

Sonoro Gold Corp. (TSXV: SGO) – Aggressive Drilling at Cerro Caliche Sets Stage for Resource Expansion and Advancement of Mining Operations



Investment Highlights

- Sonoro Corp. (TSX-V: SGO)** (“CYP”, or “Company”) has seen its share price suffer moderately since our initiating report, despite extensive drilling and strong assay results in the interim. We believe that this creates an opportunity for investors to shore up their positions at a lower level, before a summer of potentially valuation altering catalysts.
- Extensive Drilling and Strong Assay Results:** The company announced multiple highlight assay results on 2020 drilling, which was then followed by 34,000 meters of RC drilling in 2021. SGO intercepted almost 75 meters of mineralized material (averaging 0.605 g/t Au) in one of its recent holes, one of many strong results from recent drilling.
- Advancing Heap Leach Mining Operation (“HLMO”) Initiatives:** SGO has conducted initial metallurgical testing on Cerro Caliche’s mineralization, with the aim of determining heap leach characteristics and developing process flow sheet. This comes as SGO is set to scale up the projected HLMO from 8,000 tpd to 15,000-20,000 tpd, following a resource update and Preliminary Economic Assessment (“PEA”) on the project.
- Successful Recent Financing:** SGO recently closed an over-subscribed private placement, raising a little over \$3 million in proceeds. These funds are expected to last through summer.
- Based on our analysis and valuation models, we are maintaining our BUY rating and updating our fair value per share estimate to \$0.26 per share, from \$0.33 per share.**

Current Price (C\$):	\$	0.18
Fair Value (C\$):	\$	0.26
Projected Upside:		45.32%
Action Rating:		BUY
Perceived Risk:		VERY HIGH

Shares Outstanding:		102,360,871
Market Capitalization (C\$):	\$	18,424,957
P/E		-
P/B		2.72
YoY Return		54.17%
YoY TSXV Return		101.75%

*Note all \$ amount are C\$ unless otherwise stated.

Key Financial Data (FYE - Dec 31)

(C\$)		2019		Q3-2020
Cash	\$	1,074,652	\$	4,529,701
Working Capital	\$	(577,432)	\$	3,877,561
Mineral Assets	\$	1,432,095	\$	2,318,136
Total Assets	\$	2,762,229	\$	7,424,872
Net Income (Loss) for the 9M	\$	(2,636,896)	\$	(3,927,629)
EPS (9M)	\$	(0.08)	\$	(0.08)

April 23rd, 2021

SGO remains squarely focused on the advancement of its operating strategy, which as we outlined in our initial report, includes the development and fast tracking of an HLMO at its Cerro Caliche Gold Project. The development of the HLMO has become significantly more exciting as a strategic objective due to the fact that SGO is now looking to expand its projected HLMO scale from an 8,000 tpd operation to a 15,000-20,000 tpd operation. This is expected to have the impact of increasing the scale of future cash flow generation, which should reflect positively on SGO's pipeline of catalysts. In order to advance the planned HLMO at Cerro Caliche, SGO will need to complete multiple milestones, including:

- Metallurgical testing.
- Environmental permitting.
- A suitably favourable Preliminary Economic Assessment ("PEA").
- Securing adequate project financing.

SGO has since undertaken multiple initiatives to advance Cerro Caliche, including extensive drilling aimed at captive resource expansion. The drilling has yielded multiple benefits for SGO, including strong assay results at key target zones, mineralized footprint expansion, and the discovery of new gold prospective areas at the Cerro Caliche Project. We believe that recent activities point to a ramp up in Cerro Caliche's development, which should ultimately culminate in the filing of a PEA for the project. This would signal a major catalyst event for SGO, which we believe should drive value given the advancement of Cerro Caliche from the exploration stage to the early development stage. Despite recent assay results and the prospect of major catalysts in the near-term, SGO's share price has languished since initiation of our coverage. We believe this points to SGO being underappreciated by the market, which implies substantial opportunities for investors should the trend reverse.

Drilling Updates & Target Zone Expansions

As part of its strategy to advance the Cerro Caliche HLMO and expand resources, SGO has been undertaking aggressive drilling at the project. Key assay results from 2020 drilling reported by SGO includes (with dates of announcement):

- Hole SCR-104 intercepting 15.24 meters of 1.278 g/t Au and hole SCR-106 returning 16.76 meters averaging 0.853 g/t Au, at the Japoneses Target Zone (November 4, 2020).
- Hole SCR-096 returning 16.76 meters averaging 0.841 g/t Au and hole SCR-097 intercepting 12.19 meters returning 0.508 g/t Au, at Buena Suerte (November 4, 2020).
- At Buena Suerte, hole SCR-109 intercepted 45.72 meters of 0.97 g/t Au, including 15.24 meters of 2.1 g/t Au. SCR-124 intercepted 6.09 meters of 3.99 g/t Au, including 3.04 meters averaging 7.8 g/t Au. SCR-127 intercepted 10.67 meters returning 0.96 g/t Au, including 1.52 meters averaging 2.81 g/t Au (November 24, 2020).
- Buena Vista's SCR-110 hit 12.19 meters averaging 0.94 g/t Au, including 6.1 meters averaging 1.47 g/t Au. Another hole at the target zone, SCR-112, hit 27.43 meters returning 0.48 g/t Au. SCR-118 hit 19.81 meters returning 0.57 g/t Au, including 1.53 meters of 2.34 g/t Au (November 24, 2020).

- SCR-111 at El Boludito intercepted 1.52 meters returning 2.26 g/t Au (November 24, 2020).
- SCR-122 at Cuervo intercepted 3.05 meters returning 1.12 g/t Au (November 24, 2020).
- SCD-020 at El Rincon intercepted 20.95 meters returning 0.5 g/t Au, and SCD-021 intercepted 21 meters averaging 0.88 g/t Au, including 2.9 meters returning 3.86 g/t Au (December 8, 2020).
- At Veta de Oro, SCD-011 intercepted 1.1 meters averaging 1.06 g/t Au, whilst SCD-015 intercepted 16.25 meters returning 0.67 g/t Au, including 3 meters averaging g/t 2.09 Au (December 8, 2020).
- SCR-135 at Japoneses intercepted 21.33 meters returning 0.58 g/t Au, and SCR-136 intercepted 24.38 meters averaging 0.748 g/t Au, including 2134 meters returning 0.81 g/t Au and 6.1 meters averaging 2.02 g/t Au (December 8, 2020).
- At Buena Suerte, SCR-141 intercepted 3.05 meters averaging 1.479 g/t Au, including 1.52 meters returning 2.591 g/t Au. SCR-142 intercepted 7.62 meters returning 1.322 g/t Au and 12.19 meters averaging 0.965 g/t Au. SCR-143 hit 12.19 meters averaging 0.687 g/t Au, including 1.52 meters averaging 1.741 g/t Au. SCR-148 intercepted 27.44 meters averaging 1.170 g/t Au, including 3.05 meters averaging 4.696 g/t Au. SCR-149 intercepted 12.19 meters returning 0.498 g/t Au from a depth of 4.57 meters (January 5, 2021).
- At El Colorado, SCR-044 intercepted 12.19 meters returning 11.22 g/t Au, including 6.09 meters returning 21.58 g/t Au. SCD-008 intercepted 11.7 meters averaging 0.92 g/t Au, including 4.55 meters averaging 1.84 g/t Au. SCD-026 hit 8.4 meters averaging 0.718 g/t Au. SCD-027 hit 7.2 meters returning 0.601 g/t Au. SCD-028 intercepted 6 meters averaging 0.885 g/t Au (January 19, 2021).
- At Cabeza Blanca, SCD-030 intercepted 12.19 meters averaging 0.719 g/t Au. SCD-031 intercepted 15 meters averaging 0.503 g/t Au (January 19, 2021).

Apart from impressive assay results, the 2020 drilling campaign had notable impacts on key project parameters, which included the expansion of mineralized target areas. In the wake of its 2020 drill program, SGO has commenced a new RC drilling program, which it expects to cover 50 RC holes.

2021 Drilling Campaign: Key Assay Highlights

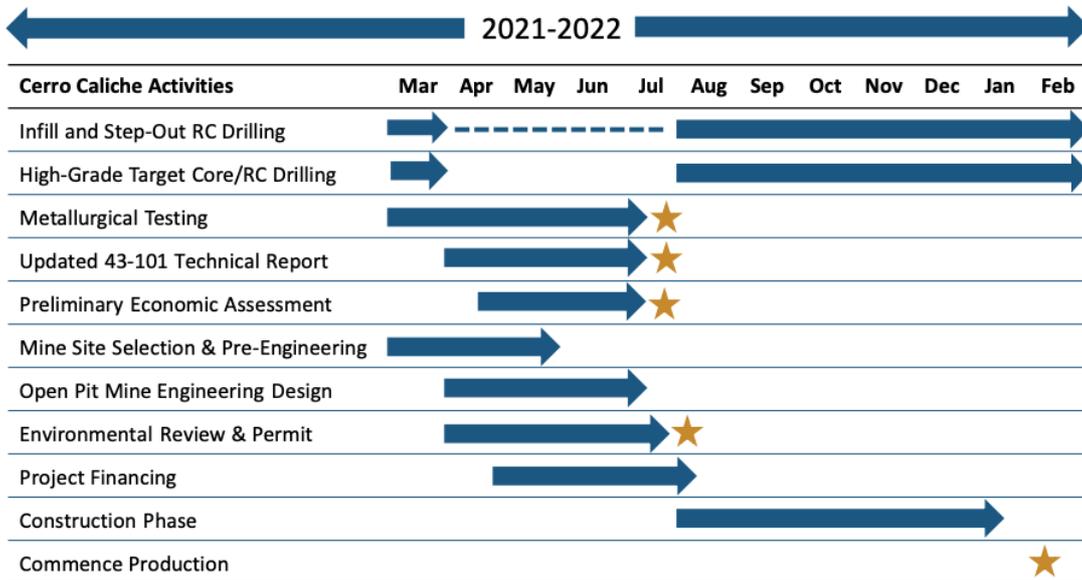
Drill Hole	Target Zone	Interval (Meters)	Depth (Meters)	Grade (Au g/t)
SCR-159	Buena Suerte	7.62	19.81	3.088
	<i>Including:</i>	3.05	19.81	6.839
SCR-158	Buena Suerte	6.1	53.34	0.731
	<i>Including:</i>	3.05	56.39	1.354
SCR-160	Buena Suerte	4.57	0	0.754
	<i>Including:</i>	1.53	1.52	1.769
SCR-167	Buena Suerte	3.05	65.53	0.787
	<i>Including:</i>	3.05	103.63	2.325
SCD-043	El Bellotoso	3	13.9	1.454
SCD-039	El Bellotoso	2.2	14.1	1.661
	<i>Including:</i>	1.2	15.1	2.8
SCD-037	El Bellotoso	4.05	39.2	0.333
	<i>Including:</i>	2	96	1.384
	<i>Including:</i>	1	96	2.601
SCR-186	Buena Suerte	24.39	73.15	1.206
	<i>Including:</i>	13.72	73.15	1.853
SCR-187	Buena Suerte	9.14	94.49	0.522
SCR-191	Buena Suerte	3.04	36.58	0.409
	<i>Including:</i>	16.77	50.29	0.451
SCR-194	Buena Suerte	9.14	64.01	0.466
SCD-044	El Bellotoso	1	24	2.325
	<i>Including:</i>	1.35	56.25	2.913
SCD-046	El Bellotoso	1.55	75.45	4.241
SCR-201	Buena Suerte	9.14	71.63	0.74
	<i>Including:</i>	1.52	74.68	2.096
SCR-203	Buena Suerte	6.09	82.3	0.712
	<i>Including:</i>	1.53	85.34	2.04
SCR-205	Buena Suerte	9.14	74.68	0.593
	<i>Including:</i>	1.53	80.77	1.528
SCR-207	Buena Suerte	3.05	57.91	0.621
	<i>Including:</i>	1.52	120.4	1.292
SCR-209	Buena Suerte	4.57	57.91	0.77
	<i>Including:</i>	1.53	57.91	1.786
SCR-211	Buena Suerte	3.05	42.67	4.766
SCR-219	Buena Suerte	16.76	64.01	1.427
	<i>Including:</i>	1.52	67.06	6.475

SCR-204	Japoneses	10.67	10.67	1.355
	<i>Including:</i>	1.53	12.19	6.329
SCR-214	Japoneses	18.29	3.05	0.577
	<i>Including:</i>	1.52	10.67	1.972
SCR-215	Japoneses	12.2	1.52	0.517
SCR-218	Japoneses	22.86	7.62	0.505
	<i>Including:</i>	1.52	7.62	1.952
SCR-220	Japoneses	22.86	35.05	0.534
	<i>Including:</i>	1.53	50.29	1.843
SCR-223	Buena Suerte	74.67	41.15	0.605
	<i>Including:</i>	1.52	79.25	1.536
	<i>Including:</i>	1.52	82.3	3.677
	<i>Including:</i>	1.52	94.49	2.305
SCR-222	Buena Vista	15.24	39.62	2.039
	<i>Including:</i>	6.1	45.72	3.15
SCR-227	Japoneses	3.05	16.76	1.743
	<i>Including:</i>	1.53	16.76	2.538
SCR-225	El Colorado	7.62	131.06	1.164
	<i>Including:</i>	3.05	132.59	2.314

Source: Company, Couloir Capital

To date, SGO has completed 34,000 meters of drilling, bringing the most recent phase of drilling to an end whilst the company finishes an equity raise to shore up funding for further exploration. Off the back of the most recent drilling, SGO has now covered a substantial meterage count that we believe is likely to go directly towards mineral resource update initiatives. Based on a roll-out schedule (projected) provided by SGO, we expect to see a resource update and subsequent PEA filed sometime in the summer of 2021, which offers investors a major development catalyst and signals further evolution of the Cerro Caliche Project. With expectations of a HLMO up and running within Q1-2022, we expect to see an intensification of catalytic news flow coming out of the company, with the materiality of the news likely to increase the closer SGO gets to cash flowing production.

Cerro Caliche Projected Timeline

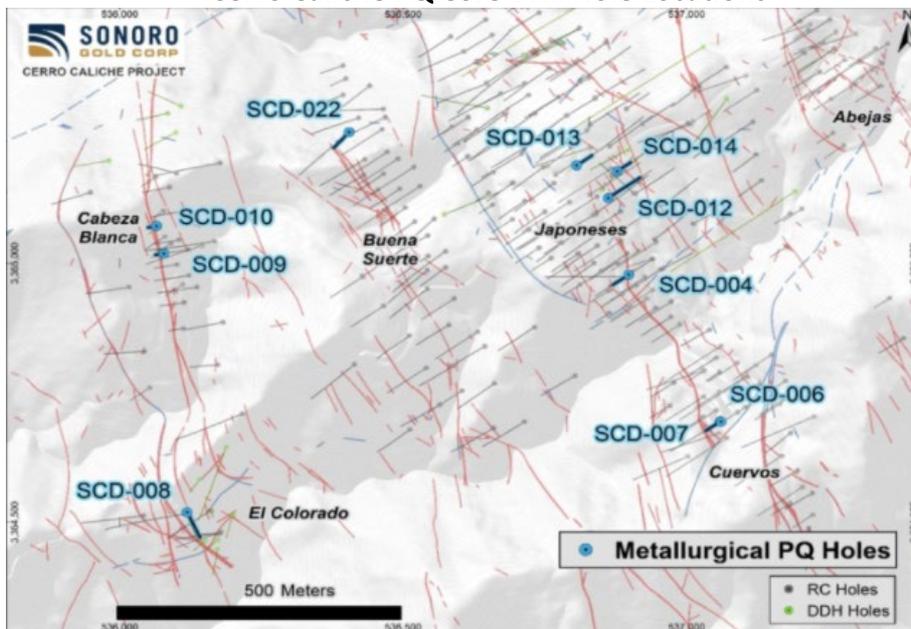


Source: Company

Metallurgical Testing and Strong Gold Recoveries

In November 2020, the company announced that it had begun initial metallurgical testing of Cerro Caliche’s gold mineralization, sending over 5,500 kg of mineralized material from drill cores for testing by an independent lab. The locations of the drill holes from which material was extracted and sent to the independent lab are shown in the below map. Material reflected depths of between 25 and 140 meters, in order to cover a variation of material profiles. The metallurgical testing was focused on determining the heap leach characteristics of the oxide from Cerro Caliche, with a prime focus on the potential recoveries possible from near-surface and from-depth ore, as well as process flow sheet development.

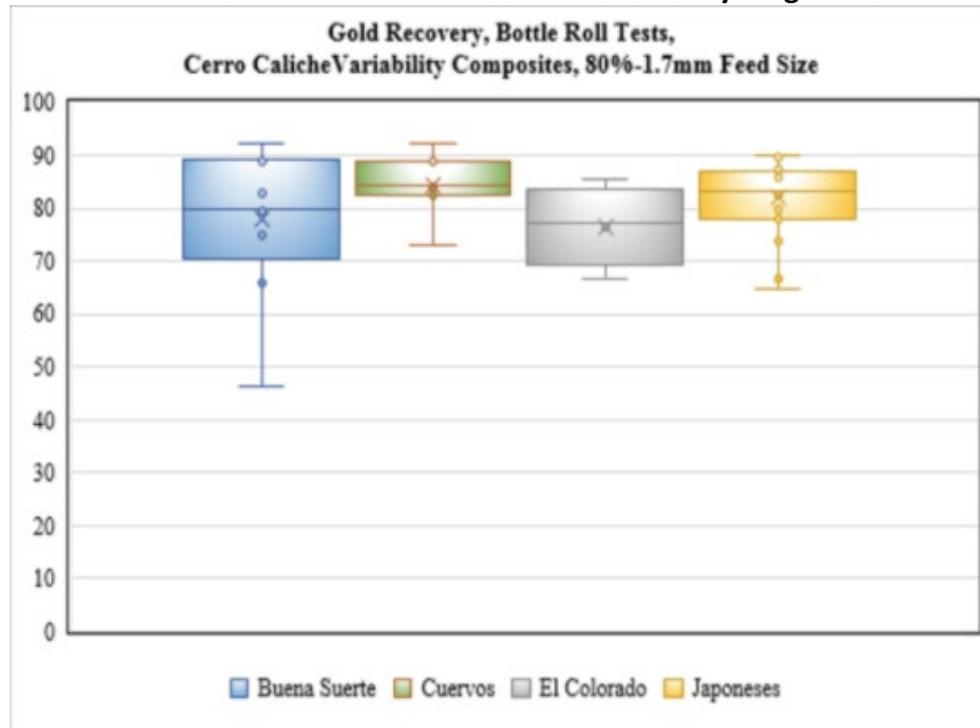
Cerro Caliche PQ Core Drill Hole Locations



Source: Company

Initial bottle roll test results were announced in March 2021, with gold recoveries of 80.3% as an average across material from four key target zones at Cerro Caliche: Japoneses, Cuervos, El Colorado and Buena Suerte. Sodium cyanide consumption averaged 0.20 kg per tonne and lime addition averaged 2.1 kg per tonne for the bottle roll tests at varying feed grades. Based on the fast leaching profile for Cerro Caliche's gold mineralization, and the initial reagent consumption results, SGO maintains their belief that Cerro Caliche could support a HLMO. Interestingly, the 80.3% gold recoveries are significantly above the 72% recovery rate projected in the project's most recent NI 43-101 Technical Report.

Bottle Roll Test Results: Gold Recoveries by Target Area



Source: Company

SGO Completes Over-Subscribed Equity Financing

On April 20, 2021, SGO announced that it had successfully closed an oversubscribed private placement, raising total gross proceeds of \$3.11 million. The issue had originally been set for a \$2 million raise, but was increased twice to account for strong investor demand. SGO issued a total of 17.28 million units at \$0.18 per unit, with each unit comprising of one common share of the company and one warrant exercisable at \$0.30 per share for a two year period from the close date. Directors and officers of SGO participated in the offering as well, subscribing for 2.45 million units in what we consider a show of confidence. Based on commentary from the company, it is believed that the net proceeds from the private placement are likely sufficient to carry the company through to the summer, supporting both the resource update and PEA that are expected around then. This is likely to signal to the market that further dilution is improbable until the next batch of major catalysts are rolled out, which could potentially drive prices ahead of further capital raises closer to the HLMO build-out.

Financials Overview

At the end of Q3-2020, the company had cash and working capital of \$4.53 million and \$3.88 million, respectively. The company's current ratio of 6.89x implies the ability of current assets to sufficiently cover current liabilities, implying a sufficient liquidity position at the end of September 2020. Furthermore, post-financing, we expect that the liquidity position is likely to have strengthened. Monthly cash burn (negative free cash flow) for the first nine months of 2020 was \$0.52 million, higher than the comparative period in 2019, which we attribute to increased exploration activity YoY. The company has a small debt position. The following table summarizes the company's liquidity position:

Key Financial Data (FYE - Dec 31)			
(C\$)		2019	Q3-2020
Cash	\$	1,074,652	\$ 4,529,701
Working Capital	\$	(577,432)	\$ 3,877,561
Current Ratio		0.65	6.89
Debt	\$	296,605	\$ 60,155
Monthly Cash Burn (9M)	\$	(245,999)	\$ (516,034)
Cash from Financing Activities (9M)	\$	1,513,947	\$ 8,099,357

Source: Company, Couloir Capital

The following table outlines the company's outstanding options and warrants.

Options	Strike	Exercise Value
200,000	\$ 0.15	\$ 30,000
200,000	\$ 0.16	\$ 32,000
2,140,000	\$ 0.15	\$ 321,000
4,125,000	\$ 0.30	\$ 1,237,500
550,000	\$ 0.30	\$ 165,000
535,000	\$ 0.30	\$ 160,500
Warrants	Strike	Exercise Value
17,461,230	\$ 0.30	\$ 5,238,369
38,736,597	\$ 0.30	\$ 11,620,979

Source: Company, Couloir Capital

The company currently has 7,750,000 options (weighted average exercise price of \$0.25 per share), and 56,197,827 warrants (weighted average exercise price of \$0.30 per share) outstanding. At this time, 2,540,000 options and zero warrants are in-the-money.

Revenue and EPS Forecasts

At current, SGO is at the advanced exploration stage and has not completed a PEA nor has it completed advanced engineering or project financing. As a result, we will not be providing near-term revenue and EPS forecasts.

Net Asset Valuation Model

As the company has yet to achieve the PEA milestone, which typically provides the initial projections around potential production scheduling and forecasted cost structure, we will be unable to provide valuation based on a NAV model.

Comparables Valuation

As our sole source of valuation, we consider SGO's relative valuation against other gold mining companies that we believe to be comparable. The following table outlines the relative valuation metrics of gold miners that are comparable to SGO based on development stage, asset profile, or a similar aspect. Note that the table has been updated since our initial report to reflect a change in the peer group.

Company	Location	M&I Resources (Oz)	Inferred Resource (Oz)	Net Au Oz	Enterprise Value (C\$)	EV/ Net Resource (\$/Oz)
Sonoro Gold Corp.	Mexico		201,000	100,500	\$ 15,490,824	\$ 154.14
Oria Mining Ltd.	Mexico, Panama	10,158,850	1,709,280	11,013,490	\$ 1,164,668,293	\$ 105.75
Minera Alamos Inc.	Mexico	309,800	638,600	629,100	\$ 275,047,017	\$ 437.21
Golden Minerals Co.	Mexico, Argentina, U.S.	996,400	593,600	1,293,200	\$ 127,598,867	\$ 98.67
Prime Mining Corp.	Mexico	832,248	260,972	962,734	\$ 271,405,313	\$ 281.91
Mexican Gold Mining Corp.	Mexico	645,000	217,000	753,500	\$ 12,121,576	\$ 16.09
TriStar Gold Inc.	Brazil	700,000	1,300,000	1,350,000	\$ 49,553,353	\$ 36.71
Azucar Minerals Ltd.	Mexico	1,175,000	1,354,000	1,852,000	\$ 4,401,704	\$ 2.38
AbraSilver Resource Corp.	Argentina, Chile	1,703,280	49,280	1,727,920	\$ 211,958,854	\$ 122.67
Patagonia Gold Corp.	Argentina	1,813,300	776,400	2,201,500	\$ 67,850,885	\$ 30.82
Average					\$	128.63

Source: Couloir Capital, Public Disclosures

Based on the above metrics, we believe SGO should be trading at a valuation of \$26.85 million or \$0.26 per share on an EV/ net resource basis. This is after adding a premium to the peer valuation metric to reflect our belief of near-term ounces expansion and the associated upside potential. Our previous valuation on the company was \$0.33 per share, and the movement in our fair value estimate is largely due to changes in peer valuation metrics as well as the change in the company's share count. Note that we have come to the valuation by converting the implied EV to equity via the addition of cash and removal of debt. We believe investors should note that SGO's net resource is subject to major potential change in the near-term, which could result in a valuation change in a fairly short period (depending on the direction of the change in net resource).

Conclusion

After accounting for our valuation methodologies, we are updating our fair value per share estimate of \$0.33 per share to \$0.26 per share. We are maintaining our BUY rating on SGO, and expect the following catalysts to materially impact our valuation estimate:

- News regarding drilling results from the most recent drilling at Cerro Caliche.
- News regarding work on the resource update and PEA planned for Cerro Caliche.
- Any news suggesting a delay in the projected development timeline disclosed by the company.

- Financing-related news that in any way significantly alters the company's capital structure.

Risks

The following outlines some of the key risk considerations that investors should keep in mind when evaluating SGO as an investment opportunity:

- **Poor Drilling and Exploration Results:** Results from historical exploration work and more recent work done by SGO has thus far yielded positive results pointing to promising mineralization at the Cerro Caliche Property. As SGO ventures into additional drilling work aimed at improving its understanding of the Cerro Caliche Property and its resource profile, poor results may imply a deterioration of the property's mineral potential, making it less valuable as a mining asset. However, we note that a number of the open pit heap leach operations in Sonoro exhibit low gold grades, making the potential for viability at low gold-grade possible.
- **Delays in Achieving Key Development Milestones:** Given that SGO has forecasted the potential completion of a Preliminary Economic Assessment in summer 2021, failure to deliver on this could signal a delay in asset development and push back of forecasted cash flows from the planned HLMO. We believe this could significantly impact SGO's equity value, which we believe in part reflects expectation around the HLMO.
- **Small Existing Resource:** The current 201,000 Au Eq. Oz resource, though not insignificant, is fairly small and will impact market perception and valuation of SGO. Upcoming resource expansion initiatives will be critical to improving SGO's upside and valuation growth, as we believe SGO's equity value is in large part driven by the value of its underlying mining assets.
- **Uncertainty Around Permitting:** Given the scale of SGO's planned drilling, the risk exposure to permitting delays and other such licensing issues becomes more material. Whilst it does not appear to be an issue at this point in time, we do note that may change moving forward and the current Mexican administration is not overly promising. As a result, regulatory changes could pose a material threat to SGO.
- **Market Price Exposure and Impact on Execution Risk:** Sunk capital is relatively low at the exploration stage relative to further along the development cycle. However, on the flipside, SGO's exploration and development activities will be particularly sensitive to market pricing during the current stage given its likely reliance on markets for future funding needs. However, as SGO moves into a project financing deal to facilitate a potentially free cash flowing HLMO, exposure to market pricing (at least on the financing risk side) should decline.
- **Capital Structure Deterioration Related to Ongoing Cash Burn:** There is the potential that the company's cash burn could sap liquidity to the point of the company needing to raise capital. Assuming no cash flows, there is a chance that SGO would do so via equity issuance. Depending on the price of the issuance, such issuance could be dilutive to existing shareholders.

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- 2. A 12-month target price, which represents an analyst's current assessment of a company's potential stock price over the next year; and*
- 3. An overall risk rating which represents an analyst's assessment of the company's overall investment risk.*

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