

## Arizona Metals Corp. (AMC-T)

### Spinning Out Two Companies: Sugarloaf & A Royalty Co.

This morning, Arizona Metals announced that it intends to create two new companies. AMC plans to spin out the Sugarloaf Peak Gold project and two newly created royalties on its Kay Mine Project. We believe that the planned spin-out of these assets into two reporting issuers has the potential to unlock significant value for AMC shareholders.

#### Highlights:

- The first company, expected to be named "Sugarloaf Gold Corp.", will be transferred shares of the company's wholly owned subsidiary, which holds Arizona Metals' Sugarloaf Peak Gold project.
  - Sugarloaf has a historic MRE of 1.5MMoz Au grading ~0.5 g/t.
  - The deposit is open for expansion in all directions and recent metallurgical testing has demonstrated the potential for excellent recoveries in both oxide and sulphide mineralization.
- The second company, expected to be named "Arizona Royalties Corp.", will hold a newly created 2% NSR on any potential future mineral production at the Kay Mine Deposit, located on patented claims, as well as a 2% NSR royalty on all future potential mineral production from any new deposits discovered through Arizona Metals' ongoing exploration activities at the Bureau of Land Management exploration claims, located at the Kay Mine project.
- It is expected that Arizona Metals will retain a 19.9% ownership in shares of Sugarloaf Gold Corp. and Arizona Royalties Corp. with the remaining shares being distributed to the company's shareholders on a pro rata basis.
- Arizona Metals plans to make a modest cash injection into both Sugarloaf Gold Corp. and Arizona Royalties Corp. to provide 12-18 months of working capital for the spin outs.
- Completion of the spin outs is expected prior to the end of Q2 2024, subject to shareholder, court, stock exchange and regulatory approvals.

**Our Take:** We believe the Sugarloaf project was overshadowed by the value of Kay Mine, as a result its value was not reflected in AMC's market capital. The spinout is positive to AMC shareholders as it provides a way to unlock value and provide exposure to a second asset that has potential for scale and leverage to the gold price. Additionally, should AMC transact on the Kay Mine property, the royalty assets provide shareholders with additional upside and exposure on eventual production from the Kay Mine deposit and exploration property. Overall, today's news, as we have already factored in a royalty component to our valuation, does not impact our target price. We believe AMC can at least define 20MMt (with potential to exceed 30MMt). The results to date collectively reinforce our expectations that there is significantly higher resource upside to our estimate at Kay Mine alone.

**Valuation Summary:** AMC is trading at ~0.14x P/NAV. Our valuation is based on the exploitation of a conceptual minable resource of 20MMt, through a milling rate of 1.6MMt/tpa and 80% base metal recovery and 60% for precious metals. We use a 0.70x NAV multiple, a discount rate of 7% and corporate adjustments to derive our price target. Our assumptions are informed by AMC's exceptional exploration success thus far. **We maintain a BUY and a 12-month target price of \$10.50 per share.**

#### Update

**Buy (unch)** **C\$10.50 (unch)**

Recent/Closing Price	C\$2.12
12-month Target Price	C\$10.50
Potential Return	395%
52 Week Price Range	C\$1.95 - C\$4.92

#### Estimates

YE: Dec 31	FY21A	FY22A	FY23E
Revenue (\$MM)	\$0.0	\$0.0	\$0.0
Cash Flow (\$MM)	(\$7.0)	(\$22.0)	(\$27.0)

#### Valuation

P/CF	n.m.
NAV	\$1,799
P/NAV	0.14x

#### Stock Data (C\$MM)

Shares O/S (MM)	124
Mgmt/Insiders	7%
Market Cap	\$262
LT Debt (Corporate)	\$0
Working Capital	\$44
Enterprise Value	\$218

#### Reserves & Resources

2P Reserves	-
M+I Resources	-
M+H Resources	-

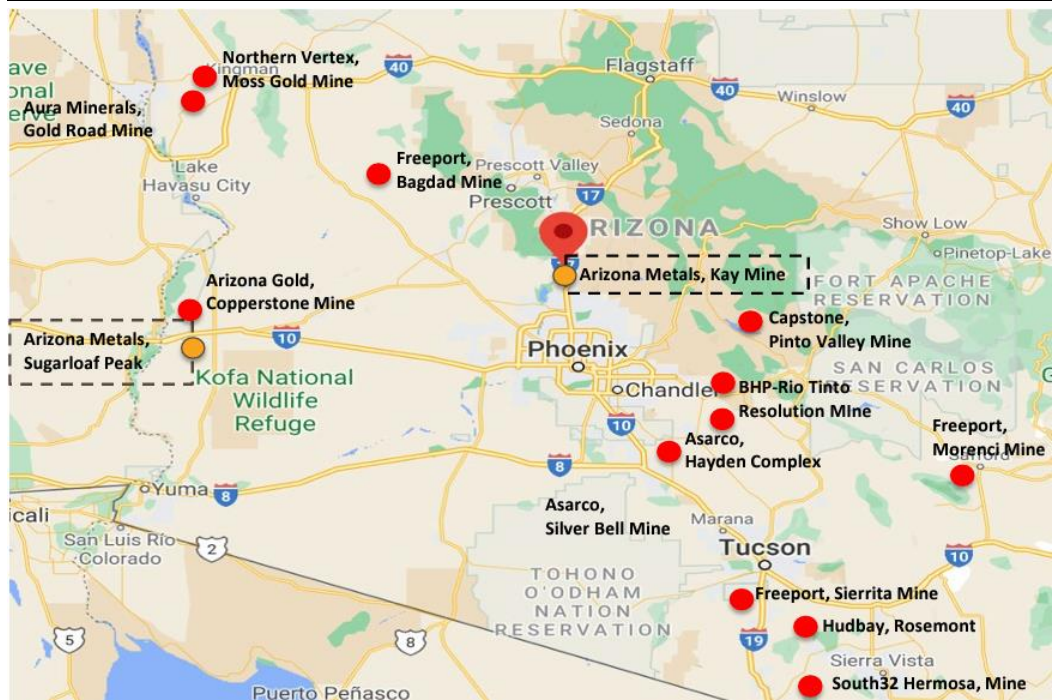
#### About the Company

Arizona Metals owns 100% of a highly prospective property, the Kay Mine Property, royalties free as well as the Sugarloaf Peak Property, in Arizona. AMC's Flagship, the Kay Mine, is past producer from a high-grade VM S deposit.

All prices in C\$ unless otherwise stated

#### Stock Performance



**Fig 1 AMC Project Locations**


Source: Company

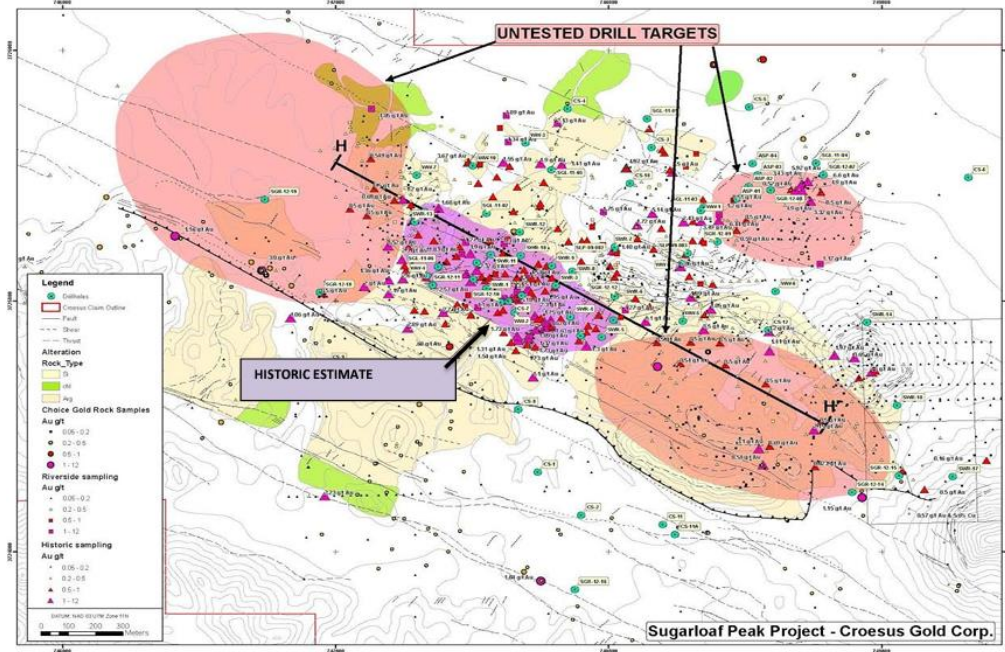
Sugarloaf is a shallow, oxide, heap-leach open-pit opportunity with a historic resource: 100MMt containing 1.5MMoz gold, that is open for expansion.

**Sugarloaf Peak Highlights:**

- Project is 100% owned by Arizona Metals Corp. with no future payments.
- Located on 4,400 acres of BLM claims in mining friendly La Paz County, Arizona.
- Historic estimate of 100MMt containing 1.5MMoz Au at 0.5 g/t
- Heap-leach, open-pit target that starts at surface and is tabular with no dip.
- Open for expansion at depth and on strike
- Geophysical anomaly below historic resource estimate suggest mineralization continuity to depth
- Surface oxide mineralization may potentially be the expression of a much larger system at depth.
- A 2009 metallurgical testing (bottle roll) by Kinross (K-T, BUY, \$11.00) and 2013 Agnico (AEM-T, Not Rated) achieved gold recoveries of up to 73% (in line with heap-leach mines currently in operation)
- Metallurgical test work by AMC resulted gold recoveries throughout the mineralized system, from surface to depth of ~111m, on two of the 2020 drill holes, averaging 76% in the sulphides. Oxidized zones recoveries were up to 95%.

**AMC Sugarloaf Drill Result Highlights include:**

- Hole SP-20-01 intersected 137m of 0.53g/t Au from surface, including, 99m of 0.62 g/t Au and 30m of 0.90g/t gold.
- SP-20-02 intersected 119.8m of 0.34g/t Au from surface, including 21.6m of 0.44 g/t Au and 34.8m of 0.41g/t Au.

**Fig 2 Sugarloaf Peak Gold Project Overview**


Source: Company

## Catalysts

- Continuous drill results through FY24 from ~76,000m Phase 3 drilling.
- Permitting to test Central and Western targets.
- Successful spin out of two new companies.
- Resource modeling underway.
- General and continued exploration results through 2024.
- Further metallurgical tests.

## Appendix: Summary Financials

Arizona Metals Corp.					Beacon Securities Limited					
		Symbol <b>AMC-T</b>			Share Price <b>\$2.12</b>					
		Stock Rating <b>BUY</b>			Shares O/S (MM) <b>116.0</b>	Float (MM) <b>108.2</b>				
		Price Target <b>\$10.50</b>			Mkt Cap (\$MM) <b>246</b>					
<b>Bereket A. Berhe (416) 507-3978</b>										
INCOME STATEMENT		FY21	FY22	FY23e	Management	Other Directors				
Revenues	C\$MM	-	-	-	<b>Paul Reid</b>	Chairman	Colin Sutherland			
Operating Costs	C\$MM	-	-	-	<b>Marc Pais</b>	President/CEO/Director	Rick Vernon			
EBITDA	C\$MM	(18.5)	(24.5)	(26.5)	<b>Sung Min Myung</b>	CFO	Mike Pilmer			
DD&A	C\$MM	-	-	-	<b>David Smith</b>	VP-Exploration/Director	Katherine Arnold			
EBIT	C\$MM	(18.5)	(24.5)	(26.5)	<b>Conor Dooley</b>	Secretary/Director				
					Options (MM)	Avg. Price	Warrants (MM)	Avg. Price		
Interest Expense	C\$MM	-	-	-	9.8	\$0.27	0.00	\$0.64		
EBT	C\$MM	(17.0)	(23.0)	(25.0)						
Taxes/Recovery	C\$MM	-	-	-						
Recent Financings										
Net Income (reported)	C\$MM	(18.5)	(24.5)	(26.5)	Date	Amount	Price	Type	Warrant	Expiry
Non-Recurring Items/Other	C\$MM	-	-	-	Oct-2021	\$31.8	\$4.25	priv. placement	-	-
Net Income (operating)	C\$MM	(17.0)	(23.0)	(25.0)	April-2021	\$21.0	\$2.10	priv. placement	-	-
Shares o/s (wgt avg.)	MM	70.0	116.0	126.0	Jan-2021	\$6.0	\$0.65	priv. placement	\$5.65	MAY 2023
<b>EPS (operating)</b>	<b>\$/sh</b>	<b>(\$0.24)</b>	<b>(\$0.20)</b>	<b>(\$0.20)</b>						
P/E Multiple	x	n.m.	n.m.	n.m.						
Cash Flow (operating)	C\$MM	(17.0)	(23.0)	(25.0)						
<b>CFPS</b>	<b>\$/sh</b>	<b>(\$0.24)</b>	<b>(\$0.20)</b>	<b>(\$0.20)</b>						
P/CF Multiple	x	n.m.	n.m.	n.m.						
BALANCE SHEET										
Cash & Equivalents	C\$MM	56.1	53.1	58.0						
Total Current Assets	C\$MM	56.1	53.1	58.0						
PP&E & Mining Interests	C\$MM	3.7	5.7	7.7						
Other	C\$MM	-	-	-						
<b>Total Assets</b>	<b>C\$MM</b>	<b>59.9</b>	<b>58.8</b>	<b>65.8</b>						
Current Liabilities	C\$MM	0.3	0.3	1.3						
Long Term Debt	C\$MM	-	-	1.0						
Other LT Liabilities	C\$MM	-	-	-						
Total Liabilities	C\$MM	0.3	0.3	2.3						
S/Holder Equity	C\$MM	59.6	58.5	63.4						
<b>Total Liab. &amp; S/Holder Equity</b>	<b>C\$MM</b>	<b>59.9</b>	<b>58.8</b>	<b>65.7</b>						
Working Capital	C\$MM	55.8	52.8	56.7						



Source: Company reports, Beacon estimates

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As of December 31, 2023	#Stocks	Distribution
BUY	69	72.6%
Speculative Buy	18	18.9%
Hold	1	1.1%
Sell	1	1.1%
Under Review	6	6.3%
Tender	0	0.0%
<b>Total</b>	<b>95</b>	<b>100%</b>

BUY Total 12-month return expected to be > 15%  
 Speculative Buy Potential 12-month return is high (>15%) but given elevated risk, investment could result in a material loss  
 Hold Total 12-month return is expected to be between 0% and 15%  
 Sell Total 12-month return is expected to be negative  
 Under Review  
 Tender Clients are advised to tender their shares to a takeover bid or similar offer

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