

August 5, 2022

SIGNAL GOLD INC. (SGNL - TSX, \$0.50)

Rating: BUY
Target Price: \$2.10

POINT ROUSSE CASHFLOWS BEGINNING TO ROLL IN – MORE TO COME

SIGNAL GOLD INC.		SGNL:TSX	
<i>(Currency is C\$ unless noted otherwise)</i>			
		CURRENT	BULL
52 Week Low / High \$0.32 / \$0.94			
CAPITALIZATION		Basic	Diluted
Shares Outstanding (M)		192.8	202.2
Market Capitalization (\$M)		\$96.4	\$101.1
Enterprise Value (\$M)			\$93.9
Est. Cash Balance (\$M)			\$3.6
Total Debt (\$M)			\$1.0
Consolidated Operations		2021A	2022E
Gold Price (\$US)	1,804	1,803	1,800
Gold Sold (000's oz)	12.2	18.4	24.6
Total Cash Costs (\$ per oz)	2,152	1,318	1,035
AISC (\$ per oz)	3,334	2,101	1,403
Adj. EPS	(\$0.04)	\$0.01	\$0.05
CFPS	\$0.00	\$0.02	\$0.09
Cash At Year End (\$M)	\$10.1	\$18.63	\$121.01
Debt At Year End (\$M)	\$1.6	\$0.0	\$0.0
VALUATION		P/NAV	P/CF
		FY2022E	FY2023E
Signal Gold	0.17x	30.0x	5.8x
Peer Average	0.43x	6.6x	8.9x
PRODUCTION FORECAST		2021A	2022E
Goldboro			
Production (oz)	-	-	-
Point Rousse			
Production (oz)	12,054	19,057	24,600
DISCLOSURE CODE:		5	
(Please refer to the applicable disclosures listed on the back page)			

Source: M Partners, Company Information



Signal Gold is an Atlantic Canadian gold producer, developer, and explorer with an increasing production profile through its 2.7 Moz Goldboro development project in Nova Scotia.

This morning, SGNL reported Q2/22 financial and operating results from the Point Rousse operation. As previously reported on July 19th, the Point Rousse operation had a breakout quarter despite the water management issue effecting production in April. From a financial standpoint, the operation also had a dramatic turnaround with costs decreasing significantly and generating its first sizable cashflows in over a year. We expect both the production and cost profile for H2/22 to continue to improve as mining from the Argyle pit is ongoing until Q1/23. Additionally, by Q1/23, the Company will begin mining from the Stog'er Tight open pit where we anticipate a similar production and cost profile throughout 2023 and into 2024. The cashflows generated over the next six quarters should provide more than enough non-dilutive capital to support the continued development of the Goldboro Project.

Cash costs for the quarter came in at US\$1,032/oz vs. our estimate of US\$1,111/oz and AISC was US\$1,498/oz vs. our estimate of US\$1,507/oz. Gold sold was 4.1 Koz in Q2 generating revenue of \$9.7M. The Company reported operating cashflow of \$2.5M vs. our estimate of \$1.6M.

We are maintaining our BUY rating and our \$2.10/share target price for SGNL.

Despite the Q1 struggles due to the water treatment issue in the Argyle Pit, management has iterated that the Company will achieve the lower end of its 2022 guidance which will provide enough non-dilutive cashflow to support the Goldboro project development and exploration until a construction decision is made and mine financing is secured.

As of June 30th, 2022, SGNL had a cash balance of \$10.9M and additional available liquidity of \$3.0M from an undrawn revolving line of credit facility.

Quarterly Financials (\$000s)	Q2/21	Q3/21	Q4/21	Q1/22	Q2/22	Q/Q
Revenue (\$M)	6,935	5,855	7,643	8,020	9,662	+20%
Mine Operating Income (\$M)	(1,277)	(390)	232	(2,053)	2,117	N/A
Operating Cash Flow (\$M)	(674)	(474)	369	(1,114)	2,510	N/A
EPS - Basic	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)	\$0.00	N/A
AISC (US\$/oz)	2,577	3,158	2,297	2,905	1,498	-48%

Table 1: Quarterly Financial Results

2022 Guidance: As previously reported, SGNL released production guidance for 2022 of between 21.5 and 23.0 Koz Au reflecting a record year of production. In addition to 2022, we expect SGNL to produce gold at record rates into 2023 and 2024 as the Company continues to advance and develop the Stog'er Tight deposit. The Company also released guidance for the full year operating cash costs to be between US\$980/oz and US\$1,060/oz.

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Goldboro Project: As previously reported and discussed in our note published on August 3rd, SGNL announced it has received conditional approval for the Environmental Assessment (EA) for the Goldboro Project in Nova Scotia. The Company was advised by the Nova Scotia Minister of Environment and Climate Change that the Goldboro Project has been approved in accordance with the Environmental Assessment Regulations, subject to the terms and conditions outlined in the EA. This is a major milestone for the Company, and it has come over 12-months ahead of schedule.

The Company is currently reviewing the terms and conditions and is also reviewing all comments provided by rightsholders and community stakeholders. From a first glance, we do not see any conditions that wouldn't be expected in an environmental approval. This approval now allows Signal to commence site-specific processes including the Industrial Approval and Crown Land Lease and Mining Lease applications.

Valuation: We are maintaining our BUY rating and our \$2.10/share target price for SGNL. Our model values Goldboro at \$806M (modelling mining of open pit and underground M+I resource at resource grades and applying 15% mining dilution with open pit mining for the first eleven years of operations and underground mining initiating in year six at 200 tpd then ramping up to 1,500 tpd within two years following initiation). We use a fully financed share count to account for the future construction of the Goldboro Project. Our valuation assumes 0.7x project NAV_{8%} plus corporate adjustments, while SGNL currently trades at P/NAV of 0.17x compared to peers at 0.43x.

Net Asset Valuation	Discount	\$ Million	\$/Share	Target Derivation	\$/Share
Goldboro	8.0%	806	2.59	Project NAV	\$2.69
Point Rousse	5.0%	31	0.10	Multiple	0.7x
Project NAV		837	2.69		\$1.88
Exploration Credit		25	0.08	Adjustments	\$0.18
Corporate Adjustments		27	0.09		
Cash & Equivalents		4	0.01		
ITM Warrants		2	0.01	12-Month Target	C\$2.10
Adjusted NAV		894	2.87	<i>Implied Return</i>	<i>320%</i>
Source: M Partners		P/NAV	0.17x		

Figure 1: Valuation Summary

Disclosure Code: 5

Disclosure

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SGNL	1	2	3	4	5	6	7
	NO	NO	NO	NO	YES	NO	NO
The analyst has viewed the material operations of the company. The analyst visited the Goldboro project in Goldboro, Nova Scotia.							

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Rating System	
Buy:	Price expected to rise
Speculative Buy:	Buy rating with increased risk
Hold:	Properly priced
Sell:	Price is inflated and expected to decrease
Under Review (U/R):	Under review
Not Rated (N/R):	Not currently rated

Summary of Recommendations	
Buy	17
Speculative Buy	1
Hold	0
Sell	0
U/R	1
Total	19