

## Voyageur Pharmaceuticals Ltd. (TSXV: VM)

### Robust PEA / Launching First Suite of Products Next Month

**BUY**

Current Price: C\$0.11

Fair Value: C\$0.55

Risk: 5

#### Sector / Industry: Junior Resource/Pharmaceuticals

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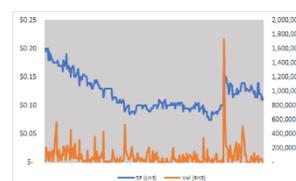
#### Highlights

- A Preliminary Economic Assessment (PEA) on the Frances Creek barite project (B.C.) returned robust economics with an **AT-NPV8% of \$344M, and a very high AT-IRR of 137%**, driven by low initial CAPEX of \$36M.
- Management is **planning to launch** its first suite of barium contrast products next month in Canada. Contrast agents are administered to a patient prior to using an imaging technology (such as X-ray/MRI/CT scan) to increase an image's contrast by delineating body structures in which the contrast agent is localized.
- VM is using a Calgary-based contract manufacturer. **Five products have received Health Canada approvals.** VM is simultaneously advancing FDA licensing and international registrations.
- The contrast market is dominated by large players such as Bayer (XTRA: BAYN), GE Healthcare (NYSE: GE), Bracco Diagnostics, etc. We believe breaking into a sector dominated by large players will be challenging for VM. However, VM's primary advantage is that there is currently **no contrast agent manufacturer in the world that owns and controls its active pharmaceutical ingredient (barite).** We believe vertical integration should provide significant cost advantages to VM. If successful, Frances Creek will offer VM a stable long-term supply of feedstock, with cost advantages over competitors.
- **Upcoming potential catalysts** include product launch, initial sales, and project financing for Frances Creek. Management is aiming to advance the project to production next year.

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#### Price Performance (1-year)



	YTD	12M
Ret.	-8%	-45%
TSXV	-10%	-13%

#### Company Data

52 Week Range	C\$0.08 – C\$0.21
Shares O/S	102M
Market Cap.	C\$11M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	5x

#### Key Financial Data (FYE - Nov 30) (C\$)

	2020	2021(9M)
Cash	\$2,967	\$1,467,017
Working Capital	-\$884,801	\$998,022
Mineral Assets	\$1,219,381	\$1,462,235
Total Assets	\$1,275,180	\$3,049,503
Net Income (Loss)	-\$1,139,422	-\$1,553,642
EPS	-\$0.02	-\$0.02

\*See last page for important disclosures, rating and risk definitions. All figures in US\$ unless otherwise specified.

## Robust PEA Results for the Frances Creek Barite Project

### 2022 Resource Estimate

Classification	Zone	Tonnes	% BaSO4	Density	Tonnes of BaSO4
Indicated	A	17,500	34.7	3.20	6,100
	B (B1+B2)	197,300	35.2	3.21	69,500
	<b>Total</b>	<b>214,800</b>	<b>35.2</b>	<b>3.21</b>	<b>75,600</b>
Inferred	A	4,700	35.8	3.21	1,700
	B (B1+B2)	129,500	33.8	3.19	43,700
	<b>Total</b>	<b>134,200</b>	<b>33.9</b>	<b>3.19</b>	<b>45,400</b>

Due to resource re-modelling, total tonnage declined 8%, and grades declined 5%

On a positive note, indicated resource increased 21%, implying high confidence

62% of the resource is in the indicated category (previously 48%)

Classification	Zone	% BaSO4	Tonnes of Barite	% increase
December 2020 Indicated	A	36.1%	13,200	21%
	B	38.2%	49,500	
	<b>Total</b>	<b>37.7%</b>	<b>62,700</b>	
January 2022 Indicated	A	34.7%	6,100	21%
	B(B1+B2)	35.2%	69,500	
	<b>Total</b>	<b>35.2%</b>	<b>75,600</b>	
December 2020 Inferred	A	33.1%	14,200	-34%
	B	36.1%	55,100	
	<b>Total</b>	<b>35.4%</b>	<b>69,300</b>	
January 2022 Inferred	A	35.8%	1,700	-34%
	B(B1+B2)	33.8%	43,700	
	<b>Total</b>	<b>33.9%</b>	<b>45,400</b>	

### 2022 PEA Highlights

Life of Mine (LOM)	10 years		
LOM Recovered - tonnes (BaSO4)	58,400		
Annual Production (BaSO4) - tonnes	5,840		
	Annual Production (tonnes)	Pricing (\$/t)	% of Total Revenue
BaSO4 Pharma Tonnes/year	297	\$278,451	71%
BaSO4 (98.3% Pure) Product Tonnes/year	5,542	\$5,954	28%
BaSO4 Drill Products Tonnes/year	3,791	\$369	1%
BaSO4 (Average Price) - \$/t	5,840	\$20,051	100%
Initial Capital Cost / CAPEX	\$36M		
Operating Cost / OPEX per tonne	\$5,051		
Total Project Cash Flow - After Tax	\$626M		
After Tax NPV (8%)	\$344M		
After Tax IRR	137%		
Payback Period	11 months		

Source: Company / FRC

71% of revenue is expected to come from sales of pharma products (price range:\$4-\$20/bottle). Most of the remaining revenue is expected to come from

direct sales of barium sulfate (BaSO<sub>4</sub>). The study used current pricing of \$5,950/t for BaSO<sub>4</sub>; we were using \$4,940/t in our models in the initiating report in 2020. **Note that barite pricing has been relatively stable in the past decade.** For pharma products, each tonne of BaSO<sub>4</sub> can produce over 100,000 bottles, implying potential revenue of over \$400k/t.

### Upcoming Plans

- Commence sales of barium contrast; the company will use third-party BaSO<sub>4</sub> until Frances Creek is advanced to production
- FDA and international approvals
- Project financing to fund Frances Creek to production; management expects to commence production next year

Multiple near-term catalysts

### Management's Projected Timelines

Milestone	2H-2021	1H-2022	2H-2022	1H-2023	2H-2023	1H-2024	2H-2024
Preliminary Economic Assessment							
FDA Pre-Submission							
FDA Device Licence Application (EU Drug App)							
Product roll-out Canada							
Marketing & Sales USA & Global Markets							
Construction of FC quarry & USP GMP plant							
Francis Creek API Quarry Bulk Sample							
New Barium Contrast Product Development							
Manufacturing optimization							
Advancement of Iodine contrast integration							
Full Integration of the Barium Contrast Market							

Source: Company

### Financials

#### Liquidity Position

(in C\$)	2020	2021(9M)
Cash	\$2,967	\$1,467,017
Working Capital	-\$884,801	\$998,022
Current Ratio	0.03	2.82
LT Debt / Assets	-	-
Monthly Burn Rate (incl. G&A)	-\$59,193	-\$86,252
Project Related	-\$161,935	-\$247,647
Cash from Financing Activities	\$351,338	\$2,905,713

Data Source: Financial Statements

\$1.5M in cash at the end of Q3-2021

**Stock options and warrants** – 8.72M options (weighted average exercise price of \$0.13 per share), and 20.19M warrants (weighted average exercise price of \$0.21)

*In-the-money options/warrants can bring in up to \$1M*

*Our DCF valuation, excluding pharma products, is \$0.45 per share (previously \$0.39); valuation increased due to longer mine life and higher product pricing*

*Our valuation, including pharma products, is \$0.66 per share (introducing in this report); note that we have used a high discount rate (25%) as the company is in very early stages*

*Maintaining our risk rating of 5 (Highly Speculative)*

are outstanding. 4.69M options and 4.75M warrants are in-the-money, implying potential to raise up to \$0.94M.

## Valuation

We built two models as VM has an option to directly sell BaSO4 if its pharma products are unsuccessful in penetrating the market.

DCF Valuation (including pharma products)	
Mine Life (years)	10
BaSO4 Pharma Tonnes/year	300
BaSO4 Pharma Pricing (\$/t)	\$275,000
BaSO4 (98.3%) Product Tonnes/year	5,500
BaSO4 (98.3% Pure) Pricing (\$/t)	\$5,950
Initial Capital Cost / CAPEX	\$36M
Operating Cost (\$/t)	\$6,000
Discount rate	25%
AT-NPV (C\$)	\$135,497,690
<b>AT-NPV discounted by 50%</b>	<b>\$67,748,845</b>
Working Capital	\$437,385
<b>Fair Value of VM</b>	<b>\$68,186,230</b>
No. of Shares	103,493,992
<b>Fair Value per Share (\$)</b>	<b>\$0.66</b>

DCF Valuation (excluding pharma products)	
Mine Life (years)	10
BaSO4 (98.3%) Product Tonnes/year	5,500
BaSO4 (98.3% Pure) Pricing (\$/t)	\$5,950
Initial Capital Cost / CAPEX	\$36M
Operating Cost (\$/t)	\$2,000
Discount rate	11.6%
AT-NPV (C\$)	\$45,915,702
Working Capital	\$437,385
<b>Fair Value of VM</b>	<b>\$46,353,087</b>
No. of Shares	103,493,992
<b>Fair Value per Share (\$)</b>	<b>\$0.45</b>

Source: FRC

We are reiterating our BUY rating, and **raising our fair value estimate from \$0.39 to \$0.55 per share** (the average of our DCF and comparables valuations). Upcoming potential catalysts include product launch, initial sales, and project financing. The next six months will be crucial as we will gain insights on the market's appetite for VM's contrast agents.

## Risks

We believe the company is exposed to the following key risks (not exhaustive):

- Development risks.
- **Share dilution through future financings.**
- Potential for delays in project financing
- No guarantee that the company will have cost advantage over competitors.
- The contrast agents market is dominated by large players.
- **No guarantee that its products will gain traction.**

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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