

July 1, 2021

ASCENDANT RESOURCES INC. (ASND: TSX)

BUSINESS DESCRIPTION

Based in Toronto, Ascendant Resources is focused on the exploration and development of the Lagoa Salgada VMS (Volcanogenic Massive Sulphide) project located on the Iberian Pyrite Belt (IBP) in Portugal. The IBP represents the largest concentration of massive sulphide deposits in the world, spanning sections of Portugal and Spain, and has a long history of large-scale mineral discovery (producing more than 1.75 billion tons of massive sulfide ore and 2.5 billion tons of mineralized stockwork over the past one hundred years).

Ascendant currently holds a 25% interest in the Lagoa Salgada project through an option position in the Redcorp operating company, and has an earn-in opportunity to increase its interest in the project to 80%. The company anticipates increasing its stake to 50% by the end of 2021 and 80% by the end of 2022, this by reaching certain in-ground investment and payment thresholds, including the completion of a new Bankable Feasibility Study (BFS) on the site.

Historical study on the project site focused on a deposit located in the North Zone. A PEA completed in 2020 demonstrated compelling economics and, importantly, scalability for future resource growth. Due to the small size of the confirmed area, the economic projections in the PEA -- namely an NPV of \$106 million, and capex obligations of \$160 million on a short nine-year mine life -- were deemed to have an unfavorable risk profile.

Following the initial PEA, the decision was made to enhance drilling to expand and upgrade the copper-rich resources within the Central and South Zones (now merged into one South Zone). The move could provide meaningful expansion to the current resource and inform a new PEA that includes both regions. Ascendant expects this new PEA to show a longer mine life and increased throughput rates, as well as a material increase in the economic potential offered at Lagoa Salgada. The new PEA is scheduled to be completed by August 2021.

Upon the publication of the new PEA, Ascendant Resources plans to initiate a feasibility study and anticipates completion near the end of 2022. The company also will conduct economic impact studies on the site. In our view, these initiatives represent key milestones towards increasing Ascendant's stake in the Lagoa Salgada project to the 80% threshold.

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KEY STATISTICS

Key Stock Statistics

Recent price (6/30/21), CAD	\$0.24
52 week high/low (CAD)	0.34 - 0.08
Shares outstanding (M)	96
Market cap (M, CAD)	23.0
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Materials
Sector % of S&P 500	2.8%

Financials (\$M, CAD)

Cash & Mkt Securities	0.2
Debt	0.5
Working Capital (\$M)	-1.3
Current Ratio	0.3
Total Debt/Equity (%)	9.0%
Payout ratio	NM
Revenue (M) TTM	NM
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	2.59
Inst. ownership	0%

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	NA
Price/Book (TTM)	NA

Top Holders

CQS Investment Management Ltd.
MM Asset Management

Management

CEO	Mr. Mark Brennan
President	Mr. Joao Barros
Executive Vice President	Mr. Cliff Hale-Sanders
Company website	www.ascendantresources.com

PRICE CHART



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To date, the site contains nearly 28 million tons of resource, with 14.4 million tons classified as Measured & Indicated, and over 13.3 million tons classified as Inferred. The level of resource has increased significantly, from 10 million tons in 2018. Between 2018 and the first quarter of 2021, the site has shown a 202% increase in Inferred resource and 159% increase in Measured & Indicated resource. Further, the resource identified to date has demonstrated typical mineralization characteristics of Iberian Pyrite Belt VMS deposits containing zinc, copper, lead, tin, silver, and gold. Analysis of the area suggests up to 150 million tons in potential resource, most of which is as of yet untouched, and represents favorable prospects for long-term expansion, in our view.

In March 2021, Ascendant announced that a completed Phase 1 drill program on the South Zone of the site resulted in an increase of Indicated Mineral Resources by 44% to 4.4 million tons, and Inferred Mineral Resources by 21% to 7.7 million tons. To date, only 900 meters of the 1.7km Strike Zone have been tested, and the site remains drilled at only a shallow level, representing possible vast opportunity for resource expansion. In January 2021, Phase 2 drilling in the South Zone commenced, targeting further expansion, and the company modestly updated its resource levels in June 2021, based on results from a completed three-hole drill program.

Supporting its drilling efforts, Ascendant has been conducting metallurgical test work on the sulphide and stockwork ores at Lagoa Salgada. Following an encouraging, but small, first stage of approximately 30 kilos, the company recently initiated a Phase 2 metallurgical test work program of approximately 600-kilo samples from both the North and South Zones. This will provide fresh samples from recently drilled areas and contribute to the significant indicated resource growth. Based on initial results, Redcorp began working with one of the most reputable metallurgists in the IPB. Its analysis estimated that the Lagoa Salgada site could achieve robust resource recoveries and salable concentrates for stockwork copper ore, zinc, and massive sulphides. Ascendant anticipates these findings to be on level with those required in a pre-feasibility study, and expects to report results in the coming months.

COMPETITIVE ADVANTAGE

In our view, Ascendant Resources is well positioned to capitalize on an upward trajectory for copper prices, which we attribute to increased demand and declining inventory. Given its superior conductivity, copper demand has expanded for use in producing electric vehicles and other “green economy” initiatives. Inventories of copper recently reached a 15-year low, and pricing is expected to reflect these demand dynamics.

Copper prices have been volatile over the past few months. They reached all-time highs in May 2021, driven by accelerations in manufacturing and industrial output in China. But they pulled back since then amid concerns over a Beijing-led crackdown on speculators.

We view the Lagoa Salgada site’s infrastructure as another competitive advantage for Ascendant. The project is situated along a section of the Iberian Pyrite Belt in Portugal that is accessible by national highways and roads. In addition, the site has access to Portugal’s ports, power, waterways, and dams.

We expect the project to move forward expeditiously, given strong support of local community and local government. The latter, Empresa de Desenvolvimento Mineiro, S.A. (EDM), a Portuguese government-owned company that supports the strategic development of the country’s mining sector, holds a 15% stake in the project. The project also consists of a single exploration permit for the entire site.

A key value driver in Ascendant’s investment thesis is its utilization of advanced scientific and geophysics tools, which have been instrumental in the identification of expanded resource and the development of the resource to Indicated status (from Inferred). The company has been able to uncover the presence of resource that sits under 130 meters of tertiary cover, making it hard for previous explorers on the site to detect. Science work, through induced polarization and gravity surveys, provided indication of a high likelihood of metals involvement, which is currently being confirmed. Further, the resource indicated thus far has not had many penalties or deleterious elements, with less arsenic, cadmium or mercury than other nearby mines. That allows for better concentrates upon recovery.

Exploration along the IPB historically has been unique from mine to mine, and it can take many years for developers to sort out optimized levels of sellable products from their mines. We are encouraged by Ascendant’s decision to partner with many firms that have local knowledge of and expertise in the IPB. Engineering companies, including Quadrante, GSL, and IGAN, are highly regarded leaders with direct experience designing underground mines and conducting metallurgical studies in the region. We believe that positions Ascendant to achieve the best development outcomes for expanding the resource base at Lagoa Salgada.

Given these factors, we think Ascendant should be able to achieve resource recoveries and concentrated grades at least on par with other miners in the region. The most-accomplished mining peer in the region is Matsa, which also has shown a large VMS resource featuring a high concentration of sulphide, high grade-base metals, and a granular copper stockwork that can be processed easily.

According to preliminary company analysis, Lagoa Salgada could produce value per ton of rock of \$127, which would exceed the \$102 of Almina (Aljustal) and Lundin (Neves Corvo), and be more on par with Matsa’s \$136. In addition, Matsa’s Aguas Tenidas mine has generated gross margins above 50%. Ascendant believes the margin profile of its resource will prove to be at least comparable to this benchmark, as preliminary analysis suggests a margin of up to 61%.

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
ASCENDANT RESOURCES	TSX: ASND	0.24*	0.34*	0.08*	23*	92	NM	NM	NM	2.59	NA
KINGFISHER METALS CORP.	TSXV: KFR	0.49*	0.80*	0.40*	38*	-8	NM	NM	NM	NA	NA
NORTHISLE COPPER AND GOLD INC.	TSXV: NCX	0.26*	0.42*	0.06*	44*	279	NM	NM	NM	1.08	NA
HIGHLAND COPPER COMPANY INC	TSXV: HI	0.13*	0.15*	.03*	59*	300	NM	NM	NM	0.92	NA

* Canadian Dollars (CAD)

In the region, Ascendant has explored only 5% of its site boundary (which is well below its regional peers), with a much-shallower depth of drilling to date. As well, Ascendant has achieved a much-higher ratio of resource tons per drilled meter (686), compared with large producers Matsa/Aguas Tenidas (183) and Lundin/Neves-Corvo (200). We believe this bodes well for Ascendant's resource expansion over time.

In our view, the company's leadership team has an established history of producing and making investments that yield favorable results. Ascendant was formed around the El Mochito zinc mine in Honduras. Under the team's leadership, the mine saw 12 quarters of success, marked by increasing production and lower costs during its tenure. However, falling zinc prices led to the strategic decision to sell the mine, given the high levels of required investment and less-attractive forecast for free cash flow. This led to the shift in focus to develop Lagoa Salgada in Portugal.

ANALYST COMMENTARY: EARNINGS

As we see it, Ascendant's earnings are less material to investors than its progress in developing the resource assets at Lagoa Salgada and maintaining adequate funding to advance the project. For the full year 2020, the company reported a net loss of \$3.0 million, or \$0.02 per share, excluding the impact of discontinued operations.

We attribute the current modest C\$23 million market capitalization to the early-stage nature of the Lagoa Salgada project, with less and shallower drilling to date compared with many of its peers. The market likely is also discounting company assets until it completes a new PEA and advances towards a feasibility study. We also believe that Ascendant's decision to sell its zinc producing mine in Honduras and return to a more development-stage status has contributed to an increased risk profile among investors.

We expect the results of the new PEA, which the company anticipates publishing in August 2021, to show more-robust economic benefits as compared with the initial PEA in 2020 (which suggested a solid internal rate of return and positive after-tax net present value, but carrying too much risk compared with its capex requirements and a relatively short mine life). We expect the new PEA to project a higher after-tax NPV, a higher internal rate of return, lower capex requirements, and a mine life of at least 15 years. Combined with the potential for expansion across the site over time, we expect such results to re-establish Ascendant Resources' valuation and begin to close the gap between its market capitalization and that of its peers.

MANAGEMENT

Mark Brennan is Ascendant Resources' interim CEO and executive chairman. Mr. Brennan is a founding partner of Ascendant Resources Inc. and has over 30 years of financing and operating experience

in North America and Europe. Previously, he served as president and CEO of Sierra Metals Inc. and as president and CEO at Largo Resources Ltd., a leading global vanadium producer with a market capitalization over \$1 billion. He was a founding member of Desert Sun Resources, sold to Yamana in 2007 for \$700 million, and the co-founder of Brasoil do Brasil Exploracao Petrolifera S.A., a private oil and gas producing corporation in Brazil. He currently serves as a founder, CEO and co-chairman of Cerrado Gold Inc., and is executive chairman of Vanadium One Iron Corp. In addition, he has been president of Linear Capital Corporation, a private merchant bank, since February 1998.

Joao Barros, M.Sc., is Ascendant Resources' newly appointed president. Mr. Barros has 17 years of mining experience, including green fields and near mine exploration, environmental impact studies for open pit and underground mine operations, as well as mine development and operations. Mr. Barros is the president of Redcorp – Empreendimentos Mineiros, Lda., which owns a majority stake in the Lagoa Salgada site. He has been with that company since 2008. Mr. Barros is also a Member of the Portuguese Engineers Association.

RECENT DEVELOPMENTS

To date in 2021, Ascendant has made progress with its business plan. In January 2021, the company launched a Phase 2 drill program designed to expand the identified resource on the South Zone, after strong geophysical results identified the opportunity.

In March 2021, the company began Phase 2 metallurgical test work on the massive sulphide and stockwork ores. The test work is expected to be completed to a pre-feasibility report level of study, with the results, expected in July. The company recently reported a new Mineral Resource Estimate showing an increase of 1.1 million tonnes of Inferred resources, taking total global resources to just under 28 million tonnes. They will be used to undertake a new Preliminary Economic Assessment on the project that includes both the North and South Zones of the site. Ascendant expects this will show a more-robust economic impact than an initial PEA published in 2020.

In May 2021, the company completed a C\$3,900,000 non-brokered private placement of secured non-convertible debenture units. It intends to use the proceeds, in part, to continue the metallurgical test work and complete the new PEA assessment.

In June 2021, Ascendant announced the hiring of Dr. Sergio Gelcich, PGEO, as its vice president of exploration, replacing the retiring Robert (Andy) Campbell, who will remain a company director. Dr. Gelcich is a senior exploration geologist with a career that spans over 20 years in a broad range of jurisdictions and geological environments. Most recently, Dr. Gelcich served as the exploration director at Hudbay Minerals.

Steve Silver

INCOME STATEMENT

Growth Analysis (\$MIL, CAD)	2019	2020	Q1 2021
Revenue	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0
G&A	5.0	2.3	0.6
R&D	0.0	0.0	0.0
Operating Income	-5.1	-2.4	-0.6
Interest Expense	0.0	0.0	0.0
Pretax Income	-7.6	-3.0	-0.9
Tax Rate (%)	NA	NA	NA
Net income	-7.6	-3.0	-0.9
Diluted Shares	77.3	84.2	94.2
EPS	-0.10	-0.04	-0.01
Dividend	NA	NA	NA
Growth Rates (%)			
Revenue	NA	NA	NA
Operating Income	NA	NA	NA
Net Income	NA	NA	NA
EPS	NA	NA	NA
Valuation Analysis			
Price (\$): High	NA	NA	NA
Price (\$):Low	NA	NA	NA
PE: High	NA	NA	NA
PE: Low	NA	NA	NA
PS: High	NA	NA	NA
PS: Low	NA	NA	NA
Yield: High	NA	NA	NA
Yield: Low	NA	NA	NA
Financial & Risk Analysis (\$MIL, CAD)			
Cash	1.7	0.8	0.2
Working Capital	-17.1	0.0	0.3
Current Ratio	0.5	0.9	1.5
LTDebt/Equity (%)	NM	NM	NM
Total Debt/Equity (%)	94.0	6.0	10.0
Ratio Analysis			
Gross Profit Margin	NM	NM	NM
Operating Margin	NM	NM	NM
Net Margin	NM	NM	NM
Return on Assets (%)	NA	NA	NA
Return on Equity (%)	NA	NA	NA
Op Inc/Int Exp	NA	NA	NA
Div Payout	NA	NA	NA

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