

## Gran Colombia Gold Corp. (TSX: GCM) Confidence in H2/20 Signalled with Dividend Declaration

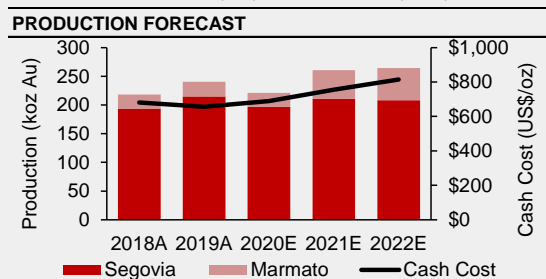
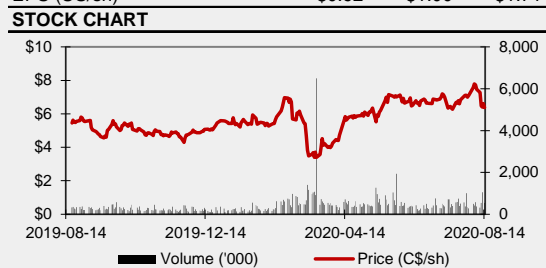
Financial Results  
August 17, 2020

(Currency is C\$ unless noted otherwise)

Closing Price (C\$/sh)	\$6.38
Rating	BUY
Target (C\$/sh)	\$13.00
Return to Target	104%
52 Week Low / High (C\$/sh)	\$2.88 / \$8.10

CAPITALIZATION	Basic	Diluted
Shares Outstanding (M)	61.8	89.4
Market Capitalization (C\$M)		\$394.4
Enterprise Value (C\$M)		\$328.9
Cash (C\$M)		\$122.8
Debt (C\$M)		\$57.3

FYE: DEC 31	2019A	2020E	2021E
Au Produced (000's oz)	240	221	261
Cash Costs (US\$/oz)	\$656	\$690	\$755
CAPEX (US\$M)	\$52	\$26	\$91
Gross Revenue (US\$M)	\$326	\$367	\$411
EBITDA (US\$M)	\$143	\$182	\$186
CFPS (US\$/sh)	\$2.16	\$2.17	\$1.81
EPS (US\$/sh)	\$0.92	\$1.00	\$1.71



VALUATION	(C\$M)	(C\$/sh)
2019 EV/EBITDA	\$ 190	4.0x \$ 9.44
2020 EV/EBITDA	\$ 251	4.0x \$ 12.17
<b>1yr FWD NTM EV/EBITDA</b>	<b>\$ 267</b>	<b>4.0x \$12.91</b>
2021 EV/EBITDA	\$ 261	4.0x \$ 12.62
2022 EV/EBITDA	\$ 241	4.0x \$ 11.04

MAJOR SHAREHOLDERS
Management (11.25%), MM Asset Management Inc (9.32%), Sprott, Eric Steven (5.4%), Iacono, Serafino (1.9%), Highstreet Asset Manage. (1.75%)

DISCLOSURE CODE: 1, 2, 3, 4  
(Please refer to the disclosures listed on the back page)

Source: RCS estimates, Company Information, Capital IQ

### Company Description

Gran Colombia Gold Corp. engages in the acquisition, exploration, development, and operation of gold and silver properties primarily in Colombia. It holds interests in the Segovia operations comprising the El Silencio, Providencia, Sandra K, and the Carla underground mines located in Colombia; and the Marmato gold project situated in Colombia.

### Impact: Mildly Positive

Along with its Q2/20 financial results Gran Colombia declared its maiden dividend and updated 2020 guidance to reflect the impact of COVID-19. The new dividend is at a very sustainable level and makes Gran Colombia, unique amongst its peers. Financial results that were a slight miss and reflected the impact of COVID -19 in the quarter, which the company expects to have a limited impact in H2/20 (Figure 1). Additionally, management updated production guidance to reflect the impact of COVID-19 in Q2. **With the company's "COVID quarter" now behind it, we expect Gran Colombia's share price to be driven by steady operating results coupled with exploration success at Segovia.**

### Highlights:

- Maiden dividend highlights confidence.** The company announced a maiden quarterly dividend of C\$0.015/sh – which implies an annual yield of 0.9%. When compared to other gold companies offering a dividend (Figure 2), Gran Colombia has one of the smallest production profiles and market caps. In our view, this is very positive signaling by the company with respect to its recovery from COVID-19 and its outlook on operations at Segovia. We also note that this dividend represents only ~13% of our 2021E FCF (using US\$1,700/oz Au), which should be very sustainable and has room to grow with the gold.
- Updated guidance reflects COVID-19 impact, looks very achievable in H2/20.** The company revised its guidance to 195-200koz for Segovia (was 200-220koz) and 23-26koz for Marmato (was 32-37k oz). Our estimates were already at the low end of this range and we now model ~197koz for Segovia and ~24koz for Marmato. Accordingly, we have adjusted our 2020 capital cost estimates to US\$20M (was US\$22M) and our cash cost estimates to US\$690/oz (was US\$681/oz).
- Investor focus should be shifting to exploration results.** Besides steady operating results which should allow the company to continue improving its balance sheet and return capital to shareholders, we believe exploration success is the key to re-rating this stock to peer multiples. The company recently released assays from its ongoing exploration program at Segovia (read [here](#)). We believe the Deep Zone is key to increasing the high-grade resource at Segovia and extending the mine-life. On Friday's conference call, the company indicated the next batch of exploration results would be forthcoming in the next several weeks.

### Valuation:

**We maintain our BUY rating and price target of C\$13.00/sh.** Our target is based on 4.0x our one-year forward, NTM EBITDA estimate of C\$267.3M (was C\$267.9M). Gran Colombia trades at 1.8x 2021E EV/EBITDA and 0.43x NAV versus peers at 5.0x and 0.9x, respectively. **Upcoming Catalysts:** 1) Exploration results (ongoing) and 2) Q3/20 Production Results (Q4/20).

## Q2/20 Financial Results:

### Results show impact of COVID-19; the worst should be in the past.

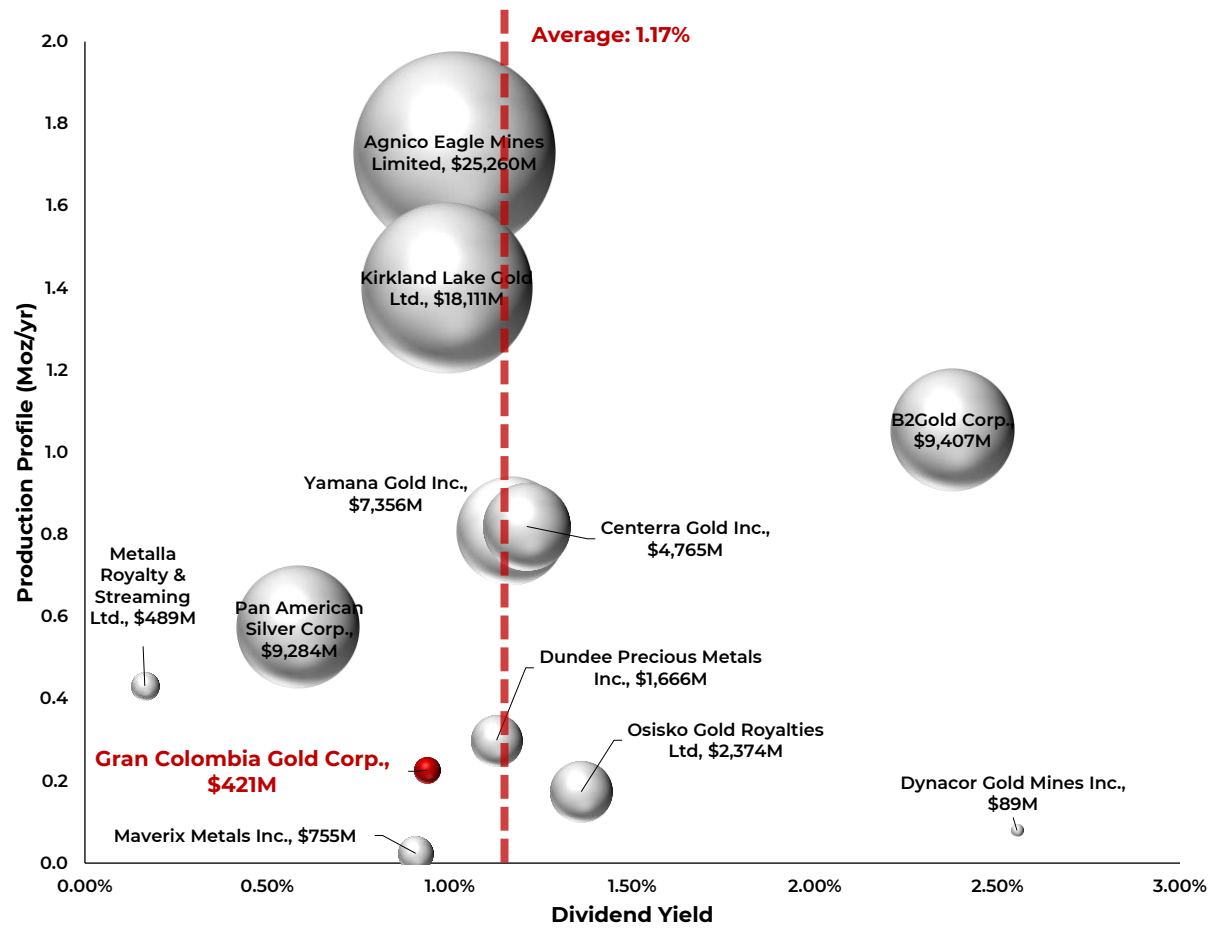
Results for Q2/20 were slightly below our estimates as the quarter took the brunt of the COVID-19 impact. We expect a better H2/20 as the company is essentially back to normal operations at Segovia and Marmato continues to show improvements. The company reported revenue of US\$77.1M (RCS est, US\$82.2M), Cash Costs of US\$713/oz (RCS est, US\$695/oz), EBITDA of US\$32.9M (RCS est, US\$41.7M) and FCF of -US\$10.5M (RCS est, -US\$7.8M). Overall, the slight miss of our estimates is the result of modestly higher than estimated cash costs and fewer ounces being sold than produced. Additionally, we note that the cash flow metrics are off QoQ as a result of the company paid most of its 2019 taxes in Q2. We also note that the large miss on EPS was a result of a non-cash fair value adjustment to the company's derivative liabilities (warrants, convertible debt, gold linked notes, etc.).

**Figure 1: Gran Colombia Quarterly Estimates**

	Updated Q2 2020A	Previous Q2 2020E	Change	Q1 2020A	Q4 2019A	Q3 2019A	Q2 2019A	Q1 2019A	Q4 2018A
Segovia Production (koz)	44.4	44.4	0%	50.3	58.2	50.5	51.6	54.4	48.8
Marmato Production (koz - 100% basis)	3.9	3.8	2%	5.9	7.1	6.2	6.3	6.2	6.5
Total Production (koz - 100% basis)	48.2	48.1	0%	56.2	65.2	56.7	57.9	60.6	55.3
Total Cash Cost (US\$/oz)	\$713	\$695	3%	\$667	\$683	\$684	\$655	\$601	\$692
Gold Price (US/oz)	\$1,725	\$1,725	0%	\$1,587	\$1,487	\$1,479	\$1,312	\$1,305	\$1,225
Revenue (US\$M)	\$77.1	\$82.2	-6%	\$101.0	\$88.5	\$83.0	\$77.6	\$77.4	\$68.2
EPS (US\$/sh)	-\$0.30	\$0.28	-209%	\$0.42	-\$2.86	\$0.18	\$0.02	\$0.16	\$0.21
EBITDA (US\$M)	\$32.9	\$41.7	-21%	\$53.4	\$38.8	\$37.9	\$32.1	\$34.3	\$26.2
FCF (CFO+CFI) (US\$M)	-\$10.5	-\$7.8	-35%	\$14.3	\$12.6	\$15.1	\$5.0	\$8.6	\$10.9
CFPS (US\$/sh)	\$0.00	\$0.08	-96%	\$0.78	\$0.70	\$0.70	\$0.38	\$0.38	\$0.42
Cash (US\$M)	\$87.7	\$87.1	1%	\$99.7	\$84.2	\$63.3	\$51.3	\$40.2	\$35.6
CAPEX (US\$M)	\$10.8	\$12.6	-14%	\$14.0	\$12.7	\$14.2	\$8.0	\$7.8	\$8.7

Source: Company Reports, RCS Estimates

**Figure 2: Bubble chart showing Production Profile x Dividend Yield of mid-tier peers (bubble size corresponds to market capitalization)**



Source: Company Reports, S&P Market Intelligence, S&P Capital IQ, RCS Estimates  
 Note: For royalty companies production profile corresponds to sales volume.

## Financial and Operating Summary: Gran Colombia Gold Corp.

### FINANCIAL DATA

<b>TSX:GCM</b>	
<b>Current Price (C\$/sh)</b>	<b>C\$6.38</b>
<b>52 Week Low / High (C\$/sh)</b>	<b>\$2.88 / \$8.10</b>
<b>Target Price (C\$/sh)</b>	<b>\$13.00</b>
<b>Shares Outstanding (M)</b>	<b>61.8</b>
<b>Market Capitalization (C\$M)</b>	<b>\$394.4</b>
<b>Cash &amp; Cash Equivalents (C\$M)</b>	<b>\$122.8</b>
<b>Total Debt (C\$M)</b>	<b>\$57.3</b>
<b>Enterprise Value (C\$M)</b>	<b>\$328.9</b>

### FINANCIAL DATA

Capital Structure	Shares Millions
Shares Outstanding	61.8
Options	1.8
Warrants	21.6
Fully Diluted Shares	85.2

Ownership (May 2019)	Shares O/S (M)	% O/S
Management	7.0	11.2%
MM Asset Management Inc	5.8	9.3%
Sprott, Eric Steven	4.4	7.2%
Van Eck Associates Corporation	2.6	4.2%
Iacono, Serafino	1.6	2.6%

### Financial Summary (US\$)

Year-end December 31st	2018A	2019E	2020E	2021E	2022E	2023E
Shares O/S (M)	48.3	53.6	61.8	61.8	61.8	61.8
EBITDA (US\$M)	\$102	\$143	\$182	\$186	\$172	\$162
FCF (CFO+CFI) (US\$M)	\$32	\$39	\$71	\$15	-\$43	-\$9
EPS (US\$/sh)	-\$0.11	\$0.69	\$0.72	\$1.22	\$1.13	\$0.91
CFPS (US\$/sh)	\$2.02	\$2.16	\$2.17	\$1.81	\$1.55	\$1.56
EV/EBITDA	2.5x	1.7x	1.3x	1.3x	1.4x	1.5x
P/CFPS	2.4x	2.2x	2.1x	2.5x	2.9x	2.9x

### Income Statement (US\$M)

	2018A	2019E	2020E	2021E	2022E	2023E
Revenue	281.7	326.4	367.1	410.9	413.4	418.4
Operating Expenses	151.7	157.2	158.5	201.1	220.6	236.0
Depreciation	54.6	32.3	28.0	32.0	34.6	43.3
General & Admin	15.5	22.9	25.6	23.5	20.3	20.5
Net Income	(2.9)	34.8	42.8	75.6	69.6	56.0

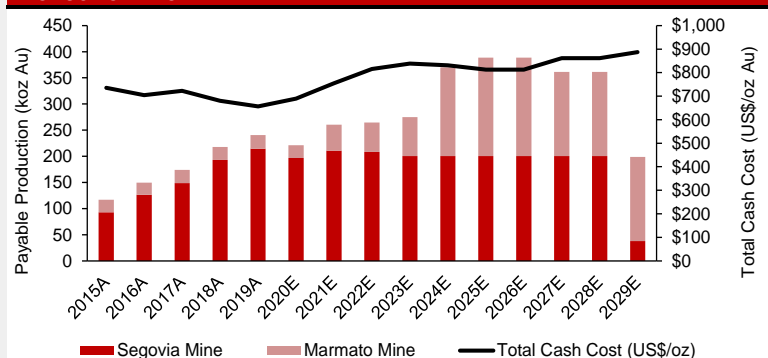
### Balance Sheet (US\$M)

	2018A	2019E	2020E	2021E	2022E	2023E
Cash & Equivalents	35.6	84.2	290.3	276.4	182.8	139.3
Debt	86.7	64.8	103.6	83.8	65.8	48.9

### Cash Flow (US\$M)

	2018A	2019E	2020E	2021E	2022E	2023E
Operating CF	79.7	103.3	124.3	111.7	96.0	96.2
Financing CF	(7.5)	(3.0)	113.0	(34.6)	(33.9)	(31.6)
Investing CF	(38.8)	(51.6)	(26.2)	(91.0)	(155.6)	(108.1)
Change in Cash	32.4	48.6	206.1	(13.9)	(93.6)	(43.5)

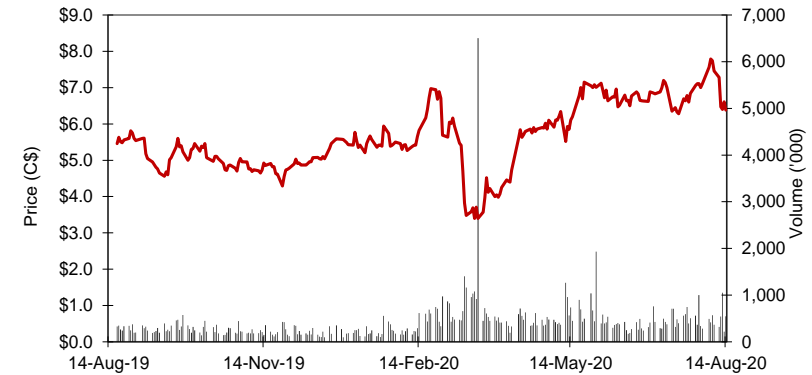
### PRODUCTION PROFILE



Priced as of market close on August 14, 2020.

Source: RCS Estimates, Company Reports, Capital IQ, S&P Global Market Intelligence

### STOCK CHART



### TECHNICAL ASSUMPTIONS

	2018A	2019E	2020E	2021E	2022E	2023E
Gold Price (US\$/oz)	\$ 1,278	\$ 1,396	\$ 1,678	\$ 1,700	\$ 1,700	\$ 1,700
Silver Price (US\$/oz)	\$ 16.53	\$ 16.21	\$ 16.86	\$ 17.00	\$ 17.00	\$ 17.00
Canadian : US\$ exchange rate	\$ 0.77	\$ 0.75	\$ 0.72	\$ 0.71	\$ 0.71	\$ 0.71

RESOURCE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	7.07	10.94	2,484
Marmato	93.20	2.84	8,582
Global Resource	100.27	3.41	11,066

RESERVE ESTIMATE	Tonnes (Mt)	AuEq (g/t)	AuEq (koz)
Segovia	1.94	11.00	688
Marmato	-	-	-
Global Reserves	1.94	11.00	688

Segovia (RCKS Mine Model)	5.78	10.69	1,988
Marmato (RCKS Mine Model)	63.00	2.88	5,829

### VALUATION

Year	EBITDA (C\$M)	Multiple	Valuation (C\$/sh)
2019 EV/EBITDA	\$190	4.0x	\$9.44
2020 EV/EBITDA	\$251	4.0x	\$12.17
<b>1yr FWD NTM EV/EBITDA</b>	<b>\$267</b>	<b>4.0x</b>	<b>\$12.91</b>
2021 EV/EBITDA	\$261	4.0x	\$12.62
2022 EV/EBITDA	\$241	4.0x	\$11.04

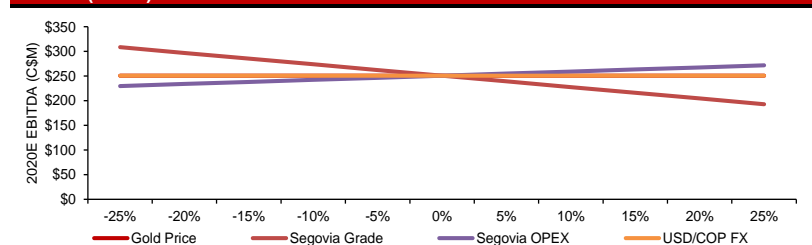
### NET ASSET VALUE

	Discount Rate	(C\$M)	(C\$/Sh)
Segovia (100%), Colombia	5%	\$ 1,438	\$ 16.09
Marmato (57.5%), Colombia	5%	\$ 639	\$ 7.15
Taxes	5%	\$ (584)	\$ (6.53)
Other Assets	in-situ	\$ 100	\$ 1.12
Corporate Adjustments	5%	\$ (274)	\$ (3.07)
<b>Total NAV</b>		<b>\$ 1,319</b>	<b>\$ 14.75</b>

### COMPARABLES

Company	Ticker	Price C\$	EV/EBITDA		P/NAV
			FY2020E	FY2021E	
Pretium Resources Inc.	TSX:PVG	\$15.59	8.6x	7.4x	1.06x
TMAC Resources Inc.	TSX:TMR	\$1.44	3.2x	5.4x	0.55x
Wesdome Gold Mines Ltd.	TSX:WDO	\$13.68	14.3x	7.0x	1.18x
Guyana Goldfields Inc.	TSX:GUY	\$1.81	28.5x	4.3x	1.09x
Torex Gold Resources Inc.	TSX:TXG	\$21.27	4.0x	3.1x	0.73x
Argonaut Gold Inc.	TSX:AR	\$2.84	4.5x	2.6x	0.55x
Average			10.5x	5.0x	0.86x
<b>Gran Colombia Gold Corp.</b>	<b>TSX:GCM</b>	<b>\$6.38</b>	<b>1.8x</b>	<b>1.8x</b>	<b>0.43x</b>

### EBITDA (2020E) SENSITIVITIES





**Derek Macpherson | VP, Equity Research Analyst**  
**Taylor Combaluzier | Research Associate**  
**Paul Kostuik | Research Associate**

**Red Cloud Securities Inc.**

105 King Street East, 2<sup>nd</sup> Floor  
Toronto ON, M5C 1G6

[research@redcloudsecurities.com](mailto:research@redcloudsecurities.com)

[www.redcloudsecurities.com/research-home](http://www.redcloudsecurities.com/research-home)

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Company Name	Ticker Symbol	Disclosures
Gran Colombia Gold Corp.	TSX: GCM	1,2,3,4

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