Resource Maven
Independent Analysis of the Resource Markets

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Catching Up With…Troilus Gold (TSX: TLG, USOTC: CHXMF)

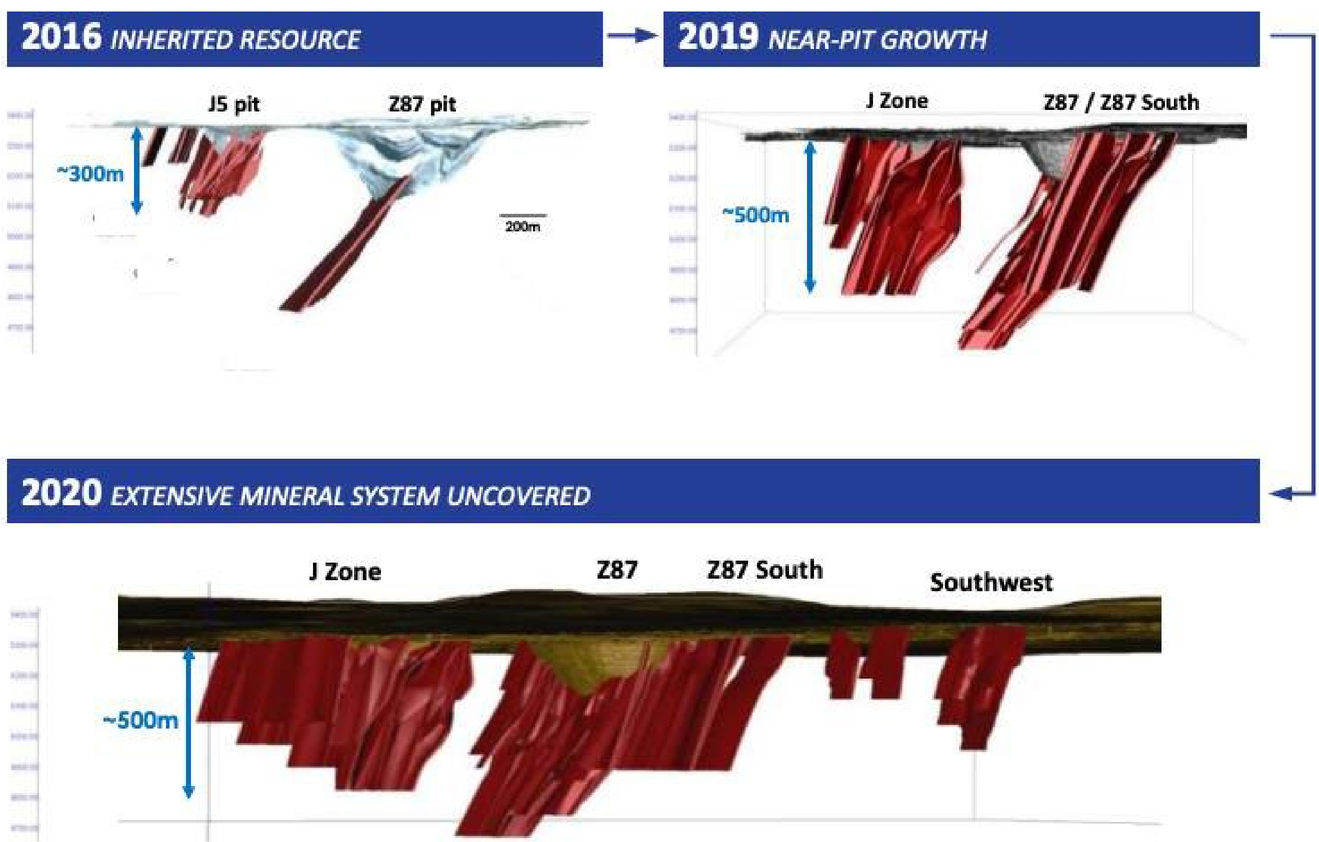
I have been remiss on providing a big picture Troilus update, for which I apologize. There's no good reason other than, as a 'T' name, I kept not getting to Troilus until I was already wrung out from updating on other stocks!

To remedy that silly situation, I finally sat down with TLG's president, Justin Reid, last week for a fulsome update. Here are my thoughts.

Troilus is advancing its namesake project in Quebec. It's an historic mine that produced copper and gold from 1996 to 2010, shutting down when the open-pittable deposit was tapped out.

The thing is, the company that ran the mine (Inmet) didn't do any exploration while mining.

That lack of exploration is where Troilus saw opportunity. They acquired the project in 2017, at which point the only known resources were marginal underground tonnes. Over the next three years they proved their thesis that Inmet left a lot of gold behind by growing the indicated resource count by 142% and the inferred count by 350%.



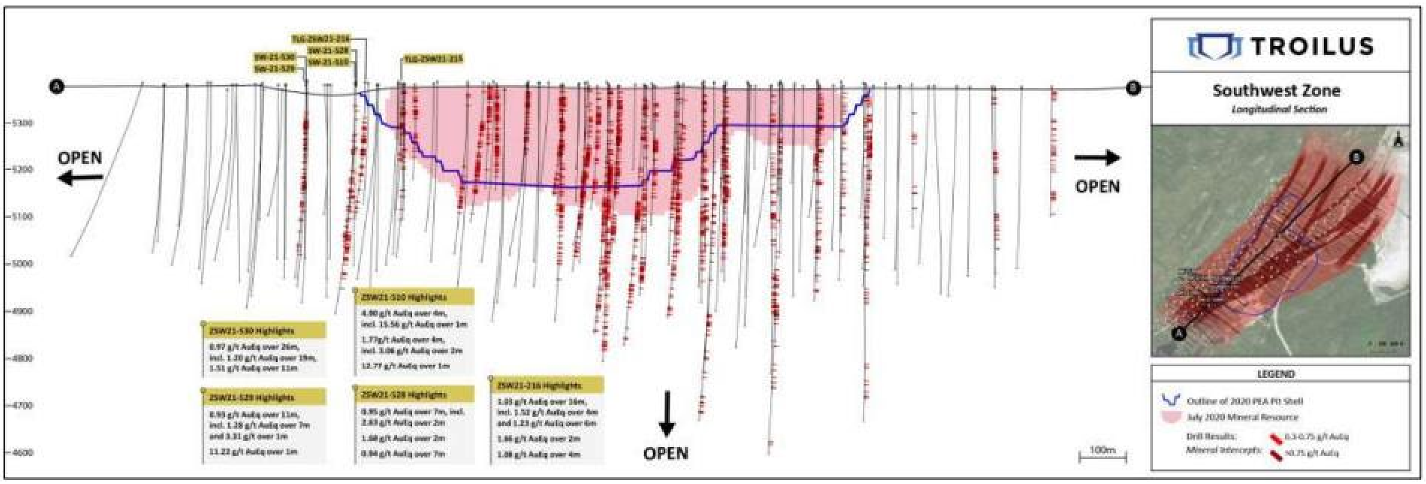
Importantly, the new resources were all open pittable, which transformed the opportunity at Troilus. In 2020 the company made that new opportunity clear by wrapping a PEA-level mine plan around the resources they'd defined to that point. And it was a good study: a mine producing 220,000 gold eq. oz. annually for 15 years that, for a $333 million investment, should generate a 23% after-tax IRR and carried a $576-million post-tax NPV.

So, two years ago Troilus was already a large deposit that looked likely to support a large and economic mine.

But the TLG team were just getting started.

The exploration success they'd had in their first few years has continued. The Southwest zone, which was almost a sidenote in the PEA, is now the most important deposit at Troilus for its higher-than-average grade and because it starts right at surface (no strip).

Since that PEA, which was also the last resource estimate, Troilus has drilled 150,000 metres (!) and the Southwest zone has grown to be 1.8 km long and 600 metres wide.



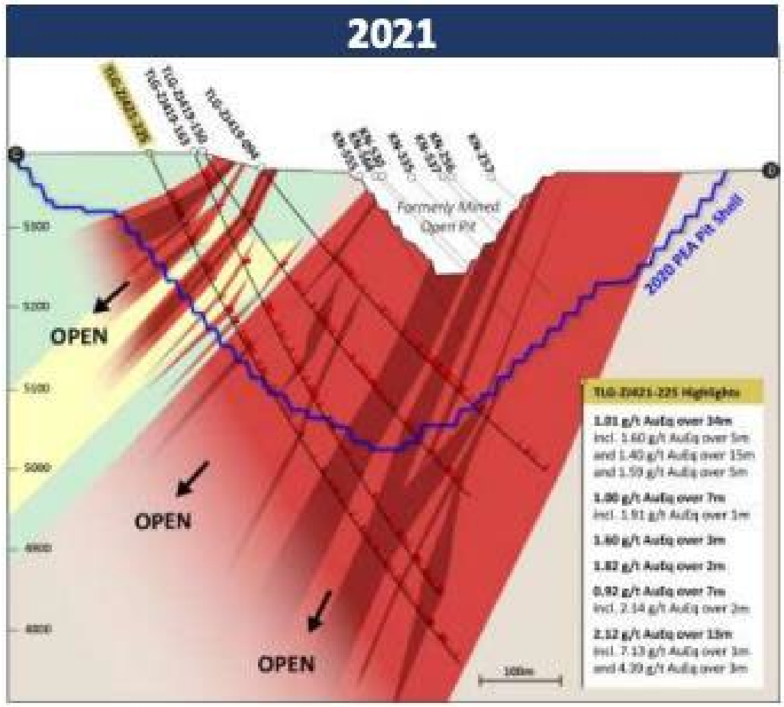
You can see from the long section above the initial SW zone resource (pink) and how many good drill hits TLG has made outside of it since defining that count (dark red marks intercepts grading better than 0.75 g/t gold).

That Southwest has emerged rapidly to become so important at Troilus is mostly positive but has had one negative consequence: the company had to postpone its pre-feasibility study (PFS). That study had been expected in last 2021 but it's been pushed to mid-2022 so Troilus can define more tonnes at Southwest first. The company has 5 drills turning there right now, drilling "a fast 30,000 metres" as Reid put it, to ensure the zone is fleshed out with enough confidence and in all the best spots before the PFS.

The goal with this 30,000-metre program is to grow Southwest enough that Troilus can boost the cut-off grade for the first six years of mine life from 0.3 g/t gold equivalent to 0.5 g/t. Boosting the cut-off would likely boost the average head grade from 0.7 g/t gold eq. to more like 1 g/t gold eq. for those first years – and I don't need to have a PFS in hand to know that would have a huge positive impact on economics: faster payback, higher IRR, higher NPV, and probably by a lot.

And that will be on a mine plan that will also benefit from three other key changes:

- Lower strip ratio: the PFS will have steeper pit walls (TLG did the geotechnical work to support that) and the discovery of new zones parallel to know resources in several places have turned waste into ore. The cross section beside helps make this apparent: the mineralized zone on the left side (in the hanging wall) was not known at the time of the PEA so that rock was considered waste that had to be moved and now will be ore.
- Higher silver recoveries (TLG did the met work),
- Higher grades: because of the Southwest zone.



Let's also note that, with a much-enlarged Southwest zone, the new Troilus resource is going to be knocking on 10 million gold equivalent ounces. Yes, that includes notable contributions from copper and silver and yes some of those ounces are marginal – but 10 million is still a standout number in the world of undeveloped gold deposits, and especially undeveloped large gold deposits in good jurisdictions with significant mine infrastructure already in place (like a permitted tailings facility with room).

It takes more than drills and documents to truly push a mine towards production. One of the other key requirements is people, by which I mean the right people, people with experience permitting and planning and costing and building successful mines. This matters as much in preparing a PFS as it does during construction because a mine plan is only as good as the estimates and decisions that go into it.

Since people really are essential to a story, it's worth noting that Troilus has added a few very good people to its team. Richard Harrisson is leading the mine plan as Chief Operating Office and Harrisson is just about the perfect guy for the job. As mine superintendent at the Canadian Malartic mine he led the $1.7 billion Oddessey project, a 26,000-tpd underground mine that his 100-strong team of engineers brought online successfully. He revamped the Kittila mine in Finland for Agnico; he was mine super at Goldex for Agnico, turning a failing operation around; and he was mining director at Premier.

Troilus also has some deep bench strength on permitting with Jacqueline Leroux, who is has previously permitted five mines in Quebec.

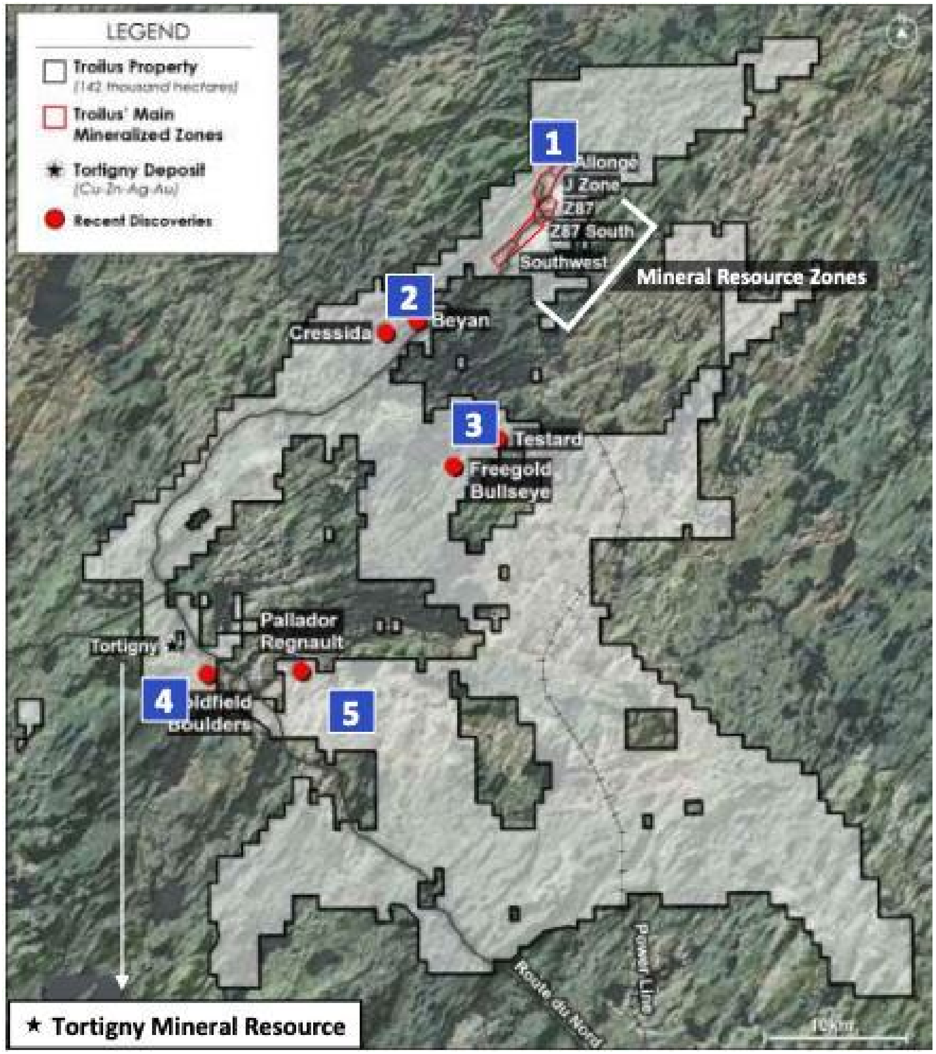
So, the PFS is coming out later than expected but it should be a very strong document. And TLG has used the 'extra' time to advance many aspects that feed these studies beyond PFS level so that they can turn the PFS into a feasibility study in about six months.

So: Troilus has felt slow and boring for the last year (kinda like the gold price) but 2022 offers potential for more excitement as the updated resource and PFS come out, permitting gets underway (permitting can start with a PFS in Quebec and the process will take 18-24 months), and the feasibility study nears, all hopefully in a rising gold market.

On the share price: it's been a struggle since last summer. The price started to slide when Troilus announced a financing that raised $56 million. Maybe the market didn't like the dilution at the time…but in hindsight it was a very good move. Troilus raised when its share price was strong and banked enough that now, eight months later, it still has almost $40 million and so has no need to finance.

Not needing to finance now is significant, in that it is the absence of something that would pressure the price. And having $40 million on hand means Troilus can

- Keep drilling the SW zone
- Complete the PFS and the feasibility study
- Have a free hand to run property-wide exploration in parallel



That last point is currently flying under the radar but may get some attention over the next year. Troilus expanded its land position dramatically last year by taking over another (small, cheap) company. They then spent almost $5 million on regional exploration, the results of which they described in a news release today.

They did extensive mapping, prospecting, trenching, channel sampling, drone imaging, soil sampling, and airborne mag surveying. This is early-stage stuff, but the team is pretty amped about the potential for a second gold trend, parallel to the resource trend but hosting high-grade gold in brittle quartz veins within a shear zone. Should any of the zones along that shear turn into a high-grade discovery, it could juice the feed at an admittedly low-grade Troilus mine nicely.

The parallel trend of high-grade gold seems to be developing between Testard/Freegold Bullseye down through Pallador Regnault to Goldfield Boulders. Pallador Renaught is a discovery now being advanced by Sumitomo.

Closing thoughts on a long ramble:

- Story has felt slow, but TLG has done good work that has improved the project significantly
- PFS will come out mid-2022 and will outline a bigger mine with significantly stronger economics (because SW zone will juice grades early and several factors – SW coming to surface, new hanging wall discoveries, and better geotech data enabling steeping pit wall – will drop the strip ratio notably)
- TLG has good people pushing this project ahead
- TLG does NOT need to finance this year
- Regional exploration, happening out of the limelight, is showing potential for high-grade discoveries nearby. Such a discovery could add splash in 2022.

I've owned this stock for 2.5 years already. In hindsight, I should have sold in August 2020 when the sector was hot, and the stock had doubled from my entry point. I didn't and now I'm back where I started.

Options are now to exit, leaving the story for other opportunities, or hold. I will hold because I think this is a very good project, one that should stand out in a good gold market for its scale, simplicity, local support, established infrastructure, growth potential, and planning care and one that has some clear catalysts in the year ahead.
