Orsu Metals Corp. (TSXV: OSU) – Russian Gold Junior Exploring Next to a Multi-Million Ounce Deposit

COULOIR CAPITAL

Investment Highlights

- Orsu Metals Corp. ("OSU", "company") is a precious metals explorer with a focus on gold projects in Russia's Far East region. Its Sergeevskoe Property is an exploration concession in the early-stages of the development cycle.
- **Next Door to a Major Open-Pit Asset:** The Sergeevskoe Property is in close proximity to the Kluchevskoe open-pit mine, which previously operated as one of the largest production assets in the country and still has an estimated 74.4 tonnes in Russian-style gold reserves.
- **Sizeable Inferred Resource:** With the filing of a NI 43 -101 Technical Report recently, OSU holds 1,417 Koz Au in inferred resources. This is from a limited mineralized footprint, and expanding this may lead to resource expansion in the near-term.
- **Near-Term Pilot Mining:** OSU recently received permitting from Russian mining authorities to begin pilot mining at the Kozie Prospect on its Sergeevskoe Property, allowing it to mine up to 1.05 million tonnes over the next three years. Apart from fleshing out the property's economic viability, it may also raise sufficient cash flows to fund near-term exploration.
- **Based on our analysis and valuation models, we are initiating coverage with a BUY rating and a fair value per share estimate of C$0.71 per share.**

Current Price (C$):	$	0.37
Fair Value (C$):	$	0.71
Projected Upside:		91.89%
Action Rating:		BUY
Perceived Risk:		VERY HIGH

Shares Outstanding:		42,862,544
Market Capitalization (C$):	$	15,859,141
P/E		-
P/B		2.74
YoY Return		-5.13%
YoY TSXV Return		15.10%

2020E Revenue Forecast	N/A
2020E EBITDA Forecast	N/A
2020E Earnings Forecast	N/A
2020E EPS	N/A
EV/ 2020E EBITDA	N/A
P/ 2020E Earnings	N/A

*Note that all $ amounts are US$ unless stated otherwise.

Key Financial Data (FYE - Dec 31) (US$)		**2019**		**Q1-2020**
Cash	$	1,069,051	$	798,511
Working Capital	$	1,195,958	$	803,144
Mineral Assets	$	3,631,715	$	3,631,715
Total Assets	$	4,971,760	$	4,574,611
Net Income (Loss)	$	(367,414)	$	(454,590)
EPS	$	(0.01)	$	(0.01)

Rob Stitt, CAIA

July 14, 2020

A company prospecting for gold opportunities in Russia's Far East region, OSU is a mineral exploration company with a promising concession, the Sergeevskoe Property, which neighbours two mature gold deposits with significant mineralization on either side of its boundaries. Despite the relatively short period of ownership over the license, OSU has advanced the property to a 30 million tonne inferred resource grading 1.45 g/t for total inferred gold of 1,417 KoZ Au, building the resource off a fairly limited mineralized footprint. This recent inferred resource estimate reflects a 19% expansion of Sergeevskoe's maiden resource, showing direct asset expansion via the company's exploration work. It also implies that further expansion of the resource via future expansion work is predictable, which in turn suggests potential upside on the valuation of OSU's underlying asset base.

Riding on the momentum of its recent Technical Report results, the company is wasting no time in keeping the ball rolling, having already commenced another round of exploratory work via drilling at prospective mineralized sites on its Sergeevskoe Property. OSU has announced and is set to commence pilot mining at Sergeevskoe that seeks to de-risk the asset by expanding the company's understanding of its mineralization and economic viability. Apart from likely having a material impact on the future mineral resource estimate on the property, the pilot mining initiative also has the potential to raise enough cash flows via profit sharing on mined gold ore to fund future exploration. As a result, OSU may go on to offer investors an opportunity few exploration companies can: a potential uplift in net asset valuation that underpins equity value, financed by non-dilutive means. With the workload just beginning to ramp-up, OSU faces a pipeline of upcoming activity that could serve as potential leading catalysts.

The Sergeevskoe Deposit

Located in the Zabaikalsky region of the Russian Federation, the Sergeevskoe Property consists of 7.6 sq km of mining concession area, which OSU acquired a 90% interest in on May 2017 via purchase of Sibzoloto Investments Ltd ("Sibzoloto"), a Cyprus-registered company that held the license, in a share and cash transaction valued at $3.7 million (subject to a capped net smelter return royalty). Sibzoloto itself acquired the license in 2013 at a government run public auction and the license is valid until 31 December, 2031. The exploration license for Sergeevskoe is not restrained in terms of depth of mining or other exploratory work. It does, however, require that the license holder complete Russian-style C1+C2 reserve estimations by end of 2022, begin construction by end of 2024, and commence production by end of 2025.

As discussed earlier, the Sergeevskoe Property is located in close proximity to the Kluchevskoe Deposit, an open-pit gold mine of large scale that has a history of production through both open-pit and underground exploitation since 1901. Kluchevskoe is 70% owned by China National Gold Group Corp., a Chinese state-owned gold mining company, and 30% owned by Sun Gold Ltd., an Indian company. Though mining work on the site has not begun since

the two companies inked the deal in 2018, it is expected based on statements by the two parties that a pre-production investment of $500 million will be deployed to build-out an open-pit operation producing an expected 6.5 gold tonnes per annum. Given the nearness of a large-scale gold project with a track record (discussed in a later section), management believes that Sergeevskoe is a major prospect for gold exploration, with expectations that its proximity to Kluchevskoe is likely to imply the potential for significant gold mineralization.

To further add fuel to that particular argument, another mature deposit lies in close proximity to Sergeeskoe, in the form of the Aleksandrovskoe Project owned by Zapadnaya Gold Mining Ltd ("Zapadnaya"). Aleksandrovskoe is a producing open-pit gold asset within 8km of the Sergeevskoe Property, with the most recent production data from Zapadnaya suggesting that it achieved 38,000 Oz Au output in 2018. Key data on the asset sourced from Zapadnaya is provided in the table below:

Aleksandrovskoe Concession Area

Location	Zabaykalsky krai
Resources (Russian classification, 2019)	643 015 oz
Reserves (Russian classification, 2019)	826 274 oz
Reserve grade	2,8 g/t
Au Recovery (estimated)	92,4 %
Production (2018)	38 000 oz

Source: Zapadnaya, Gold Mining Ltd.

Apart from a second major gold project being in the vicinity of Sergeevskoe, further pointing to potential similarities in the mineralization, the proximity of Sergeevskoe to the Aleksandrovskoe Project also brings OSU close to Zapadnaya's on-site processing plant. The importance of this is it allows OSU access to processing capacity that makes pilot mining initiatives possible, and OSU has planned its next steps (discussed later) around Zapadnaya's processing facility.

Sergeevskoe Concession Area

Source: Company

In terms of accessibility, the project is located 40 km from the town of Mogocha (population of approximately 13,000), the district capital which has a large railway station that is part of the famous Trans-Siberian Railway network. The station at Mogocha provides regular train services to Chita (the administrative centre of the Zabaikalsky region), Moscow, and other major Russian cities. The city of Chita provides the closest feasible airline access point to the property and is approximately 560km away. The property is primarily accessible by the recently built Chita-Khabarovsk fully paved motorway (M58), which runs about 8km off the Sergeevskoe Property. Paved and all-season gravel roads connect the major cities and towns in the region. Apart from the regional railway access in the Trans-Siberian network and BAM railroads that link Sergeevskoe to major Russian cities as well as direct rail connections in China and Mongolia, there is also air access by virtue of the airport in Chita. The airport provides regular flight service to Moscow and other domestic destinations, as well as some cities in China.

More locally, the property is situated between the villages of Davenda and Kluchevskiy. Davenda is approximately 4km west of the main area of exploration activity, whilst Kluchevskiy is approximately 1.5km east of the property's eastern boundary. Both villages have small populations, with Davenda having around 1,000 and Kluchevskiy having around 1,300. However, the populations in these villages consist of skilled labour pools, given that many in these two villages are former employees of mining enterprises. Road access to the mining camp is via graded dirt roads starting at the villages, and power is available through an 110kV transmission line that connects to the main power grid.

Kluchevskiy Village (Kluchevskoe Open-Pit in the Background)

Sergeevskoe project, Orsu Metals, a view to the West

Suspended Kluchevskoye open pit, a view to the West

Source: Company

In terms of climate and geography, the property area is situated within a region that exhibits long extreme winters and short cool summers, with temperatures ranging from -28 degrees Celsius in January to 17 degrees Celsius in July. The average temperature year-round is -4.8 degrees Celsius, with average annual low snow-cover thickness of between only 0.15 m and 0.20 m that tends to melt between the months of March and April. Despite the relatively cold, it is believed that exploration and mining activities are possible year-round. The Sergeevskoe Property's physiography is defined by moderate hills with approximate peaks at 1.2km above sea level and river valleys at 0.9km above sea level. Vegetation on the property is typical of the boreal zone and permafrost occurrences in the area are discontinuous and can extend to depths of 120 meters. Whilst permafrost is not present at the Kluchevskoe open-pit area, it is present in some areas of the waste dumps.

To date, Orsu has completed a number of exploration campaigns. OSU's proprietary exploration efforts began as early as July 2016, when the company collected grab samples from sites with histories of significant mineralized intercepts and sent a total of 41 samples for assaying. This was followed by a trenching campaign that spanned 2017 through 2018, and OSU excavated a total length of 6,089 meters over 48 trenches (average width of greater than three meters), collecting 5,170 samples averaging 1.13 meters in length. This was followed by additional trenching work in 2019 where OSU excavated a further 2,795 meters over 14 trenches, collecting 2,006 samples. On the drilling front, OSU also completed drilling work concurrent with its trenching campaigns. During the 2017-2018 exploration campaign, OSU conducted diamond core drilling and completed 82 drill holes for a total of 17,108 meters, collecting 12,486 samples averaging 1.14 meters in length. In the 2019 campaign, OSU drilled a total of 3,555 meters over 14 holes to collect 2,082 core samples, using drilling techniques and methodologies as the 2017-2018 campaign.

Atlas Copco CS 14 Drill Rig Used during the 2017-2018 Campaign

Source: Company

Exploration work done by OSU to date has been done with the intent to better understand the mineralization at Sergeevskoe as well as advance the property to the resource estimation phase. As a result, a Technical Report was commissioned by the company to establish a resource estimate on the Sergeevskoe Property based on the company's exploration findings. On January 20, 2020, a NI 43-101 updated mineral resource estimate was published that estimated Sergeevskoe's inferred resource at 1,417 Koz Au. The findings represented an 19.3% increase over Sergeevskoe's maiden resource estimate, which had brought Sergeevskoe's inferred resource at approximately 1,200 Koz Au, with the increase based on a doubling of the mineralized footprint at the property to 2x1km. The detailed inferred resource estimate is outlined in the table below, whilst the key inputs used to estimate Sergeevskoe's resource in the subsequent table.

Segeevskoe's Inferred Mineral Resource Estimate

Table 14.17: Undiluted Mineral Resource Estimate for Sergeevskoe Gold Project			
COG	Tonnes (Mt)	Grade (g/t Au)	Contained Metal (Au '000 oz)
0.0*	30.59	1.45	1.426
0.4	30.49	1.45	1.418
0.5	**30.42**	**1.45**	**1.417**
0.6	28.75	1.5	1.387
0.7	25.56	1.61	1.320
0.8	22.13	1.74	1.238
**- All Mineralisation within Wireframe Model*			

Source: Company

Technical Report Inferred Resource Estimation Parameters

Table 14.16: Pit Optimisation Parameters		
Parameter	**Unit**	**Value**
Mining costs	**US$/t Ore**	Primary = 1.5
	US$/t Ore	Oxide = 1.2
	US$/t Waste Rock	1.2
	US$/t Overburden	1.0
Processing cost	**US$/t ore**	8
G & A	**US$/t ore**	1.5
Royalty Cost	**%**	6
Metallurgical Recovery	**%**	Primary 85%
		Oxide 93%
Pit Slope Angles	**°**	51
Losses	**%**	0%
Dilution	**%**	0%
Commodity Price	**US$/oz**	1,450

Source: Company

In the table below, the sensitivity of the inferred resource estimate laid out in the Technical Report to various gold prices is outlined. Given that the report uses gold prices far below the current market price, there is reason to believe there is excess resource potential at the property, though we believe the conservative pricing used in the Technical Report is more appropriate for technical studies aimed at determining long-term economic viability. We also note that the Company has so far covered by exploration only about 2 square kilometers out of seven of the licensed concession and there remains a significant blue sky potential both in terms of expanding the footprint of the resource and in terms of in-fill drilling in undrilled areas of the established footprint. The resource remains open to the West, North, North-West and downdip.

Inferred Resource Estimate Gold Price Sensitivity

Table 14.18: Mineral Resources at Different Gold Price				
Gold Price (US$/oz)	**Mineralized Material (Mt)**	**Waste (Mt)**	**Au (g/t)**	**Au Metal (Moz)**
US$1,350	30.07	283.56	1.45	1.402
US$1,450	30.42	293.94	1.45	1.417
US$1,550	30.73	303.23	1.45	1.429

Source: Company

On a forward basis, the Technical Report concluded with recommendations around near-term exploration work that the company intends to pursue. The activities, which carry an expected cost (including contingencies) of $1.46 million, are summarized in the table below. We note that the company has already completed work with RC and begun infill drilling at its Kozie Prospect on the Sergeevskoe Deposit, so we believe that the below budget will be followed as they Company begins to generate cash from its pilot mining operations as described further in this report.

Technical Report 12 Month Exploration Campaign Budget for OSU

Table 26.1: 12 Month Budget and Work Programme (Orsu)		
№	**Item / Task**	**US$**
1	RC Drilling 2,000 m and Infill Drilling 3,500 m	450,000
2	Assays	150,000
3	Logging of drillcore and trenches, Core splitting, Sample transportation	250,000
4	Metallurgy tests (2)	200,000
5	Geophysical works	50,000
6	External consultants	75,000
7	G&A (local)	75,000
8	Updated Resource	75,000
9	Contingency 10%	132,500
10	**TOTAL**	**1,457,500**

Source: Company

With a significant inferred resource despite the relative limitations of its mineralized footprint at the Sergeevskoe Property, OSU is looking to leverage its momentum to further advance its concession along the exploration and development cycle. To this end, it has announced its intention to begin a pilot mining project at Seegeevskoe, which it hopes will expand understanding around the mineralization at Sergeevskoe as well as raise near-term cash flows to finance future exploration. We cover this initiative in a below section on the company's next steps at Sergeevskoe.

History of Sergeevskoe & the Adjacent Kluchevskoye Deposit

Given that a large part of Sergeevskoe's value proposition as an exploration project comes from its close proximity to a gold project of proven track record, it would be prudent to first detail the history of the neighboring Kluchevskoye Deposit. Early mining at Kluchevskoye began in 1901 when the Nerchinsk Gold Company commenced underground mining at the deposit, with a focus on high-grade veins yielding ore grading between 13 to 30 g/t Au. Between 1901 and 1910, this first round of mining at Kluchevskoye yielded 688 kg of gold, with ore processed via mercury amalgamation. After a production hiatus, further exploration work was done between the 1930s and 1941, and formal reserve statements for the deposit were published. With a reserve of 42.80 tonnes of gold and an average grade of 5.15 g/t Au based on a 1934 estimate, Kluchevskoye produced 5,855 kg of gold grading between 7.5 to 9.8 g/t Au from 1936 through to 1952. In 1939, reserves for the deposit were re-estimated to contain 79 tonnes of gold, a near 85% expansion in reserves.

Another re-estimation followed after a spate of exploration work between 1947 and 1951, establishing the deposit as one of the largest in the Soviet Union. However, issues with the reconciliation of exploration work done and ongoing mining results led to revision works between 1952 and 1955, which did not approve new reserve re-estimation, but did find that Kluchevkoye could be operated as an open-pit operation. Mining at Kluchevskoye had until that point been underground. By 1955, open pit mining had exhausted the oxide reserves and had reached the sulphide material. This was then processed into a sulphide concentrate at a flotation plant, which was decommissioned when operations were suspended in 2002. Based on reports, the open-pit mine had throughput processing capacity of 530,000 tonnes per annum, with processed concentrate shipped off to the Ural copper smelters for additional processing and gold recovery work. Between 1977 and 2002, Kluchevskoye produced approximately 8.9 million tonnes of ore at an average grade of 1.68 g/t Au, productions ceasing in 2002 when production and transportation costs climbed against a background of deteriorating gold prices. However, as of December 2009, the deposit is still estimated to contain 74.4 tonnes of gold with an average grade of 2.017 g/t Au, based on the Russian-style C1+C2 reserve estimation system.

Kluchevskoe Gold Mine's Historical Production

Table 23.1: Recorded Historical Production from Kluchevskoye			
Year	Tonnage (kt)	Grade (g/t Au)	Au (oz)
1936-1976	8,130	3.65	954,057
1977	246	1.94	15,344
1978	322	1.86	19,256
1979	1,469	2.24	105,764
1980	1,002	2.25	72,484
1981	626	2.20	44,278
1982	238	1.79	13,697
1983	390	1.73	21,692
1894	279	1.77	15,877
1985	198	1.72	10,949
1986	164	1.46	7,698
1987	166	1.75	9,340
1988	239	1.95	14,984
1989	251	1.57	12,670
1990	332	1.55	16,545
1991	345	1.46	16,194
1992	308	1.58	15,646
1993	272	1.43	12,505
1994	355	1.59	18,147
1995	122	1.61	6,315
1996	34	1.56	1,705
1997	44	0.64	905
2000	170	1.49	8,144
2001	184	1.83	10,826
2002	81	1.15	2,995
Total from 1977-2002	**7,837**	**1.88**	**473,965**
Project Total 1936-2002	**15,967**	**2.78**	**1,427,116**

Source: Company

Turning to OSU's property, Sergeevskoe, the earliest known exploration work was conducted between the 1950s and 1960s, consisting of mapping, geophysical surveys, trenching in excess of 16,000 meters and 8,500 meters worth of drilling (to a maximum depth of 300 meters, though averaging 50-70 meters). This work was done by the geological party affiliated with the company that operated Kluchevkoye. However, Sergeevskoe was a government-owned property at the time, and OSU is the property's first private sector owner. The historical exploration work done on Sergeevskoe is summarized in the table below.

Table 6.1: Historical Exploration Activities

Year	Project and work stage	Basic operations	Unit	Scope
1960	Geological surveying 1:200,000	Survey	km^2	8
1962	Geological surveying 1:50,000	Survey	km^2	8
1966-1978	Prospecting works	Geophysical operations:		
		MR 1:10 000	km^2	8
		Resistivity method 1:10,000	km^2	8
		IP 1:10,000	km^2	2.3
		Lithochemical survey 1:10,000	LM	80
		Analytical works	sample	4,000
1951-1954	Project for geophysical operations 1:10,000 Davenda exploration crew	Core drilling	LM	400
		Driving 2 pits (40.8 LM)	m^3	40.8
		Roadway driving (38 m)	m^3	152
		Coring acquisition	samples	80
		Trench sampling	LM	52
		Analytical operations	samples	130
1953-1955	Project for geophysical operations 1:10,000, Davenda exploration crew	Trenching	m^3	2,650
		Core drilling (underground)	LM	240
		Tunneling (195m)	m^3	780
		Cross cutting (38m)	m^3	152
		Trench sampling	LM	1,001
		Coring acquisition	samples	100
		Chemical analytical operations	samples	1,101
1952-1955	Project for geological exploration, Davenda exploration crew	Trenching	m^3	45,000
		Core drilling	LM	6,100
		Driving 2 adits (305m)	m^3	1,120
		Shaft sinking (50m)	m^3	380
		Driving 5 pits (120 m)	LM	120
		Trench sampling	samples	650
		Coring acquisition	samples	370
		Chemical analytical operations	samples	1,020
1961-1962	Project for verification of lithogeochemical anomalies by ChSU Eastern Expedition	Trenching	m^3	1,500
		Trench sampling	LM	29
		Chemical analytical operations	samples	29
1963-1967	Project for geological exploration, Kluchi exploration crew	Trenches	m^3	26,800
		Core drilling	LM	2,100
		Trench sampling	LM	530
		Coring acquisition	samples	80
		Chemical analytical operations	samples	610
1972	Project for geological exploration, Kluchi exploration crew	Trenches	m^3	3,990
		Trench sampling	LM	532
		Chemical analytical operations	samples	532
1975 - 1984	Lvov University (present day Ukraine)	Geophysical and geochemical studies		

Source: Company

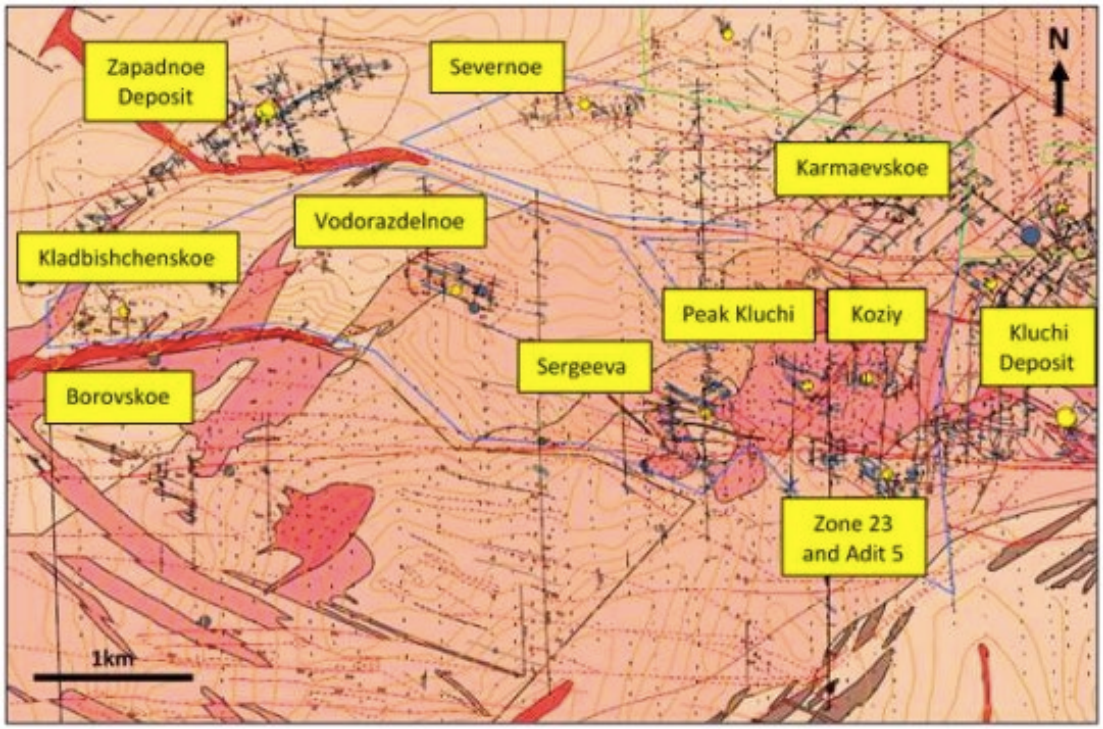
Based on the exploration work done, mineralization prospects were identified that include Kozie, Zone 23, Karamaevskoe, Vodorazdelnoe, Peak Kluchi, Segeeva and Kladbischenskoe. Though gold anomalies were detected at these prospects on-site, with historical trenching and drilling activities demonstrating high grades, the team behind Sergeevskoe's 2020 Technical Report concluded that the historical exploration results demonstrate that these prospects were at best major targets for future exploration. This is based on issues around the age of the information, the uncertainty surrounding the exploratory techniques used, as well as the quality of assays returned.

Geology & Mineralization

The Sergeevskoe Property is situated within the Mogocha Gold District, which predominately comprises carious granites surrounded by metamorphic rocks. Lithologies include biotitic granites, granodiorites, diorites, quartz-diorites and granitic-porphyries. There are seven deposits and additional occurrences of gold, molybdenum or copper mineralization, though the most significant are recognized as the Kluchevskoye and Zlexandrovskoye gold deposits, as well as the now exhausted Davenda molybdenum deposit. Sergeevskoe is part of the Davenda-Kluchevskoe metallogenic zone, the northern portion of which is occupied by proterozoic granitoid. The mining license area itself is dominated by Permian granite, which makes up 60% of the area.

The main prospects for mineralization and potential gold anomalies on OSU's property are outlined in the below map.

Main Mineral Occurrences Within the Sergeevskoe Concession



Source: Company

The Sergeevskoe Deposit is considered a Reduced Intrusion Related Gold System ("RIRGS"). Mineralization in this class of gold-only deposit style may be present as skarns, veins, disseminations, stockworks, replacements and breccias. Most RIRGS consist of intrusion-hosted, sheeted arrays of thin, low-sulphide gold-bismuth-tellurium-tungsten quartz veins, and the grade of these deposits is in large part down to the number of veins, or vein frequency. Most RIRGS occur at a depth of between 1km and 7km, with most forming between 3km and 6km.

Upcoming Pilot Mining Initiative & Forward Strategy

On a forward basis, the first major catalyst on the horizon for OSU is the commencement of its pilot mining programme, which it plans to begin in August 2020. Prior to the commencement of pilot mining, OSU completed a RC drilling has been conducting grade control drilling campaign, reporting results for both on June 3 and June 9 of 2020, respectively. We understand that further results of grade control drilling will be announces later as drilling and assaying progresses. The RC drilling took place at major mineralized sites on the Sergeevskoe Property and the most significant intercepts include:

- **Kozie:** Drill hole RCS02 intercepted 2.53 g/t Au over 9 meters, including 4.85 g/t Au over 4 meters.
- **Klyuchi West:** Drill hole RCS04 intercepted 1.49 g/t Au over 85 meters, including 2.96 g/t Au over 24 meters.
- **Zone 23:** Drill hole RCS10 intercepted 1.7 g/t Au over 21 meters, including 2.81 g/t Au over 10 m, and drill hole RCS09 intercepted 5.22 g/t Au over 6 meters, including 9.47 g/t Au over 3 meters.
- **Adit 5:** Drill hole RCS14 intercepted 4.22 g/t Au over 11 m, including 8.09 g/t Au over 5 meters and 1.69 g/t Au over 10 meters, including 2.28 g/t Au over 6 meters.
- **Peak Klyuchi:** Drill hole RCS01 intercepted 4.28 g/t Au over 3 meters.

For the grade control drill work, the company provided a progress report on June 9 and July 13th, 2020, announcing that:

- It had completed 3,969 meters over 349 drill holes spacing 10 by 2.5 meters, covering an area of 170x100 meters and to a variable depth of between five and 15 meters.
- The grade control drill holes revealed an excellent continuity and consistency of gold mineralization along and across the strike, as well as to depth.
- The estimated average gold grade in the center of the Kozie site goes up to 2.12 g/t Au over an area of approximately 30x15 meters.

With the RC and grade control drill campaigns well under way, OSU are progressing to begin pilot test mining work that it announced earlier this year. In order to prepare for the pilot mining commencement, OSU has (in addition

to the drill work previously covered) removed vegetation over eight hectares to make way for two open pits and waste dump pad, with both open pits to be mined down to a depth of 35 meters. Moreover, the company announced on June 11, 2020 that it had received the necessary permitting from the Russian Subsoil Agency Commission, effectively providing it license to begin the pilot mining upon finalizing commercial aspects of the programme with its contractors.

Thus far, OSU has announced that the programme, as per the limits on its permit, will be to pilot mine up to 1.05 million tonnes, which they have licensing to do for up to three years. The pilot mining initiative is to determine the viability of the project as well as establish key elements like the optimal flowsheet, achievable recoveries on processed material, mining loss and dilution, as well as others. OSU expects that it will achieve an average grade of 1.6 g/t Au on mined ore, suggesting that before adjusting for recoveries, OSU could potentially mine up to 59.26 Koz Au during the pilot mining phase.

In order to facilitate the pilot mining initiative, OSU has reached a toll milling agreement with neighboring Zapadnaya, and the two parties have agreed to allow OSU to process mined ore at the Aleksandrovskoe processing plant located 8km off. Mineralized material will be trucked along existing roads to the plant from Sergeevskoe for the time being, but OSU expect that with the appropriate approvals a more direct road between the site and the plant may be constructed in late 2020 to alleviate transportation costs. It is unclear who bears the cost of transportation. In addition to the toll milling arrangement, Zapadnaya is also funding the RC and grade control drilling campaign for OSU.

Based on disclosed information, the exact economics of this arrangement and the potential cash proceeds of the pilot mining initiative are unclear. Management has suggested that the arrangement with Zapadnaya allows for pre-tax profit sharing on processed tonnages. Assuming that the two parties are able to replicate the Aleksandrovskoe average recovery rate of 92.4%, the implied saleable gold (based on expected grade and maximum material throughput) comes to a potential 54.76 Koz Au. At a market gold price of $1,800 per oz, the gross value of the potential recoverable gold allowed by the pilot mining permit comes to an estimated $98.56 million. Obviously, without knowledge of the cost structure, it is unclear what profit is achievable on this, and therefore the potential profits OSU would be entitled to. Instead, we believe it is more prudent to put the potential profits in context of the forecasted $1.46 million in exploratory work that has been budgeted for the next 12 months. Assuming that the budget is accurate, a free cash yield of around 3% will need to be achieved on the mined and processed material from the pilot mining phase in order to fully fund the next year of exploration work for Sergeevskoe.

Apart from the obvious benefit of potential free cash flow generation at such an early stage of the development cycle, another material benefit of the Sergeevskoe pilot mining initiative is potential asset expansion without dilution of the existing shareholders. When the company doubled the mineralized

footprint at Sergeevsoe as part of its second resource estimation, it led to a 19.3% increase in the inferred resource relative to its maiden resource estimate. By further working the property to understand its mineralization, uncertainty can be removed and the property can be de-risked via further development of the resource. More importantly, the potential for resource expansion or even an upgrade in the resource classification to classes of higher certainty is possible.

Because we believe the company at its current stage in the exploration and development cycle is valued largely on the basis of its net resources, any expansion in the resources will imply an expansion in the net asset value of the company. Should this occur, we believe it will lead to a significant uplift in OSU's intrinsic value. With the pilot mining initiative forecasted to deliver potentially enough cash to cover exploration work for the next 12 months, this potential uplift in net asset value could come without the risk of dilution associated with other junior miners who rely on equity financing to fund early-stage exploration campaigns. In addition, for the lift of the pilot mining stage, our rudimentary arithmetic implies any free cash production in excess of a 3% margin is bonus on top of the planned exploration budget, implying significant earnings leverage for OSU. We do note of course that our argument is based on fairly limited information, and we temper our upbeat outlook with the warning that the economics of the pilot mining programme could always end up being unfavourable to OSU. As a result, we do not factor it into our valuation models for the company.

Industry Outlook

With a population of 144.37 million, a 2019 GDP of US$1.70 trillion and a 2019 GDP per capita of US$11,585, Russia ranks around the middle of the pack glboally for GDP per capita, according to the World Bank. In 2018, Russia had merchandise exports of $418.80 billion, with 5.54% of these exports being ores and metals, according to the World Bank. The graph below outlines the contribution of mining products to merchandise exports between 2000 and 2018 (note that the Y axis is measured in percentage terms):

Ores and Metals as a % of Russian Merchandise Exports

Source: World Bank

The following table outlines major gold assets in the country, as well as major resource-related and production statistics:

Major Gold Mines in Russia

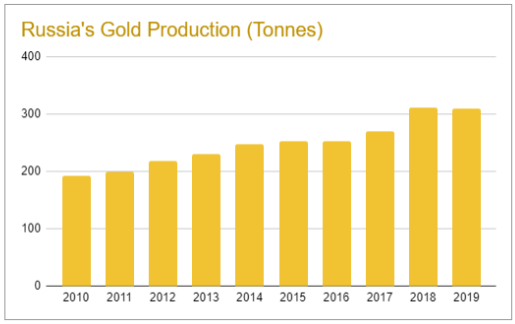
Mine	Owner	2P Reserves (Au Eq Oz)	Net Au Resource (Au Eq Oz)	2019 Production (Au Eq Oz)
Tardan	Auriant Mining AB	226,000	324,000	20,407
Solcocon	Auriant Mining AB	504,000	519,000	1,730
Malomir	Petropavlovsk PLC	3,040,000	5,540,000	180,300
Albyn	Petropavlovsk PLC	2,500,000	4,470,000	170,900
Pioneer	Petropavlovsk PLC	2,720,000	5,775,000	120,400
MNV	Highland Gold Mining Ltd	710,759	1,108,761	123,814
Novo	Highland Gold Mining Ltd	1,436,096	2,388,534	106,784
Belaya Gora	Highland Gold Mining Ltd	433,744	292,000	40,067
Valunisty	Highland Gold Mining Ltd	451,092	981,396	30,039
Albazino	Polymetal International PLC	1,938,000	1,338,000	241,000
Dukat Hub	Polymetal International PLC	1,366,000	778,500	302,000
Omolon Hub	Polymetal International PLC	741,000	456,500	205,000
Mayskoye	Polymetal International PLC	1,998,000	1,821,000	129,000
Svetloye	Polymetal International PLC	486,000	526,000	134,000
Voro	Polymetal International PLC	1,527,000	1,236,000	107,000
Olimpiada	Polyus PJSC	24,000,000	33,700,000	1,389,000
Blagodatnoye	Polyus PJSC	8,800,000	16,050,000	421,000
Verninskoye	Polyus PJSC	4,600,000	11,050,000	256,000
Kuranakh	Polyus PJSC	4,100,000	6,750,000	225,000
Alluvials	Polyus PJSC	600,000	1,300,000	146,000
Natalka	Polyus PJSC	14,600,000	27,450,000	405,000

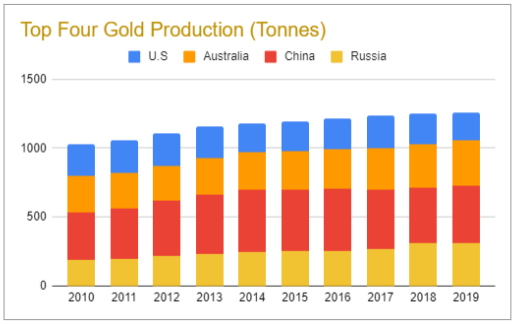
Source: Couloir Capital, public disclosures

Russia's aggregate historical gold production in metric tons is presented in the charts below. In addition, reserves data is also presented in the charts. Based on the U.S. Geological Survey ("USGS") data underpinning our charts, Russian gold production has grown at a CAGR of 5.47% between 2010 and 2019. Russia ranks in the top four of gold producers globally. At current it ranks third, close behind Australia but with a significant gap relative to geographical neighbor China.

Russian Historical Gold Production Data

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Russia	192	200	218	230	247	252	253	270	311	310
China	345	362	403	430	450	450	453	426	401	420
Australia	261	258	250	265	274	278	290	301	315	330
U.S	231	234	235	230	210	214	222	237	226	200
Others	1531	1606	1584	1645	1809	1906	1892	1996	2047	2040

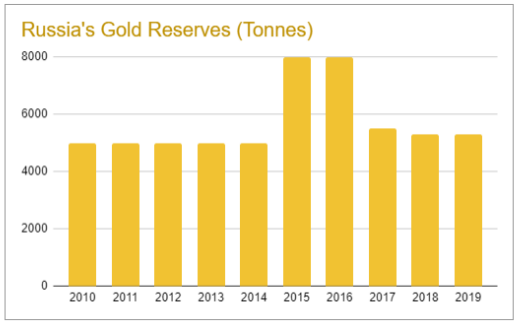


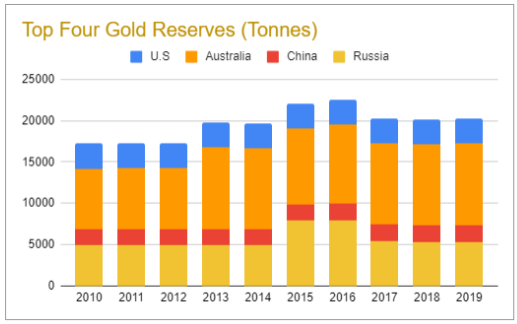


Source: USGS, Couloir Capital

Russian Historical Gold Production Data

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Russia	5000	5000	5000	5000	5000	8000	8000	5500	5300	5300
China	1900	1900	1900	1900	1900	1900	2000	2000	2000	2000
Australia	7300	7400	7400	9900	9800	9100	9500	9800	9800	10000
U.S	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000
Others	33800	33700	34700	34200	35300	34000	34500	33700	33900	29700

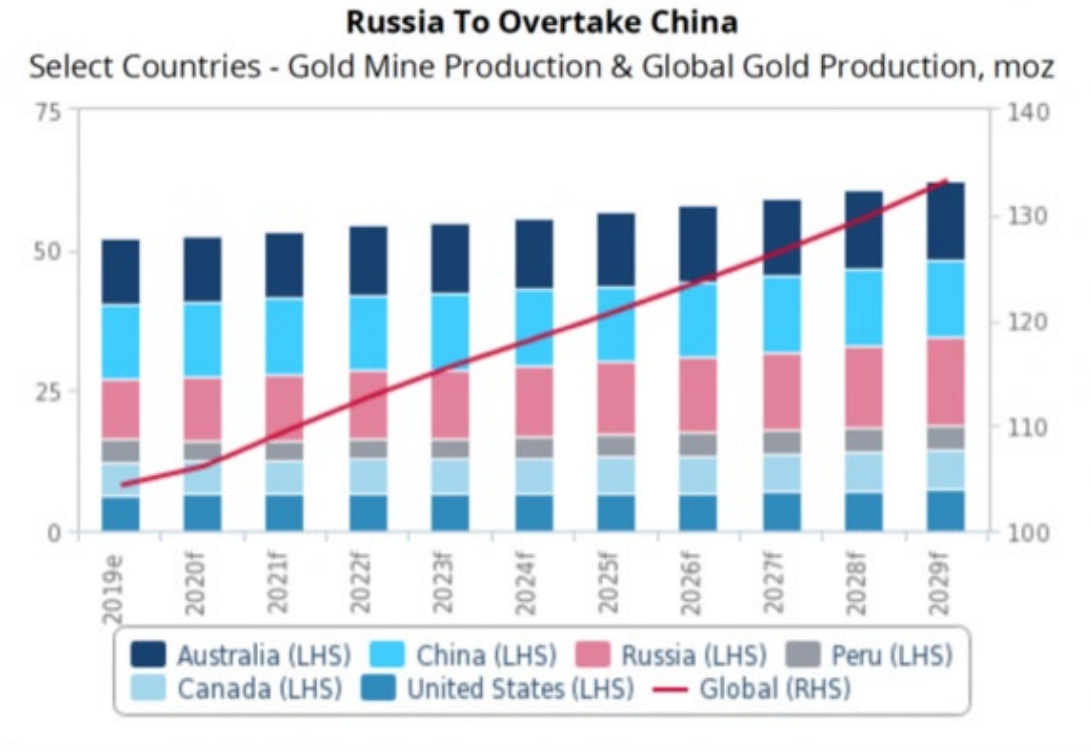




Source: USGS, Couloir Capital

However, over the long-term, some parties believe that Russia's gold production could grow to exceed China's, topping the nation as the largest producer globally. In a June 2020 report, Fitch Solutions stated that it expects Russia to expand production to shore up bullion reserves in the face of increasing U.S. sanctions. As bilateral relations continue to remain strained, the risk of Russian state-owned financial institutions being materially constrained or even restricted in dealing in dollar-denominated assets is expected to drive Russian demand for gold.

The domestic demand in Russia is expected to drive new gold tonnages, with Fitch Solutions forecasting a CAGR of 3.7% for gold production through to 2029. This would see Russia's share of global gold production increase to 11.6% in that year. By comparison, China's gold production is expected to grow far more modestly at a CAGR of 0.2% during the period, reflecting expected issues with dwindling reserves, production cuts and tightening environmental regulations. However, according to Fitch Solutions, one factor that may help China keep its top gold producer status would be for it to increase its investment in foreign gold operations.



Source: USGS, National Sources, Fitch Solutions

Despite the country's considerable mineral wealth and untapped gold potential, as a mining jurisdiction Russia does face some significant challenges that pose risks to investors looking to deploy capital in the country. Based on a 2015 research paper by scholars I.R. Ruyga and Y.A. Teterin (*Gold mining industry of Russia: trends, problems and development prospects*), as well a 2017 whitepaper done by EY and other sources, major issues with Russia's gold mining industry include:

- High depreciation rates on fixed assets.
- Logistics costs and logistical difficulties pertaining to on-site infrastructure.
- Bureaucracy and red tape constraining the permitting and development cycle, or resulting in delayed delivery times and budget overruns.
- Ore quality and lower grades resulting in high refinement costs for miners.
- Difficult geological and geo-economic conditions pertaining to prospective deposit development.
- Low productivity.
- Low degree of innovation and technological capability.
- Issues around access to capital and eligibility for project finance.

Especially in the case of the last point, access to capital for juniors in the jurisdiction is difficult and expensive to obtain. Outside of the national major producers, the ability of miners to self-fund project development or attract financing from local banks is fairly constrained and minimal. As a result, without access to international capital markets, many Russian gold miners

find themselves at major risk of being unable to raise needed funds to execute on project development. This financing risk specifically provides context as to why we see value in the potential of OSU's pilot mining initiative to raise near-term cash flows to fund expected exploration work.

However, these challenges may be set to ease, as both the Russian state scrambles to shore up reserves and expand production, and neighboring China may choose to pursue investment in foreign gold operations to maintain its status as the largest producer globally over the long-term. With gold prices nearing highs not seen since the early days of the U.S. Federal Reserve's Quantitative Easing programmes, and the specter of worsening multilateral tensions creating demand for gold reserve expansion, gold explorers braving Russia's wilderness may spark investor interest. In such a case, we expect that gold explorers may potentially face a significant drop in their cost of capital, increasing the attractiveness of Russia as a gold mining jurisdiction.

Management Overview

Management and insiders own a total of 44.65% of outstanding shares. We see the large insider share holding as a positive indicator, as it implies that management and the board are likely to be aligned with investors in their interests and motivations. The table below outlines insider share holding:

Management Shareholding

Name	Position	Shares	% of Total
Dr. Sergey Kurzin	Executive Chairman	1,184,830	2.76%
Sergei Stefanovich	Managing Director	12,284,892	28.66%
Dan O'Brien	CFO		0.00%
Mark Corra	Independent Director	144,807	0.34%
David Rhodes	Independent Director	971,855	2.27%
Vladimir Pakhomov	Independent Director	4,553,087	10.62%
			44.65%

Source: SEDI, Couloir Capital

The biographies of key management individuals (as provided by the company) are outlined below.

Dr. Sergey Kurzin – Executive Chairman
Dr Sergey Kurzin is a Russian-born (1960) research engineer who moved to the United Kingdom in 1990 and has since played a key role in initiatives to acquire and progress several important Former Soviet Union mining assets. These include Julietta (a high grade gold deposit in Magadan, Russia, with Bema Gold), Kupol (a high grade epithermal gold deposit in Chukotka, Russia, also with Bema Gold), and the Varvarinskoye copper and gold skarn deposit in Kazakhstan with European Minerals Corporation. He has also played a key role in establishing UrAsia Energy Ltd, a uranium producer with mining operations in the Republic of Kazakhstan. He founded Oriel Resources Plc and held the position of its Executive Chairman.

Sergei Stefanovich – Managing Director, Executive Director
Sergei Stefanovich is a lawyer by initial training and received an MBA from IMD (Institute for Management Development), Lausanne, Switzerland. He has over 16 years of corporate finance, strategy & business development experience principally focused on Russia and larger FSU area. He has managed a public equity mining fund that invested into junior mining companies and was Director (Strategy and M&A) for Norilsk Nickel and a past Board member of Gold Fields Limited. He served as a legal counsel for Sputnik private equity funds, AT&T & McKenna & Co. He resides in Moscow and is fluent in Russian and English.

Dan O'Brien – CFO
Dan O'Brien is a member of the Chartered Professional Accountants of British Columbia. He is also Chief Financial Officer for a number of publicly listed exploration companies trading on the TSX and TSX Venture exchanges. Mr. O'Brien was previously a senior manager at a leading Canadian accounting firm where he specialized in the audit of public companies in the mining and resource sector. Mr. O'Brien resides in British Columbia, Canada.

Mark Corra – Independent Director
Mr Mark Corra, was Senior VP Finance and CFO of B2Gold Corp. from March 2007 until April, 2014. Prior to that he spent 17 years with Bema Gold Corporation, first as Controller when he joined in 1990 and was later appointed Vice President Finance in 1995. Mr. Corra started his career at Placer Dome where he spent 11 years in various positions in the accounting department. A Certified Management Accountant, with a diploma in financial management from the British Columbia Institute of Technology, he oversaw financial reporting, cash management, tax planning and was a member of the management committee for B2Gold. Over the years he has also acted as CFO for Consolidated Puma Minerals Corp., Victoria Recourses Corp. and Consolidated Westview Resource Corp. Mr. Corra resides in British Columbia, Canada.

David Rhodes – Independent Director
Mr David Rhodes is a Managing Director at Endeavour Financial. His experience in the natural resource business spans more than twenty five years, having arranged, structured and advised on over $4.5 billion of resource related projects around the world. Mr Rhodes career prior to joining Endeavour was at Standard Bank, Barclays Capital and Royal Bank of Scotland. At Standard and Barclays, he sourced, structured and syndicated finance for resource projects and companies on a global basis. Having lived and worked in London and New York he has international experience of the CIS, North/South American, European and African markets. Mr. Rhodes is a member of the Institute of Financial Services and has a BSc (Hons) in Financial Services. Mr. Rhodes resides in London, UK.

Vladimir Pakhomov – Independent Director
Mr. Vladimir Pakhomov is a Managing Partner of Olympia Capital, Partner of Olympic Capital, an asset management and merchant banking firm specializing in investment opportunities primarily in Russia and CIS (2011 –

present). He was the Investment Director with Onexim Group (2007 – 2010). He graduated Moscow Institute of International Relations and is CFA Charterholder. Mr. Pakhomov resides in Moscow and is fluent in Russian and English.

Financials Overview

At the end of Q1-2020, the company had cash and working capital of $0.80 million and $0.80 million, respectively. The company's current ratio of 11.33x, though lower YoY, still demonstrates the ability of current assets to sufficiently cover current liabilities, implying a solid liquidity position at the end of March. Monthly cash burn (negative free cash flow) for the three months ended March 31, 2020 was $90.18k, up from the comparative period in 2019. Given the cash to monthly cash burn coverage is high, we do not anticipate any financing events in the short-term to cover operational cash bleed. The company holds no debt at this point in time. The following table summarizes the company's liquidity position:

Key Financial Data (FYE - Dec 31) (US$)		2019		Q1-2020
Cash	$	1,069,051	$	798,511
Working Capital	$	1,195,958	$	803,144
Current Ratio		15.93		11.33
Debt	$	-	$	-
Monthly Cash Burn	$	(53,183)	$	(90,180)
Cash from Financing Activities	$	-	$	-

Source: Company, Couloir Capital

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

Options	Strike		Exercise Value	
480,000	$	0.20	$	96,000
2,845,000	$	0.13	$	369,850
889,000	$	0.27	$	235,585
Warrants	**Strike**		**Exercise Value**	
1,400,000	$	0.36	$	504,000

Source: Company, Couloir Capital

The company currently has 4.21 million options (weighted average exercise price of $0.17 per share), and 1.40 million warrants (weighted average exercise price of $0.36 per share) outstanding. At this time, all of OSU's options and all of its warrants are in-the-money. Should the options and warrants be exercised, OSU will be able to raise C$1.21 million.

Revenue and EPS Forecasts

At current, OSU is in the exploration stage and is many years away from commercial production. Though pilot mining is expected to begin soon, the economics of OSU's deal with the toll mill party are undisclosed and

uncertain. 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 Preliminary Economic Assessment milestone, which 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 viable valuation method, we consider OSU'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 OSU based on development stage, asset profile, or a similar aspect.

Company	Location	Stage	M&I Au eq. Oz	Inferred Au eq. Oz	Net Au eq. Oz	Enteprise Value (US$)	EV/ Net Resource ($/Oz)
Orsu Metals Corp.	Russia	Exploration		1,417,000	708,500	$ 10,778,662	$ 15.21
Auriant Mining AB	Russia	Production	1,650,000	55,000	1,677,500	$ 135,711,344	$ 80.90
Petropavlovsk PLC	Russia	Production	14,870,000	6,160,000	17,950,000	$ 1,721,262,833	$ 95.89
Highland Gold Mining Ltd	Russia	Production	15,644,022	3,495,441	17,391,743	$ 323,000,000	$ 18.57
Kopy Goldfields AB	Russia	Development	290,000	1,539,000	1,059,500	$ 17,634,597	$ 16.64
AEX Gold Inc.	Greenland	Exploration		263,070	131,535	$ 52,997,123	$ 402.91
Otso Gold Corp.	Finland	Development	379,478	1,209,438	984,197	$ 21,857,770	$ 22.21
Mawson Resources Ltd.	Finland	Exploration		465,500	232,750	$ 64,157,875	$ 275.65
Average							**$ 116.00**

Source: Couloir Capital, Public Disclosures

Though the above table would suggest that the company should be trading at an equity value of $82.19 million on an EV/ net resource basis, we believe that the valuation metric above is not reflective of OSU's risk profile and stage in the exploration and development cycle. This is to be expected given the presence of producers and companies further along the development cycle in our selected peer group. To better reflect OSU's risk profile, we have applied a discount factor to bring the EV/ net resource relative valuation metric down to $30.71 per oz, which we believe is more appropriate.

Based on the above metrics and our aforementioned adjustments, we believe that OSU should be trading at a valuation of $21.76 million or C$0.71 per share on an EV/ net resource basis, implying that the company is trading at a discount to fair value. Note that we have come to the valuations by converting the implied EV to equity via the addition of cash and removal of debt.

Conclusion

After accounting for our valuation methodologies, we have arrived at fair value per share estimate of $0.71 per share. We are initiating coverage on OSU with a BUY rating, and expect the following catalysts to materially impact our valuation estimate:

- First news flow regarding cash flows from the company's pilot mining initiative.

- Announcements regarding the next steps in exploration and resource expansion work.
- 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 OSU as an investment opportunity:

- **Uncertainty Around Pilot Mining Economics:** As the pilot mining initiative serves to flesh out Sergeevskoe's development economics whilst also raising near-term cash flows that serve as an organic, non-dilutive source of financing, it may significantly influence OSU's valuation.
- **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, OSU's exploration and development activities will be particularly sensitive to market pricing during the pre-production / late development stage. Apart from market price deterioration resulting in lower benchmark prices being used in technical studies that act as economic viability confirmation and influence project build-out decisions, it also results in lower investor sentiment. This can negatively impact the company's access to capital, which is particularly important in the pre-production phase.
- **Inability to Expand Resource Further:** OSU's upside and valuation is disproportionately reliant upon Sergeevskoe's resource estimate the further away it is from later development milestones and commercial production. As a result, an inability to expand the company's resource may cap the company's intrinsic value. In addition, given that inferred resources are the least certain of the resource classes, an inability to increase measured and indicated resources will similarly cap the company's potential valuation.
- **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 OSU 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. In the last 12 months, Couloir Capital has been retained under a service or advisory agreement by the subject issuer.
3. In the last 12 months, Couloir Capital has received compensation for investment banking services.
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Each company within an analyst's universe, or group of companies covered, is assigned:

1. A recommendation or rating, usually BUY, HOLD, or SELL;
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.

These ratings are more fully explained below. Before acting on a recommendation, we caution you to confer with your investment advisor to determine the suitability of our recommendation for your specific investment objectives, risk tolerance and investment time horizon.

Couloir Capital's recommendation categories include the following:

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 this category are expected to under-perform 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.
Coverage Dropped
Couloir Capital will no longer cover the issuer. Couloir Capital will provide notice to clients whenever coverage of an issuer is discontinued. Following termination of coverage, we recommend clients seek advice from their respective Investment Advisor.
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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 enough information to re-evaluate the company's financial situation.

The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short-term volatility.

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 can incur 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 can incur a temporary or permanent loss of a significant portion 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.*