

**Action Summary – 10 March 2023**

Analyst Theodore R. O'Neill

- **On Tuesday, March 7, BMXI held an investor call to discuss 4Q22 and the year's results.** We are updating our model and reiterate our Buy rating and \$6 price target.
- **Minor miss to estimates.** The company reported 4Q22 revenue and EPS of \$3.2MM and \$0.03, respectively (See Figure 2). We had been looking for revenue and EPS of \$4.6MM and \$0.06, respectively. There is no consensus. The unfavorable \$0.03 EPS variance was primarily due to lower sales. On the earnings conference call, management explained the sequential downturn in sales was due to spending more time exploring better gold seams and partly due to an increase in its AU inventory in expectation of higher prices.
- **Balance sheet update.** There was an increase in inventory, which management said was due to expectations of higher gold prices in subsequent months. Prices have since risen. There was an increase in PP&E that went into extending the life of its existing plant.
- **Audit pending.** The company anticipates having three-year audited financials sometime in the March 2023 quarter.
- **Potential Uplisting.** Audited results are needed to proceed with a desired uplisting on either the NASDAQ or the NYSE American or similar.
- **Shares selling for a significant discount to peers.** Shares are trading at a ~96% discount to peers on a multiple of sales, ~95% discount to earnings and a ~89% discount to book while book, earnings and sales are growing.

3/9 Closing price: <b>\$0.13 USD</b>	Market cap: <b>\$7 million</b>	Multiple of book: <b>0.24</b>	EV/2024 Sales: <b>0.10</b>
Diluted shares outstanding: <b>53 million</b>	Insider ownership: <b>40%</b>	3-mo avg. daily trading volume: <b>&gt;500,000</b>	Dividend/Yield: <b>NA/NA</b>

**GAAP estimates (EPS in USD – Revenue in USD millions)**

Period	EPS	Revenue	Op Margin
1Q21A	\$0.10	\$3.03	56%
2Q21A	\$0.10	\$3.14	54%
3Q21A	\$0.13	\$3.50	55%
4Q21A	<u>\$0.12</u>	<u>\$4.40</u>	<u>56%</u>
FY21A	<u>\$0.37</u>	<u>\$14.07</u>	<u>55%</u>
1Q22A	\$0.10	\$4.04	55%
2Q22A	\$0.08	\$4.59	55%
3Q22A	\$0.06	\$4.53	57%
4Q22A	<u>\$0.03</u>	<u>\$3.20</u>	<u>46%</u>
FY22A	<u>\$0.25</u>	<u>\$16.36</u>	<u>54%</u>
1Q23E	\$0.04	\$4.80	53%
2Q23E	\$0.04	\$5.00	53%
3Q23E	\$0.05	\$5.10	52%
4Q23E	<u>\$0.05</u>	<u>\$5.30</u>	<u>52%</u>
FY23E	<u>\$0.18</u>	<u>\$20.20</u>	<u>52%</u>

Note: Numbers may not add due to rounding and changes in share count. See our full model at the back of this report.

**Cash balance (in USD millions)**

• 2021A	• \$0.07
• 2022A	• \$0.2
• 2023E	• \$0.6

**Debt (in USD millions)**

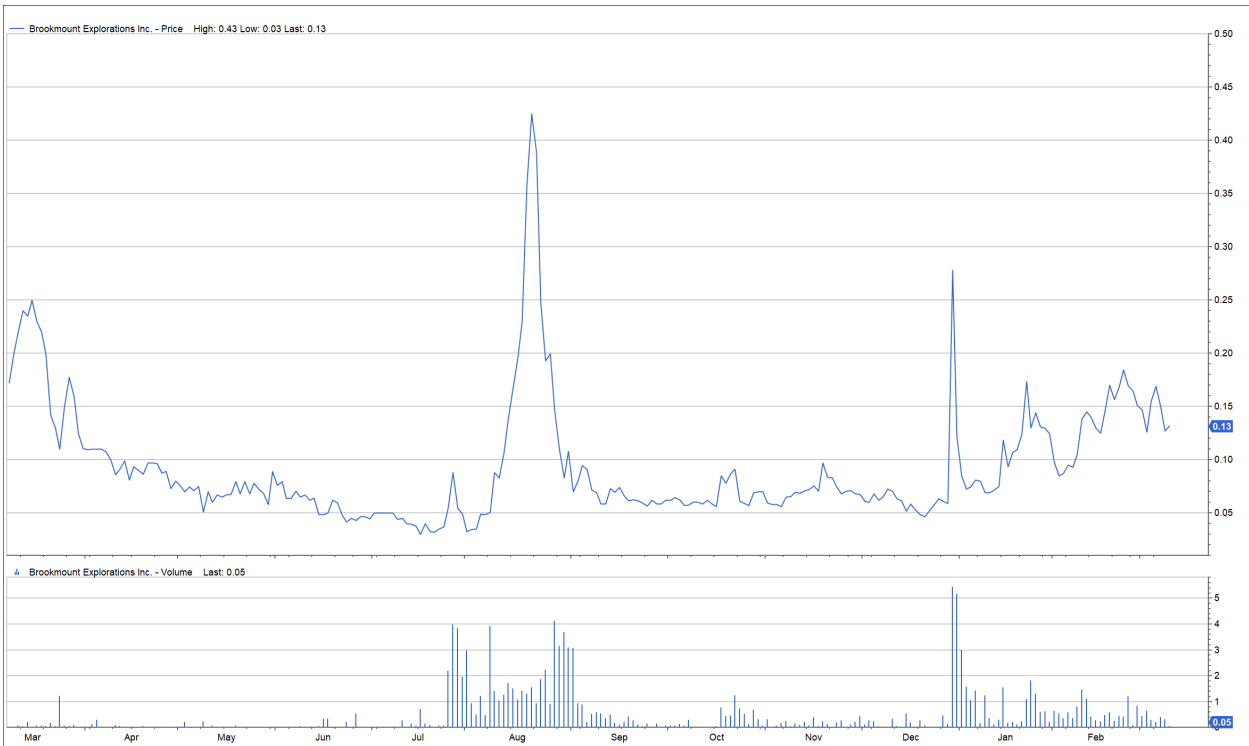
• 2021A	• \$0.00
• 2022A	• \$0.00
• 2023E	• \$0.00

**Risks/Valuation**

- Risks: economic conditions, competition, inflation, low trading volume, country risk and possible changes to historical results post audit.
- Our \$6 price target is derived from our discounted future earnings model

**Company description:** Brookmount Gold (OTC: BMXI) is a high-growth gold-producing company incorporated and listed in the United States. It engages in the global exploration, development, and production of gold. The company has a portfolio of gold projects in Indonesia, Canada, and the United States. Led by a team of professionals with years in the industry, the company follows strict environmental-care processes to exploit the gold mines, seeking profitability while supporting local communities.

Figure 1 – Brookmount Explorations, Inc. – One-Year Trading snapshot



Source: FactSet

## Quarterly Results

**Minor miss to estimates.** The company reported 4Q22 revenue and EPS of \$3.2MM and \$0.03, respectively (See Figure 2). We had been looking for revenue and EPS of \$4.6MM and \$0.06, respectively. There is no consensus. The unfavorable \$0.03 EPS variance was primarily due to lower sales. On the earnings conference call, management explained the sequential downturn in sales as due to spending more time exploring better gold seams and partly due to an increase in its AU inventory in expectation of higher prices. The price of gold had been falling for most of 2023 and has risen since the end of the company’s 4Q22, which ended in November (See Figure 3).

Figure 2 – Brookmount Explorations, Inc. – Quarterly Variance (\$ in 000 except per share)

			Better/(worse) than forecast
	2022 Q4E	2022 Q4A	
Total Revenue	\$4,600	\$3,200	(\$1,400)
Total Cost of Revenue	1,500	1,100	400
Total Gross Profit	3,100	2,100	(1,000)
Operating expenses:			
Depreciation and amortization	200	95	105
SG&A	390	542	(152)
Total Expenses	590	637	(47)
Earnings/(loss) from Operations	2,510	1,463	1,047
Total Other income/(expense)	0	(12)	(12)
Earnings before taxes	2,510	1,451	(1,059)
Tax expense/(benefit)	251	145	(106)
Net income	2,259	1,306	(953)
Impact of non-controlling interest			0
Net Income/(loss)	\$2,259	\$1,226	(\$1,033)
EPS	\$0.06	\$0.03	(\$0.03)
Diluted common shares	39,264	39,264	

Source: Litchfield Hills Research LLC

Figure 3 – Brookmount Explorations, Inc. – One-Year NY Gold



Source: FactSet

## Valuation and Price Target

### Valuation Methodology

We believe BMXI is undervalued, and we support that belief with two valuation techniques. For the purposes of determining our price target we use a discounted future earnings model, which we then compare to its valuation relative to peers. The following valuation techniques are being used:

- 1) The discounted value of all future earnings was used for our price target (see Figure 4)
- 2) Valuation relative to peers (see Figure 5)

### Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$6 is based on a discounted earnings model. For valuation purposes, we sum up all future earnings on a GAAP basis and discount them at 20%. We assume the company grows rapidly until 2034 before growth eventually slows to GDP. Our valuation model is shown in Figure 4 below. Note, this model understates future new products and growth through acquisitions and probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$5.69 which we round to \$6.

*Figure 4 – Brookmount Explorations, Inc. – Price Target Calculation*

Disc. Future Earnings		\$5.69
Year	EPS	Discounted EPS
2023	\$0.18	\$0.18
2024	\$0.23	\$0.19
2025	\$0.45	\$0.31
2026	\$0.60	\$0.35
2027	\$0.85	\$0.41
2028	\$1.00	\$0.40
Terminal Value:		\$3.85

Source: Litchfield Hills Research LLC

### Valuation Relative to Peers

Figure 5 is a summary of our BMXI peer comparison. The average Market Cap/Sales for 2024 is 2.94x. If BMXI was given an average multiple, its market cap would be \$77.9MM for a share price of ~\$1.47. This would imply a PE of 6x when the average is ~11x. At the average PE, the implied share price would be ~\$2.02. This broadly confirms our view that, along with our discounted earnings model, the shares are undervalued.

Figure 5 – Brookmount Explorations, Inc. – Valuation of Peers

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2024 Consensus Multiples except Book			
					Market Cap / Sales	EV /Sales	Price to Book	PE
KOZAL.E-TR	Koza Altin Isletmeleri A.S. (Koza Gold)	\$1.03	3,303	2,776	5.30	4.50	7.27	8.83
TFPM-CA	Triple Flag Precious Metals Corp. (CA Listing)	\$13.19	2,649	1,978	13.49	8.65		27.32
SSL-CA	Sandstorm Gold Ltd. (CA Listing)	\$4.83	1,440	1,647	8.46	8.43		43.08
KNT-CA	K92 Mining Inc	\$5.33	1,242	1,168	5.47	3.31	5.67	11.45
WDO-CA	Wesdome Gold Mines Ltd	\$4.50	642	664	3.06	2.08	2.70	8.77
ORA-CA	Aura Minerals Inc. (CA Listing)	\$7.12	513	642	1.02	1.11	1.36	3.83
EDR-CA	Endeavour Silver Corp. (CA Listing)	\$2.83	537	473	2.64	2.09	3.04	22.87
SVM-CA	Silvercorp Metals Inc. (CA Listing)	\$2.97	524	413	2.48	1.61	1.26	11.07
GGD-CA	Gogold Resources, Inc.	\$1.31	386	326	8.80	7.33	1.41	NMF
ARIS-CA	Aris Mining Corp	\$2.75	374	335	0.78	0.65	0.86	2.70
VGCX-CA	Victoria Gold Corp.	\$5.61	362	522	1.25	1.57	0.85	11.98
AR-CA	Argonaut Gold Ltd.	\$0.33	276	289	0.71	0.55	0.38	5.17
CMCL-US	Caledonia Mining Corp. (US Listing)	\$12.81	221	181	1.38	1.16	0.92	12.70
EUR-FR	Euro Ressources SA	\$3.04	190	167			4.92	
RBX-CA	Robex Resources Inc.	\$0.21	180	131			2.43	
MND-CA	Mandalay Resources Corp.	\$1.81	167	151	0.94	0.73	1.12	5.55
FTCO-US	Fortitude Gold Corp.	\$6.15	148	107			1.14	
JAG-CA	Jaguar Mining Inc (CA Listing)	\$1.78	129	108	0.79	0.65	1.17	8.74
APM-CA	Andean Precious Metals Corp	\$0.59	93	4	0.89		2.13	
MKO-CA	Mako Mining Corp.	\$1.49	98	113			7.48	
DNG-CA	Dynacor Group Inc (CA Listing)	\$2.18	84	56	0.38		1.35	
DYNR-US	DynaResource, Inc.	\$2.12	44	36				
FISH-CA	Sailfish Royalty Corp.	\$0.83	59	58				
ALTN-GB	AltynGold PLC	\$1.39	38	62			0.77	
SRB-GB	Serabi Gold PLC (Registered)	\$0.37	28	25	0.42		0.73	3.34
SGI-CA	Superior Gold Inc	\$0.21	26	25	0.18	0.16	1.62	0.83
MTR-GB	Metal Tiger PLC	\$0.12	21	(2)			0.69	
KLD-CA	Kenorland Minerals Ltd.	\$0.54	23	22			2.04	
ATY-CA	Atico Mining Corp.	\$0.16	19	37	0.31	0.77	0.60	2.72
GDP-GB	Goldplat Plc	\$0.11	18	18				
AUR-SE	Auriant Mining AB	\$0.12	12	60				
ATLY-CA	Altaley Mining Corporation	\$0.27	10	47			4.07	
	<b>AVERAGE</b>				<b>2.94</b>	<b>2.67</b>	<b>2.23</b>	<b>11.23</b>
We removed metrics and replaced with NMF where the metrics were more than 10x standard deviations from the average to avoid skewing the data								
BMXI-US	Brookmount Explorations Inc.	\$0.13	3	3	0.14	0.13	0.10	0.71
<b>BMXI-US</b>	<b>Discount to peers:</b>				<b>-95%</b>	<b>-95%</b>	<b>-96%</b>	<b>-94%</b>

Source: Litchfield Hills Research LLC and FactSet

Figure 6 – Brookmount Explorations, Inc. – Income Statement (\$ in 000 except per share)

November ending year	2021A	2022A				2022A	2023E				2023E	2024E				2024E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
<b>Total revenue</b>	\$14,070	\$4,041	\$4,585	\$4,530	\$3,200	\$16,356	\$4,800	\$5,000	\$5,100	\$5,300	\$20,200	\$5,800	\$6,200	\$7,000	\$7,500	\$26,500
Growth	28%	33%	46%	30%	-27%	16%	19%	9%	13%	66%	24%	21%	24%	37%	42%	31%
Cost of Goods	4,292	1,350	1,508	1,463	1,100	5,421	1,584	1,650	1,683	1,749	6,666	1,914	2,046	2,310	2,475	8,745
<b>Gross Profit</b>	<b>9,778</b>	<b>2,691</b>	<b>3,077</b>	<b>3,067</b>	<b>2,100</b>	<b>10,935</b>	<b>3,216</b>	<b>3,350</b>	<b>3,417</b>	<b>3,551</b>	<b>13,534</b>	<b>3,886</b>	<b>4,154</b>	<b>4,690</b>	<b>5,025</b>	<b>17,755</b>
Depreciation and amortization	252	62	122	115	95	394	114	137	164	197	612	236	284	340	408	1,269
SG&A	1,758	389	425	375	542	1,731	558	575	592	610	2,336	610	628	647	667	2,552
Total Operating Expenses	2,010	451	547	490	637	2,125	672	712	756	807	2,948	846	912	988	1,075	3,821
<b>Operating Income</b>	<b>7,768</b>	<b>2,240</b>	<b>2,530</b>	<b>2,577</b>	<b>1,463</b>	<b>8,810</b>	<b>2,544</b>	<b>2,638</b>	<b>2,661</b>	<b>2,744</b>	<b>10,586</b>	<b>3,040</b>	<b>3,242</b>	<b>3,702</b>	<b>3,950</b>	<b>13,934</b>
Operating income %	55%	55%	55%	57%	46%	54%	53%	53%	52%	52%	52%	52%	52%	53%	53%	53%
Total Other Items	(18)	(18)	(16)	(16)	(12)	(62)	0	0	0	0	0	0	0	0	0	0
<b>Pre-Tax Income</b>	<b>7,750</b>	<b>2,222</b>	<b>2,514</b>	<b>2,561</b>	<b>1,451</b>	<b>8,748</b>	<b>2,544</b>	<b>2,638</b>	<b>2,661</b>	<b>2,744</b>	<b>10,586</b>	<b>3,040</b>	<b>3,242</b>	<b>3,702</b>	<b>3,950</b>	<b>13,934</b>
Taxes (benefit)	1,100	295	605	125	225	1,250	254	264	266	274	1,059	304	324	370	395	1,393
Tax Rate	14%	13%	24%	5%	16%	14%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
<b>Net Income</b>	<b>\$6,650</b>	<b>\$1,927</b>	<b>\$1,909</b>	<b>\$2,436</b>	<b>\$1,226</b>	<b>\$7,498</b>	<b>\$2,289</b>	<b>\$2,374</b>	<b>\$2,395</b>	<b>\$2,470</b>	<b>\$9,528</b>	<b>\$2,736</b>	<b>\$2,918</b>	<b>\$3,332</b>	<b>\$3,555</b>	<b>\$12,541</b>
<b>EPS, as reported</b>	<b>\$0.37</b>	<b>\$0.10</b>	<b>\$0.08</b>	<b>\$0.06</b>	<b>\$0.03</b>	<b>\$0.25</b>	<b>\$0.04</b>	<b>\$0.04</b>	<b>\$0.05</b>	<b>\$0.05</b>	<b>\$0.18</b>	<b>\$0.05</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>\$0.07</b>	<b>\$0.23</b>
Diluted Shares Outstanding	17,795	20,095	23,079	39,064	39,264	30,375	52,775	52,875	52,975	53,175	52,950	53,375	53,575	53,775	53,975	53,675

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Brookmount Explorations, Inc. – Balance Sheet (\$ in 000)

November ending year	FY2024E	FY2023E	FY2022A	FY2021A
<b>Balance sheet</b>				
Current Assets				
Cash and S.T.I.	\$1,110	\$570	\$182	\$69
Accounts receivable	0	0	0	0
Inventories	4,000	2,000	3,200	1,125
Other assets	0	0	0	0
<b>Total Current Assets</b>	<b>5,110</b>	<b>2,570</b>	<b>3,382</b>	<b>1,194</b>
PP&E	8,000	6,000	3,400	1,050
Land Usage Rights	20,000	16,000	9,850	8,300
Other LT assets	20,000	16,000	9,850	8,300
<b>Total Assets</b>	<b>\$52,110</b>	<b>\$39,570</b>	<b>\$30,522</b>	<b>\$21,940</b>
Current Liabilities				
Accounts payable	\$500	\$500	\$259	\$308
Convertible notes	700	700	1,467	1,339
Income taxes payable				
Other current liabilities	0	0	0	1
<b>Total current liabilities</b>	<b>1,200</b>	<b>1,200</b>	<b>1,726</b>	<b>1,648</b>
Unpaid capital commitments	0	0	244	244
Other long-term	0	0	0	0
<b>Total Liabilities</b>	<b>1,200</b>	<b>1,200</b>	<b>1,970</b>	<b>1,892</b>
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	270	270	260	237
Additional paid-in-capital	2,000	2,000	1,720	737
Retained earnings	49,551	37,011	27,483	19,985
Adjustments to equity	(911)	(911)	(911)	(911)
Total stockholders' equity	50,910	38,370	28,552	20,048
<b>Total Liabilities and equity</b>	<b>\$52,110</b>	<b>\$39,570</b>	<b>\$30,522</b>	<b>\$21,940</b>

Source: Company reports and Litchfield Hills Research LLC

*Figure 8 – Brookmount Explorations, Inc. – Cash Flow (\$ in 000)*

	<u>2024E</u>	<u>2023E</u>	<u>2022A</u>	<u>2021A</u>
Net Income / (loss)	12,541	9,528	\$7,498	6,650
Receivables	0	0	0	0
Inventory	(2,000)	1,200	(2,075)	(901)
Other	0	0	0	3
PP&E	(2,000)	(2,600)	(2,350)	(230)
Land Usage Rights	(4,000)	(6,150)	(1,550)	(2,500)
Other LT assets	(4,000)	(1,110)	(2,494)	(3,963)
Accounts payable	0	241	(49)	302
Convertible notes	0	(17)	(197)	309
Income taxes payable	0	(750)	325	250
Other current liabilities	0	0	(1)	(27)
Unpaid capital commitments	0	(244)	0	0
Other long-term	0	0	0	0
Preferred stock	0	0	0	0
Common stock	0	10	23	3
Additional paid-in-capital	0	280	983	0
Adjustments to equity	0	0	0	0
Other				
Total Cash Flow	541	388	\$113	(104)

Source: Litchfield Hills Research LLC

**Disclosures:**

**Analyst Certification**

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

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**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

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## Brookmount Gold Corp. (Brookmount Explorations, Inc.) BMXI-US - Buy \$6 PT

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