

Arizona Metals Corp.

AMC-TSX.V: \$4.28

Rating: Speculative Buy

Target: \$9.25

Arizona Metals Corp, AMC-TSX.V

Stock Data (source: Refinitiv Eikon)

Previous Close (C\$)	\$4.28
52-Week High-Low	\$5.55 / \$0.55
Avg. Daily Volume (3M)	124,622
Basic SO (MM)	89
Fully Diluted SO (MM)	113
Market Cap. (C\$ MM)	\$380
Cash (C\$ MM)	\$24
ITM Options & Warrants (C\$ MM)	\$24
Debt (C\$ MM)	\$0
Enterprise Value (C\$ MM)	\$356

Company Information

Flagship Project	Kay Mine
Project Location	Arizona

Clarus Estimates

Implied return to target price	116%
Global Resources (MM lbs CuEq)	2,749
EV/lb Valuation (global, C\$/lb CuEq)	\$0.13
LOM Avg. Production (MM lbs CuEq/year)	198.2
LOM Avg. C1 Cash Costs (co-product)	\$0.89
P/NAV	0.29X

Management

CEO	Marc Pais
VP Exploration	David Smith
Technical Advisor	Dr. Mark Hannington
Strategic Advisor	Michael Gentile

Ownership

Management & Insiders	10%
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Company Description

AMC owns 100% of two projects in Arizona with no outstanding future payments - (1) Kay Mine project located in Yavapai county, ~70 km north of Phoenix - **NO royalties**; (2) Sugarloaf Peak project located in La Paz county, west of Phoenix. Both projects have significant historic exploration, drilling and historic resources. Flagship Kay Mine project hosts the past producing mine (intermittently from 1916-1956 at 5.7% - 9.1% Cu and 2.0 g/t - 2.5 g/t Au) with \$75 MM worth of exploration and underground infrastructure. Exploration by Exxon (1972 - 1982) at Kay Mine resulted in a historic resource of 5.8 Mt at ~4% CuEq (at historic price, ~6.0% CuEq at spot). Management is advancing exploration of Kay with the goal of validating and further expanding the historic resource.

Middle Au-Zn-Rich Zone Showing Potential for Massive Upside Beyond Our Current Estimate in the Near-Term

October 13, 2021

We are encouraged by the results from drilling targeting the recently discovered Middle Au-Zn-rich zone at Kay that is indicating potential for significant upside beyond our currently modelled ~9 Mt or 1.5MM oz AuEq (Middle zone only). Drilling to date is confirming the vertical and lateral continuity of the high grade mineralization while also extending the zone up-plunge by ~175 m (& open further towards surface) that has resulted in a total drill-tested vertical extent of ~575 m for the Middle zone (vs our modelled 400 m). Importantly, the zone remains open at depth to +1.0 km and seems to be increasing in strike extent with depth. The ongoing drilling targeting +1 km depth and pending assays (4 - 6 holes; results expected in November) could potentially drive an approx. three-fold increase in strike extent at depth (towards ~300 m vs 100 m Clarus est.) while more than doubling the vertical extent towards +900 m (vs 400 m Clarus est.), contingent on drill results. While we are confident in our currently modelled est. for the Middle zone based on the drilled dimensions to date, we highlight that if successful, the deeper drilling could triple the potential resource size towards ~27 Mt for the Middle zone alone, increasing the overall resource potential at Kay (North, South & Middle zones) towards +40 Mt (+80% vs 24 Mt Clarus est.). This will conceptually imply a potential >100% increase in our estimated DCF based NAV5% for Kay. We are currently maintaining our estimates & target price of **\$9.25** per share as we await the drill results from deeper drilling that we believe will be a major near-term re-rating catalyst. We maintain our **SPECULATIVE BUY** rating.

KEY POINTS

- AMC announced drill results from an additional 10 holes targeting the Middle Au-Zn-rich zone at Kay as part of the ongoing Phase 2 program (75,000 m planned, fully funded - cash balance of ~C\$24 MM + ITM warrants).
- Today's set of drill results demonstrated a ~175 m up-plunge extension while also confirming continuity of the previously intercepted high grade mineralization, both laterally and vertically.
- **Confirming vertical & lateral continuity of the middle gold-zinc-rich zone:**
- **Hole 40 returned 24 m at 10.4 g/t AuEq (with ~5% Cu) from ~600 m down hole, incl. 8 m at 14.53 g/t AuEq; and 53 m at 6.16 g/t AuEq from 30 m further down hole, incl. 7.2 m at 15.5 g/t AuEq.** This intercept was ~65 m north of previous reported intercept in Hole 18 of 54.3 m at 9.4 g/t AuEq - confirming a strike of ~65 m at this depth. As a reminder, deeper drilling at ~725 m below surface suggests the strike length is increasing to ~100 m (Hole 27 & 27A, incl. 103 m at 4.1 g/t AuEq).

- **Hole 41 returned 96.7 m at 5.47 g/t AuEq (with 1% Cu) from 463 m down hole, incl. 11.4 m at 20.55 g/t AuEq, 3.8 m at 32.47 g/t AuEq.** This is proving vertical continuity between previous wide, high grade intercepts in Hole 21A at ~360 m depth (63 m at 4.8 g/t AuEq) and holes 24 & 26 at ~520 m depth (91 m at 4.67 g/t AuEq, 76 m at 5.84 g/t AuEq).
- Other significant results demonstrating continuity of previous high grade intercepts included Hole 43 with **17 m at 3.56 g/t AuEq** from 616 m down hole; **8.7 m at 5.21 g/t AuEq** from 467 m down hole.
- **Up-plunge extension:** Importantly, holes 32 and 44 have pulled the Middle zone up-dip by ~175 m from the previous shallowest hole in the zone - Hole 21A from ~360 m depth. Significant intercepts included **24 m at 3.24 g/t AuEq; 9.4 m at 4.34 g/t AuEq** from ~185 m below surface. Our current estimate for the resource at the Middle zone is ~9 Mt at 5.1 g/t AuEq based on a 400 m vertical extent. We believe this vertical extension to 575 m (prior 400 m) has potentially added ~1 – 3 Mt to the Middle zone based on a ~75 m strike at ~185 m depth. Management believes the zone remains open further up-dip and could potentially extend to surface, adding another 150 – 185 m to the vertical extent with future drilling (with a smaller rig to test at shallow depths). Hole 46 (assays pending) has been completed and is located ~20 – 25 m up-plunge from holes 32 & 44, completely outside the historic resource.
- **Potential from along-strike extensions:** Hole 35 extended the mineralization encountered in Hole 25B by approximately 80 m to the south, in an area previously untested by historic exploration. Significant intercept incl. **5.5 m at 4.6 g/t AuEq**. This further strengthens our view of potential for along strike extension of the historic resource footprint to the south where the Company will be stepping-out to test a potential ~300 m extension from Pad 5. We expect future drilling to intersect wider, high grade mineralization in the hinges of the repeating fold structures (new fold hinge expected ~100 m apart) along strike to the south. Likewise, along-strike extension 500 m to the north will be tested from Pad 4. We highlight the historic resource of 6 Mt was based on a strike length of ~320 m while step-out drilling along strike could expand this towards ~1 km or approx. 3x. We believe the Middle gold-zinc-rich mineralization could be repeated along the potential ~1 km strike length of the Kay mineralization. Our estimate of 15 Mt for the North & South zones at Kay accounts for this along-strike extension while our 9 Mt est. for the Middle zone does not account for any of the potential upside from along-strike extension of Kay (potential for the Au-Zn-rich to be repeated).
- **Drilling to date gives us confidence in our current estimate; Massive upside potential from upcoming deeper drilling results:** We estimate an overall **weighted average grade of ~5.4 g/t AuEq** for the Middle gold-zinc-rich zone based on the drill results to date with a strike length of up to ~100 m (ranges from ~75 – 100 m, increasing at depth), width of ~50 – 70 m and a vertical extent of ~575 m. This implies a **rough resource block estimate for Middle zone of ~1.2MM oz AuEq just based on the drill tested dimensions to date. The zone remains open for continued expansion up-plunge, down-plunge and along strike that could drive the resource growth well in excess of our current ~9 Mt or 1.5MM oz AuEq estimate.** We highlight that the ongoing deep drilling at the Middle zone, if successful, could prove to be game-changing with potential for an eventual three-fold resource growth beyond our current est.:
 - Hole 42 and corresponding branch holes (total 4 holes) completed, targeting a depth of >900 m (assays pending – 3 holes in the lab and hole being logged). If successful, Hole 42 along with the branch holes could confirm a strike length of ~125 m at this depth (vs ~100 m at ~725 m depth in

Hole 27 & 27A). This will continue to demonstrate that the strike length of the Middle gold-zinc-rich zone is increasing with depth, ranging from ~75 m at the shallowest level (at ~185 m below surface) to 125 m at ~900 m below surface, depending on results.

- In addition, management is currently drilling Hole 52, targeting a depth of 900 - 1,100 m. This hole is located ~200 m north along strike from Hole 42 and, if it successfully hits mineralization, would imply along-strike expansion to +300 m at that depth (vs drill tested ~100 m at 725 m depth) while expanding the vertical extent by ~150 - 350 m to ~725 m - 925 m (vs current drill tested 575 m).
- In addition, management believes the Middle zone remains open for expansion towards surface, implying an incremental ~150 - 185 m for a total vertical extent of ~875 m - 1.1 km.
- Potential for massive value creation from successful deeper drilling at the Middle zone: Overall, the ongoing deep drilling could result in a three-fold increase in the strike length towards +300 m at depth and more than double the vertical extent towards +900 m. We highlight that our current estimate of 9 Mt or 1.5MM oz AuEq for the Middle zone is based on a vertical extent of just 400 m (vs drill tested 575 m) and an average strike length of 100 m (vs drill tested average ~65 m). *We feel confident in our estimate based on the drill-tested dimensions to date and highlight the potential for significant upside beyond our estimate as the zone remains open for expansion along strike (potential for 3x increase at depth) as well as to depth and up-plunge towards surface (potential for 2x increase).* We believe the next set of drill results targeting the deeper mineralization could significantly expand the footprint of the Middle zone, driving the resource potential well ahead of our current estimate. *Contingent upon drill results, the deeper drilling could essentially triple the potential resource towards ~27 Mt or ~4.5MM oz AuEq (assuming same grade) for the Middle zone (or 3x our current est.). As a result, our overall Kay resource (combined North, South & Middle zones) estimate will conceptually expand toward +40 Mt or +80% vs 24 Mt current estimate. Conceptually, this will drive a >100% increase in our DCF based NAV5% for Kay to ~C\$3.4 Bn (vs current ~C\$1.6 Bn), implying a conceptual target price of \$15.50/share based on 0.5x NAV5% (vs current \$9.25/share).* We await deeper drilling results and are currently leaving our estimates unchanged.
- Expect a steady stream of drill results: 3 rigs currently turning, 10 holes in the lab and 3 underway. Management is targeting expansion of the Middle zone both laterally and at depths below 900 m. The lab turnaround times are expected to improve that should support less time between future releases. In addition, BLM is making progress on COVID related issues of short staffing and management expects to have an update on the *permitting of Central and Western Conductor targets in the next few weeks*, likely alongside the next batch of drill holes (by early November).
- Structural mapping program to refine drill targets: Management commenced a detailed structural mapping program in September 2021 that will supplement the same completed in 2019. The objective is to refine expansion targets along strike ~500 m to the north and ~300 m to the south as well as on the Central and Western Conductor targets.

RECOMMENDATION: AMC owns 100% of two projects in Arizona which is one of the best mining jurisdictions in the world as per the latest Investment Attractiveness Index by Fraser Institute. In our opinion, the flagship Kay asset is one of the best undeveloped Cu/Au/Zn projects, globally. We believe Kay's high grades, significant low-risk exploration potential to drive scale, potential for low capex and opex, and a permitting friendly location in a world class jurisdiction will drive its development into a mine.

We see potential for a 4x - 12x increase in the historic resource at Kay based on the significant exploration potential remaining to be unlocked. We believe this will generate significant returns for early investors at this stage of exploration in a likely buyout scenario by any one of the several major and intermediate producers already operating in the region. We highlight Arizona Mining's (Hermosa project) acquisition by South32 for an implied valuation of C\$2.1 Bn in June 2018 at a 50% premium as an example of the attractive premiums that are afforded to high quality projects in Arizona.

Beyond this, the Sugarloaf Peak gold project (1.5MM oz Au resource) offers potential for further value creation. We believe the market is not attributing any value to the project that, in our opinion, should be valued at C\$150 MM or ~C\$1.30/share (on FD shares) just based on the historic resource and without accounting for the significant resource growth potential currently being unlocked.

Under our estimates, AMC is currently trading at 0.29x P/NAV and 13c/lb, a steep discount of ~45% - 50% to peers trading at an average of 0.56x & 23c/lb, respectively. We expect a further re-rating of the stock with drill results from the 2021 drill campaign that we believe will confirm the massive, high grade exploration potential at Kay. We also expect the market to start reflecting value for Sugarloaf Peak as management continues to further de-risk the project and grow resources. We maintain our **SPECULATIVE BUY** rating at our target price of **\$9.25** per share.

Milestones

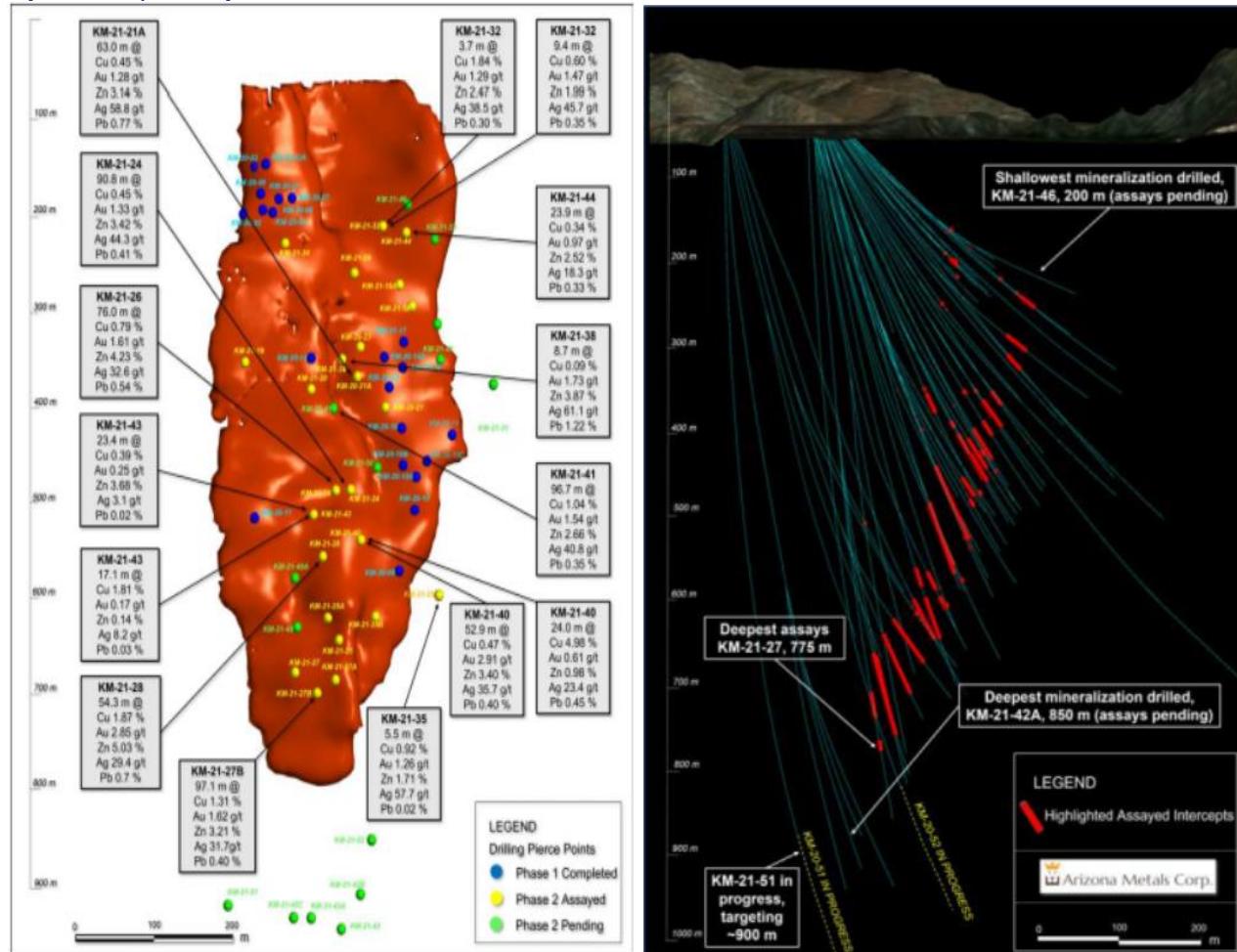
1. Drill results from fully-funded Phase 2, 75,000 m program – Ongoing;
2. Permits for drilling at Central & Western Conductor targets – November;
3. Metallurgical column test results from Sugarloaf Peak – Q4/21;
4. Metallurgical testing/studies update at Kay – 2022;
5. Kay resource update – H1/22.

Figure 1: AMC Comps

Cu-Au Explorers / Developers Company	Ticker	Price Per Share (Local)	S/O (MM)	Mkt. Cap. (C\$MM)	EV (C\$MM)	CuEq Mlbs	EV/lb (C\$/lb)	P/NAV	
Adventus Mining Corp	ADZN-TSX.V	0.90	131	\$118	\$105	909	\$0.12	0.39x	
Adriatic Metals PLC	ADT-ASX	3.33	214	\$655	\$639	844	\$0.76	0.95x	
Ascendant Resources Inc	ASND-TSX	0.24	97	\$23	\$25	889	\$0.03	0.42x	
Atico Mining Corp	ATY-TSX.V	0.55	121	\$67	\$55	212	\$0.26	0.39x	
Foran Mining Corp	FOM-TSX.V	2.57	181	\$465	\$450	1,793	\$0.25	0.98x	
Kutcho Copper Corp	KC-TSX.V	0.87	99	\$86	\$106	1,521	\$0.07	NA	
Northwest Copper Corp	NWST-TSX.V	0.51	126	\$64	\$47	179	\$0.26	0.23x	
Sandfire Resources America Inc	SFR-TSX.V	0.20	1,023	\$205	\$201	1,680	\$0.12	NA	
Group Average				\$210	\$203	1,003	\$0.23	0.56x	
Arizona Metals Corp (Clarus 'Base Case' Resource)		AMC-TSX.V	4.28	89	\$380	\$356	2,749	\$0.13	0.29x

Source: Refinitiv Eikon, Clarus Securities Inc.

Figure 2: Kay Drilling



Source: Company Reports

Figure 3: Clarus estimated resource potential for the recently discovered Central gold-zinc-rich zone

New Gold-Zinc Zone - Clarus Estimate

	Drill Tested	Clarus Modeled	Upside Scenario
Vertical Extent	m	575	400
Width	m	50	60
Strike (average)	m	63	100
SG		3.7	3.7
Ore	Mt	6.7	8.9
Wtd. Avg. Grade AuEq	g/t AuEq	5.4	5.1
Incremental Mineral Inventory AuEq	MM oz AuEq	1.2	1.5
			4.4

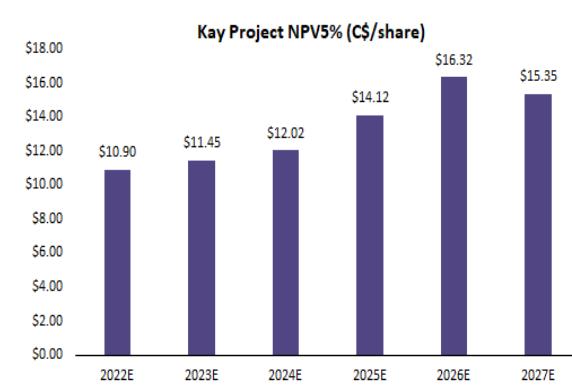
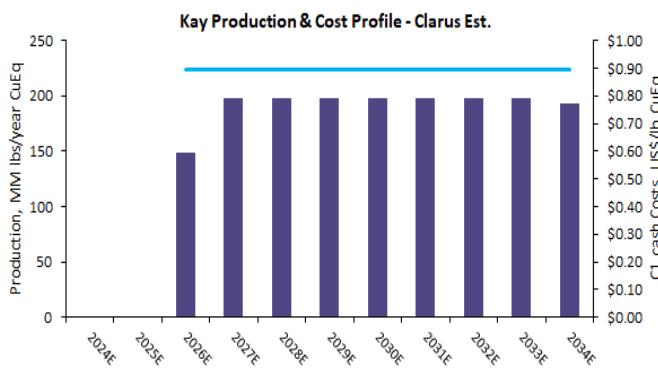
Source: Clarus Securities Inc.

Price Target Calculator: Our 12-month target price is based on a 0.5x multiple to our estimated fully-funded project NAV (5%) for Kay. We also account for in-situ valuation for ~5 Mt at ~5.2% CuEq valued at C\$0.30/lb at Kay and in-situ valuation for 1.5MM oz at C\$100/oz at Sugarloaf Peak. In addition, we account for corporate adjustments, including our long-term debt assumption and ITM options and warrants.

Key Risks to Target Price: Please refer to the risks disclosed in the initiating report dated April 8, 2021.

Arizona Metals Corp. (AMC-TSX.V), SPECULATIVE BUY, Target: C\$9.25

Rating	SPECULATIVE BUY		Target Price	\$9.25	Basic Shares O/S			
12-Month Return	116%		Previous Close	\$4.28	Market Cap., C\$ MM			
					EV, C\$ MM			
CAD MM except per share data, unless otherwise noted								
CAPITAL STRUCTURE		Strike Price	Shares	FINANCIAL SUMMARY				
		\$/share	(MM)	Fiscal Year	2025E	2026E		
Basic Shares Outstanding			89	Copper Price (US\$/lb)	\$3.00	\$3.00		
ITM Warrants Outstanding	\$1.45		15	Zinc Price (US\$/lb)	\$1.20	\$1.20		
ITM Options Outstanding	\$0.31		10	Gold Price (US\$/oz)	\$1,600	\$1,600		
Assumed Equity Funding			32	Silver Price (US\$/oz)	\$21	\$21		
FD Shares			145	EPS	\$0.00	\$1.64		
				P/EPS	nm	2.6x		
				Target/EPS	nm	4.3x		
				CFPS	\$0.01	\$2.25		
				P/CFOPS	nm	1.9x		
				Target/CFPS	nm	3.1x		
NET ASSET VALUE (C\$)		Discount rate	C\$ MM	C\$/share				
Asset NAV								
Kay (100.0%), Arizona, USA	5.0%		\$1,582	\$10.90				
Other			\$0	\$0.00				
Asset NAV Sub-Total			\$1,582	\$10.90				
Multiple to Development Assets	0.50x		\$791	\$5.45				
In-Situ Valuation of Exploration Potential								
Kay (inventory not incl. in mine model)	550MM lbs	@ C\$0.30 /lb	\$165	\$1.14				
Sugarloaf Peak	1.5MM oz	@ C\$100 /oz	\$150	\$1.03				
In-situ Valuation Sub-total			\$315	\$2.17				
Corporate Adjustments								
Cash			\$31	\$0.21				
Value of ITM Instruments			\$24	\$0.17				
Long-term Debt			-\$261	-\$1.80				
Estimated Working Capital Additions			\$435	\$3.00				
Corporate Adjustments Sub-total			\$229	\$1.58				
Total Corporate NAV		C\$/share	\$1,335	\$9.20				
Target Price		C\$/share	\$9.25					
P/NAV			0.29x					
PRODUCTION ESTIMATES								
Fiscal Year		2025E	2026E	2027E	2028E			
COPPER Production	MM lbs	-	53	70	70			
ZINC Production	MM lbs	-	107	143	143			
GOLD Production	koz	-	81	108	108			
SILVER Production	MM oz	-	1.4	1.8	1.8			
Copper Equivalent Production	MM lbs CuEq	-	149	198	198			
COST ESTIMATES (US\$/oz)								
Fiscal Year		2025E	2026E	2027E	2028E			
Total Cash Costs (C1), net of by-prod.	US\$/lb Cu	\$0.00	(\$2.32)	(\$2.32)	(\$2.32)			
Total Cash Costs (C1), co-prod.	US\$/lb CuEq	\$0.00	\$0.89	\$0.89	\$0.89			
Sustaining Capex	US\$/lb Cu	\$0.00	\$0.25	\$0.25	\$0.25			
AISC (net of by-products)	US\$/lb Cu	\$0.00	(\$2.07)	(\$2.07)	(\$2.07)			
AISC (co-product)	US\$/lb CuEq	\$0.00	\$0.99	\$0.99	\$0.99			
MODELED MINEABLE INVENTORY								
Copper Equivalent		Mt	% CuEq	MM lbs	Mine Life (yr)			
Kay (100.0%), Arizona, USA		19.1	5.22%	2,199	9.25			
Key Production & Cost Profile - Clarus Est.								
Production, MM lbs/year CuEq				Cl. cash Costs, US\$/lb CuEq				
2024E	150			\$10.90				
2025E	200			\$11.45				
2027E	200			\$12.02				
2028E	200			\$14.12				
2029E	200			\$16.32				
2030E	200							
2031E	200							
2032E	200							
2033E	200							
2034E	200							
Key Project NPV5% (C\$/share)								
2022E	\$10.90							
2023E	\$11.45							
2024E	\$12.02							
2025E	\$14.12							
2026E	\$16.32							
2027E	\$15.35							



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Speculative Buy: Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.

Accumulate: Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12-18 months.

Hold: Fairly valued and expected to trade in line with the current price over the next 12-18 months.

Sell: Overvalued and expected to decline from the current price over the next 12-18 months.

Under review: Pending additional review and/or information. No rating presently assigned.

Tender: Company subject to an acquisition bid: accept offer.

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