Probe Metals Inc. – SPECULATIVE BUY

M&I Resources Double at Val-d'Or East; Raising Target Price

ACTION: Maintain SPECULATIVE BUY on Increased Target Price of $4.25/share

Last week, Probe Metals (PRB) released what we view as a positive resource update for its wholly owned Val-d'Or East gold project in Quebec. The update follows positive results from metallurgical tests announced on April 20, whereby the concept of a central milling facility won support from the lab. We now value PRB on that basis and raise our target price to $4.25/share from $3.95/share, based on the continued use of a 1.0x multiple to NAV.

DETAILS: Pit-Constained Resources Now Top 2.6Moz; UG Still Exceeds 1Moz

Summary: Measured and Indicated Resources now stand at 36.3Mt grading 1.52 gpt, with another 35.5Mt grading1.69 gpt categorized as an Inferred Resource, for a combined total of 3.7Moz contained gold. Mineralization remains open for expansion in all of the three key areas, with two rigs currently focused on the Moninque Trend and two more on standby for the Pascalis and Courvan trends. In all, Probe has budgeted 50,000m for drilling in 2021.

Ongoing tests lend strong support to central mill: To support the Preliminary Economic Assessment (PEA) now underway, in mid-2020, PRB sent eight bulk samples to the Corem facilities in Quebec City, including one drill-core composite and three ore-sorting products from the main New Beliveau deposit. The other four represent drill composites from each of the satellite North, Highway, Courvan and Monique deposits. Coarse gold was said to be common, and concentrations of deleterious elements were said to be near or below detection limits. Not surprisingly, pyrite was the main sulphide mineral, accounting for 1.6-3.8% by weight of all samples, and was well liberated. In general, PRB noted that all but the Highway zone (~92%) generated >95% recoveries using gravity separation and cyanide leaching of the tails. Other tests on flotation, continuous gravity separation and ore sorting were said to be similarly positive and will be investigated further, given the potentially positive implications for mill feed grades relative to diluted mine grades.

Model and Valuation Update: We now estimate Val-d'Or East's production at 150,000oz per year over nearly 10 years, at an average cash of ~US$920/oz. Construction is assumed to start in Q1/24, followed by commercial operations in Q1/26, at an initial capital cost of $300M – twice as much as our prior assumption on the basis of New Beliveau alone. Other key changes include: a larger but more diluted mineral inventory – 34Mt grading 1.39 gpt, versus 15Mt grading 1.63 gpt; a higher processing rate – 10,000 tpd, versus 4,000tpd; a higher annual sustaining cost rate -- $15M, versus $6M; and a higher life-of-mine strip – 8-to-1, versus 6-to-1. Net, net, our NAV is now $4.19/share, up from $3.92/share.

Comparable Upside: As a check of reasonability, we compare our revisions to three more advanced Canadian-based open pit projects and one operating mine, namely Valentine Lake, Marban, Magino and Moose River. Summaries are provided in Figure 2 and, in our view, highlight the potential for additional upside, particularly with respect to opex. For context, we would need to decrease our processing unit costs by 25-30% in order to bring them more in line with the others, providing for a potential 9-10% reduction in our cash costs.

IMPACT: Raising Target on Adoption of Central Milling Concept

We are increasing our target price on PRB to $4.25/share from $3.95/share and reiterating our **SPECULATIVE BUY** recommendation. Along that vein, we note that Eldorado Gold Corp. (TSX-ELD; Not Rated) acquired neighboring explorer QMX Gold earlier this year for what we estimated to be ~US$130/oz of resource. Applying that value to PRB's attributable resources works out to $4.70/share, or $3.70/share on the basis of M&I alone.

ANALYST INFORMATION

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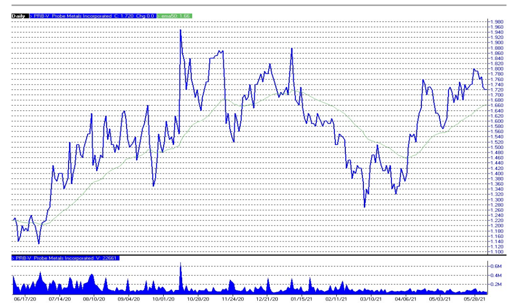
MARKET DATA

PRB - TSX	**$1.72**
Net Asset Value (NAV)	**$4.19**
P/NAV	**0.4x**
VALUATION:	**1.0x NAV**
TARGET:	**$4.25**
PROJ. RETURN:	**147%**
Share Data	
Basic Shares O/S (M)	130
Fully Diluted (M)	151
Market Cap. (M)	$224
Cash (M; 3/31/21)	$28
Debt (M; 3/31/21)	$0
Enterprise Value (M)	$196
M&I Resources (000s oz)	1,774
Total Resources (000s oz)	3,912
EV/oz M&I (US$/oz)	$92
EV/oz Tot. Resc. (US$/oz)	$42
Next Reporting Date	**Aug-21**

THOMSON CHART – ONE YEAR



COMPANY PROFILE

Probe Metals Inc. was formed from the sale of Probe Metals Limited to Goldcorp Inc. in March 2015. The Company is well-funded and now controls over 1,000-square-kilometres of strategic exploration ground within some of the most prolific gold belts of northern Ontario and Quebec: Val d'Or, West Timmins, Casa-Berardi and Detour Quebec. Its key asset, the Val-d'Or East Gold Project, is currently the subject of an exploration program aimed at proving up and expanding known resources.

UPCOMING EVENTS/CATALYSTS

PEA – Q3/21
Exploration Updates - Ongoing

VAL-D'OR EAST RESOURCE UPDATE

Figure 1 summarizes and compares the resource update with the prior estimate from August 2019. Of particular note, more than 900,000oz were upgraded to Measured and Indicated Resources, with most of that coming from the Monique Trend, where resources more than doubled. Combined with the Pascalis Trend, those two targets now make up 77% of the pit-constrained resources, hence will form the backbone of the upcoming PEA. Mineralization also remains open for expansion at those and the smaller-sized Courvan Trend, so we continue to value un-modelled resources at ~US$65/oz, noting the area's historic mix of underground and open pit operations and that the updated estimates of the former type of material includes stopes ranging from 25-30m in width. The low-grade material noted at the bottom of the table represents a new addition to the story and reflects favorable results from preliminary tests on pre-concentration steps in the developing metallurgical flow sheet, such as flotation, continuous gravity separation and ore sorting. At this point, we assign zero value to that material, but note its potential upside for upgrading run-of-mine grades fed to the mill.

Figure 1: Probe Metals – Resource Summary of Val-d'Or East Project, Quebec

		M&I Resources			Inferred Resources			Total		
Pit-Constrained	**COG (gpt Au)**	**Tonnes (000s)**	**Grade (gpt)**	**Contained (000oz)**	**Tonnes (000s)**	**Grade (gpt)**	**Contained (000oz)**	**Tonnes (000s)**	**Grade (gpt)**	**Contained (000oz)**
Jun-21	**0.4**	**26,515**	**1.67**	**1,420**	**20,702**	**1.58**	**1,054**	**47,217**	**1.63**	**2,474**
Aug-19	0.5	13,511	1.69	733	28,264	1.49	1,356	41,775	1.56	2,089
Var.		***96%***	***(1%)***	***94%***	***(27%)***	***6%***	***(22%)***	***13%***	***5%***	***18%***
Underground										
Jun-21	**1.65 & 2.05**	**3,000**	**2.92**	**282**	**7,409**	**3.37**	**802**	**10,409**	**3.24**	**1,084**
Aug-19	1.95	1,061	3.91	133	9,604	3.35	1,034	10,664	3.40	1,167
Var.		***183%***	***(25%)***	***112%***	***(23%)***	***1%***	***(22%)***	***(2%)***	***(5%)***	***(7%)***
Combined										
Jun-21		**29,515**	**1.79**	**1,702**	**28,111**	**2.05**	**1,856**	**57,626**	**1.92**	**3,559**
Aug-19		14,572	1.85	866	37,867	1.96	2,390	52,439	1.93	3,257
Var.		***103%***	***(3%)***	***97%***	***(26%)***	***5%***	***(22%)***	***10%***	***(1%)***	***9%***
Low-Grade Material										
Jun-21	0.25	6,795	0.33	71	7,438	0.31	75	**14,233**	**0.32**	**147**

Notes:

1. Jun/21 estimate based on US$1,600/oz, whereas Aug/19 assumes US$1,350/oz. Both apply USD:CAD rate of 1.333.
2. Different COGs for UG reflect proposed long-hole and cut-and-fill mining methods for different deposits.
3. All summaries exclude the Lapaska, Senore, and Sleepy deposits, for which updates were not done.

Source: Company reports; Research Capital

CENTRAL MILLING CONCEPT NOW ALL BUT A FOREGONE CONCLUSION

Given Probe's progress to date, we have chosen to update our model for the proposed central milling concept from our previous focus on the New Believeau deposit alone. Our revisions are summarized in Figure 2, as well as compared to several other projects that have been subjected to independent economic studies. We also include the Moose River mine, in Nova Scotia, noting that the plant there has already been expanded from the average rate of the March 2019 FS, with company reports showing 2.12Mt of ore milled in the first nine months of F2021 ended March 31, or nearly 7,800tpd on average. Reported sustaining capex for that period is $13M and unit costs, $18.75/tonne milled, with a 1.3-to-1 strip.

Where our assumptions stand out relative to the group is in terms of size, processing costs and stripping ratios. We now assume 70% of pit-constrained resources are upgraded to reserves, at 85% of the average resource grade, factors we consider fair on account of the open-ended nature of the deposits and potential for higher feed grades with the implementation of pre-concentration steps. Our processing costs are derived from company disclosure, but the other projects would suggest good potential for them to come in lower. As we noted earlier in the report, we would need to reduce ours by 25-30% in order to bring them more in line with the comparables. If realized, this would reduce the cash costs by 9-10% and increase the project NPV by 11--13%, leaving all else unchanged. A 10% increase in our stripping ratios knocks 6% off the NPV.

Figure 2: Probe Metals – Comparison Table of Val-d'Or East Modelling Assumptions

	Unit	Val-d'Or East[1]	Valentine Lake[4]	Marban	Moose River Mine[5]	Magino[6]
Operator		Probe Metals	Marathon Gold	O3 Mining	St. Barbara	Argonaut Gold
Location		QB	NFLD	QB	NS	ON
Ownership		100%	100%	100%	100%	100%
Encumberances		2.5% NSR	2% NSR	1.5% NSR	1.6-2%	0.2%-3% NSRs
Primary Consultant		GoldMinds/Auscenco	Auscenco et al.	Auscenco et al.	Auscenco et al.	JDS et al.
Status		Resource	FS	PEA	Updated FS	FS
Date		Jun-21	Apr-21	Sep-20	Mar-19	Nov-17
Mining Method		OP	OP	OP	OP	OP
Milling Rate	tpd	**10,000**	6,800 & 11,000	10,960	5,479	10,000
Crushing		pending	Primary	Primary	3-Stage	Primary
Grinding		pending	SAG/Ball/Pebble	SAG/Ball	Ball/Pebble	SAG
Recovery		pending	Grav/Float/CIL	Grav/CIL		Grav/CIP
Life of Operation	years	9.5	13.1	15.2	11.5	17.0
Material Mined	Mt	33.63	47.06	60.36	51.95	58.90
Grade - Au	gpt	1.39	1.36	0.97	1.12	1.13
Contained	Moz	1.50	2.05	1.88	1.87	2.14
Average Recoveries		95%	94%	94%	93%	92%
Average Prod'n	**ounces**	**152,812**	**147,000**	**115,000**	**150,954**	**115,700**
Average Cash Cost[2]	**US$/oz**	**$919**	**$681**	**$741**	**$553**	**$663**
Operating Costs						
Mining	$/t mined	$3.00	$2.55	$2.70	$2.79	$3.23
Processing	$/t milled	$17.00	$12.51	$9.60	$10.41	$9.82
G&A	$/t milled	$4.50	$4.58	$0.68	$3.40	$3.08
Total	**$/t milled**	**$48.50**	**$37.52**	**$28.20**	**$24.54**	**$22.07**
LOM Strip Ratio		8.0	7.2	5.9	2.9	3.9
Capital Costs	**$M**					
Initial		$300	$349	$256	$319	$495
Sustaining		$143	$294	$189	$79	$86
LOM[3]		**$443**	**$643**	**$445**	**$398**	**$581**
Capital Intensity:	**US$/oz**					
Initial		$160	$128	$101	$128	$181
Sustaining		$76	$108	$74	$32	$31
LOM Average		**$236**	**$235**	**$175**	**$160**	**$212**
Base-case Gold Price	**US$/oz**	**$1,850**	**$1,500**	**$1,450**	**$1,300**	**$1,250**
USD:CAD		1.25	1.33	1.35	1.33	1.28
After-tax NPV(5%)	**$M**	**$593**	**$600**	**$423**	**$629**	**$288**
After-tax IRR		**39%**	**32%**	**25%**	**na**	**20%**
Payback	(years)	2.3	1.9	4.0	na	3.8

Notes: 1) Val-d'Or East reflects RCC modeling assumptions as of the start of construction, with the NPV, IRR and payback periods shown on a 100%-equity basis; 2) Where applicable, net of Ag credits; 3**)** Excludes closure and salvage; 4) Initial capex includes $44M of expansion capex; 5**)** Estimated, where necessary; and 6**)** Magino mining cost includes re-handle and equipment lease; initial capex reflects average of updated estimate from FS projection of $411M, which is basis for noted economics.

Source: Company reports; Research Capital

VALUATION AND RECOMMENDATION

We remain encouraged by Probe's progress and continue to recommend purchase as a **SPECULATIVE BUY**, with a revised target price of $4.25/share, based on the continued use of a 1.0x multiple to NAV. We still assume 100% project debt-financing in our model, bearing interest at 8% per year and capitalized until six months after the projected start of commercial operations in Q1/26. Un-modelled resources are now valued at $175M, versus $250M previously, reflecting our assumption of a higher resource conversion factor in our discounted cash flow model and a more conservative *in situ* value to reflect this.

Figure 3: Probe Metals – Summary of NAV and Target Derivation

Net Asset Valuation	Disc.	$ Million	$/Share
Val-d'Or East[1]	5.0%	$466	$3.08
Project NPV		**$466**	**$3.08**
Resource Upside	US65/oz	$175	$1.16
Corp. G&A		($61)	($0.40)
Cash (3/31/21)		$28	$0.18
Options & Warrants		$25	$0.17
Adjusted NAV		**$634**	**$4.19**

Target Derivation	$/Share
Project NAV	**$3.08**
Multiple	1.0x
Sub-total	**$3.08**
Adjustments	$1.11
Total	**$4.19**

Note: Project NPV based on gold price of US$1,850/oz and USD:CAD of 1.25.

Source: Research Capital

RISKS

PRB and our estimates for the company are subject to a number of risks, including but not limited to:

EXPLORATION RISKS | Like all exploration and development companies, Probe must outline sufficient resources and reserves to warrant development of its projects. There is no guarantee that the Company can either convert existing resources or advance any new discoveries to a positive production decision.

COMMODITY RISKS | Like all mining companies, Probe is subject to fluctuations in commodity prices, specifically gold. Adverse changes in the price of gold puts future operating cash flows at risk of not being able to fund the Company's ongoing financial and capital requirements.

CURRENCY RISKS | Probe's functional currency is the Canadian Dollar, exposing it to risks from deleterious changes in future exchange rates. Gold is priced in the US dollar.

FINANCIAL RISKS | Probe is well-financed and believed to have sufficient funds for its working capital and exploration needs for the foreseeable future. That said, there is no guarantee that it can source funds in future to continue its programs.

OPERATIONAL AND DEVELOPMENT RISKS | Probe does not generate operational cash flow, but is striving to do so at the Val-d'Or East project. This endeavor exposes the Company to such factors as, but not limited to: unforeseeable operational issues or delays; permitting issues; deleterious metal recoveries; and cost inflation.

POLITICAL, SOCIAL AND ENVIRONMENTAL RISKS | Probe operates in the province of Ontario and Quebec, Canada. Although we consider them both to be top-tier mining jurisdictions, there is no guarantee against unforeseeable issues, such as changes to mining and environmental laws or regulations.

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2. This Issuer has generated investment banking revenue for MRCC.

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