

Conroy Gold and Natural Resources plc (CGNR.L)*- 7 April 2022

Conroy Gold's Path to Producer Status – A Valuation Reappraisal.

Following the completion of **Conroy Gold and Natural Resources plc (CGNR.L)** JV agreement with Demir Export, and start later this month of a 3,000-metre drill programme under the new partnership, in this research note we examine the importance of this transformational deal and revise our valuation estimates.

* The objective of the Demir JV will be to advance the Clontibret gold deposit and other gold discoveries to a 'construction ready status' and into operation as a mine. Turkish-owned mining company Demir has both the technical expertise, resources and financial clout to make such an objective become a reality.

* A maiden 3,000-metre drilling programme under the new JV is set to commence later this month, which we believe could lead to results being announced in May/June. This is just the initial stage of what is projected to be an extensive exploration and development JV programme funded by Demir.

* A primary goal of the JV is to expand upon what is known at Clontibret, which has a JORC resource of 0.5m ounces of gold defined. This is believed to represent only around 20% of the known deposit, with the resource open at both depth and in all directions.

* Dalradian Gold's world class 6m ounce plus gold deposit located nearby at Curraghinalt provides a reference point project for what could be achieved. At Curraghinalt, the deposit extends to a depth of 1,200 metres. In comparison, most of the exploration drilling at Clontibret has been at much shallower depths of less than 200 metres, with a maximum 350-metre depth.

* The JV will also seek to bring other gold prospective targets such as Clay Lake, Glenish and Slieve Glah in the Longford-Down Massif district scale gold trend towards a 'construction ready status'.

* Three new licences were granted earlier this week to Conroy Gold, which will be included within the JV to give a total of 15 licences, encompassing almost 1,000 sq. km.

* Conroy's balance sheet was boosted last week, following the payment of €1m from Demir Export, as part of its first Phase agreement commitments, which will see at least €10m invested into the JV over phases 1 and 2.

Recommendation & Valuation

We have revised the valuation numbers from our Oct 2020 research note, which is based upon the Clontibret Scoping Study (2011) and potential exploration upside. This reflects higher projected long-term gold prices (US\$1,850 per ounce) and a reduction in certain risk factors such as the 'Development and Resources' risk following Conroy's link up with Demir. This computes to an estimated Group valuation of US\$85.9m (prev. US\$55.1m), representing a 56% improvement, giving a price per share of 168p (prev. 138p).

As work under the JV partnership now begins in earnest and advances over the coming periods, there should be plenty of opportunities to substantially improve our estimates as the 2011 JORC is potentially enhanced to include a larger Clontibret deposit, and perhaps a resource definition achieved on other gold licence targets.

The market has not understood the importance and 'Company Maker' deal Conroy Gold has secured with Demir Export and substantial de-risking impact this has upon the investment case. With a market cap of £12.6m, investors still seem to be pricing the shares as an early-stage exploration company, rather than a mid-stage entity, with an established path being set towards potential mine 'construction ready status'. With these thoughts in mind, and near-term drilling results news-flow under the new JV anticipated in the coming months, we reiterate our **'Buy'** recommendation with a **168p** share price target.



MARKET DATA:

Name:	Conroy Gold and Natural Resources plc
Ticker:	CGNR.L
Price:	32p
Market Cap:	£12.6m
SII:	39.26m
Sector:	Resources
Listing:	AIM – London
Domicile:	Ireland

FINANCIALS:

Cash:	£1.3m (FEQ est. 31/03/22)
Last Placing:	Mar '21 - £1.9m @ 33p
Last Results:	28/02/22 – Half Year Report to 30 Nov 21.

ACTIVITIES:

Exploration & Development of gold and base metals in Ireland and Finland.

KEY PROJECTS / ASSETS:

Clontibret
Clay Lake
Glenish
Slieve Glah

DIRECTORS & MANAGEMENT:

Prof. Richard Conroy (Chairman)
Maureen Jones (MD)
Prof. Garth Earls (Non-Ex)
Brendan McMorow (Non-Ex)
Howard Bird (Non-Ex)

SHAREHOLDINGS: (>3%)

Prof Richard Conroy	8.1%
Patrick O'Sullivan	7.6%
Philip Hannigan	5.2%
Paul & Michelle Johnson	4.3%

**First Equity Limited acts as Broker to Conroy Gold and Natural Resources Plc.*

ANALYST

Jason Robertson
+44 (0)20 7374 2212
jasonrobertson@firstequitylimited.com

JV WITH DEMIR EXPORT A.S.

The JV agreement with Demir Export represents a significant landmark deal for Conroy Gold in its 20-year plus history as a listed company.

Once three recently granted licences are transferred to the JV companies, the JV will encompass a total of eleven licences, covering an area of just under 1,000 sq. km. of licences in Ireland over the Longford-Down Massif. Only one Irish licence is excluded from the JV, along with permits in Finland. Demir Export holds a right of first refusal until the end of 2023 over the single Ireland licence not included in the JV.

Demir Export undertook a rigorous Due Diligence process on the Group's gold exploration licences lasting over nine months, which was concluded with the signing of the JV partnership on 4 Jan 2022, following approval by shareholders at an EGM on 22 Dec 2021. All regulatory and licence conditions have now been met, as outlined on 21 Mar 2022.

Fig 1 outlines the planned work programme and earn-in arrangements of the JV.

Work Programme	Demir Export JV % Earn	Expenditure Commitment
Phase 1	to 25%	Commitment to spend €4.5m + min. regulatory work. + Payment of €1m (paid 31/3/22)
Phase 2	25% to 40%	Expenditure of further €4.5m + min. regulatory work.
Phase 3	40% to 57.5%	Expenditure of additional funds required to reach a "Construction Ready Status".

Fig 1: Work Programme Phases.

Under the agreement, at the 'Construction Ready Status' after Phase 3 is complete, Conroy Gold can choose to follow several options as Fig 2 outlines.

	Conroy Option at "Construction Ready Status"
Option 1	Retain 42.5% in JV Company by participating pro rata in expenditures for mine construction.
Option 2	Dilute 42.5% interest for expenditures through to commercial production through a 'Carry Loan' with repayment of loan from 50% of net profits due to Conroy for a max 6 years and retention of a 25% interest in JV Company.
Option 3	Convert 42.5% interest into 2% net smelter revenue royalty

Fig 2: Option at 'Construction Ready Status'

Demir Export is a Turkish-based mining company, which has been operating since 1957, and is owned by the Koç Group, a large conglomerate listed on the Istanbul Stock Exchange (KCHOL.IS), with a market capitalisation of around £5 billion. Demir Export has extensive mining and exploration interests in iron, coal, gold, zinc and copper in Turkey.

Exploration work under Phase 1 of the JV got underway in January 2022. A 3,000-metre drilling programme is planned to commence in the second half of April 2022, with results anticipated in May/June. This is just the initial stage of what is likely to be an extensive exploration and development programme at Clontibret and other gold targets within the JV licence area, consisting of extension, infill and exploratory drilling to reach the milestone point of 'Construction Ready Status'.

Longford-Down Massif

CGNR’s JV licence area covers just around 1,000 sq. km, is in a geological area termed the ‘Longford-Down Massif’, within Counties Monaghan and Cavan in the Republic of Ireland and County Armagh in Northern Ireland. The Longford-Down Massif includes part of the Orlock Bridge Fault Zone, which stretches from Ireland across into Scotland, upon which most of the Group’s gold targets lie (the 65 km gold trend).

Within the Longford-Down Massif, based on just the Clontibret, Clay Lake and Glenish targets, an exploration target of 8.8m ounces of gold has been estimated (not including the current 517,000 ounces JORC resource). This is according to a study by consulting geologist Professor Garth Earls, published in 2018, which assumes a 5% drilling success, a 2 g/t gold grade comparator at Clontibret for other gold-in-soil-anomalies, gold to a depth of 200 metres and current gold-in-soil-anomalies of over 10 parts per billion gold. Chairman Prof. Richard Conroy outlined in a recent StockBox Media interview (March 2022##) his belief that there could be between 14 and 20 million ounces of gold within the JV’s licence area.

<https://stockboxmedia.com/interviews/conroy-gold-complete-all-formalities-for-the-jv-to-proceed/>

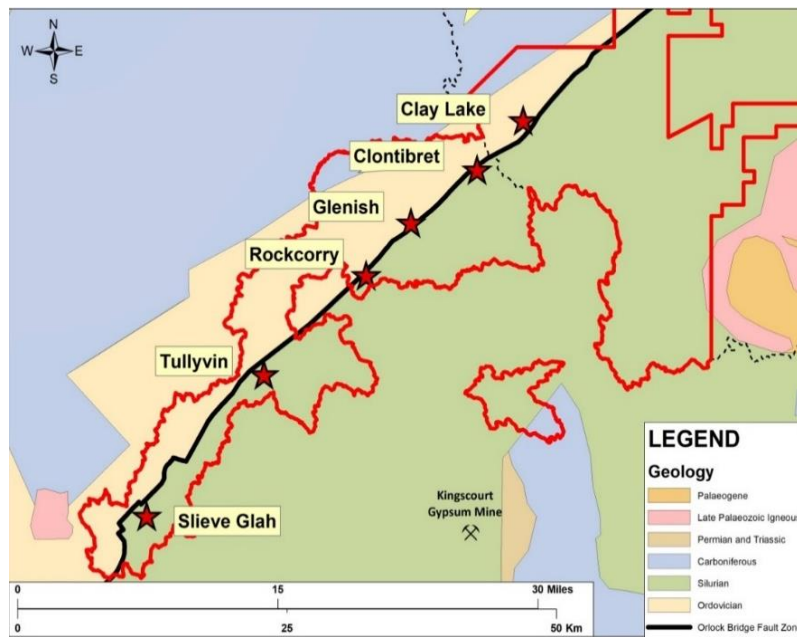


Fig 3: Key Gold Targets (Source: Conroy Gold and Natural Resources plc).

Clontibret Gold Deposit

Clontibret (Co. Monaghan) is the most advanced of the Group's gold projects, where a JORC resource of 517,000 ounces of gold is estimated by consultants Coffey (Tetra Tech). The deposit is composed of two styles of mineralisation, 'lodes' and 'stockwork', of which the former makes up most of the estimated resource.

The JORC resource defined to date is believed to constitute only around 20% of the overall Clontibret gold target area. Most of the exploration drilling has been to depths of less than 200 metres, with a maximum depth of 350 metres. There is also a vast wealth of other gold exploration targets still untested, some of which have already demonstrated gold in bedrock.

There could be vast potential to find gold mineralisation at much deeper levels, considering that Dalradian Gold's deposit at Curraghinalt in County Tyrone extends to 1,200-metre depths. The deposit is estimated to contain over 6m ounces of gold are defined, which is likely to support a mine producing 130,000 ounces of gold per annum over a mine life projected to over 20 years.

Clontibret – JORC Resource Est.				
Category	Zone	Tonnage	Gold Grade (g/t)	Contained Gold (oz)
Indicated	Lodes	4,460,000	2.1	301,000
	Stockwork	500,000	1.2	19,000
Indicated Total		4,960,000	2.0	320,000
Inferred	Lodes	2,980,000	2.0	193,000
	Stockwork	110,000	1.2	4,000
Inferred Total		3,090,000	2.0	197,000
Est Total				517,000

Fig 4: Clontibret JORC Resource est. Tetra Tech Canada Inc, July 2017, 1% cut-off.

2022 Valuation Analysis

To calculate a valuation for Conroy's projects, we have used the 2011 Clontibret Scoping Study estimates and mining of 441,200 oz, as a base point, and updated the previous numbers and assumptions from the research note published in October 2020 to bring our estimates up to date.

2011 Scoping Study Parameters	
Mining Operation	Open Pit
Long Term Gold Price	US\$1,372 per oz.
Scoping Study Grade	1.6 g/t
Gold Head Grade	1.5 g/t
Process Rate	800,000 tonnes p.a.
Recovery Rate	85%
Mine Life	11.2 years
Production Rate	44,200 oz p.a. - Yr1 to Yr5
Financial Estimates	Base Case
Capital Costs (inc. sustaining costs)	US\$77.8m
Payback Period	2.0 Years
NPV (8% discount rate), pre-tax	US\$72.3m
IRR	49.4%

Fig 5 2011 Scoping Study Summary.

Despite prices increasing by around 30% since 2011, the capital and ongoing costs used in our model are just 5.5% higher, as we have factored in the favourable metallurgical results conducted after the 2011 scoping study (15 Jan 2014 - RNS) which highlighted a reduction in CAPEX and OPEX costs of around 10% and further improvements to the mine economics.

A revised long-term gold price of US\$1,850 per ounce is projected forward for the life of the mine, representing a US\$50 increase since our 2020 estimates. This is also a higher figure than shown in 2011's Scoping Study of US\$1,372 per ounce. Production rates, head grades, etc, remain the same across all estimates.

	2011 Scoping Study est.	2020 FEQ est.	2022 FEQ est.
Long Term Gold Price	US\$1,372 per oz.	US\$1,800 per oz.	US\$1,850 per oz.
Capital Costs (inc. sustaining costs)	US\$77.8m	US\$81.1m	US\$82.5m
Oz Produced	441,200	441,200	441,200
Mine Life	11.2 years	11.2 years	11.2 years
NPV8 (pre-tax)	US\$72.3m	US\$115.7m	US\$119.8m
NPV10 (pre-tax)		US\$104.0m	US\$107.8m

Fig 6: 2011/2020 Scoping Study estimates (Source: First Equity Limited).

We use a higher discount rate of 10%, as opposed to the 8% discount rate in the 2011 Study, to provide a better comparative with other development mining projects.

From our NPV10 estimate of US\$107.8m, we have applied several risk factors to derive a risked project value estimate of US\$66.1m.

Both the 'Development and Resource Risk' and 'Environmental Risk' have improved since our 2020 valuation analysis, to 0.85 (prev. 0.70) and 0.80 (prev. 0.70) respectively following the securing of Demir Export as JV partner. The 'Financing Risk' remains unchanged at 0.90, as the benefits of securing a JV partner are negated by an increased cost of borrowing environment since 2020.

Development and Resource Risk- 0.85 (prev. 0.70)

Environmental Risk – 0.80 (prev. 0.70)

Financing Risk – 0.9 (unchanged)

Assuming each risked ounce of gold mined from our estimate is worth US\$149.5 (US\$66.0m risked NPV / 441,200 oz's.) and a 1.5% value (prev. 1%) for each ounce of gold in the ground, we have estimated a ballpark exploration value of US\$19.9m for the remaining potential exploration target upside of 8.8m oz of gold (US\$2.24 per ounce).

A total project value for Conroy Gold's Ireland projects of US\$85.9m (£66.1m) is derived, giving a value per share of 168p. This represents an 56% increase on 2020's valuation of US\$55.1m and 22% increase on a per share basis (from 138p), due to a higher number of shares in issue (SII) following the 2021 Placing (30.9m SII 2020: 39.3m SII April 2022). A slightly weaker US\$ and higher number of shares in issue detracted from what could had been a higher value per share.

The estimates are based upon the current 100% interest over the Ireland projects. As the JV earn-in progresses and Demir Export complete each Phase, Conroy's interest could reduce to 42.5% or another project interest (Fig 2) by the end of Phase 3, lowering the attributable net value. However, at the same time, we would expect considerable value to be added as exploration, development and resource definition work is completed during the JV to improve the resource size and mine economics, which should more than compensate for a smaller net stake.

Est. Conroy Gold Value, 2022.		
NPV10 (Clontibret Open Pit)	US\$107.8m	
<i>Less Environmental Risk (x0.8)</i>	US\$86.2m	
<i>Less Development & Resource Risk (x0.85)</i>	US\$73.3m	
<i>Less Financing Risk (x0.9)</i>	US\$66.0m	
Total Risked NPV10 (Clontibret Open Pit)		US\$66.0m
Risked Value Per Ounce (Clontibret Open Pit)	US\$149.5 per ounce	
Implied 1.5% Target Exploration Value Per oz. Gold	US\$2.24 per ounce	
Target Exploration Upside, 8.8m oz. Gold Value		US\$19.9m
Total Project Value		US\$85.9m
	<i>(ex £/US\$1.30)</i>	£66.1m
Value Per Share (SII 39.26m)		168p

Fig 7: Conroy Gold and Natural Resources plc Valuation Summary (Source: First Equity Limited).

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First Equity Limited is a member of the London Stock Exchange

Salisbury House,
London Wall,
London, EC2M 5QQ
United Kingdom

Tel:020 7374 2212

www:firstequitylimited.com tw:FirstEquityLtd

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