

# Arizona Metals

AMC-TSX

Rating  
**Outperform(S)**Price: Oct-31  
**\$3.50**Target  
**\$6.50**Total Rtn  
**86%**

## Initiating Coverage at Outperform (Speculative); More Than O'Kay

### Bottom Line:

We are initiating coverage of Arizona Metals with an Outperform (Speculative) rating and \$6.50 target price. Arizona Metals, headquartered in Toronto, Ontario, is dedicated to advancing exploration, permitting, and development at the Kay Mine copper-gold-silver-zinc project located in Arizona, USA. The estimated low capital intensity project is located in an attractive mining jurisdiction in proximity to established infrastructure with strong exploration results to date and additional prospective near-mine targets. Our \$6.50 target price implies a 1.0x multiple to our NAV10% estimate and an 86% return.

### Key Points

#### Working Towards an Updated Kay Resource; Additional Targets Identified.

Exploration efforts have been focused on further delineating and defining the Kay Mine VMS deposit. Drilling thus far has intersected strong mineralization at Kay, highlighting the potential for deposit growth in excess of the historically defined resource, in our view. Moreover, Arizona Metals has identified the possibility to drill deeper, and the Kay deposit remains open in a number of directions. Additionally, there are prospective targets that have yet to be fully explored, most notably Central and Western.

**Smaller Starter Option Modelled; Potential Acquiror May Think Bigger.** We have modelled Kay as a smaller initial underground mine; however, resource success at Kay, as well as potential supplemental ore feed from surrounding targets, such as Central and Western, could position the project as a larger scale growth option for an acquiror. In our view, the estimated lower capital intensity, and the manageable initial capital, provides an attractive entry point for a base metal project that can be staged for future expansion.

**Management Backing.** Management/insiders hold a significant economic interest in Arizona Metals of ~7%. Having previously completed a bought deal financing, and with roughly \$60M in cash on the balance sheet, Arizona Metals is well-funded to advance Kay forward and complete its Phase 3 exploration program.

**Premium Valuation.** Shares of Arizona Metals are trading at 0.5x our diluted P/NAV10%, in line with the midpoint of other developer and explorer peers within the BMO coverage universe at 0.6x. Backed by a strong balance sheet, Arizona Metals' exploration success defining Kay and near-by prospective targets, location in a top-quality mining jurisdiction, and readily available access to infrastructure, all support the progression of an estimated low capital intensity development project thus warranting a premium NAV multiple, in our view.

## Metals & Mining - International

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Legal Entity: BMO Nesbitt Burns Inc.



Company Data			in C\$	
Dividend	\$0.00	Shares O/S (mm)	115.1	
Yield	0.0%	Market Cap (mm)	\$403	
NAV	\$6.54	P/NAV	0.5x	
BMO Estimates			in C\$	
(FY-Dec.)	2021A	2022E	2023E	
Revenue (mm)	\$0	\$0	\$0	
EPS	\$(0.23)	\$(0.22)	\$(0.17)	
CFPS	\$(0.22)	\$(0.19)	\$(0.15)	
EBITDA (mm)	\$(20)	\$(25)	\$(22)	
Cu Prod (kt)	0	0	0	
Consensus Estimates				
	2021A	2022E	2023E	
EPS		\$(0.22)	\$(0.14)	
Valuation				
	2021A	2022E	2023E	
P/E	NM	NM	NM	
P/CFPS	NM	NM	NM	
QTR. EPS	Q1	Q2	Q3	Q4
2021A	\$(0.07)	\$(0.06)	\$(0.05)	\$(0.05)
2022E	\$(0.08)a	\$(0.06)a	\$(0.05)	\$(0.04)
2023E	\$(0.04)	\$(0.04)	\$(0.04)	\$(0.04)

### Our Thesis

Arizona Metals has opportunities for positive news flow as it progresses permitting, as new project resources and studies are released, and potentially as the project is developed. In our view, exploration success at Kay, and throughout the property, including the Central and Western targets, will support a sizeable VMS-style resource driving a low-capital intensity development project.

Arizona Metals - Block Summary Model

Income Statement	2021A	2022E	2023E
Total Revenues	0	0	0
Cost of Sales	0	0	0
DD&A	0	0	0
SG&A	2	4	4
Interest Expense	0	0	0
Adjusted Net Income	(20)	(25)	(20)
Adjusted EPS	\$(0.23)	\$(0.22)	\$(0.17)
EBITDA	(20)	(25)	(22)
Cash Flow Statement	2021A	2022E	2023E
Operating Cash Flow	(19)	(21)	(18)
Investing Cash Flow	(0)	(0)	0
Financing Cash Flow	71	17	0
Change in Cash	52	(4)	(17)
Beg Cash Balance	4	56	52
Ending Cash Balance	56	52	35
Free Cash Flow	(19)	(21)	(18)
Balance Sheet	2021A	2022E	2023E
Cash & Equivalents	56	52	35
Total Assets	57	53	36
Long-Term Debt	0	0	0
ND/EBITDA	2.8x	2.1x	1.6x
Total Liabilities	1	1	1
Total Shareholders' Equity	56	52	35
Net Debt	(56)	(52)	(35)
Production	2021A	2022E	2023E
Cu Production (kt)	0	0	0
Copper Price (US\$/lb)	4.23	3.98	3.28

Source: BMO Capital Markets, Company Reports

New Scenarios

### Valuation

Our target price is based on a 100% weighting assigned to a P/NAV multiple of 1.0x to our NAV10%.

### Upside Scenario

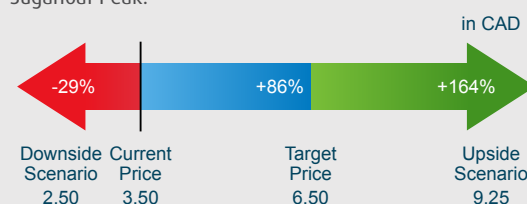
\$9.25

Our upside scenario is based on a 40% increase to our target P/NAV multiple. This scenario could play out as permitting milestones are achieved, the company continues to have exploration success at Kay and throughout the property, and if future financing is secured. The sale or spin-out of Sugarloaf Peak could also support a re-rating.

### Downside Scenario

\$2.50

Our downside scenario is based on a 60% decrease to our target P/NAV multiple. This scenario could play out if permits are delayed or not granted, continued exploration at Kay or the property disappoints, resource updates are below expectations, funding is not secured for development, and project economics fall short. The potential also exists for value attribution to disappoint at Sugarloaf Peak.



### Key Catalysts

Continued Kay exploration; exploration results at Central and Western targets; metallurgical test work; updated Kay resources; Kay project studies; Kay permitting; securing a financing package for Kay development; sale/spin-out of Sugarloaf Peak.

### Company Description

Arizona Metals owns 100% of the Kay Mine property in Yavapai County, Arizona. The company also owns 100% of the Sugarloaf Peak property in La Paz County, Arizona.



AMC-TSX Research



Glossary

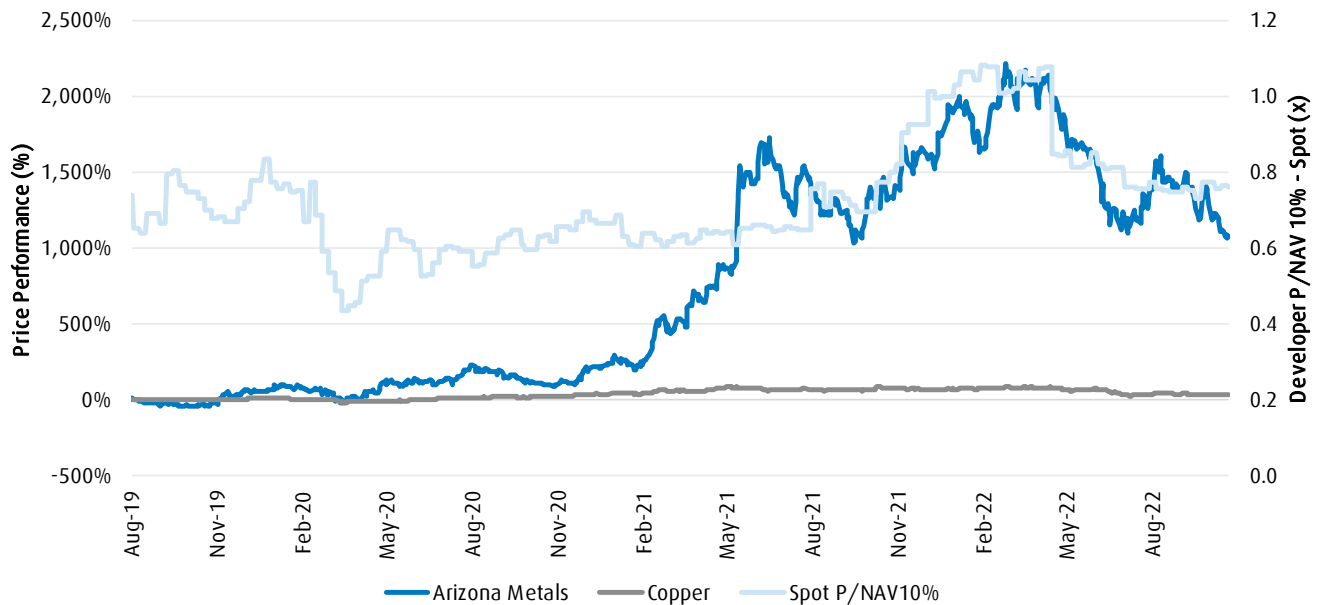


Company Models

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## Arizona Metals – Initiating at Outperform (Speculative); \$6.50 Target Price



Source: FactSet, BMO Capital Markets

### Bottom Line

- We are initiating coverage of Arizona Metals (AMC) shares with an Outperform (Speculative) rating and \$6.50 target price.
- Drilling thus far has intersected strong mineralization at Kay, highlighting the potential for deposit growth in excess of the historically defined resource, in our view. There are prospective targets that have yet to be fully explored, most notably Central and Western.
- In our view, the estimated lower capital intensity and the manageable initial capital provide an attractive entry point for a base metal project that can be staged for future expansion.
- We have modelled Kay as a smaller initial underground mine; however, resource success at Kay, as well as potential supplemental ore feed from surrounding targets, such as Central and Western, could position the project as a larger scale growth option for an acquirer.
- Backed by a strong balance sheet, Arizona Metals’ exploration success defining Kay and near-by prospective targets, location in a top-quality mining jurisdiction, and readily available access to infrastructure, all support the progression of an estimated low capital intensity development project thus warranting a premium NAV multiple, in our view.

### Potential Catalysts/Key Points

- ✓ Ongoing drilling/exploration results.
- ✓ Additional exploration targets; further defining prospectivity of land package.
- ✓ Additional metallurgical work.
- ✓ Updated resource for the Kay project.
- ✓ Complete Kay project studies; ongoing permitting.
- ✓ Potential sale/spin-out of Sugarloaf Peak Gold project.
- ✓ Potential M&A target.

### Potential Investor Concerns

- ✗ Project exploration potential falls short of expectations.
- ✗ Project study results in capital expenditures that are much higher than anticipated; operating costs are above average; updated resource disappoints.
- ✗ Permitting takes longer than anticipated, resulting in project delays; potential for permits not to be issued.
- ✗ Future funding required for full-scale development, which could include both debt and equity.
- ✗ Large insider/stakeholder holdings could mean shares are less liquid compared to certain peers.

## Summary: More Than O'Kay

We are initiating coverage of Arizona Metals with an **Outperform (Speculative) rating and \$6.50 target price**. Arizona Metals, headquartered in Toronto, Ontario, is dedicated to advancing exploration, permitting, and development at the Kay Mine copper-gold-silver-zinc project in Yavapai County, Arizona. The company also owns the Sugarloaf Peak Gold project in La Paz County, Arizona.

Our \$6.50 target price implies a 1.0x multiple to our NAV10% estimate and an 86% return. Our speculative designation reflects resource, exploration, permitting, development, and financing risks associated with the project. All amounts are expressed in Canadian dollars unless otherwise noted.

The highlights of Arizona Metals include the following:

- **Working Towards an Updated Kay Resource; Additional Targets Identified.** Exploration efforts have been focused on further delineating and defining the Kay Mine VMS deposit. A historical, non-43-101 compliant resource exists that outlined 5.8Mt at an estimated grade of 2.2% Cu, 3.03% Zn, 54.9 g/t Ag, and 2.8 g/t Au. Drilling thus far has intersected strong mineralization at Kay, highlighting the potential for deposit growth in excess of the historically defined resource, in our view. Moreover, Arizona Metals has identified the possibility to drill deeper, and the Kay deposit remains open in a number of directions. Additionally, there are prospective targets that have yet to be fully explored, most notably Central and Western. Arizona Metals outlining additional resources of size, particularly in such close proximity to Kay, and where the plant facilities would be located, could be a significant growth driver for the shares.
- **Smaller Starter Option Modelled; Potential Acquiror May Think Bigger.** Arizona Metals' copper potential provides significant exposure to the metal. The Kay mine is also expected to produce by-product gold, silver, and lead, as well as a meaningful amount of zinc. On our assumptions, the Kay project is anticipated to move into production in 2028. We have modelled Kay as a smaller initial underground mine; however, resource success at Kay, as well as potential supplemental ore feed from surrounding targets, such as Central and Western, could position the project as a larger-scale growth option for an acquiror. In our view, the estimated lower capital intensity, and the manageable initial capital, provides an attractive entry point for a base metal project that can be staged for future expansion. We do not model an expansion, or the inclusion of supplemental resources beyond Kay, and see this as upside potential.
- **Management Backing.** Management/insiders hold a significant economic interest in Arizona Metals of ~7%. Having previously completed a bought deal financing, and with roughly \$60M in cash on the balance sheet, Arizona Metals is well-funded to advance Kay forward and complete its Phase 3 exploration program. Accordingly, near term, we do not see an associated equity financing overhang with the name.
- **Strategic Location.** The Kay Mine project is located in a mining-friendly jurisdiction amidst a mineralized area in proximity to other operators and past producers. The Kay Mine project proximity benefits from significant investments in regional infrastructure and also provides access to skilled labour. Although the scale of project is within the capacity and capability for development by Arizona Metals, which is our base case development scenario, it has advantages for the introduction of a strategic partner, or potential M&A, in our view.
- **Premium Valuation.** Shares of Arizona Metals are trading at 0.5x our diluted P/NAV10%, in line with the midpoint of other developer and explorer peers within the BMO coverage universe at 0.6x. Backed by a strong balance sheet, Arizona Metals' exploration success defining Kay and nearby prospective targets, location in a top-quality mining jurisdiction, and readily available access to infrastructure, all support the progression of an estimated low capital intensity development project thus warranting a premium NAV multiple, in our view.

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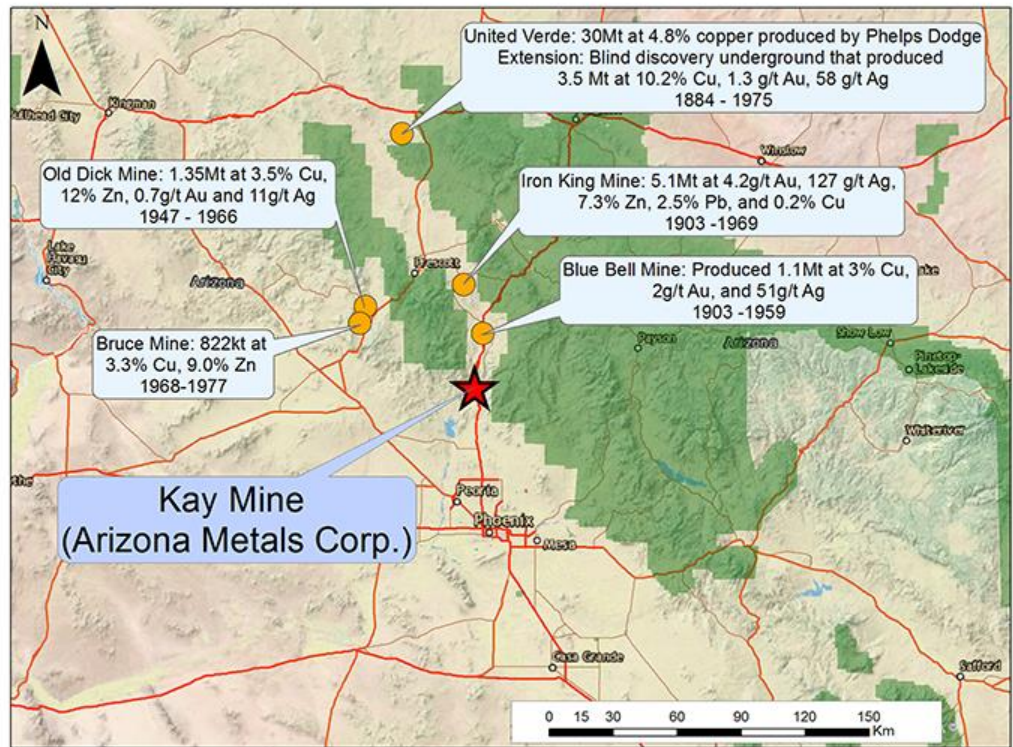
## Arizona Metals Company Overview

Arizona Metals, headquartered in Toronto, Ontario, is dedicated to advancing exploration, resource definition and expansion, permitting, and development at the Kay Mine copper-gold-silver-zinc project in Yavapai County, Arizona. The Kay Mine deposit has a historical, non-43-101 compliant resource located on 70 acres of patented (private) claims. Overall, the Kay Mine property is situated on a combination of patented and BLM claims totaling 1,300 acres that are not subject to any royalties. Arizona Metals also holds a 100% interest in the Sugarloaf Peak Gold project.

Arizona Metals was originally incorporated as Ring the Bell Capital Corp. (“RTB”) under the Canada Business Corporations Act on June 28, 2017, and was listed on the TSX Venture Exchange as a capital pool company effective March 9, 2018. On August 1, 2019, RTB completed a reverse take-over transaction (“RTO”) with Croesus Gold Corp. by way of a three-cornered amalgamation in which RTB acquired 100% of the issued and outstanding common shares of Croesus, and Croesus amalgamated with 11459040 Canada Inc., a wholly owned subsidiary of RTB incorporated for the purpose of facilitating the RTO. In connection with the RTO, RTB changed its name to Arizona Metals Corp. and consolidated the common shares of the company on the basis of one post-consolidation common share for every two and a half pre-consolidation common shares. Following completion of the RTO Transaction, Arizona Metals began trading on the TSX-V as a Tier 2 Mining Issuer on August 7, 2019. The company received approval to graduate its listing to the Toronto Stock Exchange, and the company’s common shares began trading on the TSX on October 13, 2022.

**Exhibit 1: The Kay Mine Project Is Located in Yavapai County, Arizona**

The Kay Mine project is located in Arizona and in proximity to a number of other mining projects.



Source: Company reports

As seen in the above exhibit, the Kay Mine project is in proximity to numerous past producing operations, with a number of current producers also close by. In our view, as future project development progresses, Arizona Metals is set to benefit from the investments that have already been made into regional infrastructure, including rail, roads, and access to power. Infrastructure can be a large hurdle to

overcome for mining projects, particularly given the meaningful amount of capital required. Moreover, given the regional proximity of Arizona Metals, skilled labour is expected to be readily available. Operating smelters are within only a couple of hours drive of the Kay mine.

### Kay Offers the Potential for a Relatively Low Capital Intensity Project

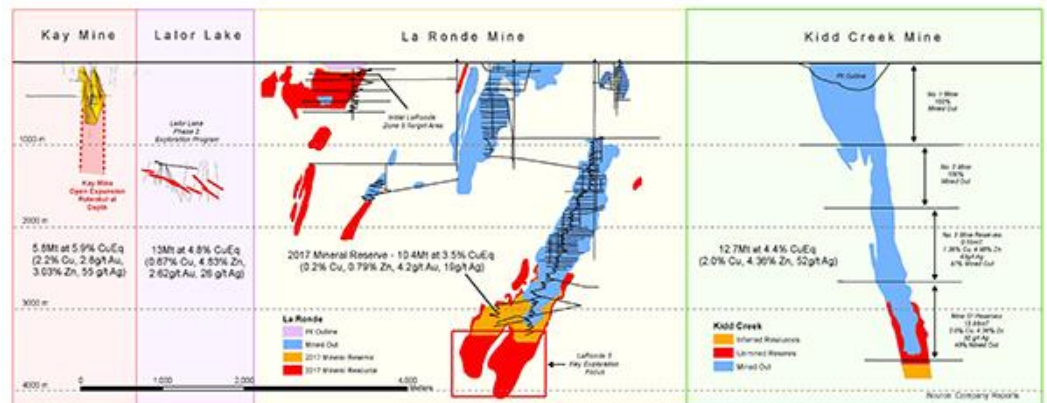
At this time, the technical reports on the Kay Mine development project do not define reserves and resources under current reporting standards, a mine plan, and there is no operating or capital cost profile. As a result, our valuation inherently considers a number of assumptions regarding the project, as well as takes into account benchmarking relative to other comparable underground VMS-style projects.

Based on the drilling success thus far for the Kay Mine underground project, we currently base our mine model on a resource that we see as being deemed mineable and economically feasible for extraction. Historically, VMS style deposits have a track record of long mining lives. **As an initial starting point, we have estimated a mineable resource of 20.0Mt at 1.5g/t gold, 30g/t silver, 1.5% copper and 2.25% zinc.** Put together, and based on BMO's long-term metal price assumptions, this implies a copper-equivalent grade on the Kay project of 3.3%.

In light of the investments that have already been made in surrounding infrastructure, and Kay's proximity, our current base case for development capital and construction is ~\$380M followed by ongoing sustaining capital of ~\$24M per annum. Average annual copper and zinc production is estimated at 50Mlb and 74Mlb, respectively. Given the significance of the precious metal by-products, as well as zinc, we estimate copper by-product cash costs of negative US\$0.67/lb and AISC of negative US\$0.19/lb.

### Exhibit 2: VMS Style Deposits Historically Have Had Significant Mine Lives

In the past, VMS style deposits have had long mine lives, some of which have extended over 100 years.



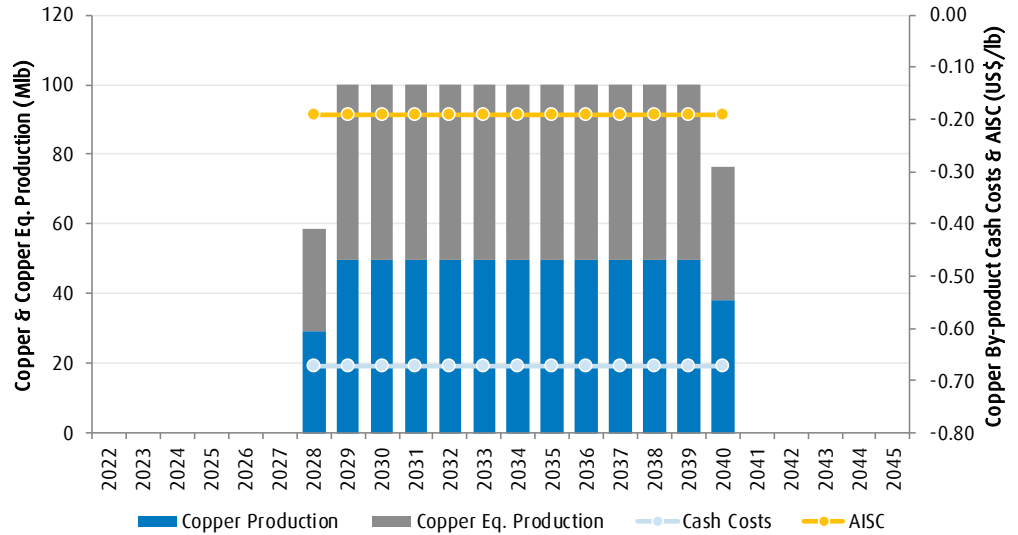
Source: Company reports

In our view, we see Kay Mine as a project with the potential for resource growth, additions of ore feed into the mine plan from surrounding targets that have yet to be fully tested or defined and, over time, an operation that can potentially scale in size to accommodate higher levels of production. **We think the opportunity to scale could be of particular significance for a larger operator that would potentially consider Arizona Metals as an acquisition candidate. Moreover, low capital intensity projects offer an additional element of attraction providing a potential acquiror the opportunity for growth without an overly onerous capital build out at a time of a more challenging economic backdrop.**

We assume capital spending begins in 2026, with potential production commencing in 2028. We currently estimate a ~13-year mine life under our base case scenario. Our aforementioned capital expenditure assumptions reflect an initial 4.5ktpd project. We expect to make further refinements when technical reports are published in the future as Arizona Metals optimizes the project. This includes more granular details reflecting variability on grades and capital expenditures. In the following exhibit, we

provide a snapshot of our assumed production outlook with an overlay of the forecast cash costs and AISC at Kay.

**Exhibit 3: Kay Offers Attractive Copper Production at Low Estimated Costs**



Source: BMO Capital Markets

### Project Financing Assumptions for Development

To finance the Kay project, we assume Arizona Metals arranges financing as follows:

- Puts in place ~\$375M in debt/project financing proceeds at a 7.0% interest rate; and,
- 16.7M shares at \$6.00 for \$100M.

We assume a combination of debt and equity to fund development.

**Future exploration success represents potential upside to our valuation.** In our view, there is likely to be a wide dispersion of opinions on the resource at Kay. We see the potential for an updated resource to be released in 2023. A decision regarding the cut-off grade will influence the overall size. We expect this uncertainty to carry through to the release of technical reports, which will take into account aspects, such as the size of the operation. As a result, we see this representing both a risk and an opportunity. We expect this difference of opinion to carry on after the release of technical reports at Kay, particularly as VMS discoveries have added resources at various scales beyond their initial resource estimate.

Exploration efforts have been focused on further delineating the potential of the Kay deposit, which we see as the most recent driver for shares of Arizona Metals; however, efforts are now pivoting to the surrounding priority targets, including Central and Western which are the focus of the Phase 3 drilling campaign. In our view, exploration results thus far support efforts to drill deeper at Kay, though this could be considered expensive and not the best return of capital for Arizona Metals at this time. Traditionally, once in operation, underground mines have been able to add resources through the drill bit as the cost of drilling is reduced from not having to drill from surface but as well, through gaining an improved understanding of the orebody. The Central and Western targets are in close proximity to Kay, though they will be separate permitted drill pad locations. Given the significant unknown associated with these targets, and albeit reflecting initially similar signatures to Kay, we have excluded these from our resource estimation, and corresponding cash flow mine model, and instead captured this within an exploration credit for the company.

Beyond the dispersion in opinions that is likely to follow for Kay, we think there is equally a wide range of estimates associated with Arizona Metals' Sugarloaf Peak Gold project. We have deemed the asset to

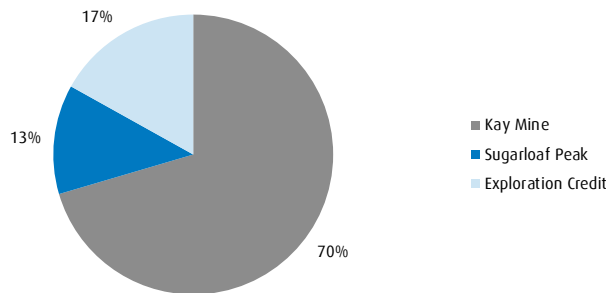


be non-core; however, ultimately the path forward to monetize, surface, or otherwise crystalize, value for shareholders is less clear. In a challenging market dynamic, companies may be less likely to pay fuller value on traditional early stage valuation metrics, such as EV/oz. As such, we consider later on in the report that while an outright sale of the project, at the right price, may still be on the table, increasingly we have seen non-core assets spun out into new vehicles whereby existing shareholders are set to receive shares in the new company. In doing so, existing investors are able to participate in a more focused, single-asset company, with the potential for a re-rating opportunity in the future as new discoveries are made or as the project is further de-risked.

In the following exhibits, we present a breakdown of our project level NAV10% for Arizona Metals. As expected, the Kay Mine project represents the vast majority of our valuation alongside the exploration potential yet to be fully unlocked from the Central and Western targets. Sugarloaf Peak, while contributing to our valuation, is a relatively smaller component, largely as expected given our view that the project is deemed non-core to the larger thesis of Arizona Metals.

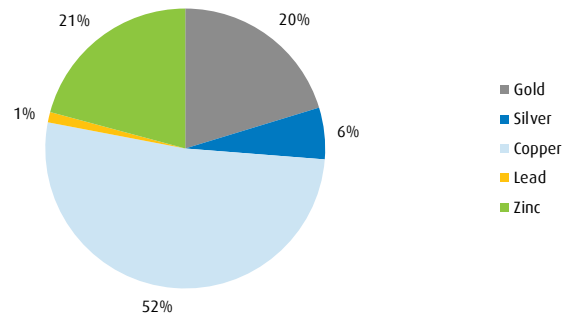
Copper and zinc drive the majority of the expected revenue from the Kay Mine though the project also offers gold, silver and some lead. The gold and silver credits are of reasonable size based on our estimated resource for the Kay Mine project, which could open up additional funding opportunities for Arizona Metals should it decide to pursue the path of stream financing. As noted above, at this time, we have assumed a more simplified funding path of debt and equity; however, we are cognizant that the precious metals stream optionality exists at the project.

**Exhibit 4: Project NAV10% Breakdown**



Source: BMO Capital Markets

**Exhibit 5: Kay Mine Project LOM Revenue Breakdown**



Source: BMO Capital Markets

### A Brief History of Kay

The Kay Mine property is located immediately adjacent to the town of Black Canyon City, ~69km north of the city of Phoenix, in central Arizona, USA. The Kay Mine was discovered sometime before 1900 and mined on a small-scale until 1918, after which it was worked by the Kay Copper Company in 1922, which extended shafts and underground workings and discovered the ore bodies above the 600 Level. The project was acquired by Exxon Minerals Company in 1972, which invested ~\$1.5M in exploration, drilling 23 core/rotary exploration holes totaling 8,094m.

In 2017, Silver Spruce Resources acquired five patented mining claims and staked 14 unpatented mining claims. On September 26, 2018, Croesus Gold signed a letter of intent to acquire 100% of the property for a total of \$150k cash and \$250k in shares of Croesus Gold; however, Silver Spruce elected to receive payment in cash rather than shares. Croesus also agreed to assume a US\$450k mortgage on the patented claims portion of the property. Croesus staked 50 additional unpatented mining claims.

## Detailed Review of the Kay Project

The Kay Mine project is a 100%-owned copper-gold-silver-zinc VMS deposit located near Black Canyon City, Yavapai County, in central Arizona, USA. The property consists of 64 unpatented mining claims covering approximately 509.6ha and five patented mining claims covering approximately 28.7ha. Arizona Metals also owns 43ha of private land 1km north of the mining claims. There are no royalties on the Kay Mine project.

### Exhibit 6: Aerial View of the Project Looking North



Arizona Metals' Kay Mine project is located in close proximity to established infrastructure.

Source: Company reports

Arizona Metals holds a 10-year right-of-way from the Arizona State Land Department to cross a portion of land owned by Arizona along the access route to the mining claims. The project lies in an area of moderate topography, reaching elevations of 683m with relief of ~100m from the streambed of the Agua Fria River to the summits of hills on the project. What stood out to us on visiting the exploration site was that the drills were largely hidden from view from much of the surrounding community. Moreover, given the topography, the sound of drilling activity did not travel, and was not audible closer to the road location. Nevertheless, we expect community consultation and engagement to be the forefront as the project continues to advance as local buy-in and support for a social license to operate are critical elements for project success. We would argue the smaller scale of the project, its underground design with relatively minimal expected surface disturbance, and land position are all supportive attributes for project permitting. The BLM has an affirmative permitting process, and the Kay Mine project lies on a combination of private and BLM land, and is in contrast to the Forest Service permitting process. No major public opposition to the project exists at this time and there does not appear to be major issues with endangered species on the property; however, future challenges may arise, which could delay project progression. Access to the project is by road on Interstate Highway 17, then by paved city streets in Black Canyon City to the banks of the Agua Fria River. The project is immediately adjacent to the town of Black Canyon City with a population of ~2,685 (2020 census).

Infrastructure is a strong benefit for ongoing exploration as well as future development with readily available access to power and water in Black Canyon City, and road access along Interstate Highway 17 and paved city streets. Arizona has a long mining history, and skilled miners and mining professionals reside throughout the state and are available for employment. Potential locations for tailings, waste disposal, and processing plants are available, particularly out of sight of town on the western portion of

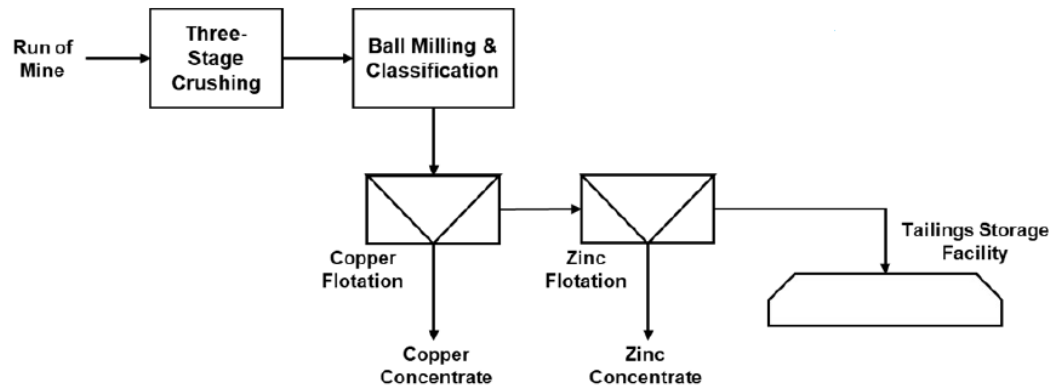
the project. Ongoing assembly of additional lands proximal to the project seems reasonable and there are large, flat plots readily available for major project components.

### Geology and Mineralization of the Deposit

The Kay Mine project lies in a NNE-trending belt of greenschist-metamorphosed volcanic, volcanoclastic, and sedimentary rocks of the Townsend Butte facies of the Black Canyon Creek Group. The Kay Mine is one a number of VMS deposits in the region. Mineralization on the Kay Mine property consists of stratabound lensoid bodies of massive sulfide in a folded horizon that strikes generally north and dips an average of 70° west. Kay sulfide mineralization consists of massive, semi-massive, and stringer-like aggregates of pyrite, arsenopyrite, chalcopyrite, sphalerite, and galena.

On the mining method, albeit still early days, Kay could be appropriate for long-hole stoping while some of the wider zones could be amenable to bulk mining at a lower mining cost profile. We see the lower-cost mining method, even partially, as potential upside to our estimates. There has been no modern mineral processing or metallurgical testing work done on the project. A desktop review of mineralization and expected metallurgical recoveries indicated that industry standard differential flotation would likely be effective in creating separate copper and zinc concentrates, and identified no fatal flaws in the anticipated mineral processing and metallurgical extraction.

#### Exhibit 7: Conceptual Kay Mine Project Flowsheet



The Kay Mine project is expected to follow a simple flow sheet producing copper and zinc concentrates.

Source: Company reports

### Resources Outdated; Working Towards an Update

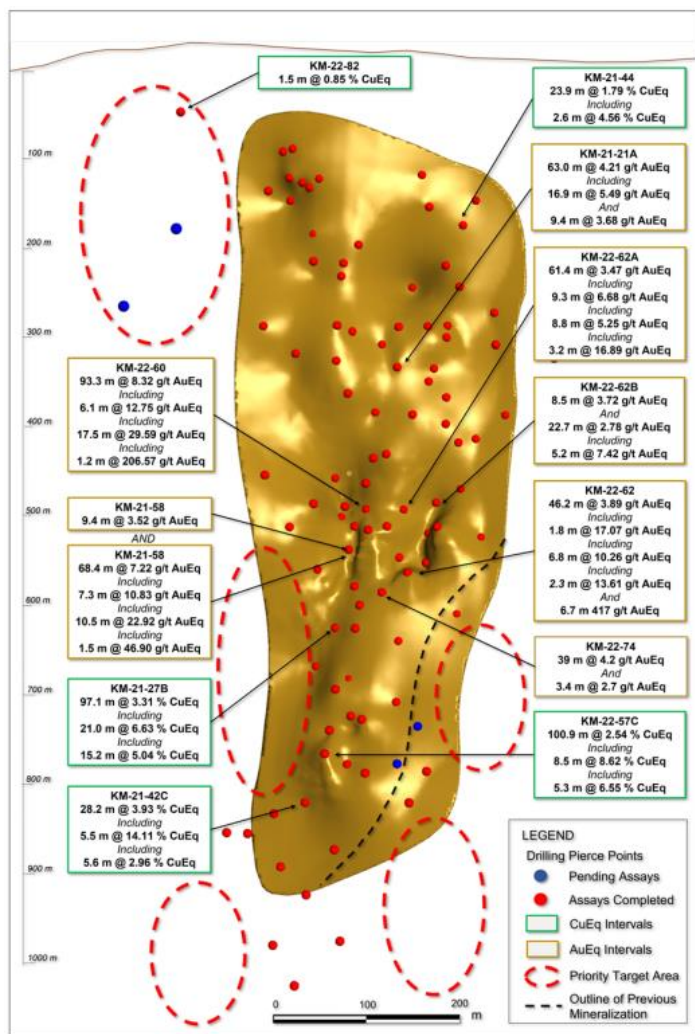
A number of historical estimates of resources have been made over the years on the project. The most recent historical resource, from 1982, estimated 5.8Mt at grades of 2.2% Cu, 3.03% Zn, 54.9 g/t Ag, and 2.8 g/t Au above the 3000 Level, using a cutoff grade of 2% copper equivalent.

Given the dated nature of the estimate, in our view, it would not be prudent to place undue reliance on the resource. As a result, the drilling efforts undertaken by Arizona Metals will be the focus, as will be establishing updated resources under current reporting standards. Massive sulfide occurs along a strike length of ~350m and a down-dip extent of over 700m below surface, as defined by Arizona Metals drilling combined with historical drilling and underground mapping. Using approximately these dimensions, as well as assigning a width and density factor, we see the potential for roughly 28Mt; however, as noted above, we have more conservatively assigned a mineable resource of 20Mt as an initial starting point for definition and for our mine model.

## Exploration Further Defining Kay; Additional Growth Potential Identified

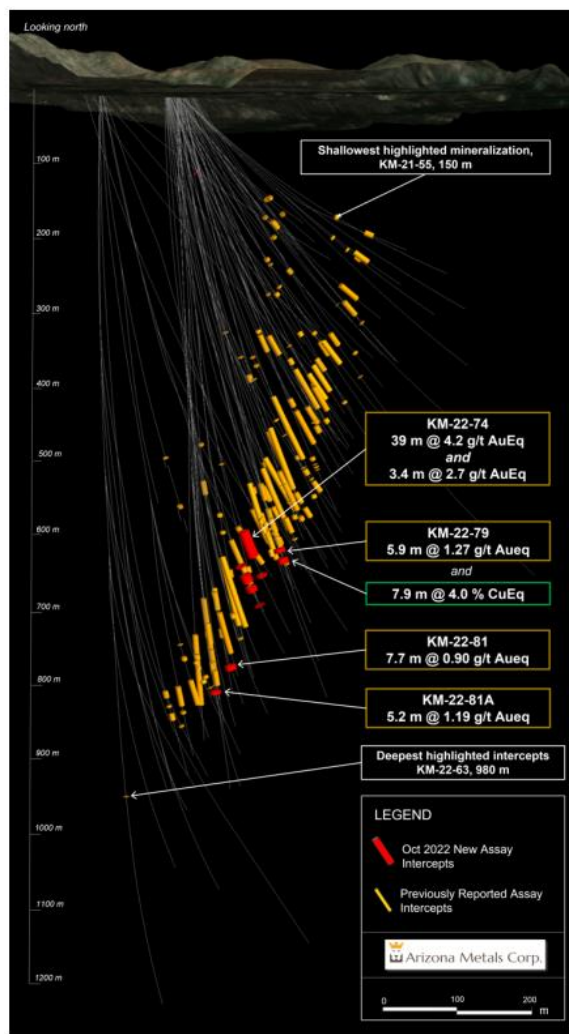
Over the last two years, Arizona Metals has focused on expanding the Kay Mine deposit, and has been successful with its exploration efforts. Arizona Metals has utilized a variety of different exploration techniques including surface mapping, soil geochemistry, airborne and ground electromagnetic surveys, and gravity surveys. At Kay, Arizona Metals has, thus far, drilled roughly 70,000m which has allowed the company to meaningfully improve its understanding of the VMS-style deposit. That said, as reflected in the following exhibits, there are a number of areas that continue to remain open. The intersections have delivered strong grades while also helping to establish a continuity of mineralization. Arizona Metals is well-funded to complete the remaining 19,000m planned for the Phase 2 program, with the priority targets highlighted in Exhibit 8.

**Exhibit 8: Long Section of Kay Drill Holes**



Source: Company reports

**Exhibit 9: Cross Section of Assay Results**



Source: Company reports

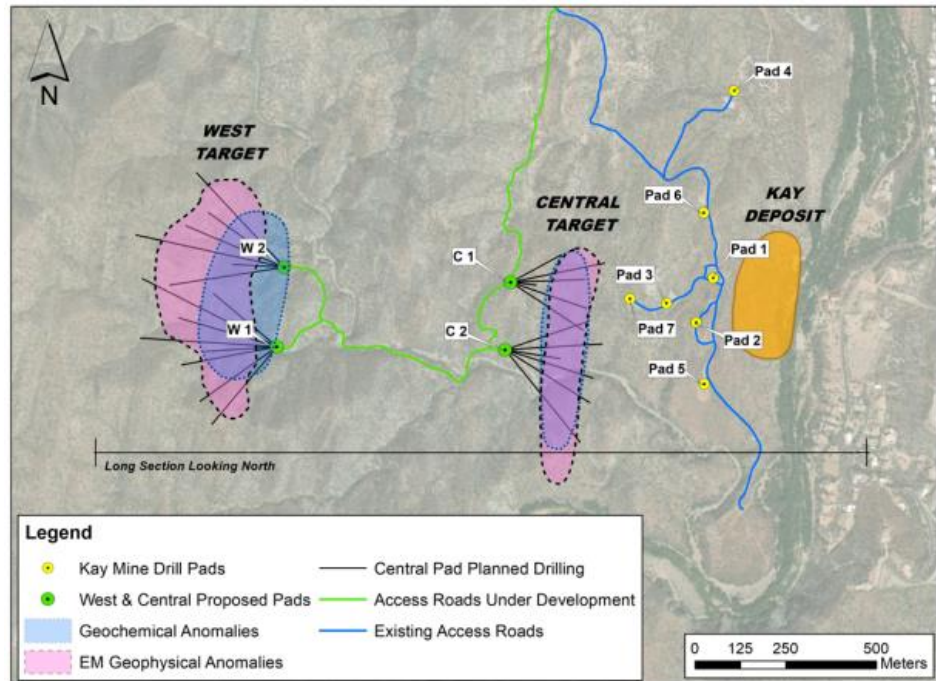
**The Phase 3 drill program is well covered by cash on Arizona Metals' balance sheet.**

Beyond the work that has been conducted at Kay that, in our view, has been much of the investor focus, the attention now shifts to the Central and Western targets. Road construction is underway to reach drill locations that will test Central, located 300m west of the Kay Mine deposit. Drilling at pads C1 and C2 is expected to commence in November 2022, and will comprise part of the planned 76,000m Phase 3 program. Permits were recently received for pads W1 and W2 to test the Western target, also part of the Phase 3 program. The Phase 3 program is anticipated to cost \$27M.

While some work will continue at Kay to define a resource, as well as other efforts, such as associated hydrological, rock geochemistry, metallurgical, and specific gravity studies, Arizona Metals noted that over the next 18 months, roughly 90% of the budget will be dedicated to exploration south, north, and west of the Kay Mine deposit. The Central and Western targets are captured in the following exhibit relative to the Kay Mine deposit location. The exhibit also highlights the access roads.

**Exhibit 10: Plan View of Proposed Pads and Drill Roads**

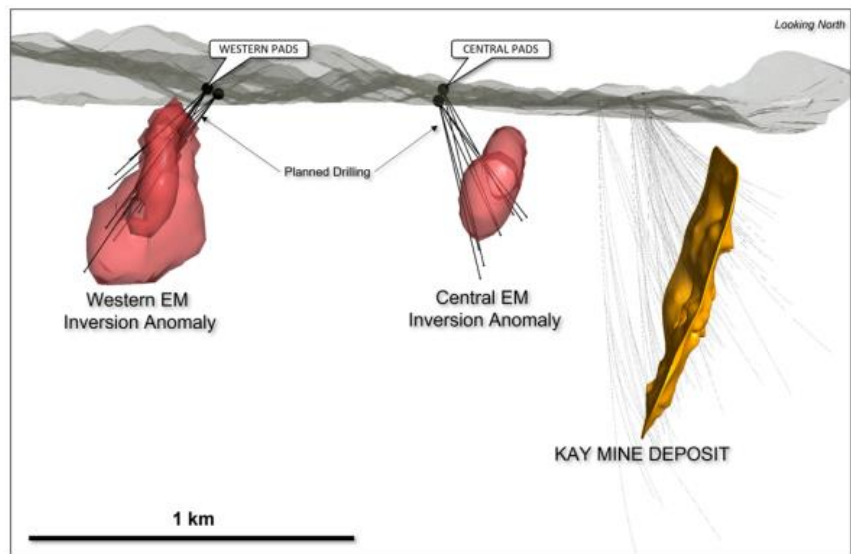
The Central and Western targets are closely located to the Kay Mine deposit.



Source: Company reports

With permits recently received for drill pads at the Western target, road construction is anticipated to commence on bond acceptance and drilling in Q1/23. **The potential to define, and deliver, another Kay-like discovery at the Central or Western targets would be a significant growth driver for Arizona Metals.**

**Exhibit 11: Long Section of Proposed Pads and Drill Roads**



Source: Company reports

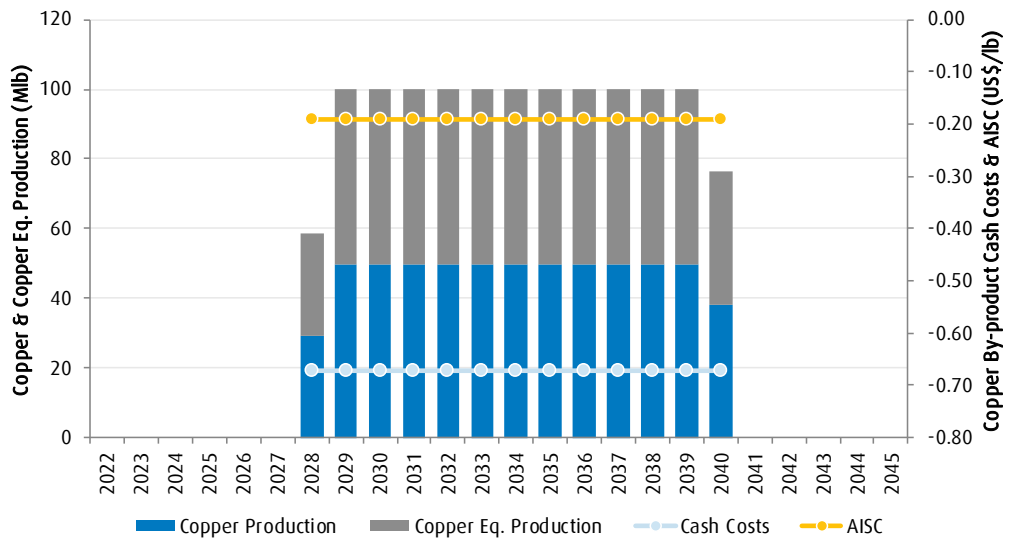
## Attractive Copper and Copper Eq. Production at Low Estimated Costs

At the Kay Mine underground project, we currently base our forecasts on an estimated resource that is in excess of that captured in the historical, non-compliant resource. Over the LOM of the underground project, we forecast copper production of ~50Mlb per year at copper by-product cash costs of negative ~US\$0.67/lb and copper by-product AISC of negative ~US\$0.19/lb, respectively. The Kay Mine project is expected to produce by-product gold and silver as well as zinc. On a copper eq. basis, we estimate production of ~100Mlb per year. At this time, we have not included any additional resources into our mine plan that could potentially be defined at the Central and Western targets.

The initial capital cost for the design, construction, installation, and commissioning of the Kay Mine project is estimated to be \$380M based on our benchmarking for a 4.5ktpd operation. The sustaining capital is estimated to be \$300M for the 13-year LOM.

**Exhibit 12: Kay Offers Attractive Copper Production at Low Estimated Costs**

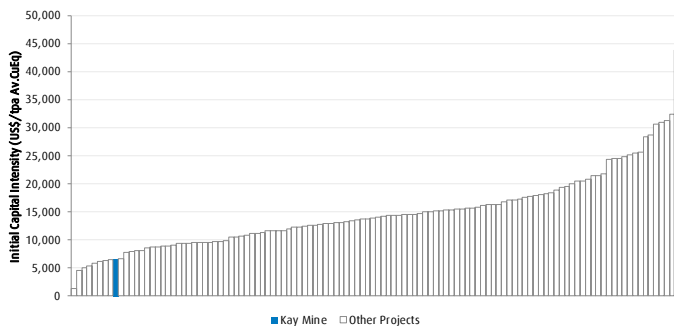
We estimate attractive costs with a ramp-up in operations in 2028.



Source: BMO Capital Markets

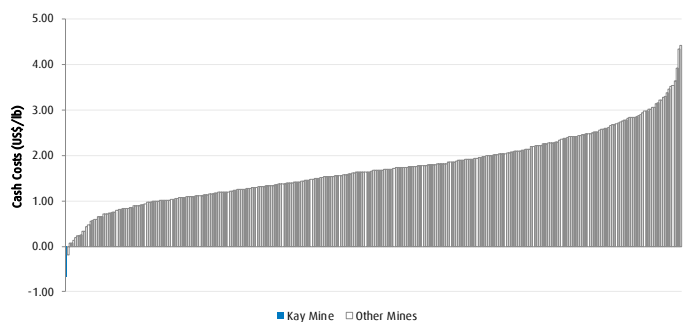
On capital intensity, the Kay Mine ranks at the lower end of the spectrum for greenfield and brownfield copper projects. The lower capital intensity increases the likelihood of the project being built, and is an attractive attribute for a potential acquiror. Looking at costs, and given the meaningful by-product credits expected, the targeted cash costs are set to position the Kay Mine favourably on the copper cost curve compared to peers.

**Exhibit 13: Copper Capital Intensity (Greenfield & Brownfield) Places Kay at the Lower End of the Spectrum**



Source: Wood Mackenzie, BMO Capital Markets

**Exhibit 14: Kay Ranks Favourably on the Copper Cost Curve (2028)**



Source: Wood Mackenzie, BMO Capital Markets

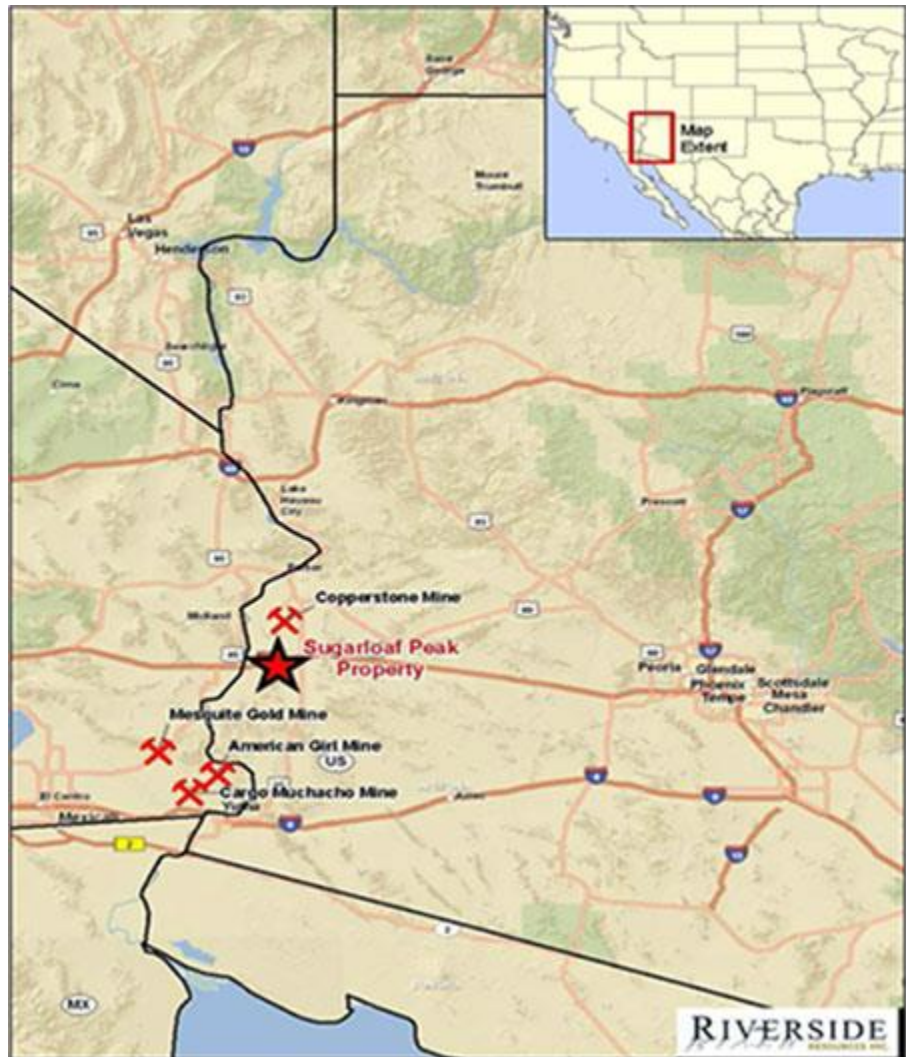
## Sugarloaf Peak Largely Seen as Non-core

The Sugarloaf Peak Gold deposit is located in La Paz County, Arizona.

While we expect much of the investor focus to be on the Kay Mine project, and the primary allocation of funding by Arizona Metals, the company also holds a 100% interest in the Sugarloaf Peak Gold deposit located in La Paz County, Arizona. In 2014, Arizona Metals optioned the project from Riverside (under Arizona Metals' previous name Croesus Gold Corporation), and completed its 100% purchase of the project in March 2016. The final terms of the twice-amended agreement were as follows:

1. Cash purchase price of \$700,000 and 10.3M shares of Croesus Gold;
2. Reimbursement to Riverside of \$42,000 in mineral-title fees; and
3. Net smelter return royalty of 2% to Riverside.

### Exhibit 15: The Sugarloaf Peak Project Is Also Located in Arizona



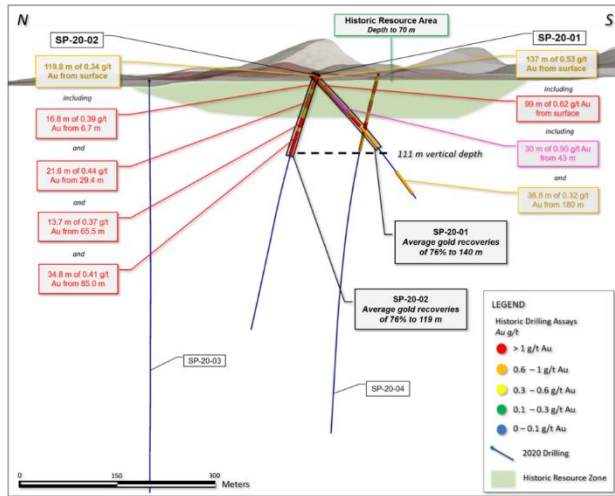
We view the Sugarloaf Peak Gold project as non-core to Arizona Metals.

Source: Company reports

For historical context, gold exploration began in 1981 with a drilling program by Westworld Oil & Gas. 106 drill holes totaling ~15,780m of core, rotary, and reverse circulation drilling have been completed on the property between 1963 and 2020 by previous operators. Based on prior estimations previous to Arizona Metals, the drilling suggested a non-43-101 compliant, conceptual potential resource of "about 100 million tons containing 1.5 million ounces gold and 25 million ounces silver". In 2021, Arizona

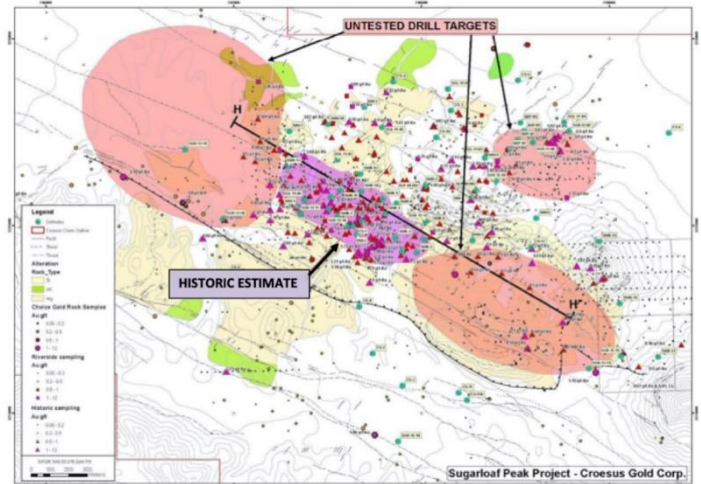
Metals released the results of metallurgical testing at its Sugarloaf Peak Gold project demonstrating gold recoveries of 95% in oxide material and averaging 76% gold recovery in sulfide material.

**Exhibit 16: Sugarloaf Peak Metallurgical Results**



Source: Company reports

**Exhibit 17: Sugarloaf Peak Historical Resource**



Source: Company reports

A major interstate highway, Interstate 10, runs through the project, as do a natural-gas pipeline, telephone lines, and other utility lines. In the technical report, it was noted that if an economically viable deposit is outlined at Sugarloaf Peak, this infrastructure may have to be addressed during production planning and design, depending on the location of ore and the resulting open-pit geometry. This is offset, however, by the presence of utilities and infrastructure on the project, which will generally reduce infrastructure costs during project development.

Previous commentary in the technical reports have flagged that finding additional higher-grade mineralization will be the key to developing an economically viable resource on the project. Work by the company has indicated that the deposit remains open for expansion at depth as well as on strike. Based on the aforementioned recoveries, being able to grow the size of the project to in the range of 3Moz would yield a mine that has the potential to deliver gold production of ~200koz per annum over a 10 year mine life. At this level, we think this would be relatively attractive for potential acquirors. However, as we previously noted, we expect the funding that has been previously raised to be directed towards the advancement of the Kay Mine project. Given the need for additional work at the project, but also matched with the desire to not spend meaningful amounts from the treasury, in our view, Sugarloaf Peak Gold is seen as a non-core asset for Arizona Metals.

There are a variety of different avenues in which Arizona Metals could proceed to potentially monetize, or surface value for, the Sugarloaf Peak Gold project. The simplest path would be a straight divestment. However, in a challenged market environment, it may not result in the highest potential realization for Arizona Metal shareholders, particularly as more work is required, though it may be the quickest. A second option may be to spin-out the Sugarloaf Peak Gold project into a new vehicle that would be self-funded, and with Arizona Metal shareholders to receive shares of the new company. As additional work is undertaken at the project, including potentially growing the size and scale of Sugarloaf Peak Gold, this may result in a re-rating of the equity, and delivering more value. In the future, this could still also include a potential sale. In this scenario, however, the process to realizing value could take longer.

**We see the potential for an opportunistic sale, or spin-out, of Sugarloaf Peak.**

In light of the early stage nature of Sugarloaf Peak Gold, its non-43-101 compliant and conceptual potential resource, as well as the current challenging market dynamics, we have valued the project on an in-situ basis. We benchmarked resource valuations as per our weekly GoldPages publication, though discounted this further to US\$50/oz, to derive a valuation for the Sugarloaf Peak Gold project of \$112M.



## Financial Overview

The Arizona Metals balance sheet is well-funded for exploration.

Arizona Metals held ~\$60M in cash on its balance sheet and had no debt as of June 30, 2022. Historically, the company has primarily relied on equity financings to advance its exploration and permitting efforts. Arizona Metals last completed a bought deal financing in Q4/21 for gross proceeds of \$32M at a price of \$4.25. Since the start of 2021, exploration spending has been in the range of \$3-6M on a quarterly basis. The Phase 3 program will entail 76,000m of drilling at an anticipated cost of \$27M.

### We Believe That Future Funding Will Take the Form of Debt and Equity

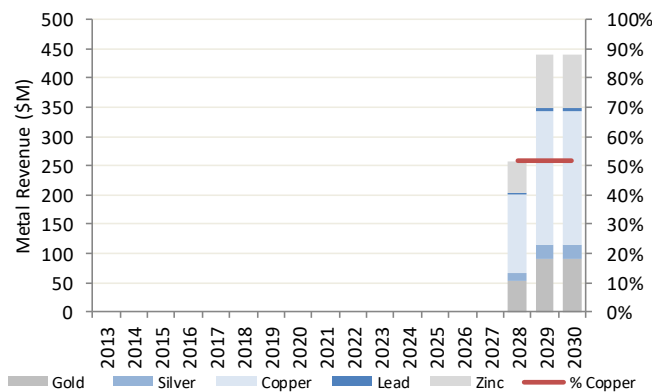
In our view, Arizona Metals is well-funded in the near-term. On the future funding of the Kay project, when the time arises, we expect that Arizona Metals will likely have a number of different options, including, but not limited to:

- Selling a project interest;
- Corporate debt issuance;
- Project debt;
- Equity raise; and/or
- Precious metals stream financing.

We assume a combination of debt and equity to fund development.

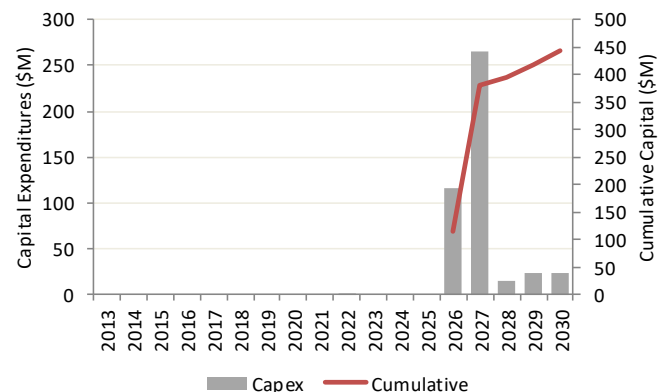
The market for ESG-related financial products is growing and could also be available, potentially with better economics and financing terms. Should the company reach a point where it decides to pursue development, we expect Arizona Metals will opportunistically select a financing package that minimizes dilution, and provides a buffer for financing flexibility that doesn't over-leverage the company during the commissioning and ramp-up.

**Exhibit 18: Metal Revenue Offers Gold and Silver Exposure in Addition to Copper and Zinc**



Source: Company reports, BMO Capital Markets

**Exhibit 19: Our Capital Expenditure Outlook Puts the Majority of Initial Capital Spending in 2026 and 2027**



Source: Company reports, BMO Capital Markets

To finance the Kay project, we assume Arizona Metals arranges financing as follows:

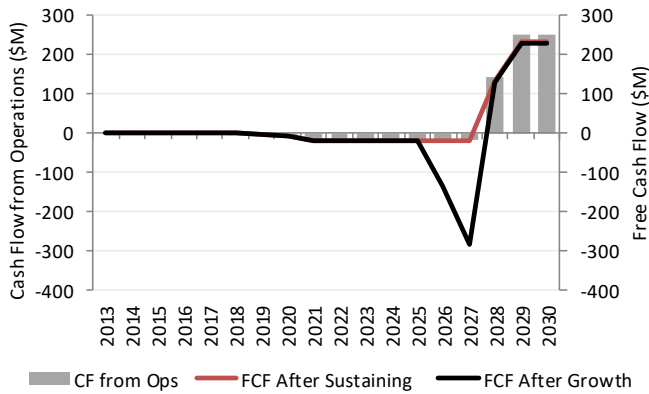
- Puts in place ~\$375M in debt/project financing proceeds at a 7.0% interest rate; and,
- Issues 16.7M shares at \$6.00 for \$100M.

As part of the financing, we recognize the \$6.00 assumed share price is above the current closing price of Arizona Metals, though below our target price and reflective of a reasonable bought deal discount, in our view. Moreover, importantly, Arizona Metals is well-funded in the near term and is not required to

conduct any form of equity financing to advance its drilling efforts. As a result, in this respect, we think Arizona Metals can be selective and opportunistic should it decide to pursue any form of capital raise.

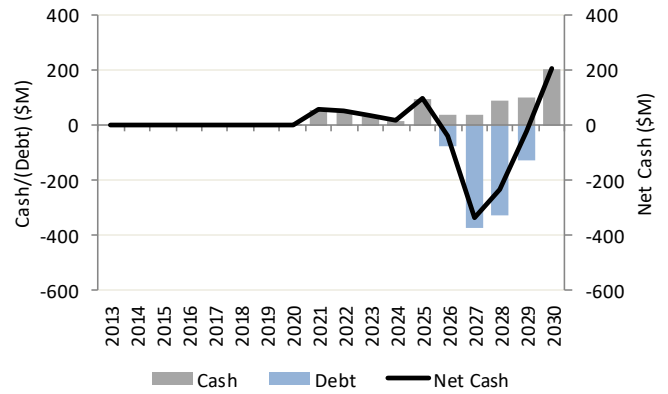
We conservatively assume Arizona Metals begins repaying its debt after achieving commercial production, allowing for the company to work through the growing pains of the operation. The Kay Mine is anticipated to generate approximately \$5.4B in undiscounted revenue on BMO metal price assumptions over the LOM under our base case estimates.

**Exhibit 20: Cash Flow and Free Cash Flow Are Steady After Commencing Production...**



Source: Company reports, BMO Capital Markets

**Exhibit 21: ...Allowing Arizona Metals to Quickly Reduce Our Assumed Debt Financing**



Source: Company reports, BMO Capital Markets

## Valuation and Target Price

Given the long-term nature of mining projects, we believe a valuation approach that captures this long-term value and associated future cash flow derived from the assets is appropriate for most investors, especially those that take a longer-term view of investing. To estimate the long-term value, we calculate a net asset value using a discounted cash flow analysis (10% rate) of the company's mining assets that is consistent with the rate used for other non-precious metals miners under coverage at BMO. Our NAV is then adjusted to include cash on hand, debt, corporate G&A, and exploration expenses.

Our estimates for the Kay project reflect an initial 4.5ktpd scenario where we assume a two-year construction period starting in 2026 and production starting in 2028.

### Exhibit 22: NAV Breakdown

NET ASSET VALUE	Interest	NAV 8%, BMO Prices		NAV 10%, BMO Prices	
		C\$M	(\$/Share)	C\$M	(\$/Share)
Kay (USA)	100%	\$ 794	\$ 5.73	\$ 625	\$ 4.51
Sugarloaf Peak (USA)	100%	\$ 112	\$ 0.81	\$ 112	\$ 0.81
		\$ -	\$ -	\$ -	\$ -
		\$ -	\$ -	\$ -	\$ -
		\$ -	\$ -	\$ -	\$ -
		\$ -	\$ -	\$ -	\$ -
<b>Project NAV</b>		<b>\$ 906</b>	<b>\$ 6.54</b>	<b>\$ 737</b>	<b>\$ 5.32</b>
Exploration Credit		\$ 150	\$ 1.08	\$ 150	\$ 1.08
Hedge Book		\$ -	\$ -	\$ -	\$ -
Corporate		\$ (127)	\$ (0.92)	\$ (117)	\$ (0.84)
Net Cash		\$ 60	\$ 0.43	\$ 60	\$ 0.43
Investments		\$ -	\$ -	\$ -	\$ -
Options & Warrants & Equity		\$ 81	\$ 0.59	\$ 77	\$ 0.55
<b>Total Corporate Adjustments</b>		<b>\$ 164</b>	<b>\$ 1.18</b>	<b>\$ 170</b>	<b>\$ 1.22</b>
<b>Corporate NAV</b>	C\$	\$ 1,070	\$ 7.72	\$ 907	\$ 6.54

Source: Company reports, BMO Capital Markets

**Our \$6.50 target price implies a 1.0x multiple to our corporate NAV10% estimate. After project estimates, our NAV is adjusted for cash, corporate G&A, exploration, options, warrants, and equity issued.**

Our multiple reflects the jurisdiction as well as financing, permitting, and development status of the project. Our NAV calculations assume long-term BMO metal prices of US\$3.75/lb copper, US\$1,400/oz gold, US\$20.00/oz silver, and US\$1.15/lb zinc.

At this time, we have not included an assumption for in situ resources in our valuation for the Kay Mine as we model the project already on an estimated resource basis; however, we have modelled the Sugarloaf Peak Gold project in this manner. Given the prospectivity of the land package, and early-stage nature of some of the targets that have been identified at Central and Western, we have assigned an exploration credit of \$150M.

For earlier stage projects, we have framed trading metrics on an EV/lb basis for both copper and copper-equivalent. Given the heavy investment into exploration at Arizona Metals through its drilling efforts, the style of the deposit, and expectations of a growing resource, and that the previously established resources are outdated, Arizona Metals trades above the average on both metrics relative to selected peers.

Our valuation is based on a multiple to NAV, consistent with a number of other developers under coverage.

**Exhibit 23: EV/lb Ratios on Copper and Copper Equivalent Have Arizona Metals Trading Above Peers**

Arizona Metals trades above average on a EV/lb basis for copper and copper equivalent.

Company Name	Ticker	Enterprise Value US\$M	EV/lb Copper US\$/lb	EV/lb Copper Eq. US\$/lb
Adventus Mining Corp.	ADZN-CA	34	0.10	0.04
Arizona Sonoran Copper Co., Inc.	ASCU-CA	61	0.01	0.01
Excelsior Mining Corp.	MIN-CA	34	0.01	0.01
Filo Mining Corp.	FIL-CA	1,427	0.34	0.18
Foran Mining Corporation	FOM-CA	366	0.29	0.15
Highland Copper Co., Inc.	HI-CA	30	0.00	0.00
Ivanhoe Electric Inc.	IE-US	720	0.07	0.07
Kutcho Copper Corp	KC-CA	40	0.04	0.02
Marimaca Copper Corp.	MARI-CA	194	0.09	0.09
Nevada Copper Corp.	NCU-CA	431	0.06	0.05
Northern Dynasty Minerals Ltd.	NDM-CA	121	0.00	0.00
SolGold Plc	SOLG-CA	471	0.02	0.01
Solaris Resources Inc	SLS-CA	387	0.03	0.02
Trilogy Metals Inc.	TMQ-US	80	0.02	0.01
Western Copper and Gold Corporation	WRN-CA	172	0.02	0.01
EV Weighted Average			0.16	0.09
Simple Average			0.07	0.05
Median			0.03	0.02
<b>Arizona Metals Corp</b>	<b>AMC-CA</b>	<b>241</b>	<b>0.86</b>	<b>0.16</b>

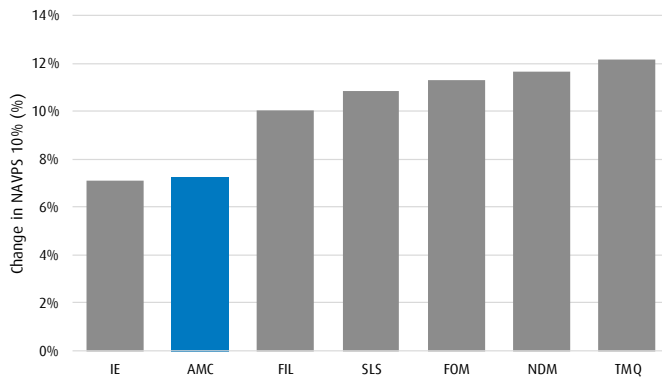
Source: Company reports, FactSet, BMO Capital Markets

### Sensitivity Analysis

We estimate Arizona Metals as less sensitive to changes in the copper price compared with select peers.

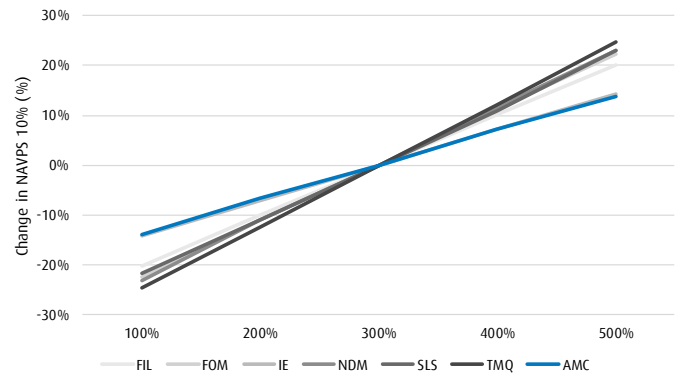
In the following exhibits, we highlight the sensitivity of Arizona Metals’ NAV per share relative to other copper developer peers in our coverage universe. Exhibit 24 presents a 10% increase to our copper price forecasts and the corresponding change to our NAVPS 10%, while Exhibit 25 expands on this by presenting both increases and decreases in copper prices relative to our forecasts. As shown, Arizona Metals sits at the lower end of the range of peers in terms of leverage based on a change in copper prices. We see this relative ranking as reflective of our assumed resource and taking into consideration the expected production of gold, silver and zinc at the Kay Mine project, our corresponding exploration credit, as well as our assigned in-situ valuation for the Sugarloaf Peak Gold project.

**Exhibit 24: NAVPS 10% Change to a 10% Increase in Copper**



Source: BMO Capital Markets

**Exhibit 25: NAVPS 10% Copper Price Sensitivity**



Source: BMO Capital Markets

The following exhibits highlight our NAVPS sensitivity to changes in operating costs and capital.

**Exhibit 26: NAVPS 10% Sensitivity to Opex and Initial Capex**

Opex %	Initial Capital Expenditures %						
	-15%	-10%	-5%	0%	5%	10%	15%
-15%	7.31	7.23	7.15	7.07	6.99	6.91	6.83
-10%	7.14	7.06	6.97	6.89	6.81	6.73	6.65
-5%	6.96	6.88	6.80	6.72	6.64	6.56	6.48
0%	6.79	6.70	6.62	6.54	6.46	6.38	6.30
5%	6.61	6.53	6.45	6.37	6.29	6.25	6.17
10%	6.43	6.40	6.31	6.23	6.15	6.07	5.99
15%	6.30	6.22	6.14	6.06	5.97	5.89	5.81

Source: BMO Capital Markets

**Exhibit 27: NAVPS 10% Sensitivity % to Opex and Initial Capex**

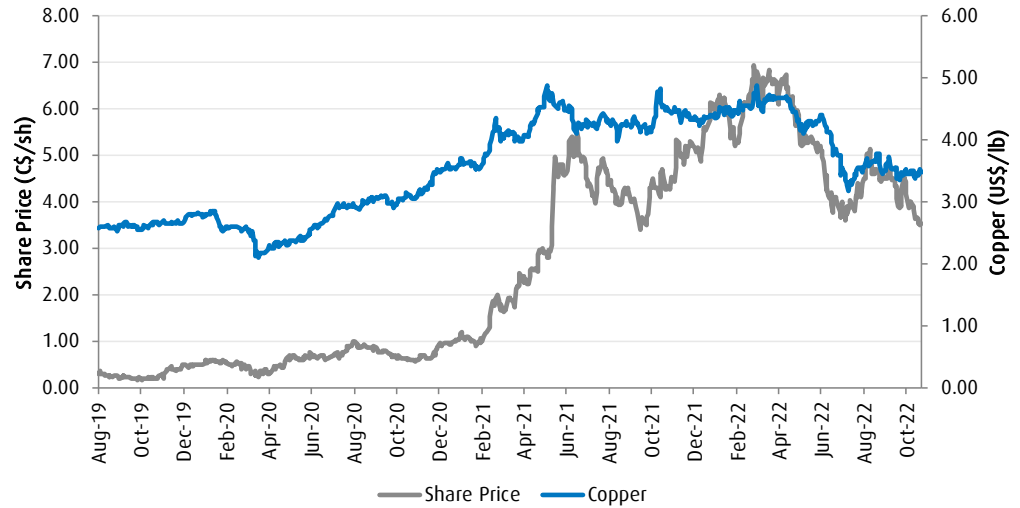
Opex %	Initial Capital Expenditures %						
	-15%	-10%	-5%	0%	5%	10%	15%
-15%	12%	11%	9%	8%	7%	6%	4%
-10%	9%	8%	7%	5%	4%	3%	2%
-5%	6%	5%	4%	3%	1%	0%	-1%
0%	4%	2%	1%	0%	-1%	-2%	-4%
5%	1%	0%	-1%	-3%	-4%	-5%	-6%
10%	-2%	-2%	-3%	-5%	-6%	-7%	-8%
15%	-4%	-5%	-6%	-7%	-9%	-10%	-11%

Source: BMO Capital Markets

In tracking shares of Arizona Metals relative to the copper price historically, despite the company still focused on exploration, we note that shares of Arizona Metals have been tracking directionally with the copper price. More recently, however, and given the specific catalysts at the company, Arizona Metals has had a much more pronounced increase in 2021.

**Exhibit 28: Arizona Metals Has Been Tracking Directionally With the Copper Price**

Arizona Metals shares have been tracking directionally with the copper price but the increase was more pronounced in 2021.



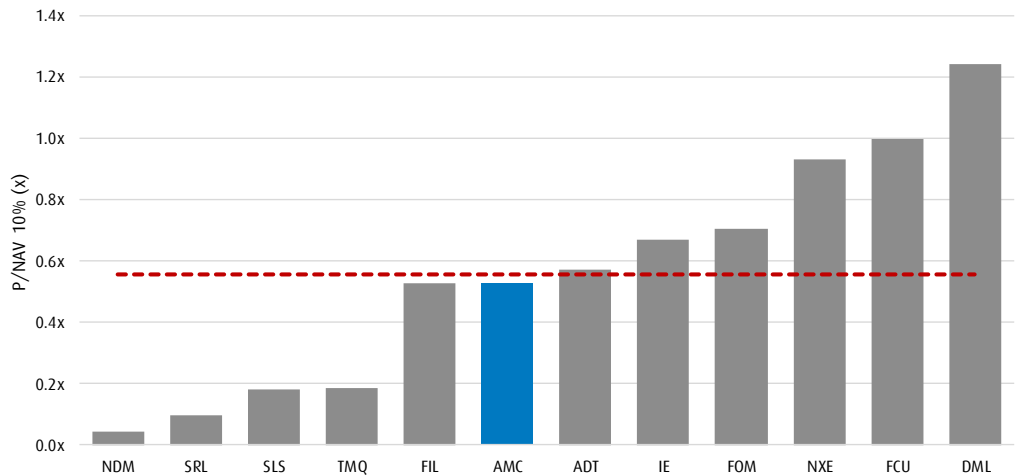
Source: FactSet, BMO Capital Markets

### Valuation Screens in Line Compared With Peers

On P/NAV 10%, Arizona Metals is relatively in line with the midpoint of explorers and developers under coverage, which trade at ~0.6x. We see Arizona Metals developing a project in a known mining jurisdiction with access to quality infrastructure. Future funding as well as resource definition, associated permitting, development timelines, and capital expenditure requirements represent the key risks.

**Exhibit 29: Arizona Metals Trades In Line with the Average of Comparable P/NAV 10% Valuations**

Arizona Metals trades in line with the middle of the range compared with other peers under coverage on a P/NAV 10% basis.



Source: FactSet, BMO Capital Markets

We expect that as resource definition, financing, permitting, and development risks abate, as visibility on the project potential enhances, and longer term, as future producer status is established, Arizona Metals has the potential to see its multiple further improve.

## Ownership

As Arizona Metals has advanced its Kay project, equity financings have been made along the way for the company. Over time, institutional ownership of Arizona Metals has increased.

The most pronounced change in institutional ownership was when Arizona Metals was included in the GDJX ETF, which is reflected with the Van Eck Associates holdings. Van Eck is the largest institutional holder of Arizona Metals at a little under 5%. Other meaningful holders of Arizona Metals include Invesco, Merk, 1832 Asset Management and RBC Global Asset Management. In terms of insiders, Paul Reid, Chairman, and Marc Pais, President and CEO, are the most significant holders with each approximately holding roughly 3% of Arizona Metals.

### Exhibit 30: Insiders/Stakeholders Have Significant Holdings in Arizona Metals

Type	%OS	Position (000)
<b>Institutions</b>	<b>20.01</b>	<b>23,026</b>
Van Eck Associates Corp.	4.47	5,137
Invesco Advisers, Inc.	3.30	3,795
Merk Investments LLC	2.16	2,482
1832 Asset Management LP	1.94	2,236
RBC Global Asset Management, Inc.	1.78	2,050
<b>Insiders / Stakeholders</b>	<b>7.02</b>	<b>8,073</b>
Reid Paul	2.82	3,250
Pais Marc	2.67	3,076
Sutherland Colin	0.94	1,082
Vernon Rickard	0.54	625
Dooley Conor	0.03	40

Source: FactSet

Depending on the future financing package that is arranged, a large, new holder could be introduced based on the inclusion of an equity component. As noted above, we include an equity component as part of our assumed financing package for Arizona Metals.

Management and insiders hold significant interests in Arizona Metals.

## Select Biographies

### Executive Management

**Marc Pais, President & CEO.** A geological engineer by training, Mr. Pais was the founder and former President of Telegraph Gold, which is now part of Equinox Gold. Mr. Pais was formerly a mining analyst with a focus on precious metals development companies.

**Paul Reid, Executive Chairman.** Mr. Reid has over 15 years of experience in financing mineral exploration, development and production assets. Mr. Reid was the founder and former chairman of Telegraph Gold, which is now part of Equinox Gold.

**Sung Min (Eric) Myung, CFO.** Mr. Myung works as a senior financial analyst at Marrelli Support Services and prior to, worked at public accounting firms for seven years. Mr. Myung is on contract to Arizona Metals.

**David Smith, VP of Exploration.** Mr. Smith has over 30 years of global precious metals exploration experience. Mr. Smith's core expertise is managing mineral projects from acquisition to exploration, resource modeling, and project development.

### Board of Directors

**Colin Sutherland, Director.** Mr. Sutherland is professional accountant with over 20 years operational and financial experience. Previously, Mr. Sutherland served as president of McEwen Mining, and has held senior financial and executive roles with Timmins Gold, Capital Gold, Nayarit Gold, and Aurico Gold.

**Rick Vernon, Director.** Mr. Vernon has over 30 years' experience as a mining finance professional. Mr. Vernon previously held managing director roles in investment banking with several firms.

**Conor Dooley, Director.** Mr. Dooley is a partner at WeirFoulds LLC in Toronto. Mr. Dooley advises clients in securities regulatory matters and capital markets transactions, including private placements, public offerings, and M&A transactions. Mr. Dooley is also the Corporate Secretary.

Arizona Metals' management team and board have experiences with mining exploration and development projects.



## Risk Factors

As with any mining company, there are several common risks that have the potential to affect the outlook provided by the company and our estimates. We highlight several risks that we see as having the greatest potential to affect Arizona Metals and our forecasts.

**Commodity Price Risk.** With Arizona Metals' valuation largely tied to underlying commodity prices (copper, but also gold, silver, and zinc), the potential for commodity prices to not meet BMO forecasts represents downside risk to our valuation of Arizona Metals' share price.

**Execution Risk.** Kay is working, or will set to work, through permitting, exploration, and, in the future, development programs. Several factors, such as longer-than-expected construction timelines, capital expenditure overruns, and higher-than-expected operating costs, could result in significant downside risk to our valuation. Any expected delays or inability to obtain permits and licences could adversely affect Arizona Metals' valuation.

**Resource Risk.** Further studies and costs must be expensed in order to better define the project parameters, and to further develop the resource potential. Further development and definition of resources is likely to be costly, and the results could potentially fall short of investor expectations.

**Financing Risk.** Given the capital expenditures required to take the project into production, Arizona Metals will have to finance the project, which could include, but is not limited to, the issuance of equity, debt, or sale of a stream. These options could lead to further dilution for the shareholders in terms of equity, or additional risk through leveraging the balance sheet.

**Jurisdictional Risk.** Jurisdictional risk is a smaller consideration for the project. In our view, Arizona is seen as a quality, stable mining jurisdiction, and Arizona Metals' land position limits risk; however, there is still a component that is associated with BLM lands.

We outline several common risk factors for Arizona Metals, including commodity price, execution, resource, financing, and jurisdiction.

## Glossary

**BLM:** Bureau of Land Management has a mission to sustain the health, diversity, and productivity of public lands for the use and enjoyment of present and future generations. BLM Arizona administers 12.1 million acres of public lands and another 17.5 million subsurface acres of locatable, leasable, and salable minerals.

**Capital Intensity:** In the copper mining industry, this is calculated as the ratio of initial capital expenditure to annual production capacity, indicating the investment required to generate a unit of copper.

**LOM:** Life of mine.

**Volcanogenic Massive Sulphide:** Deposits consist of massive or semi-massive accumulations of sulphide minerals which form in lens-like or tabular bodies parallel to stratigraphy or bedding. Deposits form on, or below, the ocean floor and are typically associated with volcanic and/or sedimentary rocks.

**Exhibit 31: AMC Block Model (BMO Metal Price Forecasts)**

ARIZONA METALS		AMC
Recommendation	<b>OP (S)</b>	Analyst RC
As at	31-Oct-22	<b>BMO Capital Markets</b>
Year End	December	
Share Price	\$3.50 C\$/share	\$2.57 US\$/share
Target Price	\$6.50 C\$/share	\$4.77 US\$/share
Net Present Value	10% \$6.54 C\$/share	\$4.80 US\$/share
	8% \$7.72 C\$/share	\$5.66 US\$/share
Market Cap	391.4 C\$M	286.9 US\$M
Ordinary Shares	111.8 M	
Options & Warrants	11.0 M	

PRICE ASSUMPTIONS - BMO PRICES		2020A	2021A	2022E	2023E	2024E
(December Year End)						
Exchange Rate	CAD:USD	0.75	0.80	0.78	0.78	0.80
Gold	US\$/oz	1,772	1,799	1,775	1,649	1,615
Silver	US\$/oz	20.55	25.14	21.26	19.88	21.38
Copper	US\$/lb	2.80	4.23	3.98	3.28	3.40
Zinc	US\$/lb	1.03	1.36	1.58	1.15	1.10
Lead	US\$/lb	0.83	1.00	0.96	0.79	0.69
Oil	US\$/bbl	39.38	67.91	97.10	100.00	100.00

FINANCIAL SUMMARY		2020A	2021A	2022E	2023E	2024E
(December Year End)						
<b>Earnings (Adj.)</b>	<b>(C\$M)</b>	<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Adj. EPS	(C\$/share)	(0.12)	(0.23)	(0.22)	(0.17)	(0.18)
P/E	(x)	na	na	na	na	na
EBITDA	(C\$M)	-7.2	-19.6	-25.4	-21.8	-21.8
<b>Adj. EBITDA</b>	<b>(C\$M)</b>	<b>-7.2</b>	<b>-19.6</b>	<b>-25.4</b>	<b>-21.8</b>	<b>-21.8</b>
EV/EBITDA	(x)	-31.4x	-15.9x	-14.9x	-18.1x	-18.9x
<b>Cash Flow</b>	<b>(C\$M)</b>	<b>-6.2</b>	<b>-18.9</b>	<b>-20.9</b>	<b>-17.7</b>	<b>-18.5</b>
FCF	(C\$/share)	(0.10)	(0.22)	(0.19)	(0.15)	(0.16)
P/CF	(x)	na	na	na	na	na
<b>Free Cash Flow</b>	<b>(C\$M)</b>	<b>-6.2</b>	<b>-18.9</b>	<b>-20.9</b>	<b>-17.7</b>	<b>-18.5</b>
FCF	(C\$/share)	(0.10)	(0.22)	(0.19)	(0.15)	(0.16)
FCF Yield	(%)	-3.0%	-6.4%	-5.4%	-4.4%	-4.5%
<b>Dividend</b>	<b>(C\$/share)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Ordinary Shares</b>	<b>(M)</b>	<b>60.0</b>	<b>85.0</b>	<b>111.4</b>	<b>115.2</b>	<b>117.2</b>

PROFIT AND LOSS STATEMENT - C\$M		2020A	2021A	2022E	2023E	2024E
(December Year End)						
Sales Revenue		0.0	0.0	0.0	0.0	0.0
Other Revenue		0.0	0.0	0.0	0.0	0.0
Operating Costs		0.0	0.0	0.0	0.0	0.0
Depreciation		0.0	0.0	(0.0)	0.0	0.0
Interest		0.0	0.0	0.0	0.0	0.0
Exploration		(5.1)	(17.1)	(18.1)	(16.0)	(16.0)
Corporate		(1.1)	(2.2)	(3.8)	(3.8)	(3.8)
Other Costs		(1.0)	(0.3)	(2.8)	0.1	(0.7)
Operating Profit Before Tax		(7.2)	(19.6)	(24.8)	(19.7)	(20.5)
Income Tax		0.0	0.0	0.0	0.0	0.0
<b>Operating Profit After Tax</b>		<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Minorities		0.0	0.0	0.0	0.0	0.0
<b>Net Profit After Tax</b>		<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Abnormals		0.0	0.0	0.0	0.0	0.0
Tax on Abnormals		0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>		<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
<b>QUARTERLY SUMMARY</b>						
		<b>Q1/22A</b>	<b>Q2/22A</b>	<b>Q3/22E</b>	<b>Q4/22E</b>	
ADJUSTED EPS	(US\$/sh)	-0.08	-0.06	-0.05	-0.04	
FCF	(US\$/sh)	-0.05	-0.06	-0.04	-0.04	
FCF	(US\$/sh)	-0.05	-0.06	-0.04	-0.04	

FINANCIAL METRICS		2020A	2021A	2022E	2023E	2024E
ROE	(%)	-156.2%	-34.9%	-47.3%	-56.2%	-120.3%
ROIC	(%)	na	na	na	na	na
Net Debt to Equity	(%)	-84.5%	-99.2%	-99.8%	-99.7%	-99.3%
Net Debt/ EBITDA	(x)	0.5	2.8	2.1	1.6	0.8
Coverage Ratio	(x)	0.0x	0.0x	0.0x	0.0x	0.0x

CASH FLOW ANALYSIS - C\$M		2020A	2021A	2022E	2023E	2024E
(December Year End)						
<b>Cash Flows From Operating Activities</b>						
Net Income		(7.2)	(19.6)	(24.8)	(19.7)	(20.5)
Non-Cash Items		1.0	0.3	3.5	2.0	2.0
Re-invested in Working Capital		(0.0)	0.4	0.4	0.0	0.0
<b>Cash Flows From Investing Activities</b>						
Property and Business Activities		0.0	0.0	0.0	0.0	0.0
Acq. of Property, Plant and Equip.		0.0	0.0	(0.1)	0.0	0.0
Other		(0.1)	(0.1)	(0.0)	0.0	0.0
<b>Cash Flows From Financing Activities</b>						
Proceeds From Borrowings		0.0	0.0	0.0	0.0	0.0
Repayment of Borrowings		0.0	0.0	0.0	0.0	0.0
Other		8.6	70.9	17.4	0.3	0.6
<b>Net Free Cash Flow</b>		<b>(6.2)</b>	<b>(18.9)</b>	<b>(20.9)</b>	<b>(17.7)</b>	<b>(18.5)</b>
<b>Net Increase in Cash Held</b>		<b>2.3</b>	<b>51.9</b>	<b>(3.5)</b>	<b>(17.4)</b>	<b>(17.9)</b>
Cash At Beginning of Year		1.6	3.9	55.8	52.3	34.9
Cash At End of Year		3.9	55.8	52.3	34.9	16.9

BALANCE SHEET ANALYSIS - C\$M		2020A	2021A	2022E	2023E	2024E
(December Year End)						
<b>Current Assets</b>						
Cash and Cash Equivalents		3.9	55.8	52.3	34.9	16.9
Other		0.7	1.3	0.9	0.9	0.9
<b>Non-Current Assets</b>						
Investments		0.0	0.0	0.0	0.0	0.0
Fixed Assets		0.0	0.0	0.1	0.1	0.1
Other		0.1	0.2	0.3	0.3	0.3
<b>Current Liabilities</b>						
Borrowings		0.0	0.0	0.0	0.0	0.0
Creditors		0.2	1.1	1.1	1.1	1.1
Other		0.0	0.0	0.0	0.0	0.0
<b>Non-Current Liabilities</b>						
Borrowings		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	(0.0)	(0.0)	(0.0)
<b>Shareholders Equity</b>		<b>4.6</b>	<b>56.2</b>	<b>52.4</b>	<b>35.0</b>	<b>17.1</b>
Net Debt		(3.9)	(55.8)	(52.3)	(34.9)	(16.9)

PROJECT	NPV		COPPER PRODUCTION (kt)				
	8% C\$M	10% C\$M	2020A	2021A	2022E	2023E	2024E
KAY (USA)	793.7	624.8	0.0	0.0	0.0	0.0	0.0
SUGARLOAF PEAK (USA)	112.1	112.1					
OTHER	0.0	0.0					
			0.0	0.0	0.0	0.0	0.0
Exploration Credit	150.0	150.0					
Hedge Book	0.0	0.0					
Corporate	(127.4)	(117.0)					
Net Cash	59.9	59.9					
Investments	0.0	0.0					
Options & Warrants	81.3	76.7					
<b>Total NPV</b>	<b>1,069.6</b>	<b>906.5</b>					
Per Share	\$7.72	\$6.54	IRR = 13.1%		P/NPV 0.5x		

ARIZONA METALS		2020A	2021A	2022E	2023E	2024E
Cash Operating Costs	US\$/lb	0.00	0.00	0.00	0.00	0.00
All-In-Sustaining-Costs	US\$/lb	0.00	0.00	0.00	0.00	0.00
<b>RESERVES AND RESOURCES</b>						
		P&P	Cu %	M&I	Cu %	
(Exclusive Mlb)						
Kay		0	0.00%	0	0.00%	
Sugarloaf Peak		0	0.00%	0	0.00%	

Source: BMO Capital Markets

**Exhibit 32: AMC Block Model (Spot Metal Prices)**

ARIZONA METALS		AMC
Recommendation	<b>OP (S)</b>	Analyst RC
As at	31-Oct-22	<b>BMO Capital Markets</b>
Year End	December	
Share Price	\$3.50 C\$/share	\$2.57 US\$/share
Target Price	\$6.50 C\$/share	\$4.77 US\$/share
Net Present Value	10% \$7.50 C\$/share	\$5.50 US\$/share
	8% \$8.89 C\$/share	\$6.52 US\$/share
Market Cap	391.4 C\$M	286.9 US\$M
Ordinary Shares	111.8 M	
Options & Warrants	11.0 M	

PRICE ASSUMPTIONS - SPOT PRICES					
(December Year End)					
	2020A	2021A	2022E	2023E	2024E
Exchange Rate CAD:USD	0.75	0.80	0.77	0.73	0.73
Gold US\$/oz	1,772	1,799	1,777	1,633	1,633
Silver US\$/oz	20.55	25.14	21.25	19.16	19.16
Copper US\$/lb	2.80	4.23	3.96	3.48	3.48
Zinc US\$/lb	1.03	1.36	1.57	1.32	1.32
Lead US\$/lb	0.83	1.00	0.96	0.88	0.88
Oil US\$/bbl	39.38	67.91	96.90	87.90	87.90

FINANCIAL SUMMARY					
(December Year End)					
	2020A	2021A	2022E	2023E	2024E
<b>Earnings (Adj.) (C\$M)</b>	<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Adj. EPS (C\$/share)	(0.12)	(0.23)	(0.22)	(0.17)	(0.18)
P/E (x)	na	na	na	na	na
EBITDA (C\$M)	-7.2	-19.6	-25.4	-21.8	-21.8
<b>Adj. EBITDA (C\$M)</b>	<b>-7.2</b>	<b>-19.6</b>	<b>-25.4</b>	<b>-21.8</b>	<b>-21.8</b>
EV/EBITDA (x)	-31.4x	-15.9x	-14.9x	-18.1x	-18.9x
<b>Cash Flow (C\$M)</b>	<b>-6.2</b>	<b>-18.9</b>	<b>-20.9</b>	<b>-17.7</b>	<b>-18.5</b>
CFPS (C\$/share)	(0.10)	(0.22)	(0.19)	(0.15)	(0.16)
P/CF (x)	na	na	na	na	na
<b>Free Cash Flow (C\$M)</b>	<b>-6.2</b>	<b>-18.9</b>	<b>-20.9</b>	<b>-17.7</b>	<b>-18.5</b>
FCFPS (C\$/share)	(0.10)	(0.22)	(0.19)	(0.15)	(0.16)
FCF Yield (%)	-3.0%	-6.4%	-5.4%	-4.4%	-4.5%
<b>Dividend (C\$/share)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Ordinary Shares (M)</b>	<b>60.0</b>	<b>85.0</b>	<b>111.4</b>	<b>115.2</b>	<b>117.2</b>

PROFIT AND LOSS STATEMENT - C\$M					
(December Year End)					
	2020A	2021A	2022E	2023E	2024E
Sales Revenue	0.0	0.0	0.0	0.0	0.0
Other Revenue	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	(0.0)	0.0	0.0
Interest	0.0	0.0	0.0	0.0	0.0
Exploration	(5.1)	(17.1)	(18.1)	(16.0)	(16.0)
Corporate	(1.1)	(2.2)	(3.8)	(3.8)	(3.8)
Other Costs	(1.0)	(0.3)	(2.8)	0.1	(0.7)
Operating Profit Before Tax	(7.2)	(19.6)	(24.8)	(19.7)	(20.5)
Income Tax	0.0	0.0	0.0	0.0	0.0
<b>Operating Profit After Tax</b>	<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Minorities	0.0	0.0	0.0	0.0	0.0
<b>Net Profit After Tax</b>	<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
Abnormals	0.0	0.0	0.0	0.0	0.0
Tax on Abnormals	0.0	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>(7.2)</b>	<b>(19.6)</b>	<b>(24.8)</b>	<b>(19.7)</b>	<b>(20.5)</b>
<b>QUARTERLY SUMMARY</b>					
		Q1/22A	Q2/22A	Q3/22E	Q4/22E
ADJUSTED EPS (US\$/sh)		-0.08	-0.06	-0.05	-0.04
CFPS (US\$/sh)		-0.05	-0.06	-0.04	-0.04
FCFPS (US\$/sh)		-0.05	-0.06	-0.04	-0.04

FINANCIAL METRICS					
ROE (%)	-156.2%	-34.9%	-47.3%	-56.3%	-120.9%
ROIC (%)	na	na	na	na	na
Net Debt to Equity (%)	-84.5%	-99.2%	-99.8%	-99.7%	-99.3%
Net Debt/ EBITDA (x)	0.5	2.8	2.1	1.6	0.8
Coverage Ratio (x)	0.0x	0.0x	0.0x	0.0x	0.0x

CASH FLOW ANALYSIS - C\$M					
(December Year End)					
	2020A	2021A	2022E	2023E	2024E
<b>Cash Flows From Operating Activities</b>					
Net Income	(7.2)	(19.6)	(24.8)	(19.7)	(20.5)
Non-Cash Items	1.0	0.3	3.5	2.0	2.0
Re-invested in Working Capital	(0.0)	0.4	0.4	0.0	0.0
<b>Cash Flows From Investing Activities</b>					
Property and Business Activities	0.0	0.0	0.0	0.0	0.0
Acq. of Property, Plant and Equip.	0.0	0.0	(0.1)	0.0	0.0
Other	(0.1)	(0.1)	(0.0)	0.0	0.0
<b>Cash Flows From Financing Activities</b>					
Proceeds From Borrowings	0.0	0.0	0.0	0.0	0.0
Repayment of Borrowings	0.0	0.0	0.0	0.0	0.0
Other	8.6	70.9	17.4	0.3	0.6
<b>Net Free Cash Flow</b>	<b>(6.2)</b>	<b>(18.9)</b>	<b>(20.9)</b>	<b>(17.7)</b>	<b>(18.5)</b>
<b>Net Increase in Cash Held</b>	<b>2.3</b>	<b>51.9</b>	<b>(3.5)</b>	<b>(17.4)</b>	<b>(18.0)</b>
Cash At Beginning of Year	1.6	3.9	55.8	52.3	34.8
Cash At End of Year	3.9	55.8	52.3	34.8	16.9

BALANCE SHEET ANALYSIS - C\$M					
(December Year End)					
	2020A	2021A	2022E	2023E	2024E
<b>Current Assets</b>					
Cash and Cash Equivalents	3.9	55.8	52.3	34.8	16.9
Other	0.7	1.3	0.9	0.9	0.9
<b>Non-Current Assets</b>					
Investments	0.0	0.0	0.0	0.0	0.0
Fixed Assets	0.0	0.0	0.1	0.1	0.1
Other	0.1	0.2	0.3	0.3	0.3
<b>Current Liabilities</b>					
Borrowings	0.0	0.0	0.0	0.0	0.0
Creditors	0.2	1.1	1.1	1.1	1.1
Other	0.0	0.0	0.0	0.0	0.0
<b>Non-Current Liabilities</b>					
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	(0.0)	(0.0)	(0.0)
<b>Shareholders Equity</b>					
Net Debt	(3.9)	(55.8)	(52.3)	(34.8)	(16.9)

PROJECT	8%	10%	COPPER PRODUCTION (kt)				
	NPV C\$M	NPV C\$M	2020A	2021A	2022E	2023E	2024E
KAY (USA)	955.9	757.6	0.0	0.0	0.0	0.0	0.0
SUGARLOAF PEAK (USA)	112.1	112.1					
OTHER	0.0	0.0					
			0.0	0.0	0.0	0.0	0.0
Exploration Credit	150.0	150.0					
Hedge Book	0.0	0.0					
Corporate	(127.4)	(117.0)					
Net Cash	59.9	59.9					
Investments	0.0	0.0					
Options & Warrants	81.1	76.6					
<b>Total NPV</b>	<b>1,231.7</b>	<b>1,039.2</b>					
Per Share	\$8.89	\$7.50	IRR = 15.0%		P/NPV 0.5x		

ARIZONA METALS						
		2020A	2021A	2022E	2023E	2024E
Cash Operating Costs	US\$/lb	0.00	0.00	0.00	0.00	0.00
All-In-Sustaining-Costs	US\$/lb	0.00	0.00	0.00	0.00	0.00
<b>RESERVES AND RESOURCES</b>						
(Exclusive Mlb)		P&P	Cu %	M&I	Cu %	
Kay		0	0.00%	0	0.00%	
Sugarloaf Peak		0	0.00%	0	0.00%	

Source: BMO Capital Markets

Arizona Metals Rating History as of 10/28/2022



**IMPORTANT DISCLOSURES**

**Analyst's Certification**

I, Rene Cartier, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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**Company Specific Disclosures**

Disclosure 8A: BMO Capital Markets or affiliates have beneficial ownership of 1% or more of any class of the equity securities of Arizona Metals (a) as of the end of the month prior to the issuance date of the research report, or (b) as of the end of the second most recent month if the report issuance date is less than 10 days after the end of the prior month.

Disclosure 16: A research analyst has extensively viewed the material operations of Arizona Metals.

Disclosure 17: Arizona Metals has provided at its expense some or all of the itinerant travel for the research analyst related to facilitating a material site visit.

Disclosure 18: A redacted draft of this report was previously shown to Arizona Metals (for fact checking purposes) and changes were made to the report before publication.

**Methodology and Risks to Target Price/Valuation for Arizona Metals (AMC-TSX)**

**Methodology:** Our target price is based on a 100% weighting assigned to a P/NAV multiple.

**Risks:** Investment in mining companies carries risks, including commodity/currency, permitting, technical/operating, litigation/political, and environmental/social factors that have potential to impact share price performance.

**Distribution of Ratings (October 31, 2022)**

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	53.5 %	17.5 %	52.8 %	56.5 %	57.7 %	57.7%
Hold	Market Perform	44.7 %	17.9 %	44.9 %	42.1 %	40.5 %	37.5%
Sell	Underperform	1.8 %	22.2 %	2.2 %	1.2 %	1.8 %	4.8%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis;

Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;

(S) = Speculative investment;

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