Newmarket Gold Inc. (NMI-T)

New Producer Has Mid-Tier Ambitions

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We are initiating coverage of Newmarket Gold with a BUY rating and a 12-month target price of C$2.75/sh. In summary, our recommendation is based on the following:

- **Emerging Low-Cost Producer:** NMI operates 3 underground mines in Australia. Together they currently produce over 200Koz of gold per annum, with AISC recently improving to US$984/oz (Q3/15). With A$:US$ weakness and recent discoveries of higher-grade gold mineralization at all of the mines, prospects are real for lower operating costs going forward.
- **Strong (and Aligned) Team:** management, Board, and Advisors read as a virtual Who's Who of Canadian Mining, with a wealth of experience from all aspects of both the mining industry and equity capital markets. Many are substantial NMI shareholders (C$12MM invested), and the company's option vesting plan is directly linked to achieving specific share price levels.
- **Re-rating Opportunity**: we expect market interest in NMI shares to increase as the company posts improving operating results from existing operations, and/or executes on its asset consolidator strategy to become a 400-500Koz/yr gold producer.

Investment Thesis: we consider NMI shares to be undervaluing the existing operations in Australia, and we believe that management can deliver accretive growth by acquisition over the next few years. We believe this new producer is under-owned by traditional resource fund managers, and has above average potential to qualify for addition to several precious metal indeces over the next 12 months.

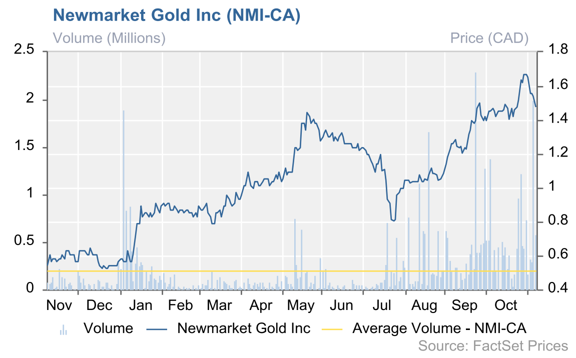
Initiating Coverage
BUY $2.75

Tickers			NMKTF	NMI
Previous Close			$1.10	$1.54
12-month Target Price				$2.75
Potential Return				78.6%
Dividend Yield				0.0%
52 Week Price Range				$.51-$1.75
Annual Estimates				
(US$MM, except per unit)	**FY14**	**FY15e**	**FY16e**	**FY17e**
Revenue	$0.0	$123.5	$273.6	$260.4
Net Income	-$1.9	-$18.3	$23.7	$19.4
Shares O/S (wgt avg)	52	94	136	145
EPS (operating)	-$0.03	-$0.04	$0.19	$0.15
CFPS	-$0.03	$0.32	$0.73	$0.61
Valuation				
P/E	neg.	neg.	5.7x	7.3x
P/CF	neg.	3.5x	1.5x	1.8x
NAV		$2.47	$2.55	$2.22
P/NAV		0.4x	0.4x	0.5x
Financials				
Shares Outstanding		135.9 million		
Mgt/Insiders		10%		
		(US$MM)		
Market Cap		$149.5		
LT Debt (corporate)		$0.0		
Working Capital		$22.5		
Enterprise Value		$127.0		
Fiscal Year End		December 31		
Reserves / Resources				
2P Reserves		0.9 MMoz		
M+I Resources		4.8 MMoz		
Total Resources (M+I+I)		2.0 MMoz		
Quarterly Estimates				
	Q1/14	**Q2/14**	**Q3/14**	**Q4/14**
EPS (operating)	-$0.01	$0.00	$0.00	-$0.01
CFPS	-$0.01	$0.00	$0.00	-$0.01
	Q1/15	**Q2/15**	**Q3/15**	**Q4/15e**
EPS (operating)	-$0.01	-$0.01	$0.03	-$0.03
CFPS	-$0.01	-$0.04	$0.10	$0.14

Company at a Glance

Newmarket Gold is an emerging TSX-listed producer, having recently completed a takeover of Crocodile Gold, which brings three 100%-owned underground gold mines in Australia. Consolidated 2015 gold output is forecast to be ~220,000oz. **All prices in US$ unless otherwise indicated.**

Stock Performance



Investment Thesis…Re-rating Opportunity as the NKOTB in the Mid-tier Gold Producer Space

We consider Newmarket Gold to be an attractive investment for the combination of an undervalued emerging mid-tier gold producer with potential to generate margin improvement at existing mines and/or deliver further on its asset consolidation strategy.

Undervalued Gold Mines – Newmarket Gold's mines in Australia currently produce over 200Koz of gold per annum, at an AISC now below $1,000/oz. With continued A$:US$ weakness and recent discoveries of higher-grade gold mineralization at several of the mines, the prospect exists for lower costs going forward. We look for positive resource/reserve additions when the company provides its annual update in Q1/16.

Re-Valuation Potential - we consider this "New Kid On The Block" to be under-owned by traditional institutional resource fund managers, and to have above average potential to qualify for addition to several precious metal indeces over the next 12 months.

Strong and Aligned Management Team – several of the senior management are well-known to most Canadian mining industry investors, have been involved with other successful explorer-developers (Rainy River, Western Goldfields, Red Back Mining, Terrane Metals, Argentina Gold, NGEX Resources, etc.), as well as other established producers (New Gold, Franco-Nevada, Lundin Mining). Principals are aligned with investors, owning 6% of the current outstanding shares (having invested some C$12 million prior to the Crocodile Gold transaction). The company's option (PSU) vesting plan is one of the most stringent we have seen over the years, with vesting only occurring as certain share price levels (C$2.25, C$3.00, and C$3.75 per NMI share) are achieved (otherwise expiring worthless after 3 years).

Low Geo-Political Risk – we consider Australia as one of the lower risk areas of the world for the mining industry, and do not forecast any change to this view in the near future.

Valuation Methodology

Our favored valuation method for precious metals producers is a price-to-net-asset-value (P/NAV) multiple based on a discounted cash flow (DCF) model constructed using our estimates of the parameters of existing or potential mining operations. We employ long-term assumptions of $1,400/oz for gold. Our shorter-term gold price forecasts include $1,175/oz for 2015, $1,250/oz for 2016, and $1,300/oz for 2017. Future year cash flows are then discounted using a base rate of 5%, to which a risk premium is added, depending on the overall political risk the company's assets are exposed to. Newmarket Gold's asset exposure to Australia is considered low risk (5% base + 0% premium).

Fig 1 Net Asset Value Breakdown: Newmarket Gold

			Value	Per Share (US$/sh)		
	Discount Rate	Ownership	US$MM	FY16e	FY17e	FY18e
Fosterville (Australia)	5%	100%	$173	$1.27	$0.92	$0.63
Cosmo (Australia)	5%	100%	$138	$1.02	$0.84	$0.59
Stawell (Australia)	5%	100%	$25	$0.18	$0.15	$0.10
Other exploration			$0	$0.00	$0.00	$0.00
OPERATING ASSETS			**$336**	**$2.47**	**$1.90**	**$1.31**
Working Capital			$23	$0.17	$0.81	$0.91
LT Debt (corporate only)			($23)	($0.17)	($0.16)	$0.00
CORPORATE ASSETS			**($1)**	**($0.00)**	**$0.65**	**$0.91**
NET ASSET VALUE			**$336**	**$2.47**	**$2.55**	**$2.22**

Source: Beacon Securities estimates

In Fig. 1 we provide forward-looking NAV/sh estimates to show how the company's NAV is forecast to change over the next few years. For junior gold producers (gold production <250Koz/yr), we employ a target range of 0.50x-1.00x P/NAV. Using a target P/NAV multiple of 0.65x on our 2016 NAV estimate suggests a fair value of C$2.00/sh for Newmarket Gold.

On a forward-looking P/CF multiple analysis basis, we forecast CFPS of $0.73/sh in fiscal 2016. Applying our target multiple of 5.5x P/CF to this estimate, which is at the lower end of our 5.0x-10.0x target range for junior gold producers, suggests a fair value of C$5.00/sh.

Using the valuation methods described above, and a 75/25 blend of fair values generated by NAV and CF analysis, generates our 12-month target price of C$2.75 per NMI share.

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Company Description

Fosterville Mine (Australia)

This underground mine is located some 20km northeast of Bendigo (population: ~100,000), and 130km north of Melbourne (population: +4 million), in the State of Victoria. Gold was originally discovered in the area in 1894, with recent mining activity transitioning to sulphide-hosted mineralization in 2005, and underground mining starting in 2006.

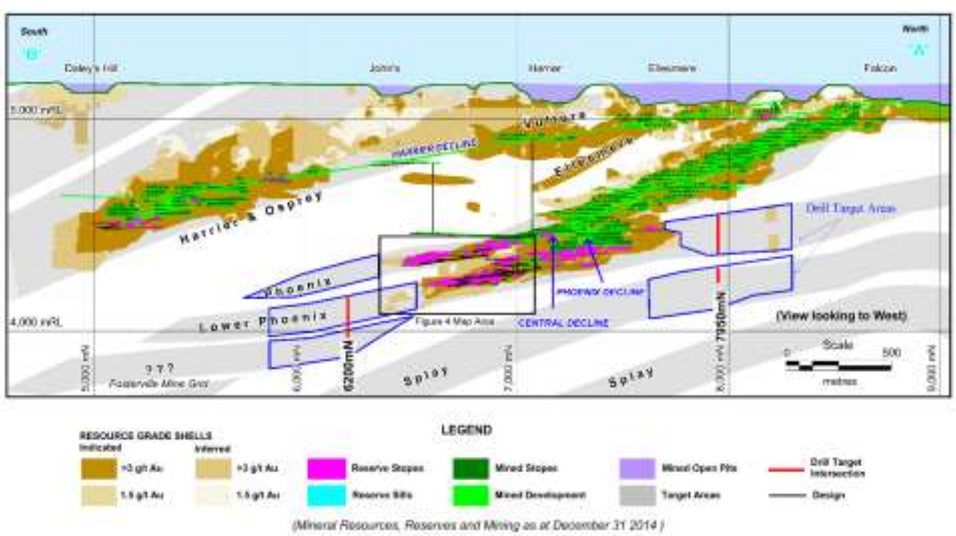
Fig 2 Location Maps: NMI's Australian Assets (left) and Fosterville (right)

Source: Company website

Geology/Mineralization

The Fosterville Goldfield is located in the Bendigo Zone of the Lachlan Fold Belt. Mineralization is controlled by late brittle faulting. Primary gold mineralization occurs as disseminated arsenopyrite and pyrite forming as a selvage to veins in a quartz-carbonate veinlet stockwork. The mineralization is structurally controlled. Ore shoots range from 4-15 metres in thickness, 50-150m up/down dip, and 300-1500m down plunge.

Fig 3 Longitudinal Section: Fosterville

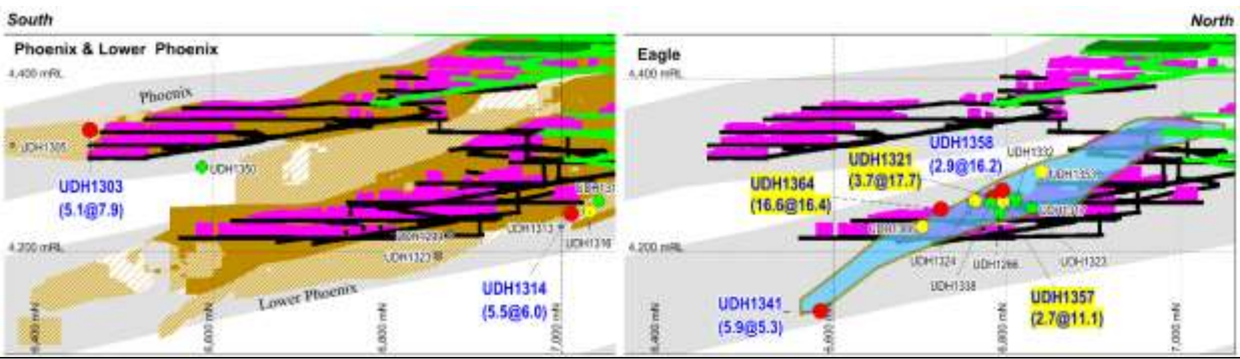


Source: Company website

Mining/Processing
The underground mine commenced operation in 2006 via ramp decline, using conventional fleet and owner mining. Daily throughput is forecast to be ~1,500tpd, to deliver ~500,000t/yr to the mill (capacity 830,000t/yr). Mined stopes are backfilled with cemented rock fill (CRF).

Ore processing involves crushing and grinding followed by flotation, bacterial oxidation (BIOX) followed by cyanidation (CIL). Gold recovery is forecast to be 86%, but has recently been closer to 89%. A 10tph gravity circuit will be added in H1/16 to enhance recoveries (and lower costs) from the newer high-grade zones which have substantial visible coarse gold.

Fig 4 Detailed Longitudinal Sections: Phoenix and Lower Phoenix Zones (Left) and Eagle (Right)



Source: Company report

Eagle Fault High-Grade: recent drilling has outlined a new mineralized zone with substantially higher grades and ample visible gold. Better intercepts include: **9.2m grading 386.0g/t gold, 7.9m grading 268.0g/t, 18.0m grading 16.4g/t gold**, **5.8m grading 141.1g/t**, and **7.6m grading 159g/t**. Underground development has already gained access to this zone and initial ore was extracted for processing during Q3/15. Drilling has extended this zone over 500 metres strike length. We expect the year-end reserve/resource update to provide the first estimates for this zone.

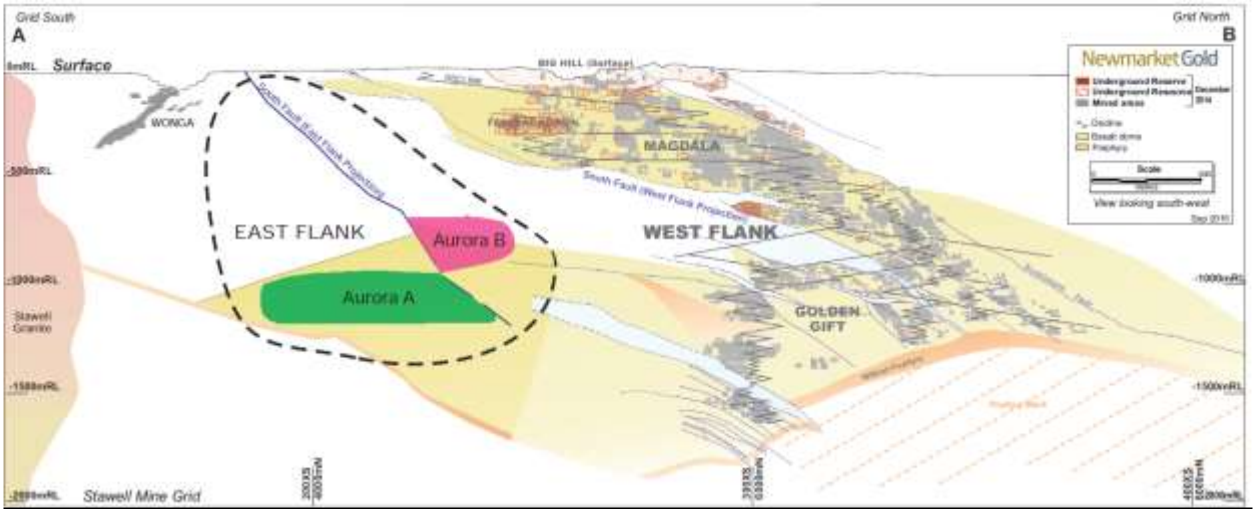
Stawell Mine (Australia)

This underground mine is located some 250km northwest of Melbourne, and 2km from the township of Stawell (population: 6,500), in the State of Victoria (see fig. 2 on page 4). Stawell is a historic goldfield of Australia, with production of 2.7MMoz of gold in the region during the period 1853-1926, from both alluvial and bedrock sources. Since the restart of modern mining operations in 1984, a further 2.2MMoz of gold has been produced from the region.

The underground mine is accessed via ramp decline. Current mining activity is centred on the Magdala Lode, using long-hole open stoping mining methods. Stope sizes typically range from 2-10Kt, and mined stopes are backfilled with cemented rock fill.

The Stawell gold plant was commissioned in 1984. The facility employs gravity, flotation, fine grinding and CIL processes to recover gold as doré poured at site. Plant capacity is currently rated at 1.0MMtpa.

Fig 5 Longitudinal Section: Stawell Mine



Source: Company report

Aurora A/B Zones: these targets on the East Flank (see fig. 5 above) represent proximal zones to existing underground development, in areas with no recorded production. Recent drill results from Aurora include: **8.8m grading 8.0g/t** gold, **17.8m grading 7.1g/t**, and **5.5m grading 13.7g/t**. We expect the 2015 year-end update will include an initial resource estimate for the Aurora B zone.

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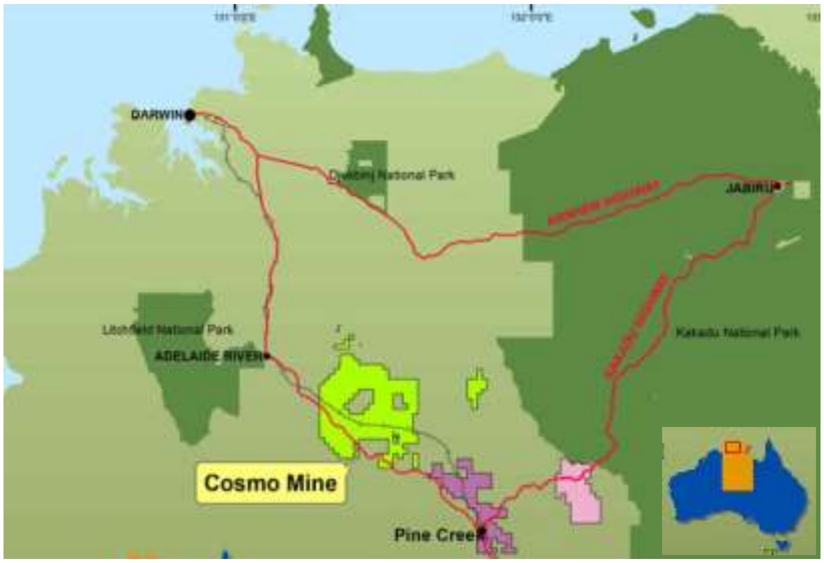
Cosmo Mine / Union Reefs Mill (Australia)

This ramp-accessed underground mine is located 248km south-southeast of Darwin (population: 129,000), in the Northern Territory of Australia. Commercial production was achieved in early 2013. The current mineplan employs full Avoca and modified Avoca stoping methods (basically cut&fill mining) to deliver 800Ktpa to the Union Reefs mill. Development waste typically remains underground as stope backfill.

Fig 6 Property Location: Cosmo Mine



Source: Company website

Gold mineralization is associated with quartz veins that occur as stockwork veins, sheeted veins, discordant quartz veins in faults and shear zones, and frequently as saddle-reefs. Gold can be free, but typically is associated with pyrite and/or arsenopyrite (both refractory and non-refractory). Historical and current mining has all been from the Eastern limb (see fig. 7).

Sliver Zone: is a subsidiary fold which has produced a significant number of tonnes of mill feed for the Cosmo Mine. Previously the down plunge extension was believed terminated by the F1 fault. The latest results show that this is not the case and zone is still open at depth suggesting the potential to extend the current mine plan into the future. A resource update is planned for year-end 2015. Key intercepts include: **11.4m grading 14.9 g/t gold, 5.7m grading 9.9g/t, 11.2m grading 4.2g/t, 6.0m grading 14.1g/t, and 4.8m grading 13.9g/t.**

Western Lodes: recent exploration results have encountered gold mineralization in a new zone located 160 metres from existing development/infrastructure. Better intercepts include **4.3 metres (2.9M true width) grading 7.4g/t gold**, and **6.4m (1.7m true width) grading 6.6g/t**. With further exploration success, management believes this zone has potential to become a new mining front (i.e. a separate mining area that would not impede current mining activity).

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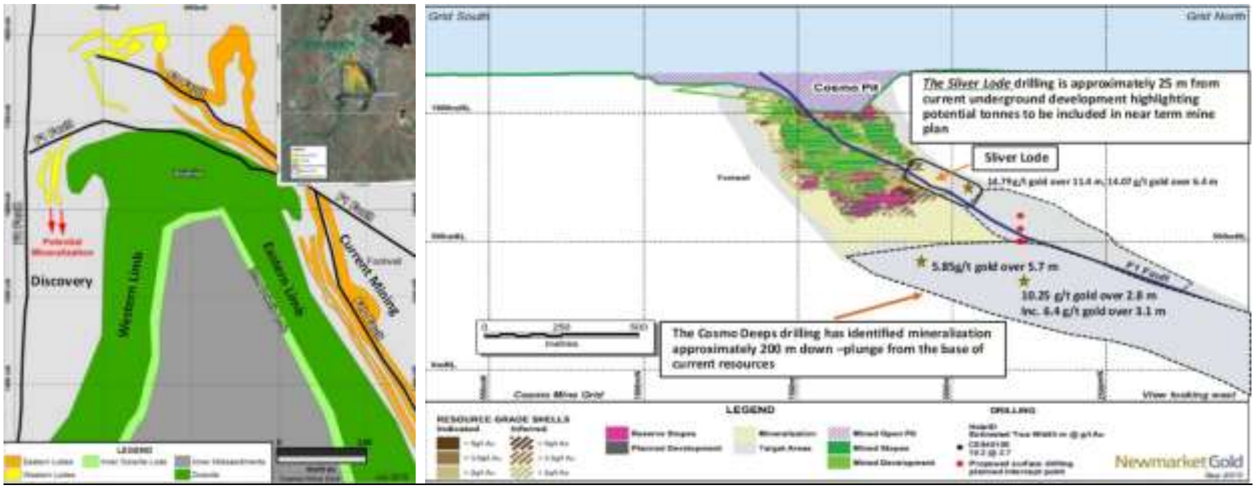
Fig 7 Plan Map (left) and Longitudinal Section (right): Cosmo Mine



Source: Company report

Union Reefs Mill

This conventional carbon-in-leach (CIL) mill was commissioned in 1994 (by Acacia Resources, which was later taken over by AngloGold in late 1999), and had capacity doubled to the current level of 2.5MMtpa (8Ktpd) in 1998. The facility was placed on care and maintenance in 2003, but resumed commercial operations in 2010. The plant, located ~67km from the Cosmo Mine, also has a gravity circuit to recover coarse gold.

Fig 8 Reserves and Resources: Newmarket Gold

2P Reserves	Tonnes (Mt)	Grade Au (g/t)	Au (koz)
Fosterville (Under Ground)	1.0	5.55	182
Fosterville (CIL Residues)	0.4	8.89	126
Cosmo	4.2	3.57	148
Stawell	0.8	1.50	181
Burnside	0.2	1.93	10
Maud Creek	1.1	5.40	184
Union Reefs	0.3	4.40	42
Pine Creek	1.3	1.55	62
2P Reserves	9.2	3.15	935

Fosterville	16.6	4.03	2,151	Fosterville	5.8	3.72	699
Cosmo	5.0	3.35	539	Cosmo	1.0	2.72	84
Stawell	4.2	1.80	243	Stawell	0.8	3.07	77
Burnside	7.5	1.38	335	Burnside	6.9	1.47	323
Maud Creek	7.7	3.50	871	Maud Creek	4.2	2.55	344
Union Reefs	3.0	2.43	236	Union Reefs	4.3	2.23	305
Pine Creek	8.4	1.41	379	Pine Creek	2.5	2.34	191
M&I Resources (incl.)	52.5	2.82	4,754	Inferred Resources	25.5	2.48	2,024

Source: Company website

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Investment Risks

Commodity Prices
For mining operations, profitability and cashflow are materially dependent on the realized prices for the commodities produced. In the case of non-producers, the most important factor to economic viability is the assumption of future commodity prices.

Geological
Even with operating assets, geological risk will remain, relating to how the actual mining results (grade, tonnage, recovery, etc.) compare to forecasted rates. With several years of operation as each of the mines, we view this risk as slightly lower for Newmarket Gold compared to other development-ready projects. With the recent discoveries of higher-grade mineralized zones, this risk is arguably can be reduced further by Newmarket Gold if it can successfully transition mining into these higher grade zones.

Political
We consider Australia to be one of the lower risk areas of the world for the mining industry, and do not forecast any change to this view in the near future.

Financial
Newmarket Gold has a solid balance sheet, with positive working capital and low debt. Current operations are cashflow positive, with a bias towards improving margins (as mined grades increase).

Summary/Conclusions

Newmarket's mining operations are currently cashflow positive and we believe have potential to both maintain the current product rate of +200Koz/yr, and see increased margins as higher grade mineralized zones are accessed.

We see re-rating potential in the short-term, as NMI shares are under-owned by traditional institutional resource fund managers, and with our view that the company has above average potential to qualify for addition to several precious metal indeces over the next 12 months.

Medium-term, we believe that management/Board/Advisors can deliver further on their asset consolidator strategy, to grow NMI into a 400-500Koz/yr gold producer.

At this point in time, we consider NMI shares to be undervaluing the existing Australian gold operations, and investors are not paying any premium for the assembled team and/or future consolidation success. **As a result, we are initiating coverage of Newmarket Gold with a 12-month target price of C$2.75/sh and a BUY rating.**

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Appendix A : Management/Directors

Raymond Threlkeld: Non-Executive Chairman
Mr. Threlkheld has over 32 years' experience in the mining industry, most recently as President and CEO of Rainy River Resources. He previously worked with Western Goldfields and Barrick Gold.

Doug Forster: President, CEO, and Director
Mr. Forster is a geologist with over 30 years' experience in the Canadian mining industry. He has held senior management positions with Terrane Metals and Potash One.

Blayne Johnson: Executive VP
Mr. Johnson has over 27 years' experience in the Canadian investment community. He spent several years with First Marathon Securities, and was a founder of Terrane Metals.

Robert Dufour: CFO
Mr. Dufour brings over 10 years' experience to Newmarket Gold, having previously served as CFO of Crocodile Gold. He joined NMI in July 2015.

Mark Edwards: GM - Exploration
Mr. Edwards is a geologist with over 18 years' experience, including the last 5 years with Crocodile Gold.

Douglas Hurst: VP – Corporate Development
Mr. Hurst is a geologist with over 25 years' experience. During his career, he has served as a geologist, consultant, mining analyst, and senior executive.

Board of Directors:
Raymond Threlkeld – see above
Doug Forster – see above
Blayne Johnson – see above
Randall Oliphant – New Gold, Western Goldfields, Barrick Gold
Lucas Lundin – Lundin Mining, Lundin Gold, NGEX Resources
Robert Getz – MD of Cornerstone Equity Investors LLC
Kevin Conboy – President/CEO of Acordia Inc. (a Wells-Fargo subsidiary)
Edward Farrauto - +20yr' experience as a CFO and Director

Appendix B: Summary Financials

Newmarket Gold Inc. — Beacon Securities Limited

Symbol	NMI-T	Share Price	$1.54	NMKTF	$1.10
Stock Rating	BUY	Shares O/S (MM)	135.9		
Price Target	$2.75	Mkt Cap (US$MM)	149		

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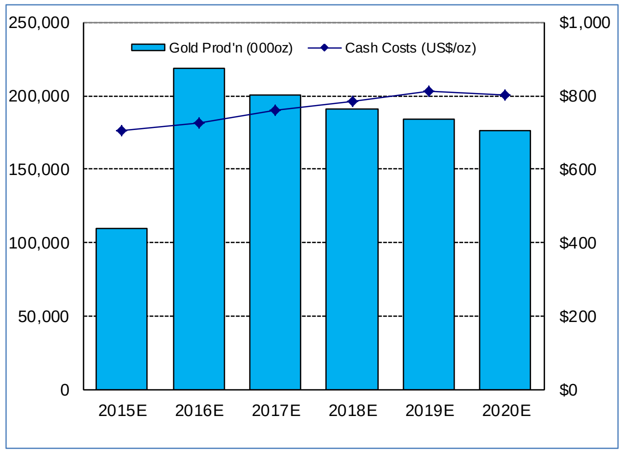
INCOME STATEMENT		FY14	FY15e	FY16e	FY17e
Revenues	US$MM	-	123.5	273.6	260.4
Operating Costs	US$MM	-	77.0	158.9	152.2
EBITDA	US$MM	(1.9)	16.3	104.7	98.2
DD&A	US$MM	-	32.5	73.6	66.7
EBIT	US$MM	(1.9)	(16.2)	31.0	31.5
Interest Expense	US$MM	-	1.6	2.8	2.8
EBT	US$MM	(1.6)	1.2	30.8	31.3
Taxes/Recovery	US$MM	-	0.5	4.6	9.4
Net Income (reported)	US$MM	(1.9)	(18.3)	23.7	19.4
Non-Recurring Items/Other	US$MM	0.3	19.0	2.5	2.5
Net Income (operating)	US$MM	(1.6)	(3.4)	26.2	21.9
Shares o/s (wgt avg.)	MM	51.6	93.5	136.0	145.0
EPS (operating)	US$/sh	($0.03)	($0.04)	$0.19	$0.15
P/E Multiple	**x**	**n.m.**	**n.m.**	**5.7x**	**7.3x**
Cash Flow (operating)	US$MM	(1.6)	29.6	99.8	88.5
CFPS	US$/sh	($0.03)	$0.32	$0.73	$0.61
P/CF Multiple	**x**	**n.m.**	**3.5x**	**1.5x**	**1.8x**
SCFP					
Cash Flow from Operations					
Net Income	US$MM	(1.9)	(18.3)	23.7	19.4
DD&A	US$MM	-	32.5	73.6	66.7
Deferred Taxes	US$MM	-	0.5	-	-
Other	US$MM	0.3	1.5	2.5	2.5
Changes in Working Capital	US$MM	0.3	-	-	-
		(1.3)	**16.2**	**99.8**	**88.5**
Cash Flow From Investing					
Capital Expenditure (net)	US$MM	(0.3)	(29.5)	(52.5)	(52.5)
Acquis./Investments	US$MM	-	-	-	-
Other	US$MM	-	-	-	-
		(0.3)	**(29.5)**	**(52.5)**	**(52.5)**
Cash Flow From Financing					
Equity Issues (net of costs)	US$MM	-	20.0	-	-
Net Borrowings	US$MM	-	-	-	-
Dividends Paid & Other	US$MM	-	-	-	-
		-	**20.0**	**-**	**-**
Net Inc/Dec (incl FX)	US$MM	(1.6)	6.7	47.3	36.0
Cash at End of Year	US$MM	2.1	40.7	87.9	123.9
BALANCE SHEET					
Cash & Equivalents	US$MM	2.1	40.7	87.9	123.9
Total Current Assets	US$MM	2.1	72.7	119.9	155.9
PP&E & Mining Interests	US$MM	0.7	155.3	131.8	115.1
Other	US$MM	-	10.0	10.0	10.0
Total Assets	US$MM	**2.8**	**238.0**	**261.7**	**281.0**
Current Liabilities	US$MM	0.3	39.0	39.0	39.0
Long Term Debt	US$MM	-	23.0	23.0	23.0
Other LT Liabilities	US$MM	-	-	-	-
Total Liabilities	US$MM	0.3	92.0	92.0	92.0
S/Holder Equity	US$MM	2.5	146.0	169.7	189.1
Total Liab. & S/Holder Equity	US$MM	**2.8**	**238.0**	**261.7**	**281.1**
Working Capital	US$MM	1.8	33.7	80.9	116.9

RATIO ANALYSIS		FY14	FY15e	FY16e	FY17e
Dividends Per Share	$/sh	-	-	-	-
Dividend Yield	%	-	-	-	-
LT Debt/(Total Capital)	%	-	14%	12%	11%
EV/EBITDA	x	-	7.8	1.2	1.3
PRICES/EXCHANGE RATES		**FY14**	**FY15e**	**FY16e**	**FY17e**
Gold Price	US$/oz	$1,266	$1,175	$1,250	$1,300
Realized Gold Price	US$/oz	-	$1,130	-	-
Silver Price	US$/oz	$19.08	$16.00	$18.00	$20.00
US$/C$		1.10	1.26	1.25	1.22
US$/A$			1.30	1.25	1.22
MINE/EQUITY PRODUCTION		**FY14**	**FY15e**	**FY16e**	**FY17e**
Gold Production	000 oz	-	109,319	218,894	200,294
Total Cash Costs	US$/oz	-	704	726	760
All-in Sust. Costs	US$/oz	-	1,139	1,048	1,112

Total incl. Cash Costs + royalties All-in CCs incl. sustex, exploration, corpG&A



RESERVES / RESOURCES		
Reserves	MMoz	0.9
AMC/oz*	US$/oz	121
Total Resources	MMoz	6.8
AMC/oz**	US$/oz	17

** AMC = Adjusted Market Capitalization = Market Cap + LT Debt - working cap*

*** Total Resources include measured, indicated, and inferred*

ESTIMATED NET ASSET VALUE (NAV)/SHARE - 2016	Status	Own'ship	US$MM	$/Sh	%NAV
Fosterville (Australia)	explor.	100%	$173	$1.27	52%
Cosmo (Australia)	explor.	100%	$138	$1.02	41%
Stawell (Australia)	explor.	100%	$25	$0.18	7%
Other			$0	$0.00	0%
Total Operating			$336	$2.47	
Working capital			$23	$0.17	
LT Debt			($23)	($0.17)	
NAV			**$336**	**$2.47**	
			Current P/NAV	**0.4x**	

Source: Company reports, Beacon estimates

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Disclosure Requirements

Does Beacon, or its affiliates or analysts collectively, beneficially own 1% or more of any class of the issuer's equity securities? ☐ Yes ☒ No

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As at October 31, 2015	# Stocks	Distribution
Buy	49	64%
Speculative BUY	11	14%
Hold	4	5%
Sell	0	0%
Under Review	12	16%
Total	76	100%

Buy	Total 12-month return expected to be >15%
Speculative Buy	Potential total 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return expected to be between 0% and 15%
Sell	Total 12-month return expected to be negative
Under Review	

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