SCP EQUITY RESEARCH

Discovery Silver, 13 August 2025

Ticker: DSV CN	**Cash + Res:** C$422m	**Project**: Porcupine / Cordero
Market cap: C$3.12bn	**Price:** C$3.9/sh	**Country:** Canada / Mexico
REC. (unc): BUY	*TARGET (+20c): C$6.10/sh*	*RISK RATING (unc): SPECULATIVE*

*We see three takeaways from Discovery's first full quarter since acquiring Porcupine: 2Q25 production of 50.6koz was a beat on our estimates despite planned mill shutdowns and lower grade stockpile processing, albeit gold sales of ~43koz was in line (deferring ~8koz to 3Q). Cash costs of US$1,334/oz reported is impressive, lifting to ~US$1,617/oz including site G&A and Pamour costs in line with our estimates on a 'like for like' basis. AISC of US$2,133/oz (incl. Pamour) is a 15% beat on our estimates driven by lower taxes / capital spend during the quarter. Financially, the company generated good FCF during the quarter, with US$27m after acquisition related adjustments. We estimate FCF could have been ~US$30m higher if they sold all 50.6koz produced during the quarter. Excluding growth capex (~US$28m), the implied FCF run rate is an impressive ~US$85m pa. That said, we caution this is a growth year for Discovery. The company is guiding higher production in 2H25 and an improvement on unit costs as Pamour ramps up to commercial production in Q4 and as the investments in Hoyle and Borden to improve production profile materialize. We're modelling 2H25 production of 110koz at ~US$2,370/oz AISC and expect the company to aggressively grow over the coming quarters. Updating for 2Q financials, we **maintain our BUY rating and increase our Price Target to C$6.10/sh (prev. C$5.90/sh),** based on a fully diluted 1.0x NAV5%-3000 for Porcupine and 0.2x for Cordero. Peer EV per 100koz of production valuations (Alamos, Orla) suggest a US$4-5bn enterprise value at the targeted 300koz pa— ~2x DSV's current EV. While 2025 is a ramp up year, Discovery Silver remains among our top picks in the precious metal space.*

Figure 1. SCP 2Q25 financial and operational metrics 'estimates vs actuals'

Porcupine Operations		2Q25E	2Q25A	2Q25A
Gold price (US$/oz)	US$/oz Au	$3,113	$3,337	7%
Gold produced	**koz Au**	**43.0**	**50.6**	**17%**
Gold sold	**koz Au**	**42.8**	**42.6**	**-1%**
Total ore processed (kt)	kt	335	509	52%
Total mined (kt)	kt	512	273	-47%
Head grade (g/t Au)	g/t Au	4.3	3.4	-21%
Recovery (%)	%	93.0%	91.3%	-2%

Source: SCP, DSV

Porcupine Financials (US$m)		2Q25E	2Q25A	Δ%
Gross revenue	US$m	133	142	7%
*SCPe total opex	US$m	(63)	(63)	-1%
Site Level EBITDA	US$m	64	73	14%
Total capex	US$m	(62)	(50)	-19%
DSV cash costs (as reported)	US$/oz Au	--	$1,334	--
*SCPe cash costs	US$/oz Au	$1,610	$1,617	0%
AISC incl. Pamour	US$/oz Au	$2,522	$2,133	-15%

**SCPe Cash costs excl. royalty, but adding site G&A and Pamour costs*

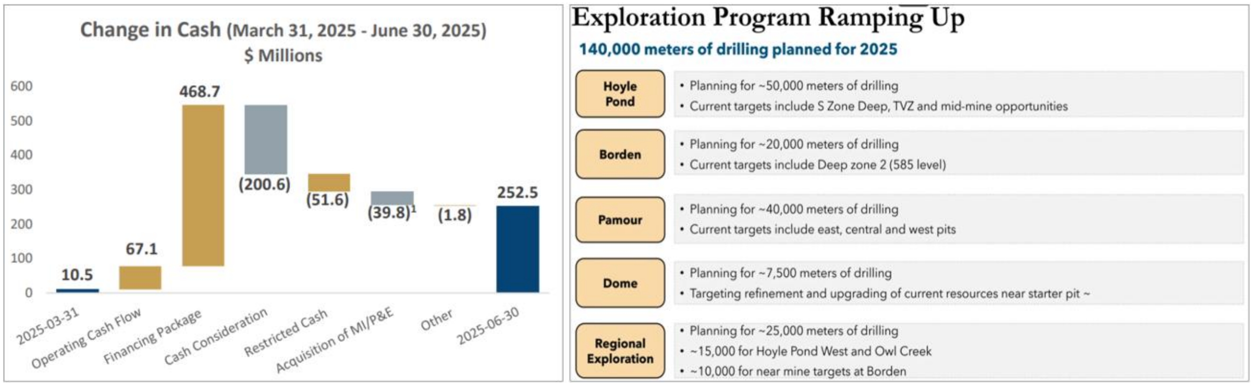
Porcupine 2Q25 generates US$27m FCF despite ramp up and acquisition costs, +8koz Au unsold

Yesterday, Discovery Silver reported 2Q25 financials and operating results, the first quarter after acquiring the Porcupine Complex on April 15th, the company also switched to reporting in USD this quarter. Financials revenues for the quarter totaled US$142m from the sale of 42.6koz of gold for a realized price of US$3,337/oz from 50.6koz produced at US$2,123/oz AISC (excluding Pamour). Quarterly production costs were US$54.9m with taxes of US$19.0m for reported net income of US$5.53m resulting in net income per share of US$0.01/sh, free cash flow of US$27.3m, EBITDA of US$55.2m, and quarter end net cash balance of US$252.5m vs. US$10.5m in cash end of 1Q25, reflecting ~US$468.7 of net proceeds from a Porcupine Acquisition financing package, US$67.1m net cash from operations, offset by US$200.6m of cash considerations paid at closing, US$44.2m of capex, as well as US$51.6m in restricted cash related to letters of credit and cash collateral for government required financial assurances. DSV is well capitalized to fund growth and optimization plans for Porcupine and current expenditure plans at Cordero.

Operations: Mined ore tonnes for the quarter totaled 272.9kt (45.2kt Hoyle, 123.7kt Borden, 104kt Pamour), production was supplanted by stockpiles leading to 509kt of ore milled at head grade of 3.39g/t at 91.3% recovery for 50.6koz Au produced, 46.6koz Au poured, and 42.6koz Au sold. Throughput at the plant was impacted by a two-week planned shutdown, scheduled by the previous owner, to replace equipment in the thickening tank. DSV used the shutdown to opportunistically advance multiple other projects in the crushing, grinding and carbon handling circuits. The plant throughput averaged ~8.5ktpd (12ktpd nameplate). With US$1,334/oz sold operating cash costs (excl. Pamour) and US$2,123/oz sold (US$1,872/oz sold site level) AISC excluding Pamour.

Outlook: key priorities for 2H25 include investment to grow mining rates, increase production levels and lower unit costs at Hoyle Pond and Borden; ramp up of production at Pamour; advance studies on the TVZ zone, Dome Mine project, and Dome Mill expansion, and advance numerous exploration opportunities at each of site, as well as at regional targets. DSV is targeting 140,000m in drilling in 2025 with goals for resource conversion at Hoyle Pond, Borden, and Pamour for an initial reserve estimate for the three mines in 2026. Drilling will also target resource conversion at the Dome Mine to update the Inferred Mineral Resource, as well as a program at TVZ Zone with a plan to release an MRE in 1H26.

Figure 2. (A) Q2 cashflow waterfall chart (B) 2025 exploration program



Source: Discovery Silver

Why we like Discovery Silver

1. Track record of multi-billion-dollar value creation through best-in-class mgmt led by Tony Makuch
2. Quality assets with rich production history and strong resource scale
3. Near-term production uplift of SCPe +50kozpa to >300kozpa
4. Additional upside from 11Moz Dome pit and world-class Cordero project

Catalysts

- 2025: Porcupine quarterly production
- 2H25: Porcupine PFS / LOM study
- 2025: Exploration drilling (Pamour, Hoyle, Borden, TVZ)
- 1H26: TVZ MRE
- 2026: initial reserve estimate Hoyle Pond, Borden, and Pamour
- 2026: commercial production at Pamour
- 2025/2026: Dome trade off studies

Research

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Ticker: DSV CN	**Price, MC:**	C$3.9/sh, C$3129m	**Project PNAV today:**	0.42x	**Asset:** Cordero / Porcupine
Author: B Gaspar	**Rec, Price Target:**	BUY, C$6.1/sh	**1xNAV$_{2Q25}$ FD:**	C$9.30/sh	**Country:** Mexico / Canada

Commodity price	**CY24A**	**CY25E**	**CY26E**	**CY27E**
Gold price	2,387	3,039	3,050	3,004

SOTP *project* valuation*	**C$m**	**O/ship**	**NAVx**	**C$/sh**
Porcupine NPV @ 3Q25	3,973	100%	1.0x	4.79
Cordero NPV @ Build start	3,286	100%	0.2x	0.79
2Q25 Cash + Restricted Cash	422	100%	1.0x	0.51
Cash from options	18	100%	1.0x	0.02
Porcupine resources ex invt @ $25/oz	384	100%	1.0x	0.46
G&A / fin / deferred consideration	(362)	100%	1.0x	(0.44)
Asset NAV5% US$3000/oz	7,722			6.14
			Market P/NAV$_{5\%\ today}$	0.42x

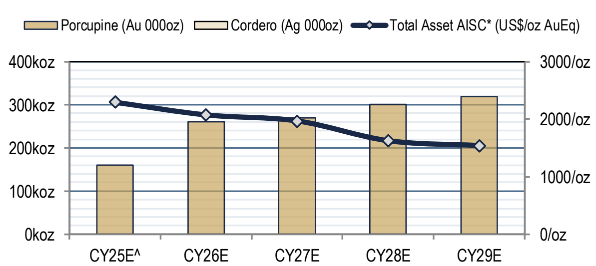
SCP 1x Porcupine NAV: (C$m)					
Porcupine 1xNAV (C$m)	$2200oz	$2600oz	$3000oz	$3400oz	$3800oz
Discount rate: 10%	1,222	2,001	2,781	3,560	4,339
Discount rate: 7%	1,512	2,464	3,416	4,241	5,193
Discount rate: 5%	1,637	2,742	3,846	4,951	6,055
Porcupine 1x NAVPS (C$/sh)	$2200oz	$2600oz	$3000oz	$3400oz	$3800oz
Discount rate: 10%	1.32	2.26	3.20	4.14	5.08
Discount rate: 7%	1.67	2.82	3.96	5.11	6.26
Discount rate: 5%	1.97	3.30	4.63	5.97	7.30

***Group 1x* NAV over time**	**Sep-25**	**Sep-26**	**Sep-27**	**Sep-28**	**Sep-29**
Porcupine NPV (C$m)	3,973	4,104	4,129	4,041	3,837
Cordero NPV (C$m)	2,633	2,765	2,903	3,049	3,308
G&A and fin. costs (C$m)	(362)	(340)	(319)	(248)	(174)
Net cash prior qtr (C$m)	422	360	498	699	904
Cash from options (C$m)	18.1	18.1	18.1	18.1	18.1
Resource ex rsvr (C$m)	384	384	384	384	384
NAV FD (C$m)	7,069	7,291	7,613	7,943	8,277
FD Shares in issue (m)	*830*	*830*	*830*	*830*	*830*
1xNAV5%/sh FD (C$/sh)	**8.52**	**8.79**	**9.17**	**9.57**	**9.97**
P/NAV (x):	0.46x	0.44x	0.43x	0.41x	0.39x
ROI to equity holder (% pa)	118%	50%	33%	25%	21%

SCP 1x Group NAV: (C$m)					
Group 1xNAV (C$m)	$2200oz	$2600oz	$3000oz	$3400oz	$3800oz
Discount rate: 10%	3,573	4,384	5,195	6,006	6,816
Discount rate: 7%	4,547	5,541	6,534	7,527	8,520
Discount rate: 5%	5,410	6,566	7,722	8,878	10,034
Group 1x NAVPS (C$/sh)	$2200oz	$2600oz	$3000oz	$3400oz	$3800oz
Discount rate: 10%	2.48	3.44	4.40	5.36	6.33
Discount rate: 7%	2.96	4.14	5.32	6.50	7.68
Discount rate: 5%	3.39	4.76	6.14	7.51	8.88

Production	**CY25E^**	**CY26E**	**CY27E**	**CY28E**	**CY29E**
Porcupine (Au 000oz)	161	260	269	301	318
Cordero (Ag 000oz)	-	-	-	-	-
Porcupine AISC (US$/oz)	2,294	2,073	1,968	1,621	1,536
Cordero AISC (US$/oz)	-	-	-	-	-
Total Asset AISC* (US$/oz AuEq)	2,294	2,073	1,968	1,621	1,536

**SCPe AISC includes exploration and royalty payments ^Production and AISC on attributable ba*



Source: SCP estimates attributable to DSV

M&I/P&P/Inventory:	**Tonnes (Mt)**	**AuEq Grade**	**AuEq (Moz)**	**AgEq Grade**	**AgEq (Moz)**
Borden 1Q25 MRE	5.1	5.90g/t	1.0	506g/t	83
Dome 1Q25 MRE	229	1.49g/t	11.0	128g/t	941
Hoyle Pond 1Q25 MRE	1.7	13.67g/t	0.8	1172g/t	66
Pamour 1Q25 MRE	88	1.31g/t	3.7	112g/t	318
Cordero 1Q24 MRE	867	0.49g/t	13.6	42g/t	1162
Global MRE	**1,191**	**0.78g/t**	**30.0**	**67g/t**	**2,570**
Cordero 1Q24 P&P	327	0.69g/t	7.3	54g/t	626
Porcupine 1Q25 PEA Inventory	95	1.70g/t	5.4	150g/t	459

Capital structure	**Basic**	**FD for Options**
Shares out (m)	802.4	829.9

Ratio analysis	**CY24A**	**CY25E**	**CY26E**	**CY27E**	**CY28E**
Average shares out (m)	398.3	652.1	802.4	802.4	802.4
EPS (C$/sh)	-	0.18	0.33	0.32	0.39
CFPS (C$/sh)	-	-	0.09	0.11	0.25
EV (C$m)	1,533	2,317	2,834	2,743	2,541
FCF yield (%)	-	-	2%	3%	6%
PER (x)	-	21.9x	11.8x	12.0x	9.9x
EV/EBITDA (x)	-	10.3x	6.9x	6.7x	5.1x

Income statement	**CY24A**	**CY25E**	**CY26E**	**CY27E**	**CY28E**
Net revenue (US$m)	-	506	789	804	899
COGS (US$m)	-	225	343	360	367
Gross profit (US$m)	-	**280**	**446**	**444**	**531**
D&A, attrib (US$m)	-	19	16	26	38
G&A + sh based costs (US$m)	13	39	16	16	16
Expensed Explo. (US$m)	0	9	16	16	16
Net financial fees & costs (US$m)	(1)	13	3	0	(1)
Other + FX (US$m)	4	7	-	-	-
Taxes (US$m)	-	77	129	125	148
Net income (US$m)	**(15)**	**116**	**266**	**260**	**315**
EBITDA (US$m)	*(15)*	*226*	*411*	*412*	*501*
FCF (CFO-CFI) (US$m)	*(22)*	*(260)*	*70*	*91*	*202*

Cash flow, attrib.	**CY24A**	**CY25E**	**CY26E**	**CY27E**	**CY28E**
Add D&A / share bsd (US$m)	3	34	24	34	45
Adjust fin. cost (US$m)	-	6	-	-	-
Change in wkg cap (US$m)	(7)	16	(5)	(2)	(5)
Other non-cash (US$m)	3	29	-	-	-
Cash flow ops (US$m)	**(15)**	**200**	**285**	**292**	**355**
PP&E - build + sust. (US$m)	(7)	(206)	(215)	(164)	(116)
PP&E - expl'n (US$m)	-	-	-	-	-
Deferred consideration (US$m)	-	(52)	-	(38)	(38)
Acquisitions & Other (US$m)	-	(204)	-	-	-
Cash flow inv. (US$m)	**(7)**	**(461)**	**(215)**	**(202)**	**(154)**
Share issue (US$m)	1	173	-	-	-
Debt draw (repay) (US$m)	(0)	(0)	-	-	-
NSR liability (US$m)	-	298	-	-	-
Cash flow fin. (US$m)	**1**	**470**	**-**	**-**	**-**
Net change in cash post forex (US	(21)	206	70	91	202

Balance sheet	**CY24A**	**CY25E**	**CY26E**	**CY27E**	**CY28E**
Cash (US$m)	21	227	297	387	589
Acc rec., inv, prepaid (US$m)	2	90	95	99	104
PP&E + other (US$m)	65	1,412	1,611	1,749	1,828
Total assets (US$m)	**88**	**1,729**	**2,003**	**2,235**	**2,521**
Debt & Leases (US$m)	1	1	1	1	1
Accounts payable (US$m)	6	39	39	41	42
NSR, Deferred con / other (US$m	1	1,066	1,066	1,028	991
Total liabilities (US$m)	8	1,106	1,106	1,070	1,033
Issued capital (US$m)	202	634	642	650	658
Retained earnings (US$m)	(122)	(11)	255	515	830
Liabilities + equity (US$m)	**88**	**1,729**	**2,003**	**2,235**	**2,521**

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Summary of Recommendations as of August 2025	
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HOLD:	0
SELL:	0
UNDER REVIEW:	1
TENDER:	0
NOT RATED:	0
TOTAL	53

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