

# True Gold Mining Inc. (TGM-V, \$0.19)

**Rating** Buy  
**Target Price** \$0.55  
**Return** 189%  
**Risk Profile** Very High

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*Analyst Certification, Important Information and Legal Disclaimers: See page 5*

## 2014 Financials Outline Revised Production Timing

**Valuation** | We reach our target price through a sum-of-the-parts approach utilizing a combination of discounted cash flow (Karma) and in situ analysis (Liguidi). Our fully diluted, fully financed NAV<sub>5%</sub> is \$0.67 per share to which we continue to apply a 0.7x multiple to reach our target price of \$0.55 per share. True Gold is trading at \$4 /oz Au on an Ev/oz basis and 0.28x P/NAV, vs. global peers at \$21/oz Au and 0.43x P/NAV, and African peers at \$21 /oz Au and 0.38x P/NAV.

**Risks** | 1) Operational: Karma is a greenfield project with no formal operating history; 2) Political: National election scheduled for 2015, recent local unrest has impacted the project; 3) Dilution: TGM may require additional external funding.

**Impact – Neutral** | True Gold released its 2014 results and Annual Information Form last night. With the company providing relatively frequent updates, there is little new in the release, however there were a few key details highlighted in the results which we detail below. The company remains focused on restarting construction in Q2/15 which will allow for production to commence in Q1/16. We note that restarting construction activities within the next few months will be key to minimizing the delay of the first gold pour as certain aspects of the construction need to be completed ahead of the end of the rainy season or True Gold will face an extended delay to commence operations, and as a result could require additional financing above what we consider in our valuation.

- True Gold expects re-start of construction in the near term with expected completion in Q1/16, and expects the first gold pour approximately 10 months from re-start of construction, with ore set to begin being placed on the leach pad in Q4/15.
- True Gold is working closely with SENET to finalize a plan for an efficient restart of activities. The plan is expected to include cost savings and retain the projects fully funded status (subject to the re-commencement of construction in the near term).
- As of December 31<sup>st</sup>, 2014, the Company had spent and/or committed US\$61.7M at the Karma Project, with all aspects of the project at or below budget. At year end True Gold's cash balance stood at US\$56.4M, slightly below our estimate of US\$57.4M. There is roughly US\$43M left to draw down from the US\$100M Franco- Nevada and Sandstorm facility, and an additional US\$20M that True Gold can elect to draw down.
- As of the date of the MD&A, the Company's cash and short-term investments balance stood at US\$39.3M.
- Key personnel that were recently hired include the Mine Operations and Mine Maintenance Superintendents.
- At the time of the technical shutdown, Karma was ahead of schedule and under budget. As previously announced, once construction activities resume, the Company expects to be in a position to pour first gold in 10 months. This compares to the Company's previous first gold pour guidance of Q4/15. Our formal valuation includes production start-up in 2016.

<b>Target Price</b>	<b>\$0.55</b>	<b>52-Week High / Low</b>	<b>\$0.47 / \$0.15</b>
<b>Current Price</b>	<b>\$0.19</b>	<b>Shares O/S</b>	<b>398M (basic)</b>
<b>Return (incl. dist'n)</b>	<b>189%</b>		<b>418M (F/D)</b>
<b>YTD Performance</b>	<b>(25%)</b>	<b>Market Capitalization</b>	<b>\$76M</b>
<b>Dividend / Yield</b>	<b>Nil</b>	<b>Cash</b>	<b>\$55M</b>
		<b>Debt</b>	<b>Nil</b>
<b>Overall Risk Rating</b>	<b>Very High</b>	<b>Working Capital</b>	<b>\$57M</b>
<b>Forecast Risk</b>	<b>(High) 7</b>	<b>Enterprise Value</b>	<b>\$19M</b>
<b>Financial Risk</b>	<b>(High) 10</b>	<b>YE 2015 (est.) Cash Balance</b>	<b>\$7M</b>
<b>Valuation Risk</b>	<b>(High) 7</b>	<b>Daily Volume (3 month average)</b>	<b>244,040</b>
<b>Political Risk</b>	<b>(High) 8</b>	<b>Website</b>	<b><a href="http://www.truegoldmining.com">www.truegoldmining.com</a></b>
<b>Risk Profile Definitions: See page 7</b>		<b>CEO</b>	<b>Mark O'Dea</b>
		<b>Currency</b>	<b>C\$ unless noted</b>

### Price Performance





- While we recently lowered our Project NAV multiple to reflect the ongoing uncertainty (to 0.7x from 1.0x NAV; refer to *Radar Screen* January 15, 2015), we also reviewed the potential impact to our NAV if there were an extended delay to the development schedule. This work suggested that True Gold's NAV would still be in-line with our target price even under a worst case scenario 12 month delay. This scenario analysis considered an increase of US\$10 M in capital costs as a result and a reduction in our assumed equity issue price. Under the 12 month delay scenario we note that the required additional funding would increase substantially (estimate \$15-20 M above base case assumption of \$30 M) due the more significant delay in revenue.

Figure 1: Valuation Sensitivity to Start-Up Delays

Project Summary	Current		6 Month Delay		12 Month Delay	
	\$M	\$/sh	\$M	\$/sh	\$M	\$/sh
Karma	\$250M	\$0.46	\$218M	\$0.40	\$200M	\$0.32
Liquid in-situ	\$35M	\$0.06	\$35M	\$0.06	\$35M	\$0.06
<b>Adjustments</b>						
Net Cash	\$115M	\$0.21	\$115M	\$0.21	\$115M	\$0.18
Other Adj.	(\$36M)	(\$0.07)	(\$36M)	(\$0.07)	(\$36M)	(\$0.06)
<b>Total NAV/sh</b>	<b>\$364M</b>	<b>\$0.67</b>	<b>\$332M</b>	<b>\$0.61</b>	<b>\$313M</b>	<b>\$0.50</b>

Source: Haywood Estimates

**Catalysts** | 1) Resolution of Local Uncertainty – H1/15; 2) Arrangement of Remainder of Financing – H2/15.

## Investment Thesis

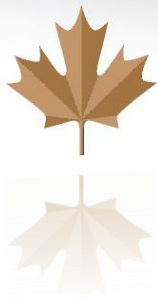
True Gold's flagship Karma project has evolved considerably in the past 18 to 24 months as a result of both exploration success and a fresh look at its development approach, which now proposes a heap leach operation that could be developed for limited capital costs and in a short construction period. Although the Company's focus over the past 3 to 4 years has been on the five deposits that form the initial mine plan, its recent work on the larger claims indicates the potential to add near-surface oxide ounces that are within trucking distance of the main Karma processing facility. True Gold will spend a minimum of \$5 million on exploration at Karma in 2015 with a goal of adding leachable resources within potential trucking distance to the Karma mine-plan footprint. Success in these areas could contribute positively to our valuation. While the project presents a compelling investment opportunity, we expect recent disturbance at the construction site could represent an overhang in the near term.

## Risks

### Significant Investment Risks

The investment to which this report relates carries various risks which are reflected in our Overall Risk Rating. We consider the following to be the most significant of these investment risks:

- Although members of True Gold's management team have experience operating and constructing mines globally, the Karma project has no formal operating history and will be a greenfield development project. As a company True Gold has not built or operated mines. While we view the exploration potential at True Gold's projects to be significant, the geological models are continuing to evolve and could be impacted by additional exploration and metallurgical drilling.



- Our valuation makes assumptions regarding the success and timing of permit applications. True Gold has received all of the required permits to move forward with initial construction. It will require permits for additional deposits such as North Kao, however we expect this to be a low risk process considering True Gold's history in navigating the permitting process in Burkina Faso.
- True Gold, like its exploration and development peers, has no cash flow and requires external funding to advance its projects. However, the Company's cash on hand, coupled with its recent financing agreement with Franco-Nevada and Sandstorm Gold is forecasted to provide adequate funding to meet the bulk of the estimated initial capital cost for Karma. While we consider minimal additional financings in our model (\$30 million), we highlight that weaker gold prices, delays in construction, or additional capital costs could drive the need for additional funding, which could impact our target price.
- There could be increased political risk in Burkina Faso in the near term as recent unrest resulted in the dissolution of government and appointment of an interim government ahead of proposed elections in late 2015. Recent local unrest and protestor actions at Karma have potentially negatively impacted the project's development schedule and capital costs. While we are optimistic a timely resolution can be reached, there could be continued unrest that impacts the project or concessions to appease local concerns that impact the project economics. We also highlight that beyond the issues at Karma specifically, there is risk of broader unrest leading up to the proposed Presidential elections in October 2015. Any resulting negative headlines or changes to the regime could impact the outlook for mining in Burkina Faso. Although mining has become a more well-developed industry in Burkina Faso in recent years, it remains in its infancy relative to more developed mining regions. Despite the government increasing royalty rates in recent years, there remains risks of further changes to the royalty or taxation regime that could negatively impact project economics.

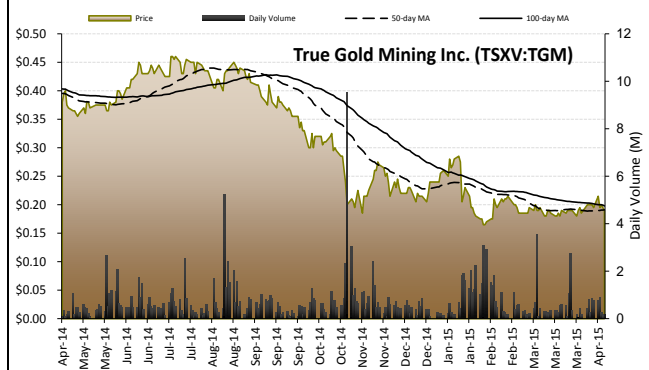
*Our Risk Profile Parameters ratings and Overall Risk Rating are set out on the cover page and are explained in our Rating Structure section under "Overall Risk Rating" and "Risk Profile Parameters". These ratings are an integral part of our Report.*



<div><div>CAPITAL MARKETS</div><div></div><div>HAYWOOD</div><div>SECURITIES INC.</div></div>	<b>True Gold Mining Inc.(TSXV:TGM,\$0.19)</b>		<b>Target Price (C\$)</b>	<b>\$0.55</b>	<b>Market Cap, C\$M</b>	<b>\$76</b>
	<b>Rating: Buy</b>		<b>Return (%)</b>	<b>189%</b>	<b>Company CEO</b>	
	<b>Risk: Very High</b>		<b>52 Week High/Low (C\$)</b>	<b>\$0.47/\$0.15</b>	Dwayne L. Melrose	
			<b>Daily Volume (3-month avg)</b>	<b>244,040</b>	<b>Company Website</b>	
			<a href="http://www.truegoldmining.com">www.truegoldmining.com</a>			

**CAPITAL STRUCTURE**

(As of March 2015)	Shares (Millions)	
Shares Outstanding	398.8	
Warrants	0.0	
Options	18.9	
Fully Diluted Shares	417.8	
<b>OWNERSHIP (Source: Bloomberg - March 2015)</b>		
	Shares (mln)	% O/S
Liberty Metals & Mining	77.5	19.4%
Teck Resources Ltd.	45.5	11.4%
M&G Investment Management	4.3	1.1%
Vanguard	14.3	3.6%
Mark O'Dea	10.6	2.7%

**HISTORICAL SHARE PERFORMANCE****FINANCIAL SUMMARY**

Year-end December 31	2013A	2014E	2015E	2016E	2017E
FD Shares, million	281.9	466.4	511.9	543.0	542.5
Adj. FDEPS	(0.10)	(0.04)	(0.02)	0.13	0.03
CFOPPS (FD)	(0.10)	(0.05)	(0.02)	0.13	0.03

**Income Statement (C\$million)**

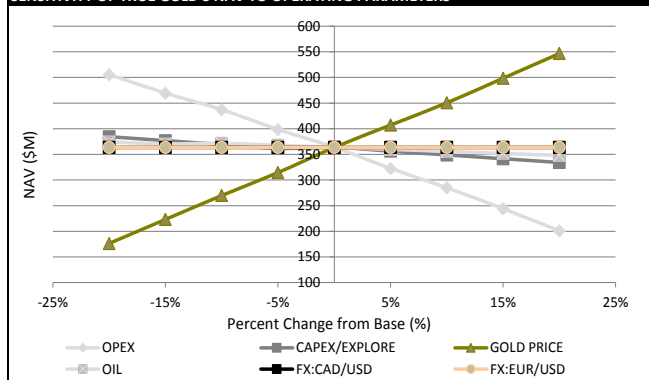
Revenue	0.0	0.0	0.0	176.6	122.0
Cost of Goods Sold	0.0	0.0	0.0	(84.6)	(84.3)
Depreciation	0.0	0.0	0.0	(10.4)	(7.8)
General & Admin	(9.4)	(9.1)	(9.5)	(9.6)	(9.7)
Net Income	(29.3)	(17.1)	(9.5)	71.9	13.8

**Balance Sheet (C\$million)**

Cash & Equivalents	3.0	54.8	7.1	75.4	85.7
Debt	0.0	0.0	0.0	0.0	0.0

**Cash Flow (C\$million)**

Op. CF (before W/C)	(28.9)	(21.3)	(8.5)	73.0	15.0
Financing CF	27.9	100.9	78.9	0.0	0.0
Investing CF	(11.6)	(27.1)	(118.1)	(4.7)	(4.7)
Change in Cash	(12.1)	51.9	(47.8)	68.3	10.3

**SENSITIVITY OF TRUE GOLD'S NAV TO OPERATING PARAMETERS****TECHNICAL ASSUMPTIONS**

	2014E	2015E	2016E	2017E	2018E
Gold (US\$/oz)	\$1,266	\$1,250	\$1,250	\$1,250	\$1,250
Silver (US\$/oz)	\$19.07	\$18.00	\$18.00	\$18.00	\$18.00
Exchange Rate (Cdn\$/US\$)	1.10	1.17	1.17	1.12	1.08
Exchange Rate (EUR\$/US\$)	0.75	0.85	0.87	0.82	0.78

**PRODUCTION ESTIMATES**

	2014E	2015E	2016E	2017E	2018E
Production (Koz Au)*	0	0	135	104	91
Average Cash Costs (US\$/oz sold)	\$0	\$0	\$601	\$866	\$892
Capex Spending*	\$39	\$101	\$4	\$4	\$4

\*Based on 100% Basis

**RESERVES & RESOURCES**

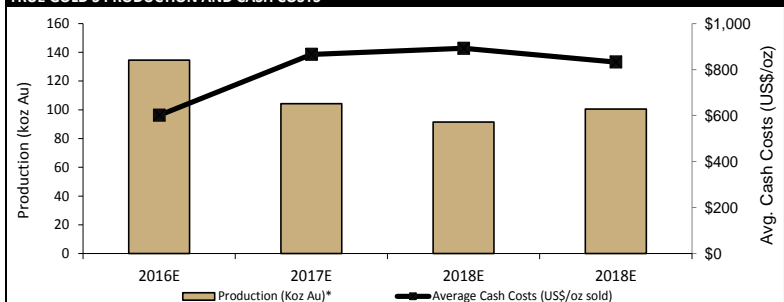
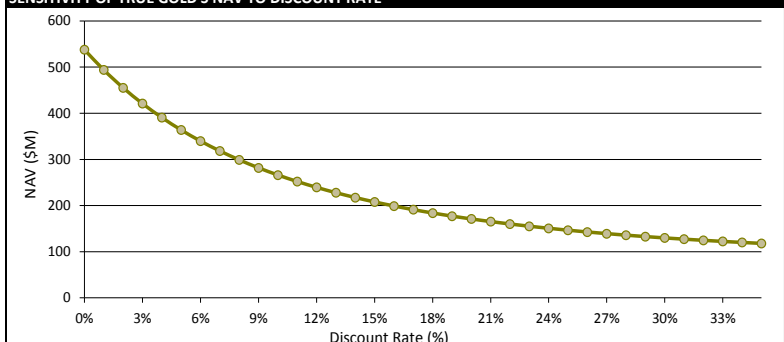
	Tonnes (000)	Grade (g/t Au)	Gold (000 oz)	Mine Life (years)
Karma (90% Owned, Open-Pit, in-pit resources only)				
Company Reported P&P Reserves	33,200	0.89	949	10
Company Reported M&I Resources	32,331	0.92	961	9
Company Reported Inferred Resources	22,699	0.78	571	7
<b>Total</b>	<b>55,030</b>	<b>0.87</b>	<b>1,532</b>	<b>16</b>
Haywood Total Mineable Resources	64,935	0.85	1,775	17

**NET ASSET VALUATION**

Operations	US\$m	Per Sh. (C\$)	Multiple	Adjusted Per Sh. (C\$)
Karma	\$214	\$0.46	0.70x	\$0.32
Liquid in-situ	\$30	\$0.06	1.00x	\$0.06
Net Cash	\$98	\$0.21		\$0.21
Other Adjustments (Wrnts, Optns, Corp.)	(\$31)	(\$0.07)		(\$0.07)
<b>Net Asset Value</b>	<b>\$311</b>	<b>\$0.67</b>		<b>\$0.53</b>

**COMPARABLES\***

Company	Ticker	Share Cdn\$	EV US\$m	Resources Moz	EV/oz US\$	P/NAV
Amara Mining PLC	AIM:AMA	C\$ 0.28	\$99	10.3	\$10	0.20x
Asanko Gold Inc.	TSX:AKG	C\$ 1.86	\$148	10.0	\$15	0.43x
Gryphon Minerals Ltd.	ASX:GRY	C\$ 0.06	\$2	3.7	\$1	0.20x
Orezone Gold Corporation	TSX:ORE	C\$ 0.46	\$34	5.2	\$7	0.43x
Midway Gold Corp.	TSX:MDW	C\$ 0.45	\$87	5.0	\$17	0.38x
<b>Selected Company Average</b>				<b>6.8</b>	<b>\$10</b>	<b>0.33x</b>
True Gold Mining Inc.	TSXV:TGM	C\$ 0.19	\$5	4.5	\$1	0.24x

**TRUE GOLD'S PRODUCTION AND CASH COSTS****SENSITIVITY OF TRUE GOLD'S NAV TO DISCOUNT RATE**

\*Comparables are based on Haywood estimates for companies under coverage, remainder of comparables are based on Capital IQ consensus estimates

Source: True Gold Mining, Capital IQ, Bloomberg, and Haywood Estimates



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- Haywood Securities, Inc. has reviewed lead projects of Asanko Gold Inc. (AKG-T), Orezone Resources Inc. (ORE-T), True Gold Mining Inc. (TGM-V), and Midway Gold Corp. (MDW-V) and a portion of the expenses for this travel have been reimbursed by the issuer.
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Other material conflict of interest of the research analyst of which the research analyst or Haywood Securities Inc. knows or has reason to know at the time of publication or at the time of public appearance:

- n/a

## Rating Structure

Each company within an analyst's universe, or group of companies covered, is assigned: (i) a recommendation or rating, usually BUY, HOLD, or SELL; (ii) a 12 month target price, which represents an analyst's current assessment of a company's potential stock price over the next year; (iii) an overall risk rating which represents an analyst's assessment of the company's overall investment risk; and (iv) specific risk ratings or risk profile parameters which in their aggregate support an analyst's overall risk rating. These ratings are more fully explained below. Before acting on our recommendation we caution you to confer with your Haywood investment advisor to determine the suitability of our recommendation for your specific investment objectives, risk tolerance and investment time horizon.

## Recommendation Rating

**BUY** – The analyst believes that the security will outperform other companies in their sector on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) BUY rating.

**HOLD** – The analyst believes that the security is expected to perform in line with other companies in their sector on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) HOLD rating.

**SELL** – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in is expected to underperform other companies on a risk adjusted basis or for the reasons stated in the research report the analyst believes that the security is deserving of a (continued) SELL rating.

**TENDER** – The analyst is recommending that investors tender to a specific offering for the company's stock.

**RESEARCH COMMENT** – An analyst comment about an issuer event that does not include a rating or recommendation.

**UNDER REVIEW** – Placing a stock Under Review does not revise the current rating or recommendation of the analyst. A stock will be placed Under Review when the relevant company has a significant material event with further information pending or to be announced. An analyst will place a stock Under Review while he/she awaits sufficient information to re-evaluate the company's financial situation.

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## Overall Risk Rating

**Very High Risk:** Venture type companies or more established micro, small, mid or large cap companies whose risk profile parameters and/or lack of liquidity warrant such a designation. These companies are only appropriate for investors who have a very high tolerance for risk and volatility and who are capable of incurring temporary or permanent loss of a very significant portion of their investment capital.

**High Risk:** Typically micro or small cap companies which have an above average investment risk relative to more established or mid to large cap companies. These companies will generally not form part of the broad senior stock market indices and often



will have less liquidity than more established mid and large cap companies. These companies are only appropriate for investors who have a high tolerance for risk and volatility and who are capable of incurring a temporary or permanent loss of a significant loss of their investment capital.

**Medium-High Risk:** Typically mid to large cap companies that have a medium to high investment risk. These companies will often form part of the broader senior stock market indices or sector specific indices. These companies are only appropriate for investors who have a medium to high tolerance for risk and volatility and who are prepared to accept general stock market risk including the risk of a temporary or permanent loss of some of their investment capital

**Moderate Risk:** Large to very large cap companies with established earnings who have a track record of lower volatility when compared against the broad senior stock market indices. These companies are only appropriate for investors who have a medium tolerance for risk and volatility and who are prepared to accept general stock market risk including the risk of a temporary or permanent loss of some of their investment capital.

## Risk Profile Parameters – Mining and Minerals Sector

**Forecast Risk: High (7-10)** – The Company's primary project(s) is at an earlier stage of exploration and/or resource delineation whereby grades, tonnages, capital and operating costs, and other economic/operational parameters are not yet reliably established. **Moderate (4-6)** – The Company has taken steps to de-risk its primary producing, or soon to be producing project(s) and has established reasonably reliable operational and economic parameters. **Low (1-3)** – The Company has de-risked the majority of its primary project(s) through operational history and established production profile(s).

**Financial Risk: High (7-10)** – The Company's near- and medium-term (capital) expenditure considerations, including the current year or next forecast year, are not fully funded through a combination of established debt facilities, cash on hand, and/or anticipated cash flow from existing operations—successful project execution depends, in part, on future (equity) financing(s). Existing and/or forecast levels of leverage are above average relative to the Company's peer group. The risk of a significant capital cost overrun(s) is high given the early stage of project development. **Moderate (4-6)** – The Company's near-term (capital) expenditure program, in the current year or next forecast year, is fully funded through a combination of established debt facilities, cash on hand, and/or anticipated cash flow from existing operations. Medium-term funding requirements will likely require additional financing consideration, but should be achievable assuming no significant uncontrollable events impede access to capital. Existing and/or forecast levels of leverage are in-line with the Company's peer group. The risk of a significant capital cost overrun(s) is moderate given the advanced stage of project development. **Low (1-3)** – the Company's near- and medium-term (capital) expenditure program is fully funded through a combination of established debt facilities, cash on hand, and/or anticipated cash flow from existing operations. Existing and/or forecast levels of leverage are below average relative to the Company's peer group.

**Valuation Risk: High (7-10)** – The current valuation is at a premium to peers. The valuation reflects considerable future exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the “DCF” evaluation by more than 50%. **Moderate (4-6)** – The current valuation is within historic ranges and generally consistent with peers. The valuation reflects reasonable exploration success and/or commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by 15% to 50%. **Low (1-3)** – The current valuation is at the low end of historic ranges and at a discount to peer valuations. The valuation reflects limited new exploration success and no commodity appreciation. Where applicable, the current capitalization exceeds the DCF valuation by less than 15% or falls below the current market value.

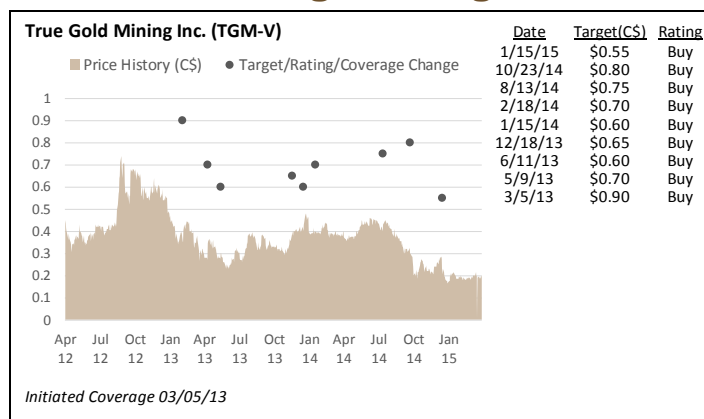
**Political Risk: High (7-10)** –Obtaining permits is challenging. Properties are located in an area(s) with high geo-political uncertainty, limited access, and/or have significant new infrastructure requirements. **Moderate (4-6)** – Properties are located in an area(s) with moderate geo-political risk, reasonable or manageable access, and some established infrastructure. **Low (1-3)** – Properties are located in areas with a manageable geo-political risk profile and established access/infrastructure.



## Distribution of Ratings (as of April 29, 2015)

	Distribution of Ratings		IB Clients (TTM)
	%	#	
Buy	64.0%	71	95.2%
Hold	11.7%	13	4.8%
Sell	1.8%	2	0.0%
Tender	0.0%	0	0.0%
UR (Buy)	0.0%	0	0.0%
UR (Hold)	0.0%	0	0.0%
UR (Sell)	0.0%	0	0.0%
dropped (TTM)	22.5%	25	0.0%

## Price Chart, Rating and Target Price History (as of April 29, 2015)



B: Buy; H: Hold; S: Sell; T: Tender; UR: Under Review  
Source: Capital IQ and Haywood Securities