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## **Analyst Ideas of the Week – Dynacor Reports Record Production**

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**Sid Rajeev, B.Tech, MBA, CFA**  
**Head of Research**

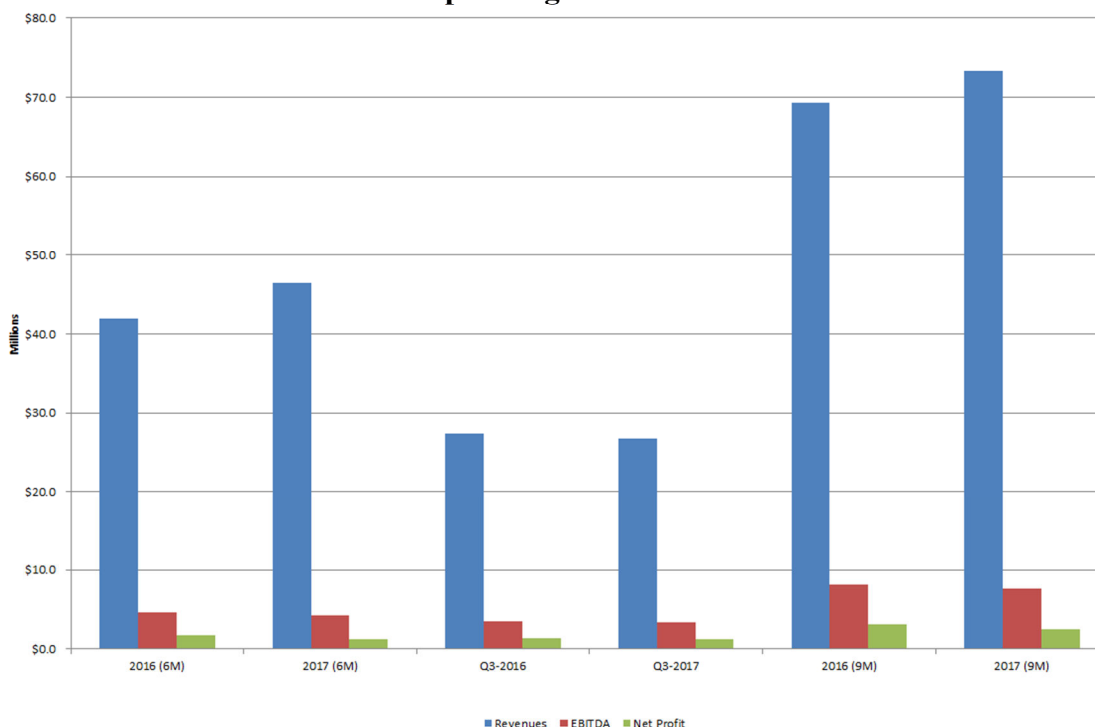
### **Dynacor Reports Record Production**

On January 18, 2018, Dynacor Gold Mines Inc. (TSX: DNG) announced that gold production in December 2017 hit an all-time high of 8,908 oz (up 31% YoY). The Chala facility in Peru has been operating at full capacity of 300 tpd since November. The full year production in 2017 was 79,897 oz, with 24,066 oz coming from the last quarter (up 15% YoY). 2017 production beat our forecast of 79,182 oz. Management's guidance for the year was 78 – 80 Koz. The annualized production rate is now approximately 100,000 oz of gold. The company is now taking initiatives to increase capacity to 360 tpd.

The company also announced earlier this month that it is now debt-free after making the final outstanding payment of \$1.9 million on its long-term senior secured credit facilities.

As 2017's gold production beat our estimate, we are expecting the company's 2017 financials to beat our revenue estimate of \$100 million, and net profit estimate of \$3.72 million (EPS: \$0.10). 2017 year-end financial statements are expected to be released in March. The following chart shows a summary of the operating performance for the first nine months of 2017.

## Operating Performance



*Source: Company Data*

**We have a BUY rating and a fair value estimate of \$3.85 per share on DNG's shares.**

## Shoal Games Reports 250,000+ Downloads

On January 19, 2018, Shoal Games Ltd. (TSXV: SGW) announced that Rooplay surpassed 250,000 downloads from the Google Play Store since its launch in May. This is up from over 220,000 downloads since our update report in December 2017. **We believe the significant increase in downloads in the last month is highly encouraging, and is indicative of potential to gain more traction.**

With over 500 games on the platform, we believe that Shoal has a significant first mover advantage in the growing EdTech space focused on games for kids. According to Research and Markets, the global game based learning market is estimated to be US\$3.49 billion in 2017, and is expected to grow at a rate of 19.60% p.a. to \$8.5 billion by 2022. Another research firm, Metaari, predicts the market will grow from \$3.2 billion in 2017, at a rate of 20.2% p.a., to reach \$8.1 billion by 2022. The U.S. market alone is estimated to grow at a rate of 24.3% p.a. from \$0.27 billion in 2017, to \$0.80 billion by 2022.

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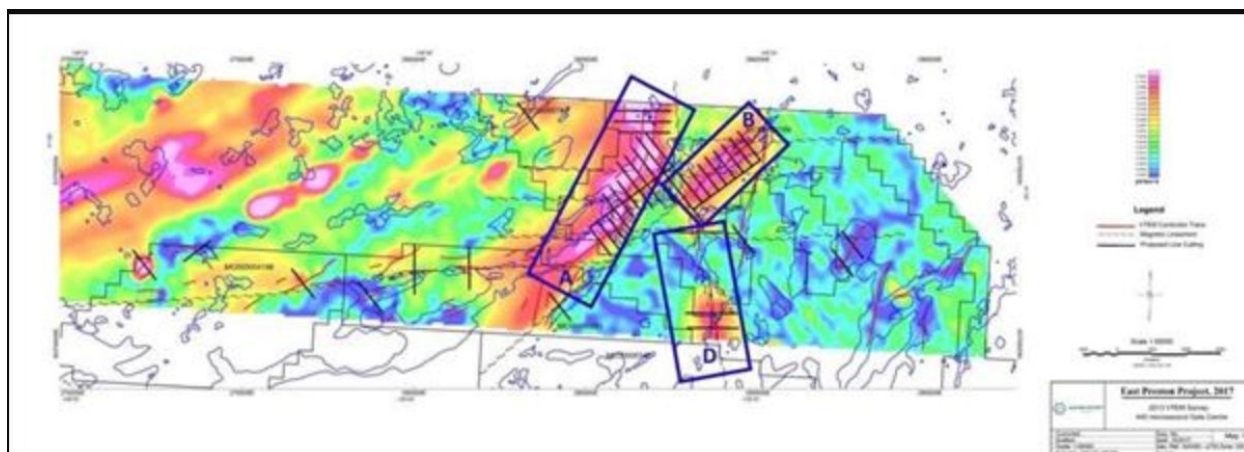
Shoal intends to gain traction through direct marketing to consumers and through partnerships with mobile handset manufacturers, cable companies, in-flight entertainment, and mobile telecommunications operators through a revenue share model. Management is in discussions with a number of mobile operators worldwide. Even a single distribution deal, we estimate, will allow Rooplay to reach significant audience levels at a very low cost.

**We have a BUY rating and a fair value estimate of \$1.63 per share on Shoal's shares.**

### **Skyharbour's Partners Commencing Work**

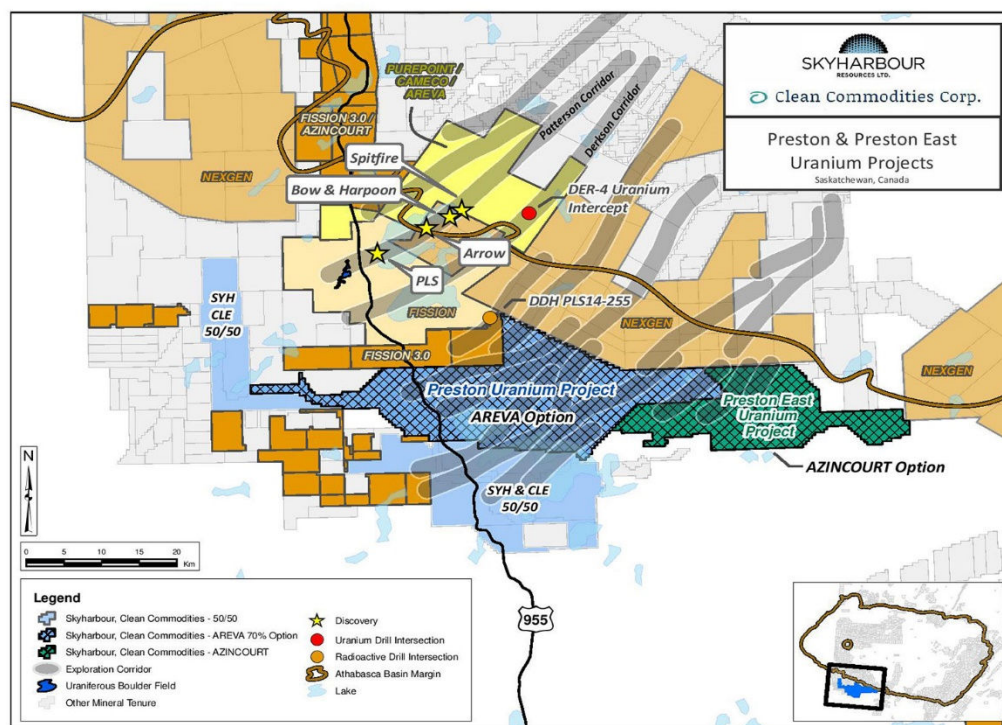
On January 23, 2018, **Skyharbour Resources Ltd.** (TSXV: SYH) announced that its partner, Azincourt Energy (TSXV: AAZ), is planning to commence an exploration program at the East Preston uranium project. A recent interpretation of the historical airborne and ground geophysical data identified numerous conductor trends with A, B and D (shown below) as the top priorities.

#### **Targets**



*Source: Company*

**On January 22, 2018, the company had announced that its other partner, AREVA, will be commencing a 4,500 m (15 to 20 holes) diamond drill program at the Preston uranium project.**



*Source: Company*

- AREVA can earn up to a 70% interest in the central portion of Preston for \$8 million in project consideration over six years, including \$7.30 million in exploration expenditures and \$0.70 million in cash payments.
- Azincoourt can earn a 70% interest in East Preston for 4.50 million AAZ shares (issued upfront), and \$3.50 million in project consideration over three years, including \$2.50 million in exploration expenditures and \$1 million in cash payments.

**We have a BUY rating and a fair value estimate of \$1.01 per share on.**

## **Mammoth Announces Results of First Two Holes**

On January 23, 2018, **Mammoth Resources Corp.** (TSXV: MTH) announced results from the first two drill holes on the Tenoriba property, located in the prolific Sierra Madre precious metal belt in southwestern Chihuahua State, Mexico. The region is host to several well-known mines / advanced stage deposits. The Tenoriba project is estimated to hold a high sulphidation precious metal system over a large 15 sq. km area. We had initiated coverage on MTH at \$0.08 per share

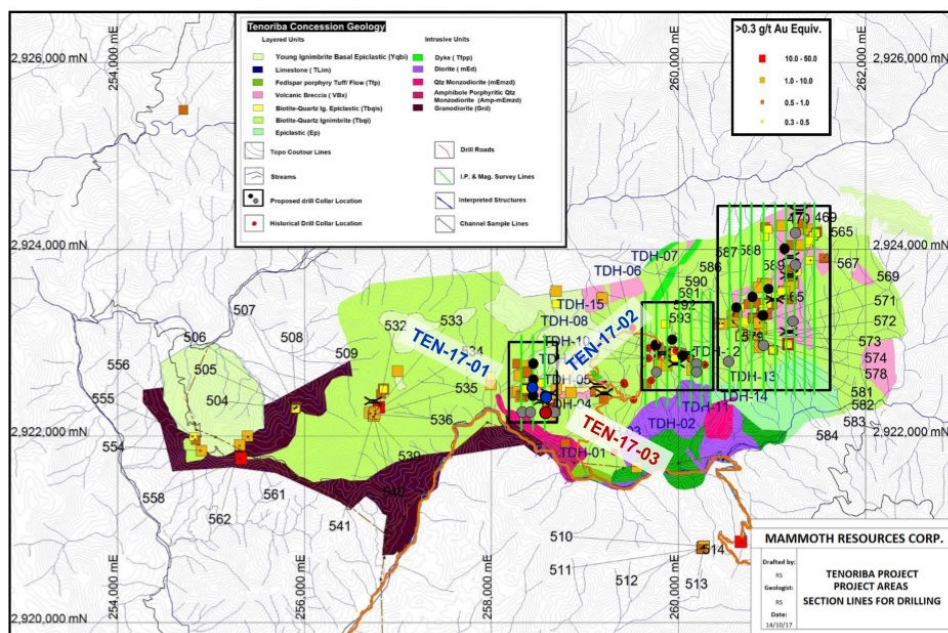
in November 2017. Although the share price ran up to \$0.16, it has since dropped, and is currently back at \$0.08 per share.

The two holes were the first ever holes drilled on El Moreno – one of the primary prospects over the 6km trend identified at Tenoriba. Previous surface sampling results included: 5.8 m grading 2.78 gpt gold, 3.3 m grading 4.04 gpt gold, and a 8.5 m long channel sample averaging 0.86 gpt gold.

*Hole 17-01 returned 3.5 gpt Au Eq. over 5.9m. Although hole 17-02 did not intercept any high values, the long intervals are encouraging.*

### Drill Results and Location

Hole Number	From (m)	To (m)	Total (m)	Au Grade (g/t)	Ag Grade (g/t)	Au Eq. Grade (g/t)
<b>TEN 17-01</b>	169	209	<b>30</b>	0.77	2	<b>0.79</b>
<b>(including)</b>	198.5	204.5	<b>5.9</b>	3.41	7.2	<b>3.51</b>
<b>TEN 17-02</b>	180.5	260.5	<b>80</b>	0.17	0.3	<b>0.18</b>
<b>(including)</b>	187	196	<b>9</b>	0.51	5.3	<b>0.52</b>
<b>(including)</b>	180.5	196	<b>15.5</b>	0.35	8.6	<b>0.36</b>



Source: Company



The company is currently completing a third hole at El Moreno, which will be followed by drill holes to test other highly prospective identified areas on the project.

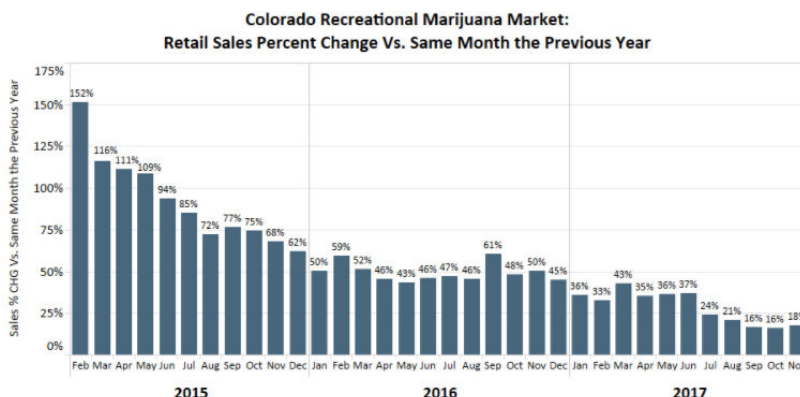
**We have a BUY rating and a fair value estimate of \$0.41 per share on MTH.**



**Anthony De Ruijter, B.A. (econ)**  
**Analyst**

**What does a mature Cannabis market look like? Take a look at Colorado.**

A question that appears to be at the back of investors' heads is how long one can expect future cannabis sales to grow. It is expected that cannabis revenues will exhibit searing rates of growth once full adult use of cannabis is legalized in Canada- but how long will this party last? A chart from Marijuana Business Daily, a cannabis-focused business news outlet, gives investors a glimpse into the decelerating sales growth in Colorado, where full adult use of cannabis was legalized in 2014.



*Source: Colorado Department of Revenue, Marijuana Business Daily*

As shown, sales have declined steeply since 2014, on a month-over-month basis. Triple digit growth in early 2015 has decreased to more modest growth rates in the low double digits. The trend points towards the Colorado recreational cannabis market moving towards a mature stage of growth.

What does this mean for investors in the Canadian cannabis space? For one, it points to a market with non-smoothed growth. If Canada's recreational cannabis market follows the sales growth of Colorado, we can expect to see immediate, outsized growth in sales of legal cannabis. That is likely to provide fuel for share prices in the short-term, which are valued at a large premium already due to expectations of outsized sales growth (and hopefully earnings growth). However, a steep decline in sales growth following the high sales growth of the first few years implies a potential correction in equity prices in the cannabis sector, or at the very least, a normalization of share price growth.

However, it should be stressed that this is the expectation. New markets that grow at explosive rates must, at some point, settle into maturity. Furthermore, Colorado's cannabis industry is far from "true maturity"- double digit growth may be lower than previous growth rates of the space, but it is still a very large rate of growth relative to comparable industries. For example, global volume sales of cigarettes are expected to *decline* by 8.2% by 2021, according to Euromonitor International. Given the number of growth catalysts investors could potentially see in the foreseeable future (legalization of cannabis in other countries, consolidation of the sector, technological advances in the space), we expect the publicly-traded cannabis sector to continue to grow.

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