oz)				2598	2658
Average cost (A$/oz)				0	919
Average margin (AS$/oz)				2598	1739

Financial metrics (%)	FY19	FY20f	FY21f	FY22f	FY23f
EBITDA margin	0.0%	0.0%	0.0%	0.0%	60.8%
EBIT margin	0.0%	0.0%	0.0%	0.0%	51.9%
ROIC	0.0%	0.0%	0.0%	0.0%	60.7%
Return on Assets	-27.0%	-33.7%	-12.8%	-4.7%	38.1%
Return on Equity	-35.7%	-39.8%	-23.7%	-11.0%	74.5%

Balance sheet metrics	FY19	FY20f	FY21f	FY22f	FY23f
Net Debt (m)	-2	0	24	97	-24
ND / ND+E	n/a	-0.3%	22.8%	48.4%	-30.8%

Matador and Cape Ray Gold Project overview

Matador Mining (MZZ) is developing the Cape Ray Project in Newfoundland, Canada. The Cape Ray Project is located within the Cape Ray Shear Zone, a geological structure that extends approximately 400 km through Newfoundland.

The Cape Ray Project is about 25 km northeast of the coastal town of Port aux. Matador is the largest holder of ground along the Cape Ray shear, with approximately 120km of continuous strike along the shear. The Company's total holding in Newfoundland stands at 425km^2.

The Project is supported by excellent existing infrastructure, including a skilled local workforce at Port Aux Basque (population 5,000), 15km from the main roads as well as easy access to grid power (C$0.06/Kwh).

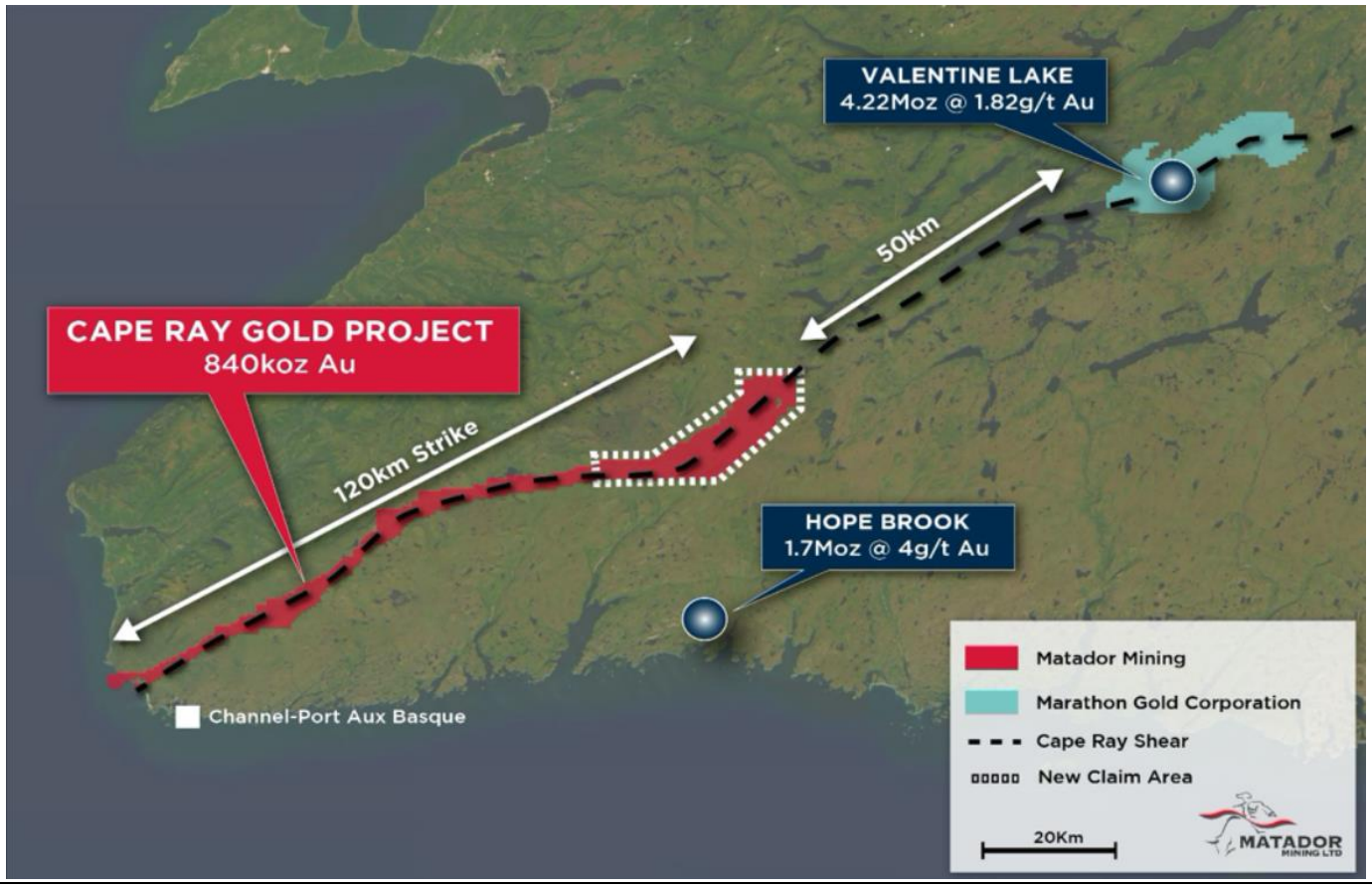
The Company's tenement boundary is located approximately 50km along strike from Marathon Gold's (MOZ.TSX) 4.2Moz Valentine Lake Gold Project.

Cape Ray's current resource stands at 840koz at 2g/t, with 96% of the resource less than 200m from surface.

Matador released a Scoping Study in 2020 proposing a 1.2 Mtpa standalone mining and processing operation. The preliminary economics indicate the Project has positive financial metrics over an initial mine life of 7 years with capital payback during the first 1.75 years of the Project's life

There is significant exploration upside along the shear zone, which despite its high prospectivity has been very lightly explored. Matador recently raised A$8.7m via a Canadian charity flow through share placement to fund a substantial drilling program over the next two drilling seasons. An additional $2.1m from the exercise of in the money options is expected in August 2020.

Figure 1: Cape Ray Gold Project location



Source: Matador Mining presentation

Cape Ray Gold Project Scoping Study

In May 2020 Matador released the results of a scoping study which confirmed the ability of the initial resource to support a viable gold mining operation.

The key features of the Scoping Study include;

- 7-year life of mine with total gold mined 504,000 oz, averaging 88,000 oz production per year during the first four years.
- LOM average Total Cash Costs of US$709/oz and All-In Sustaining Costs of US$776/oz.
- Initial total capital costs of US$102M (including US$6M mine development).
- Mining is predominantly open pit, but a small underground component has been included to access high grade ore below the pit. The underground component only accounts for ~6% of gold production.
- Processing facility throughput of 1.2Mtpa with average head grade of 2.0g/t Au (LOM), and 2.56 g/t Au during the first 4 years of production.
- After-tax IRR of 51% and NPV_8 of A$194M based on a US$1,550/oz gold price. This increases to an IRR of 65% and NPV_8 of A$259M at ~US$1,700/oz gold.

The scoping study was completed to a Class5 degree of accuracy of +/- 35% and is indicative that Cape Ray is likely to be a commercial operation. However, the main upside for Matador is the exploration potential along the Cape Ray Shear and, if successful, the final project is likely to be materially larger than the numbers presented in the scoping study.

Figure 2: Cape Ray Scoping Study – summary of key data

Post-Tax Financial output	LOM total / Avg.
NPV (8%) (A$ m)	194
NPV (8%) (C$ m)	168
IRR (%)	51
Payback (Years)	1.75
Undiscounted Cumulative Cashflow (C$ m)	253
Pre-Tax Financial output	**LOM total / Avg.**
NPV (8%) (A$ m)	295
NPV (8%) (C$ m)	256
IRR (%)	61
Undiscounted Cumulative Cashflow (C$ m)	583
Financial Inputs	**LOM total / Avg.**
Gold Price (US$/ oz)	$1,550
Silver Price (US$/ oz)	$18
Exchange rate (US$: C$)	0.70
Exchange rate (C$: A$)	0.87
General	**LOM total / Avg.**
Mine Life (Yrs)	7
Ramp up period (Yrs)	0.5
Processing Facility Throughput (Mt)	1.2
Total Ore Mined (Mt)	7.8
Total Material Mined (Mt)	92.7
Strip Ratio (Operational)	9.6
Total Gold Mined (Au koz)	504
Production	**LOM total / Avg.**
Mill Head Grade (Au g/t)	2.0
Au Mill Recovery (%)	96%
Mill Head Grade (Ag g/t)	6.13
Ag Mill Recovery (%)	56%
Av. Annual Production (1-4) (Au koz)	88
LOM Production (Au koz)	483
Operating costs	**LOM total / Avg.**
Mining Costs - OP (C$ / t mined)	2.80
Mining Costs - UG (C$ / t mined)	90
Processing Costs (C$ / t processed)	21.35
G&A Costs (C$ / t processed)	4.94
Royalty rate (%)	1.9
C1 Cash costs (C$ / oz)	1,013
C1 Cash costs (US$ / oz)	709
AISC (C$ / oz)	1,108
AISC (US$ / oz)	776
Capital costs	**LOM total / Avg.**
Initial Capital (exc. Mine Development) (C$ m)	136.7
Mine Development (Initial) (C$ m)	8.7
Mine Development – OP (Sustaining) (C$ m)	28.2
Mine Development – UG (C$ m)	12.2
Other Sustaining Capital (C$ m)	6.9

Source: Matador ASX release May 2020

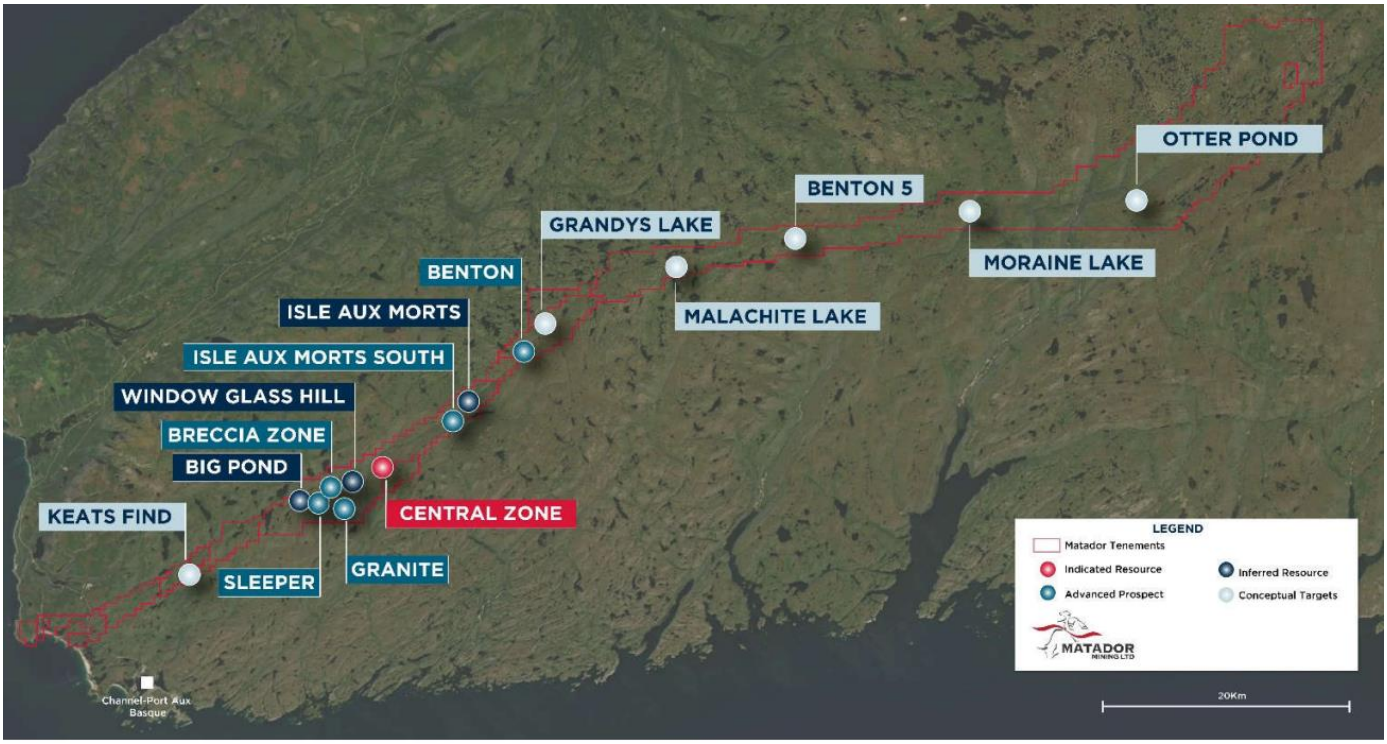
Cape Ray Gold Project exploration upside

Matador's corporate strategy is to increase its resource base to a size that will support a 10 year operation. This will come from a combination of expanding the resource at existing discoveries and drilling at greenfield targets.

Matador has commenced a 12,000m drilling program. The program will be focussed on Window Glass Hill (3,000m of drilling), Isle Aux Mort (2,000m) and greenfield targets at Granites, Bigpond-sleeper and Grandy's Lake - Benton (2,000-7,000m).

The Company is also undertaking a significant target generation program at the project which will systemically test a number of priority areas where there appears good potential for gold mineralisation, but that has only had limited work completed previously.

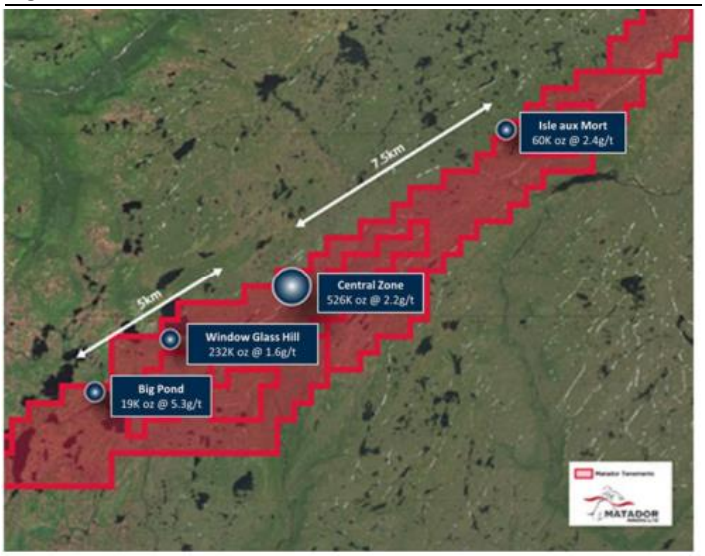
Figure 3: Woodlark main deposit locations



Source: Matador ASX release July 2020

The current resource base of 837koz is focussed on four deposits at Central, Isle Aux Mort, Big Pond and Window Glass Hill.

Figure 4: Location of current resources



Source: Matador Scoping study May 2020

Figure 5: Current resource summary

Applied Cut-off Grade (g/t)	Deposit	Indicated			Inferred			Total		
		Mt	Au (g/t)	Koz (Au)	Mt	Au (g/t)	Koz (Au)	Mt	Au (g/t)	Koz (Au)
Open Pit 0.25[1] /0.5[2] g/t Au	Central	3.1	3.1	302	3.5	1.3	141	6.6	2.1	443
	Isle Aux Mort	-	-	-	0.8	2.4	60	0.8	2.4	60
	Big Pond	-	-	-	0.1	5.3	19	0.1	5.3	19
	WGH	-	-	-	4.7	1.6	232	4.7	1.6	232
	Total	**3.1**	**3.1**	**302**	**9.1**	**1.55**	**452**	**12.1**	**1.93**	**754**
Underground 2.0g/t Au	Central	0.5	3.8	54	0.3	2.8	29	0.8	3.3	83
	Isle Aux Mort				-	-	-	-	-	-
	Big Pond				-	-	-	-	-	-
	WGH				-	-	-	-	-	-
	Total	**0.45**	**3.75**	**54**	**0.32**	**2.77**	**29**	**0.77**	**3.34**	**83**
Total Combined 0.5 / 2.0 g/t Au	Central	3.5	3.2	356	3.8	1.4	170	7.4	2.2	526
	Isle Aux Mort	-	-	-	0.8	2.4	60	0.8	2.4	60
	Big Pond	-	-	-	0.1	5.3	19	0.1	5.3	19
	WGH	-	-	-	4.7	1.6	232	4.7	1.6	232
	Total	**3.5**	**3.15**	**356**	**9.4**	**1.60**	**481**	**12.9**	**2.02**	**837**

1. Window Glass Hill and PW Zone
2. Central Zone deposits 04/41, 51 and Isle aux Mort and Big Pond
3. Figures have been rounded

Source: Matador Scoping study May 2020

Window Glass Hill

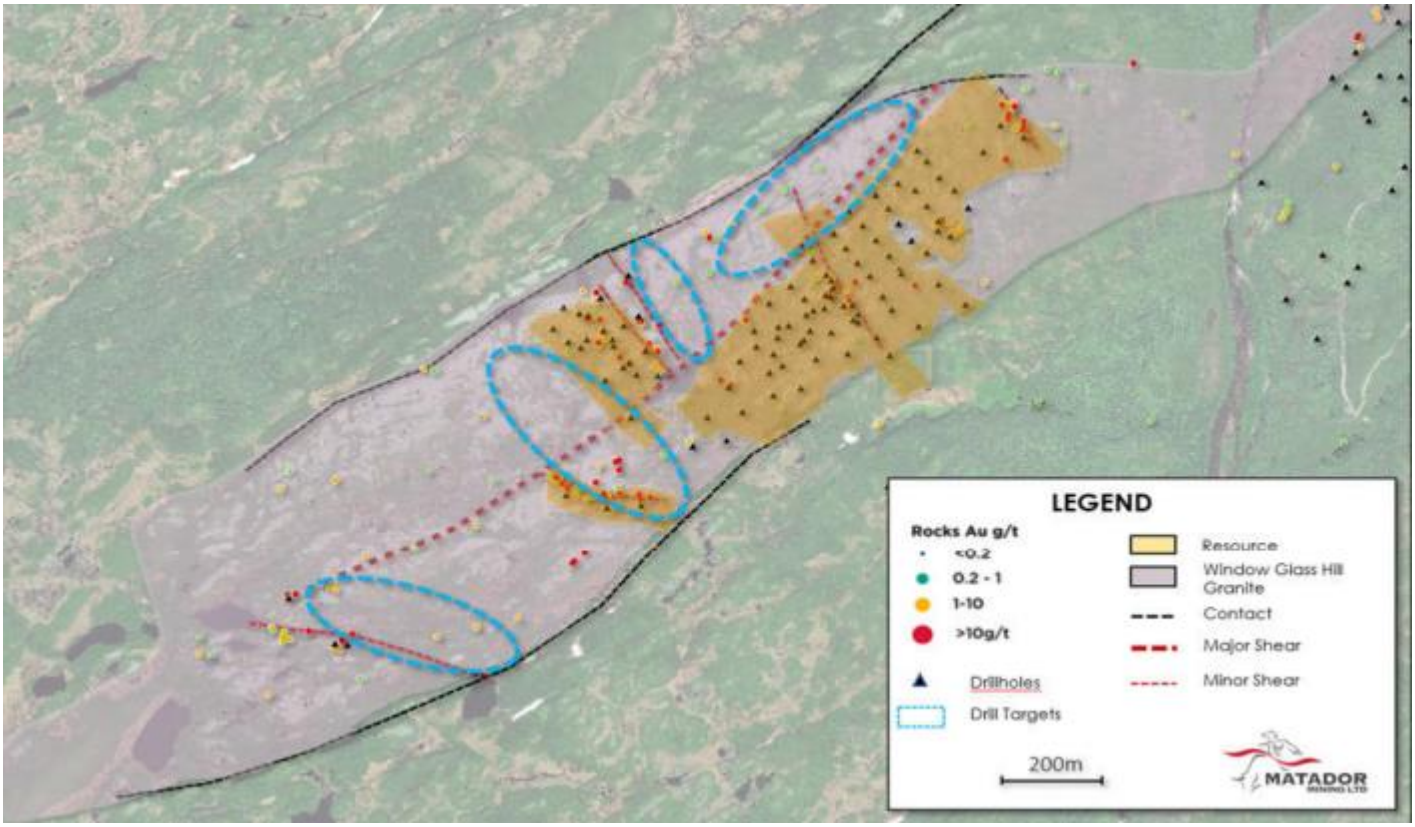
The Window Glass Hill deposit is located approximately two kilometres west of Central Zone (currently the largest gold deposit on the tenements) and has an inferred resource of 232koz at 1.6g/t Au. Mineralisation is hosted in laminated quartz veins with associated base metal sulphide mineralisation.

The resource was originally thought to be bounded to the north by a fault but drilling 2019 encountered mineralisation to the north. Testing for a resource extension to the north will be the first area of focus in the drilling campaign.

The program will also focus on the shears identified in the western end of the deposit which have not been adequately drill tested.

Four specific target areas have been identified as priority areas for the 2020 drill campaign (figure 6).

Figure 6: Window Glass Hill – target drilling locations



Source: Matador ASX release July 2020

Isle aux Morts

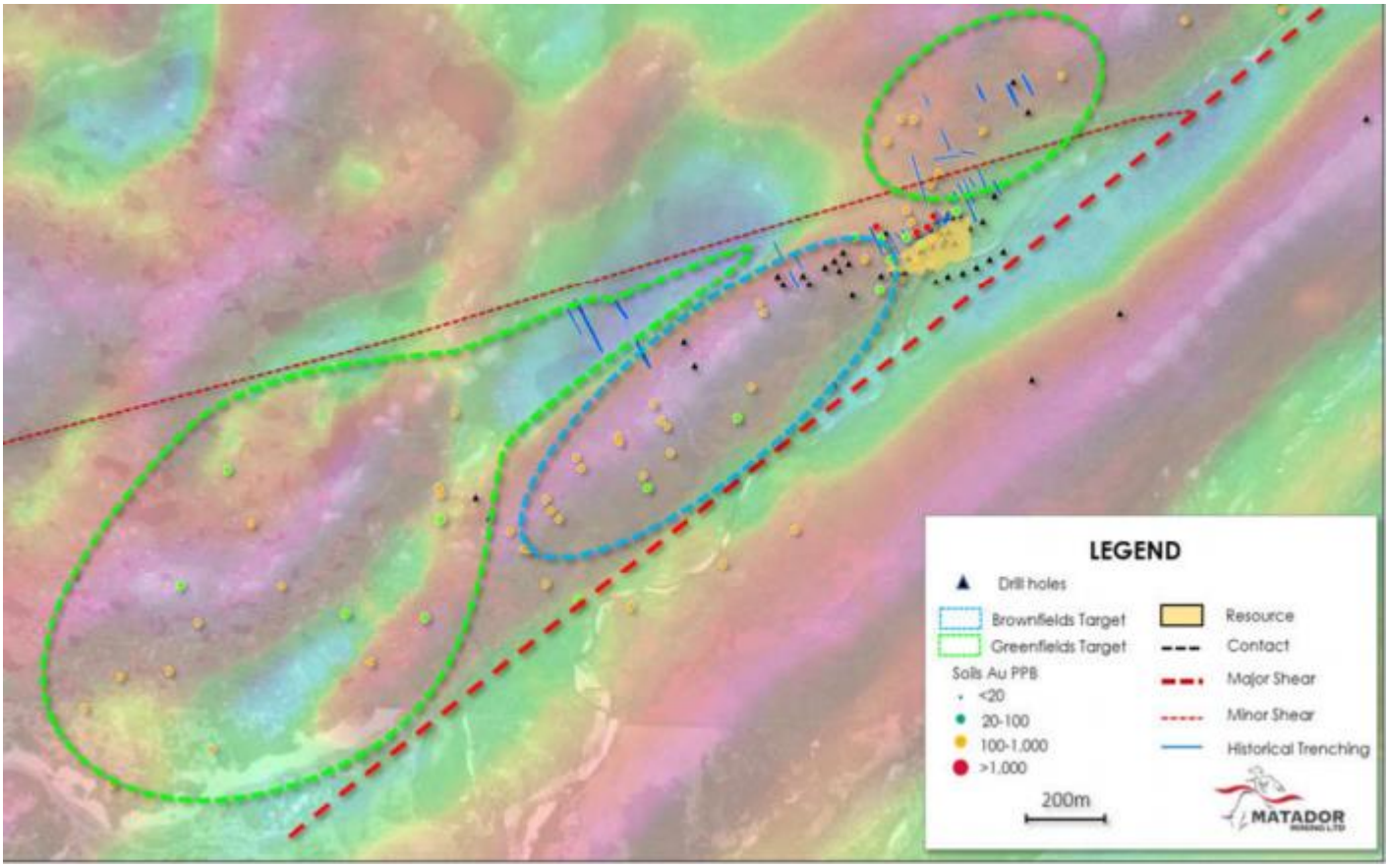
The Isle aux Morts deposit has a currently defined strike length of 200 metres containing an inferred resource of 60koz at 2.4g/t Au.

Matador has highlighted potential for additional mineralisation along strike to the northeast and southwest of the known deposit. Two holes drilled in 2019 confirmed mineralised gold structures with extensive sulphides logged in the core in these areas of potential strike extension.

Matador has also identified a zone to the south-west of the main mineralised zone. This are will be subject to a two-phase program of mapping and ground magnetometer surveys, followed by trenching and geochemical sampling. This is expected to generate potential targets for drill testing later in the season.

A 2,000 metre drill program comprising a combination of extensional drilling and minor infill drilling is scheduled to immediately follow the initial drilling campaign at Window Glass Hill.

Figure 7: Isle aux Morts – target drilling locations



Source: Matador ASX release July 2020

Greenfield Targets

The area comprising the Granite, Sleeper and Breccia Zone targets has been selected as the highest priority target area for greenfield exploration activities during the 2020 field season. The target area is easily accessible, being located only two kilometres west of the Window Glass Hill deposit.

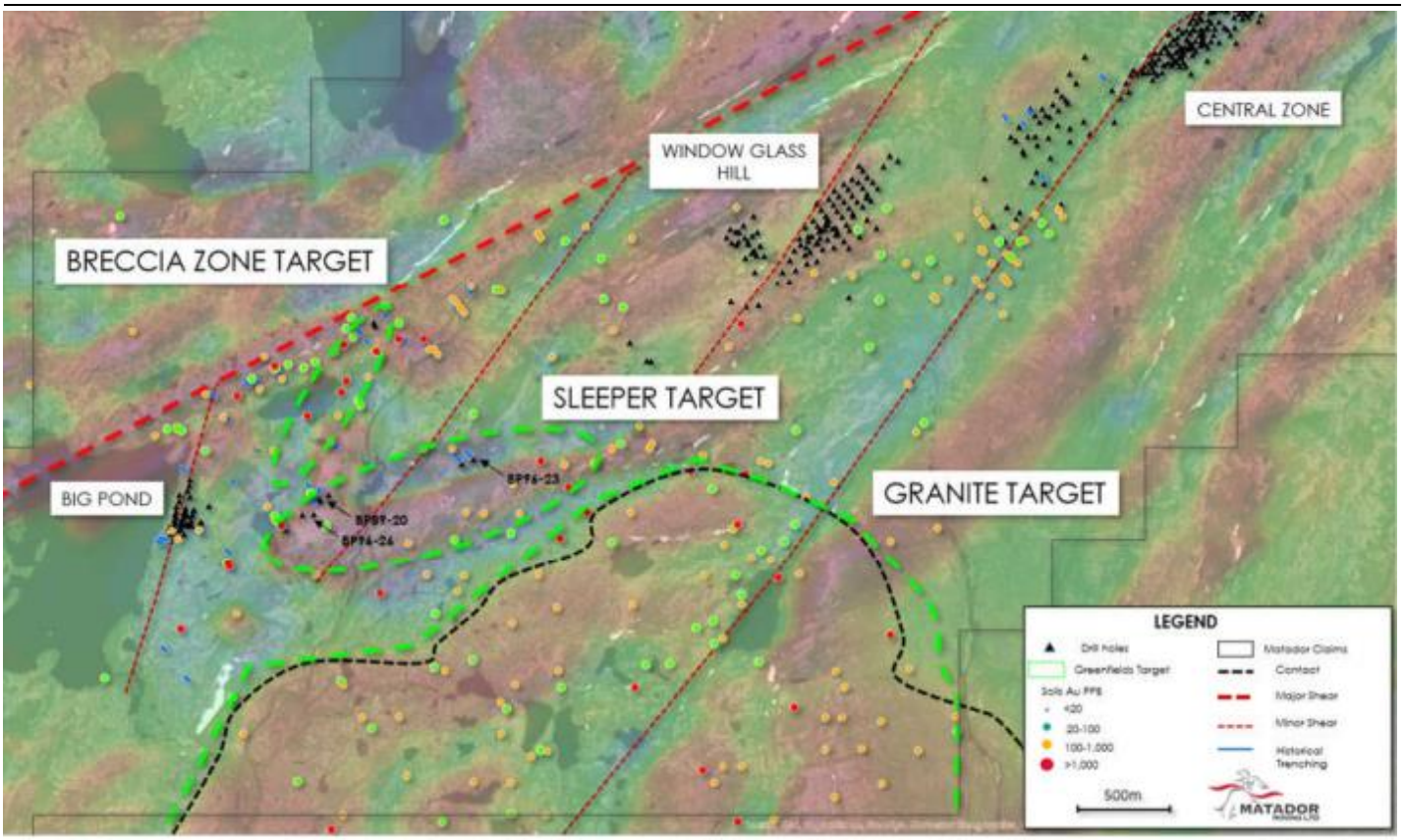
The Granite Target area was identified during the 2019 field season following interpretation of aeromagnetic data and a regional soil sampling program.

The Sleeper Target area, located 600 metres north of the Granite target, has been subjected to previous trenching activities and reconnaissance drill testing. Significant drill intercepts including 4.2m at 3.52g/t Au have been reported previously.

The Breccia Zone target, located 800 metres north of Sleeper, may represent the northern limb of the Sleeper Zone fold zone. Like Sleeper, the Breccia Zone has been subjected to historical trenching and soil geochemical sampling. Reconnaissance drill testing by Matador in 2019 identified sulphide-bearing quartz veins but there was no significant gold mineralisation recorded. Matador is intending to drill test an area to the south of Breccia Zone as a follow-up.

Matador proposes to use a combination of ground magnetics (backpack system or drone supported) with follow up geological and structural mapping of priority areas. A trenching program is proposed as the second stage, with follow drilling in target areas.

Figure 8: Greenfield exploration targets



Source: Matador ASX release July 2020

Marathon's Valentine Lake Gold Project

Matador's Cap Ray Gold project is on-trend and around 50km south west of Marathon's Valentine Lake Gold Project.

When completed, the Valentine Gold Project will be the largest gold mine in Atlantic Canada and a significant contributor to the economy of Newfoundland and Labrador.

Valentine Gold comprises a series of mineralized deposits along a 20-kilometre trend. An April 2020 Pre-Feasibility Study outlined an open pit mining and conventional milling operation over a twelve-year mine life with a 36% after-tax rate of return and an average gold production profile of 175,000 ounces of gold per year for the first 9 years.

Valentine Lake has estimated Proven and Probable Mineral Reserves of 1.87 Moz (41.05 Mt at 1.41 g/t Au) and Total Measured and Indicated Mineral Resources (inclusive of the Mineral Reserves) of 3.09 Moz (54.9 Mt at 1.75 g/t Au). Additional Inferred Mineral Resources are 0.96 Moz (16.77 Mt at 1.78 g/t Au).

Marathon submitted a project description with the regulatory authorities in April 2019 and is expecting to submit an Environmental Impact Statement in 3Q20.

Based on the Pre-Feasibility Study, Marathon expects the initial capital investment to be C$272 million. Marathon currently contemplates completion of the project's EA process in the second half of 2021, breaking ground for construction in early 2022, and a production start in the second half of 2023.

Marathon also recently made a new discovery along strike from their main deposit. This highlights the prospectivity of the shear for new discoveries to be made

Matador P&L

We have modelled a development of Cape Ray in-line with company's recent scoping study. The key assumptions in our model include;

- Capital costs of US$110m to complete the mine and processing facilities.
- First production in 2023.
- Processing plant with capacity of 1,200tpa.
- Grade profile as per the scoping study (~2.6g/t in early years).
- C1 and AISC costs as per the scoping study – AISC at US$780/oz.

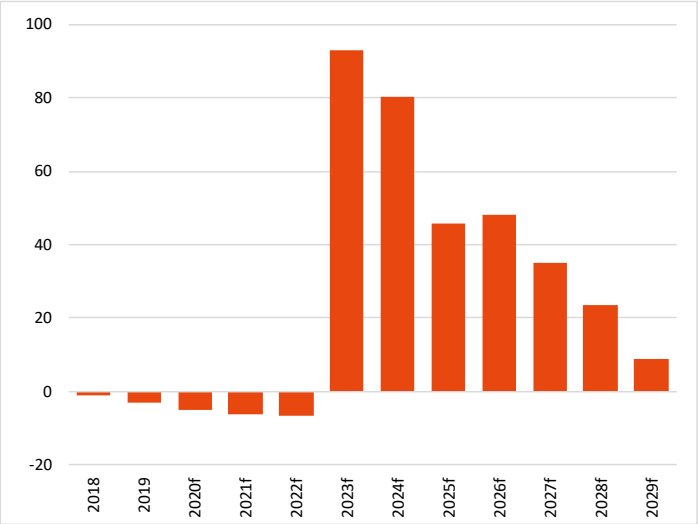
In figure 11 we show our forecast of NPAT to percentage movements in the gold price away from our base case forecast. Every 10% move in the gold price is worth around A$18m to NPAT in 2023.

Figure 9: Matador Mining P&L (A$m)

Profit & Loss (A$m)	2019	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Ore processed (kt)	0	0	0	0	1,200	1,200	1,200	1,200	1,200	1,200	600	0
Gold produced (koz)	0	0	0	0	96	96	96	96	74	65	22	0
Revenue	**0**	**0**	**0**	**0**	**256**	**235**	**185**	**189**	**149**	**133**	**47**	**0**
Operating costs		0	0	0	-95	-96	-95	-96	-76	-68	-24	0
Admin & other expenses	-3	-5	-5	-5	-5	-5	-6	-6	-6	-6	-6	-6
Total costs	**-3**	**-5**	**-5**	**-5**	**-100**	**-102**	**-100**	**-102**	**-81**	**-74**	**-30**	**-6**
EBITDA	**-3**	**-5**	**-5**	**-5**	**156**	**133**	**85**	**87**	**67**	**59**	**17**	**-6**
Depreciation & Amortisation	0	0	0	0	-23	-23	-23	-23	-23	-23	-11	0
EBIT	**-3**	**-5**	**-5**	**-5**	**133**	**110**	**62**	**64**	**45**	**37**	**6**	**-6**
Net Finance Expense	0	0	-1	-4	-4	0	4	5	6	7	8	8
Profit before tax	**-3**	**-5**	**-6**	**-9**	**129**	**110**	**66**	**69**	**51**	**44**	**14**	**2**
Income tax (expense)/benefit	0	0	0	2	-32	-28	-16	-17	-13	-11	-3	0
Reported NPAT	**-3**	**-5**	**-6**	**-7**	**96**	**83**	**49**	**52**	**38**	**33**	**10**	**1**

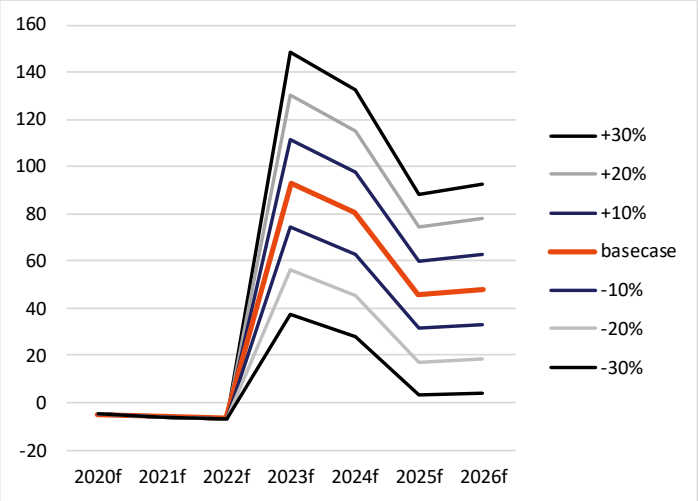
Source: Company reports, Shaw and Partners analysis

Figure 10: NPAT (A$m)



Source: Company reports, Shaw and Partners analysis

Figure 11: Matador NPAT sensitivity to gold price (A$m)



Source: Company reports, Shaw and Partners analysis

Figure 12: Base case gold price assumptions

Gold Price forecast	2019	2020f	2021f	2022f	2023f	2024f	2025f	Longterm
Gold price (US$/oz)	1,289	1,570	1,764	1,896	1,967	1,817	1,439	1,288
Gold price (A$/oz)	1,822	2,337	2,520	2,598	2,658	2,439	1,919	1,717
AUD/USD	0.71	0.67	0.70	0.73	0.74	0.75	0.75	0.75

Source: Factset, Shaw and Partners forecasts

Financing - balance sheet and cash flow

Matador recently raised A$8.7m via a Canadian charity flow through share placement. This has provided Matador with sufficient funds for the company's next two drilling campaigns.

Further exploration will hopefully prove up a large enough resource to revisit the recently released scoping study with a larger potential development. This will then allow the shape for future capital requirements to be determined. For the purpose of this initiation report we have modelled a two part A$80m equity raise in FY21 and FY22.

Figure 13: Matador Cash flow (A$m)

CASH FLOW (AS$m)	2019	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Operating activities												
Receipts from customers	0	0	0	0	256	235	185	189	149	133	47	0
Payments to suppliers and employe	-7	-5	-5	-5	-100	-102	-100	-102	-81	-74	-30	-6
Income taxes paid	0	0	0	0	2	-32	-28	-16	-17	-13	-11	-3
Working capital movement	0	0	0	0	-26	3	7	0	3	1	7	4
Net cash flow from operating activities	**-7**	**-5**	**-6**	**-9**	**128**	**104**	**68**	**75**	**59**	**55**	**21**	**2**
Investing activities												
Payments for PPE	0	0	-43	-110	-1	-1	-1	-1	-1	-1	-1	-13
Net cash flow from investing activities	**-3**	**-5**	**-48**	**-115**	**-6**	**-6**	**-6**	**-6**	**-6**	**-6**	**-6**	**-18**
Free cash flow	**-10**	**-10**	**-54**	**-123**	**122**	**98**	**62**	**69**	**53**	**49**	**15**	**-16**
Financing activities												
Net proceeds from issue of shares	6	8	30	50	0	0	0	0	0	0	0	0
Proceeds from borrowings	1	0	40	80	0	0	0	0	0	0	0	0
Repayments of borrowings	0	0	0	0	-40	-40	-40	0	0	0	0	0
Dividends paid	0	0	0	0	0	-5	-18	-25	-23	-18	-11	-2
Other	0	0	0	0	0	0	0	0	0	0	0	0
Net cash flow from financing activities	**6**	**8**	**70**	**130**	**-40**	**-45**	**-58**	**-25**	**-23**	**-18**	**-11**	**-2**
Net increase/(decrease) in cash	-4	-2	16	7	82	53	4	43	30	31	3	-18

Source: Company reports, Shaw and Partners analysis

Figure 14: Matador Balance Sheet (A$m)

BALANCE SHEET (A$m)	2019	2020f	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Cash and cash equivalents	3	1	17	23	105	158	162	205	236	266	269	251
Trade and other receivables	0	0	0	0	21	19	15	16	12	11	4	0
Other	0	0	0	0	18	16	13	13	10	9	3	0
Total current assets	**3**	**1**	**17**	**23**	**144**	**194**	**190**	**234**	**258**	**286**	**276**	**251**
Property, plant and equipment	0	0	43	153	131	110	88	67	46	25	15	28
Exploration and evaluation expendi	10	15	20	25	30	35	40	45	50	55	60	65
Total non-current assets	**10**	**15**	**63**	**178**	**161**	**145**	**128**	**112**	**96**	**80**	**75**	**93**
TOTAL ASSETS	**13**	**16**	**80**	**201**	**305**	**338**	**318**	**346**	**354**	**366**	**351**	**344**
Trade and other payables	1	1	0	0	13	13	13	13	10	9	3	0
Total current liabilities	**2**	**2**	**2**	**2**	**15**	**15**	**15**	**15**	**12**	**11**	**5**	**2**
Deferred tax	0	0	0	-2	32	28	16	17	13	11	3	0
Borrowings	0	0	40	120	80	40	0	0	0	0	0	0
Total non-current liabilities	**0**	**0**	**40**	**118**	**112**	**68**	**16**	**17**	**13**	**11**	**3**	**0**
TOTAL LIABILITIES	**2**	**2**	**42**	**120**	**127**	**83**	**31**	**32**	**25**	**22**	**8**	**2**
NET ASSETS	**11**	**14**	**38**	**81**	**178**	**256**	**287**	**314**	**329**	**344**	**343**	**342**
Net debt	-2	0	24	97	-24	-118	-161	-205	-235	-266	-269	-250
Gearing (ND/ND+E %)	0%	0%	39%	54%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Company reports, Shaw and Partners analysis

Valuation and Price Target

Our preferred valuation technique is a discounted cash flow (DCF) valuation with post-tax operational cash flows discounted at Matador's weighted average cost of capital of 10%.

Our undiluted DCF valuation is $1.11ps and Matador is currently trading at a 62% discount to this valuation.

In our base case forecast we assume that Matador will raise A$80m of equity at a share price of A$0.80ps. In figure 16 we show a forward DCF valuation of Matador post the dilutive equity raising. The valuation drops to A$0.80ps due to the dilution, but this is highly dependent on the price the additional equity is issued at.

Figure 15: DCF valuation - undiluted

Matador Valuation	A$m	A$ps
Cape Ray	176	0.84
Net cash	16	0.08
Exploration upside	50	0.24
Corporate costs	-10	-0.05
Total Valuation	**232**	**1.11**

Source: Company reports, Shaw and Partners analysis

Figure 16: DCF valuation - diluted for A$80m equity raising

Matador Valuation - diluted	A$m	A$ps
Cape Ray	176	0.61
Net cash	16	0.06
Exploration upside	50	0.17
Corporate costs	-10	-0.03
Total Valuation	**232**	**0.80**

Source: Company reports, Shaw and Partners analysis

As noted earlier, the spot A$ gold price is substantially ahead of our forecast and in the tables below we show the MZZ valuation at spot prices on both an undiluted and fully diluted basis. At spot prices, our MZZ DCF valuation increases to A$1.80ps, or A$1.30ps on a fully diluted basis.

Figure 17: DCF valuation – spot prices undiluted

Matador Valuation	A$m	A$ps
Cape Ray	325	1.55
Net cash	16	0.08
Exploration upside	50	0.24
Corporate costs	-15	-0.07
Total Valuation	**376**	**1.80**

Source: Company reports, Shaw and Partners analysis

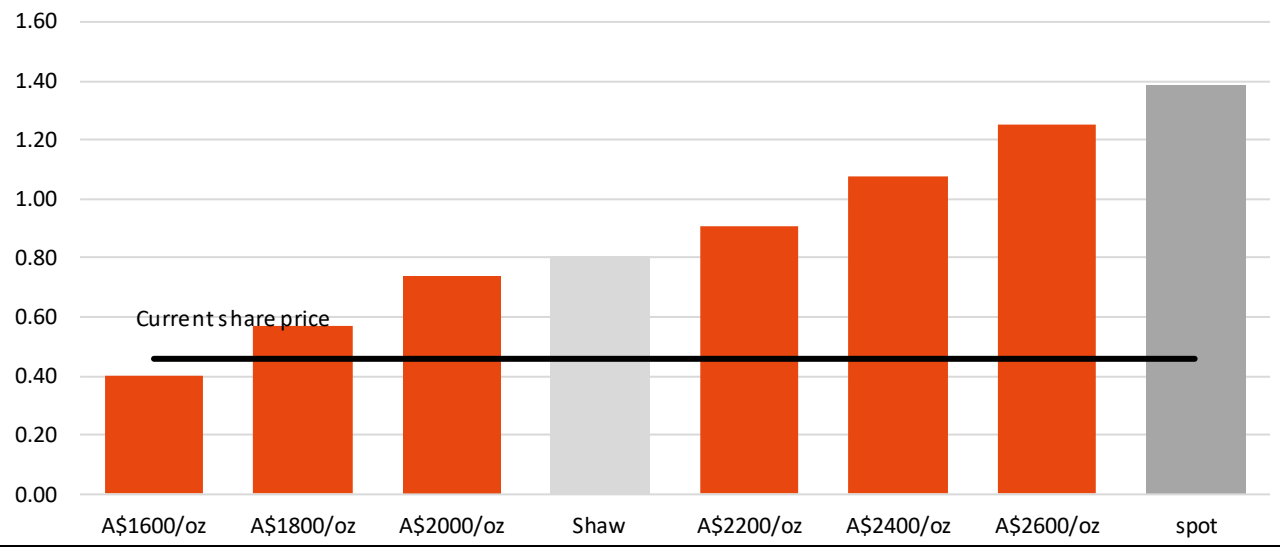
Figure 18: DCF valuation – spot prices diluted for A$80m equity raising

Matador Valuation - diluted	A$m	A$ps
Cape Ray	325	1.12
Net cash	16	0.06
Exploration upside	50	0.17
Corporate costs	-15	-0.05
Total Valuation	**376**	**1.30**

Source: Company reports, Shaw and Partners analysis

The main valuation sensitivity is to the gold price. In figure 19, we outline the Matador DCF valuation at a range of A$ gold prices. Every A$200/oz move in the gold price impacts our DCF valuation by A$0.19ps.

Figure 19: Matador DCF Valuation sensitivity to metal prices (A$ps v's A$/oz gold price)



Source: Company reports, Shaw and Partners analysis

Matador is attractively placed in an attractive gold sector

A selection of ASX listed gold exploration companies trades at an average EV/oz of A$93/oz with a wide range of A$30/oz (Prodigy) to A$551/oz (Musgrave). The type of resource (inferred, indicated or measured), its geographic location and the presence, or otherwise, of existing infrastructure will all impact on the value of the resource.

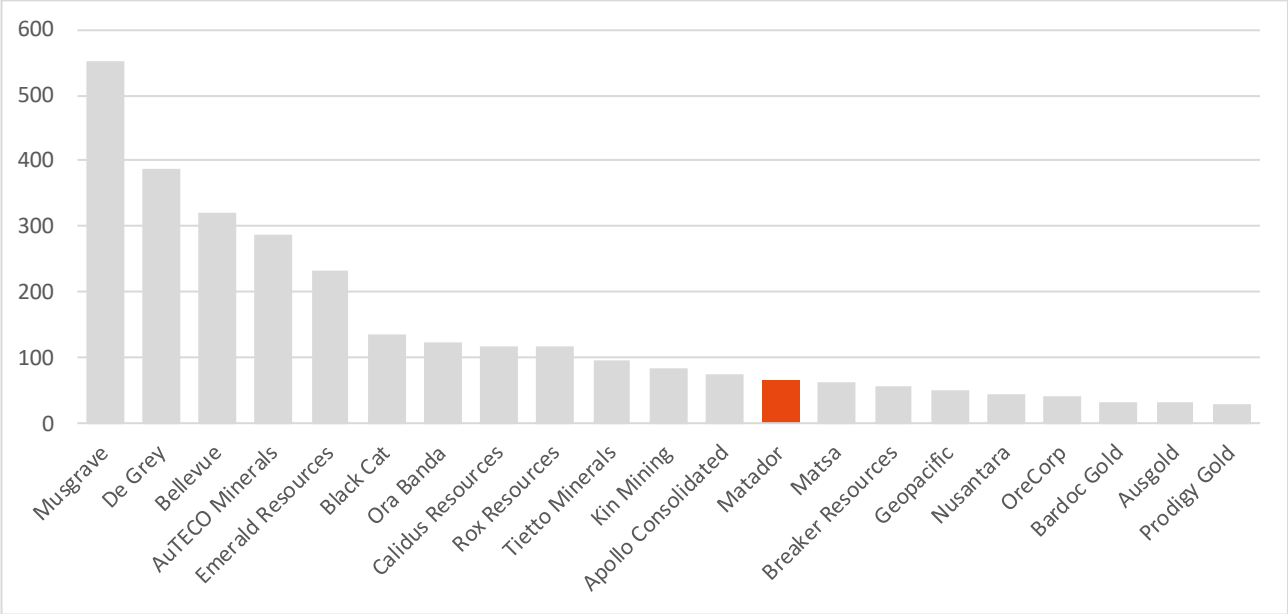
On this basis, Matador appears relatively cheap at just A$66/oz. It is located in an OECD region and with reasonable access to infrastructure.

Figure 21: Selected ASX listed gold exploration companies

Developers / Explorers	Code	Reserve Moz	Resource Moz	MKt Cap A$m	Cash A$m	EV/oz Resource
Musgrave	MGV		0.61	345	9	551
De Grey	DEG		2.38	950	28	387
Bellevue	BGL		2.2	832	123	322
AuTECO Minerals	AUT		0.84	274	33	287
Emerald Resources	EMR	0.907	1.141	317	51	232
Black Cat	BC8		0.58	90	12	135
Ora Banda	OBM	0.213	2.05	261	11	122
Calidus Resources	CAI		1.25	153	6	118
Rox Resources	RXL		0.92	122	16	116
Tietto Minerals	TIE		2.15	221	14	96
Kin Mining	KIN		0.95	91	11	84
Apollo Consolidated	AOP		1.04	98	20	76
Matador	MZZ		0.85	67	11	66
Matsa	MAT		0.44	34	6	63
Breaker Resources	BRB		0.98	59	4	56
Geopacific	GPR	1.04	1.57	109	29	51
Nusantara	NUS	0.918	1.41	69	8	43
OreCorp	ORR		3.1	152	25	41
Bardoc Gold	BDC		3.02	135	35	33
Ausgold	AUC		1.2	39	1	31
Prodigy Gold	PRX		1.01	41	11	30
Chesser	CHZ		0	80	1	n/a
Oklo	OKU		0	149	23	n/a
Average Explorers			**1.36**	**130**		**93**

Source: Factset, Shaw and Partners covers GPR (Buy, $1.37 price target).

Figure 22: Selected Australian listed gold exploration companies – Matador attractively positioned



Source: Company reports & presentations, Shaw and Partners analysis

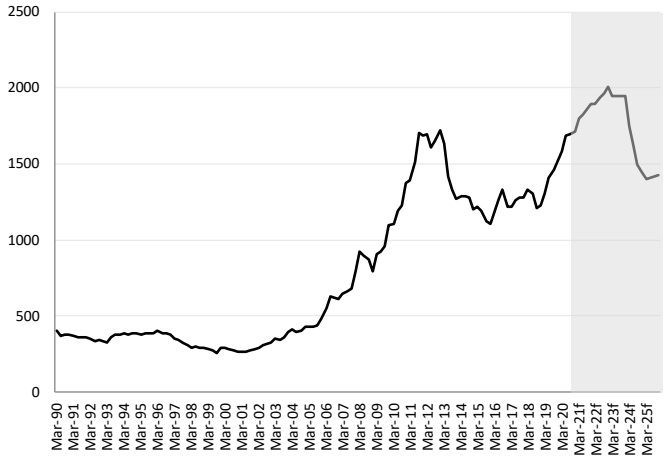
Gold price

Even before the COVID-19 epidemic, gold was performing well and had its best year in 2019 since 2010 (up 18.4% in US dollar terms). Gold prices hit record highs in most major currencies except the US dollar and the Swiss franc.

The increase in 2019 was driven by central bank buying and flows into gold-backed exchange traded funds (ETFs).

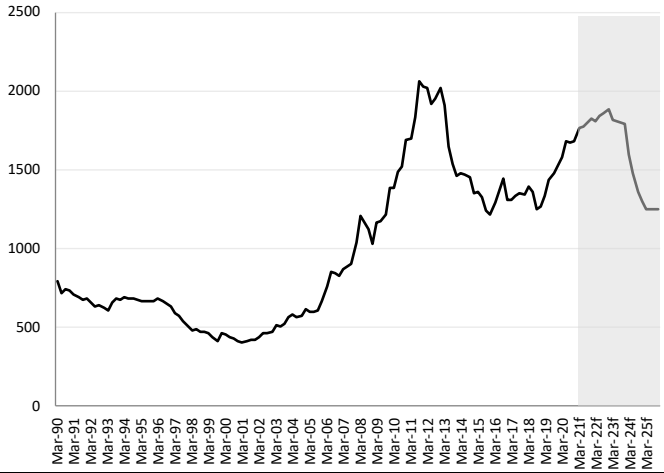
Low interest rates and COVID related fiscal stimulus are now creating the environment for ongoing strength in the US$ gold price. The negative real interest rate environment is pushing the gold price towards US$2,000/oz well ahead of our forecast – what was originally a bullish forecast may now prove to be conservative.

Figure 23: Gold price (nominal US$/oz)



Source: Factset, Shaw and Partners forecasts

Figure 24: Gold price (real 2020 US$/oz)



Source: Factset, Shaw and Partners forecasts

Figure 25: Gold price assumptions

Gold Price forecast	2019	2020f	2021f	2022f	2023f	2024f	2025f	Longterm
Gold price (US$/oz)	1,289	1,570	1,764	1,896	1,967	1,817	1,439	1,288
Gold price (A$/oz)	1,822	2,337	2,520	2,598	2,658	2,439	1,919	1,717
AUD/USD	0.71	0.67	0.70	0.73	0.74	0.75	0.75	0.75

Source: Factset, Shaw and Partners forecasts

There are seven major drivers of the US$ gold price, and most are currently strong tailwinds;

1. **Wealth protection** – gold is seen as a safe haven during periods of economic uncertainty. The current recession driven by the COVID-19 epidemic has seen gold rally back to levels last seen in 2011/12.

2. **Inflation expectations** – gold is a hedge against high inflation. The gold price generally increases during periods of negative real interest rates. As economic activity resumes post the COVID-19 lockdowns, the combination monetary stimulus from central banks and fiscal stimulus from government is likely to see negative real interests persist.

3. **Central bank buying** – the recent trend has been for central banks to increase their gold reserves to diversify away from paper reserves.

4. **Movements in the US$** - the price of gold is usually inversely related to the value of the US$. This was the reason the gold price initially fell at the start of the COVID-19 epidemic. In the early stages the world shifting into US dollars, and all other asset classes were sold off, including gold.

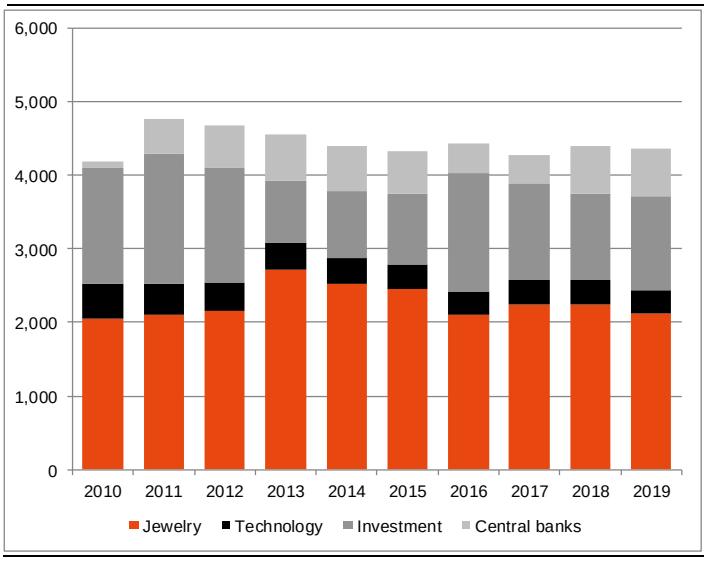
5. **Investment demand** – apart from primary demand for jewellery and industrial purposes, the other primary demand driver for gold is exchange traded funds. According to the World Gold Council, ETFs represent around 25% of total gold demand. ETF's have been strong net buyers of gold in recent years.

6. **Supply constraints** – supply of primary gold has been relatively stable in the past four years with new production offsetting declining production from existing mines. There have been relatively few new major discoveries in the past decade and so mine supply constraint is likely to be a positive influence on the gold price.

7. **Jewellery demand** – has been declining for the past few years due to the increase in the gold price. Jewellery demand is likely to remain under pressure due to the rising price of gold. Demand from central banks and ETFs has been offsetting jewellery demand weakness since 2013 and that is likely to continue.

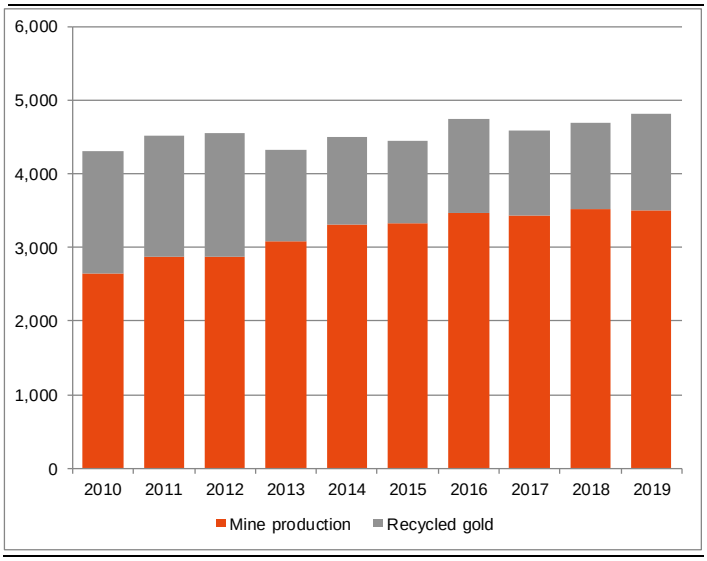
Overall, we anticipate supply and demand to reasonably balanced in the next two to three years with the primary drivers of the gold price being the positive influences of movement in real interest rates and the investment demand for wealth protection.

Figure 26: Global demand for gold (tonnes)



Source: World Gold Council

Figure 27: Global gold supply (tonnes)



Source: World Gold Council

Figure 28: Top 10 global ETFs have been adding to gold holdings in the past year

	Fund	Country	Holdings as of end-Mar		Year-on-year % change
1	SPDR Gold Shares	United States	966.7	▲	23
2	iShares Gold Trust	United States	390.9	▲	30
3	Xetra-Gold	Germany	209.0	▲	9
4	iShares Physical Gold ETC	United Kingdom	195.2	▲	84
5	Invesco Physical Gold ETC	United Kingdom	184.7	▲	49
6	WisdomTree Physical Gold	United Kingdom	145.5	▼	-11
7	Gold Bullion Securities Ltd	United Kingdom	82.7	▲	5
8	ZKB Gold ETF	Switzerland	72.1	▲	14
9	Xtrackers Physical Gold ETC EUR	Germany	67.4	▲	15
10	Xtrackers Physical Gold Euro Hedged ETC	Germany	57.8	▲	35

Source: World Gold Council

Key risks

As a small mining company with exposure to a single commodity and single asset we consider an investment in Matador Mining to be high risk. The key risks include;

- The gold price is volatile and driven as much by geopolitical events as fundamental supply and demand. As such, the price of gold is relatively difficult to forecast and the actual price may differ substantially from our forecasts.
- Matador Mining is predominantly an exploration company and therefore carries significant exploration risk. There is no guarantee that future exploration results will be positive.
- The Cape Ray Gold Project is not yet producing and there is a risk that Matador is unable to bring the operation in to production. The project may cost more than expected to build, and may not operate as expected.
- Matador is facing a significant financing challenge to develop the US$110m Cape Ray project. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If Matador Mining's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart the company then it could delay projects or exacerbate operational risks.

Appendix: Key Personnel

Ian Murray | Executive Chairman

Mr Murray is a Chartered Accountant with over 25 years' of mining experience in senior leadership positions, including the position of Managing Director of Gold Road Resources Limited (Gold Road) and DRDGold Ltd. He has also held executive positions with international Big 4 accounting firms.

Mr Murray brings a wealth of financial, corporate, project development and operational experience to the Board. Most recently he held the role of Managing Director of Gold Road and was instrumental in taking the Guyere Project from an exploration play through to a fully funded 8.2mtpa gold operation that is set to produce 300koz per annum in joint venture with Gold Fields Ltd..

Keith Bowes | Executive Director

Mr Keith Bowes is a highly regarded mining executive with extensive experience in metallurgy, project management and operational management. Over a 25 year period, Mr Bowes has worked on project development and operations in Africa, South America and Australia across a range of commodities and processes. Mr Bowes holds a BSc. Chemical Engineering from the University of Natal in South Africa.

Justin Osborne | Non-Executive Director

Justin has over 30 years' experience as an exploration geologist and is a fellow of the Australasian Institute of Mining and Metallurgy and holds a Bachelor of Science, Honours (First Class) from La Trobe University of Victoria.

In addition to his role at Matador, Justin is an Executive Director at Gold Road Resources (GOR.ASX) and played a pivotal role in the rapid and effective resource development of the world class Gruyere Gold Deposit (6.6Moz Au) which currently producers approximately 300,000oz Au per annum.

Mr Osborne has also previously held senior positions on the exploration executive team of Gold Fields Ltd, including Vice President Development Strategy – Growth and International Projects, and General Manager Near Mine Exploration covering all international mining operations. He played an instrumental role in the development of the Damang Superpit project in Ghana, which yielded potential resources in excess of 6 Moz within two years, and had considerable discovery success as Mineral Resource Manager at the St Ives Gold Mine, making the discoveries of the Athena and Hamlet deposits among other significant Reserve additions.

Mick Wilkes | Non-Executive Director

Mick is a highly experienced mining executive, with a successful career spanning over 35 years. He was most recently the CEO and President of dual listed (ASX/TSX) OceanaGold, where he served for a decade, prior to leaving from the position earlier this year. During his time at OceanaGold, Mr Wilkes transformed the company from a junior gold producer in New Zealand to a multinational mid-tier gold producer with a market capitalisation of $2 billion when he departed. Under Mr Wilkes' watch OceanaGold acquired and successfully developed the 3 million ounce Haile Gold Mine in South Carolina, USA.

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

RISK STATEMENT: Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

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