

## Alio Gold Inc.

ALO-TSX: \$2.54

Rating: Buy

Target: \$8.50

Estimates				
	2017A	2018E	2019E	2020E
CFPS	0.66	0.57	0.88	1.35
P/CFPS	3.0x	3.5x	2.3x	1.5x
EPS	0.32	0.26	0.39	0.45
P/E	6.16	7.69	5.09	4.38
Au Production (koz)	84	127	192	284
Gold Price (\$/oz)	\$1,261	\$1,308	\$1,300	\$1,300
<i>Costs (US\$/oz)</i>				
Total Cash Costs (\$/oz)	\$832	\$884	\$773	\$776
Sustaining Capex (\$/oz)	\$108	\$54	\$25	\$67
G&A (\$/oz)	\$94	\$75	\$60	\$60
Exploration Expense (\$/oz)	\$0	\$4	\$5	\$5
All-In Sustaining Costs (AISC)	\$1,034	\$1,016	\$863	\$908

Market Data	
Price	C\$2.54
Potential Return (%)	235%
52-Week Range:	C\$2.23 - \$7.99
Market Cap. (C\$MM)	C\$113.5
Shr. O/S-Basic (MM)	84
Shr. O/S-FD (MM)	86
Management and Directors (%)	6.72%
Enterprise Val. (C\$MM)	C\$221
NAVPS:	\$8.0
Cash (US\$MM)	\$30.1
Debt (US\$MM)	\$31.9
Price/NAV:	0.25x
Fiscal Year End	31-Dec



Source: FactSet

Top Holders (Source: Bloomberg)	
Goldcorp	5.5%
Sentry Investments	2.2%
Connor, Clark & Lunn Investment Management Ltd	2.1%
Renaissance Technologies LLC	2.1%

Company Information	
Flagship Project/Location:	Ana Paula / Mexico
Att. Global Gold Resource (MMoz):	8.30
AMC/oz Valuation (C\$/oz)	\$5

## Q1 Results Beat Estimates

May 10, 2018

Q4/18 beat our estimates and consensus driven by lower operating costs that were positively impacted by capitalized stripping and zero cash taxes paid. With management's continued focus on further optimization of operations at the San Francisco mine, we believe the capital investments at the mine will drive increased mining flexibility and cost improvements over the course of 2018. In our view, the Ana Paula growth asset is the primary driver of value for ALO and we believe the ongoing underground exploration program has the potential to provide further upside to the project's already robust economics. We also believe that the Rye Patch acquisition, expected to close May 25, 2018, provides increased asset diversification and higher cash flow generation that should de-risk the ultimate development of Ana Paula. ALO currently trades at ~70% discount to peers and we believe operational execution and development milestones should see the stock rerated. We maintain our **BUY** rating and our target price of **\$8.50** per share.

**FINANCIAL RESULTS:** CFPS of US\$0.12 was ahead of our estimated US\$0.03 and consensus of US\$0.02. The beat on our estimate was driven by the lower operating costs and the zero cash taxes paid. EPS of US\$0.07 was ahead of our estimated (US\$0.01) and consensus of (US\$0.02). The beat to our estimate was driven by lower operating costs and lower tax expense.

**OPERATING RESULTS:** Companywide production of 17.6k oz was pre-reported. Total cash cost of US\$884/oz was better than our estimated US\$1,090/oz primarily due to higher than estimated capitalized stripping that resulted in higher than modelled AISC of US\$1,262/oz vs our estimated US\$1,198/oz.

**SAN FRANCISCO OUTLOOK:** Management implemented the dual cut-off strategy in Dec. 2017 which involves trucking lower grade ROM ore to old heap leach pads while higher cut-off grade material is fed to the crusher. Management now continues to focus on improving recoveries through blasting improvements and lowering grade dilution. Overall, we expect these changes to drive operational efficiencies and lower costs. We have actualized Q1/18 and our estimates for San Francisco remains largely unchanged with production of 95k oz at US\$1,016/oz AISC (prior 95k oz at US\$1,001/oz AISC).

**ADVANCING ANA PAULA:** Progress on the 1,200m underground decline is underway with first blast taking place in Q1. Results to date have supported the potential of the underground to provide potential upside and management will defer the completion of the DFS for at least the remainder of 2018. In our view, the underground component of the project has the potential to significantly bolster economics and could conceptually support a boost to production of 30 – 50k oz/year to our modeled 110k oz/year. A total of ~16,000m of drilling that includes ~61 diamond drill holes is ongoing to test extension of the underground breccia mineralization below the proposed pit.

**RECOMMENDATION:** ALO trades at 0.24x NAV and 3.4x 2018E P/CF, a significant discount to peers trading at an average of 0.74x and 6.7x, respectively. We believe the successful integration of Rye Patch and the multiple de-risking milestones ahead over the coming quarters at the compelling Ana Paula growth asset should drive a re-rating of ALO. We maintain our **BUY** rating and our target price of **\$8.50** per share.

Figure 1: ALO Q1/18 Actuals vs Clarus Estimates

ALO Q1/2018		Q118 Estimate	Q118 Actual	Variance (%)
<b>San Francisco Mine</b>				
<b>Production</b>				
Strip Ratio (Waste:Ore Milled)	w:o	2.07	2.07	0%
Tonnes processed	kt	1,715	1,715	0%
Grade	g/t	0.53	0.53	0%
<b>Consolidated Gold Production</b>	<b>koz</b>	<b>17.6</b>	<b>17.6</b>	<b>0%</b>
Gold Sold	koz	17.4	17.4	0%
<b>Costs</b>				
Implied Operating Costs	US\$/t	\$11.02	\$8.93	-19%
Cash Costs	(US\$/oz)	\$1,090	\$884	-19%
<b>AISC</b>	<b>(US\$/oz)</b>	<b>\$1,198</b>	<b>\$1,262</b>	<b>5%</b>

Sources: Company Reports; Clarus Securities

Figure 2: ALO Comparable Analysis

5/9/2018		PRODUCTION														
Company	Ticker	Price	S/O (MM)	Market Cap (MM)	Cash (MM)	LT Debt (MM)	EV (MM)	2018E koz	2019E koz	2020E koz	3 Yr CAGR	P/CF 2018E	P/CF 2019E	P/NAV	2018 FCF (MM)	Yield
Argonaut Gold Inc.	TSX:AR	\$2.58	178	\$459	\$36	\$10	\$425	172	210	215	25%	4.6x	3.5x	0.59x	\$25	5.4%
SEMAFO Inc.	TSX:SMF	\$3.78	326	\$1,231	\$249	\$174	\$1,197	253	418	438	73%	8.1x	3.3x	0.89x	-\$121	-9.9%
Kirkland Lake Gold Ltd.	TSX:KLG	\$24.31	211	\$5,128	\$355	\$50	\$4,802	634	720	775	22%	10.1x	8.4x	1.47x	\$172	3.4%
Guyana Goldfields Inc.	TSX:GUY	\$5.27	173	\$913	\$129	\$70	\$842	194	246	276	42%	6.1x	4.7x	0.68x	\$44	4.8%
Wesdome Gold Mines Ltd.	TSX:WDO	\$1.89	134	\$254	\$26	\$8	\$235	66	89	182	177%	6.7x	4.2x	0.42x	-\$1	-0.5%
Golden Star Resources Ltd.	TSX:GSC	\$0.91	381	\$346	\$43	\$142	\$450	241	268	231	-4%	5.0x	2.3x	0.39x	\$11	3.1%
<b>Mean</b>				<b>\$1,388</b>	<b>\$140</b>	<b>\$76</b>	<b>\$1,325</b>	<b>260</b>	<b>325</b>	<b>353</b>	<b>56%</b>	<b>6.8x</b>	<b>4.4x</b>	<b>0.74x</b>	<b>\$22</b>	<b>1.1%</b>
<b>Median</b>				<b>\$686</b>	<b>\$86</b>	<b>\$60</b>	<b>\$646</b>	<b>217</b>	<b>257</b>	<b>253</b>	<b>33%</b>	<b>6.4x</b>	<b>3.9x</b>	<b>0.64x</b>	<b>\$18</b>	<b>3.3%</b>
<b>Alio Gold Inc.</b>	<b>TSX:ALO</b>	<b>\$2.54</b>	<b>44</b>	<b>\$111</b>	<b>\$65</b>	<b>\$2</b>	<b>\$46</b>	<b>127</b>	<b>192</b>	<b>284</b>	<b>123%</b>	<b>3.5x</b>	<b>2.3x</b>	<b>0.25x</b>	<b>\$15</b>	<b>13.6%</b>

Sources: Factset; Clarus Securities

**Price Target Calculator:** We value Alio Gold on a blended 50-50 NAV and P/CF based valuation. Our project NAV (50% weighting) incorporates our discounted cash flow valuation for the San Francisco mine at a 3% discount rate and the Ana Paula project at an 5% discount rate. Our P/CF valuation (50% weighting) is based on our estimate of 2018E cash flow per share to which we apply a 8.0x multiple.

**Key Risks to Target Price:** Please refer to the risks disclosed in the initiating report dated April 19, 2017.

Alio Gold (ALO - TSX), BUY, Target: \$8.50

Rating	BUY	Target Price	C\$ 8.50	Basic Shares O/S	83.7
12-Month Return	235%	Previous Close	C\$ 2.54	Market Cap. C\$M	C\$212.5

USD MM except per share data and unless otherwise noted

VALUATION			
NET ASSET VALUE (50% WEIGHT)	Discount rate	US\$MM	US\$/share
San Francisco (100.0%), Mexico	3.0%	\$166	\$1.94
Ana Paula (100.0%), Mexico	5.0%	\$309	\$3.61
Florida Canyon (100.0%), Nevada, USA	5.0%	\$182	\$2.13
<b>Sub-Total</b>		<b>\$658</b>	<b>\$7.68</b>
<b>Multiple to NAV</b>	<b>1.00x</b>	<b>\$658</b>	<b>\$7.68</b>

Corporate Adjustments			
Basic Working Capital		\$63	\$0.74
Long-term Debt		-\$32	-\$0.37
Value of ITM Instruments		\$0	\$0.00
<b>Sub-total</b>		<b>\$ 32</b>	<b>\$ 0.37</b>
<b>Total Corporate NAV</b>	<b>US\$/share</b>	<b>\$689</b>	<b>\$8.05</b>

CASH FLOW VALUATION (50% WEIGHT)			
<b>CFPS</b>	<b>2018E</b>	<b>\$42</b>	<b>\$0.57</b>
<b>Multiple to Cash Flow</b>	<b>8.0x</b>	<b>\$333</b>	<b>\$4.58</b>

BLENDED VALUATION			
<b>Target Price</b>	<b>C\$/share</b>	<b>\$675</b>	<b>\$8.50</b>
P/NAV			0.25x

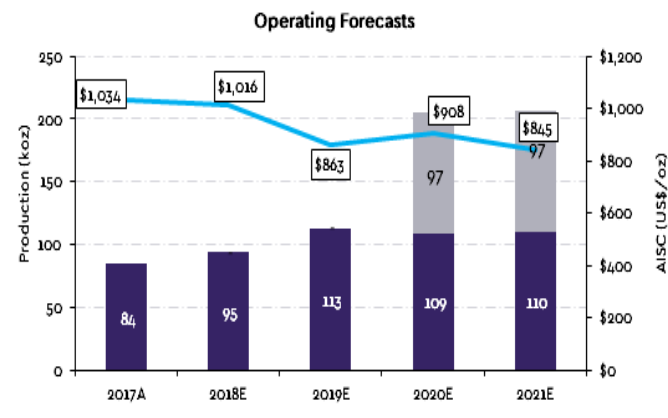
FINANCIAL SUMMARY				
Calendar Year	2017A	2018E	2019E	2020E
Gold Price (US\$/oz)	\$1,261	\$1,308	\$1,300	\$1,300
Realised Gold Price (US\$/oz)	\$1,260	\$1,304	\$1,300	\$1,300
<i>*Realised Gold Price due to Gold Stream</i>				
<b>CFPS</b>	<b>\$0.66</b>	<b>\$0.57</b>	<b>\$0.88</b>	<b>\$1.35</b>
P/CFEPS	3.0x	3.5x	2.3x	1.5x
Target/CFPS	10.0x	11.6x	7.5x	4.9x
Income Statement				
Revenue	\$105	\$166	\$249	\$369
Operating Expenses	(\$70)	(\$112)	(\$148)	(\$220)
Depreciation	(\$5)	(\$18)	(\$29)	(\$62)
General & Adm.	(\$9)	(\$9)	(\$12)	(\$17)
Other	\$0	\$0	\$0	\$0
Exploration Exp.	\$0	(\$1)	(\$1)	(\$1)
Net Interest Expense	\$1	(\$0)	(\$9)	(\$9)
Taxes Expense	(\$9)	(\$8)	(\$17)	(\$21)
Other	(\$3)	\$0	\$0	\$0
Net Income	\$12	\$18	\$33	\$39

PRODUCTION ESTIMATES					
Calendar Year		2017A	2018E	2019E	2020E
San Francisco	koz	84	95	113	109
Ana Paula	koz	-	-	-	97
Florida Canyon	koz	-	33	79	79
<b>Consolidated Gold Sales</b>	<b>koz</b>	<b>84</b>	<b>127</b>	<b>192</b>	<b>284</b>

COST ESTIMATES					
Calendar Year		2017A	2018E	2019E	2020E
Total Cash Costs	US\$/oz	\$832	\$884	\$773	\$776
Sustaining Capex	US\$/oz	\$108	\$54	\$25	\$67
G&A	US\$/oz	\$94	\$75	\$60	\$60
Exploration Expense	US\$/oz	\$0	\$4	\$5	\$5
<b>All-In Sustaining Costs (AISC)</b>	<b>US\$/oz</b>	<b>\$1,034</b>	<b>\$1,016</b>	<b>\$863</b>	<b>\$908</b>

Cash Flow				
<b>Operating CF</b>	<b>\$25</b>	<b>\$42</b>	<b>\$75</b>	<b>\$116</b>
Dividend	\$0	\$0	\$0	\$0
Borrowings	\$0	\$124	\$3	\$0
Repayments	(\$0)	\$0	\$0	(\$3)
Share Issuance	\$37	\$15	\$0	\$0
<b>Financing CF</b>	<b>\$40</b>	<b>\$139</b>	<b>\$3</b>	<b>(\$3)</b>
<b>Investing CF</b>	<b>(\$56)</b>	<b>(\$30)</b>	<b>(\$171)</b>	<b>(\$25)</b>
Change in Cash	(\$2)	\$143	(\$93)	\$88
<b>Free Cash Flow (bef div and fin.)</b>	<b>\$2</b>	<b>\$12</b>	<b>(\$96)</b>	<b>\$91</b>

Balance Sheet				
Cash & Equivalents	\$31	\$175	\$82	\$170
Current Assets	\$87	\$244	\$151	\$239
Current Debt	\$0	\$0	\$3	\$0
Current Liabilities	\$25	\$44	\$47	\$44
Long-term Debt	\$0	\$0	\$121	\$124
Shareholder Equity	\$197	\$303	\$336	\$374



Source: Company reports, Clarus Securities estimates

MODELLED OUNCES				
Gold Assets	Mt	g/t	koz	Mine Life (yr)
San Francisco (100.0%), Mexico	39.5	0.50	635	7.0
Ana Paula (100.0%), Mexico	13.5	2.36	1021	8.0
Florida Canyon (100.0%), Nevada, USA	59.3	0.44	848	8.8

---

## Clarus Securities Equity Research Disclosures

The analyst has visited the Company's mining operations in Mexico. Partial payment or reimbursement was received from the issuer for the associated travel costs.

Within the last 24 months, Clarus Securities Inc. has managed or co-managed a public offering of securities of this company.

Within the last 24 months, Clarus Securities Inc. has received compensation for investment banking services with respect to the securities of this company.

### General Disclosure

The information and opinions in this report were prepared by Clarus Securities Inc. ("Clarus Securities"). Clarus Securities is a wholly owned subsidiary of Clarus Securities Holdings Ltd. and is an affiliate of such. The reader should assume that Clarus Securities or its affiliate may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

The opinions, estimates and projections contained in this report are those of Clarus Securities as of the date of this report and are subject to change without notice. Clarus Securities endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, Clarus Securities makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to Clarus Securities or its affiliate that is not reflected in this report. This report is not to be construed as an offer or solicitation to buy or sell any security. No part of this report may be reproduced or re-distributed without the written consent of Clarus Securities.

### Conflicts of Interest

The research analyst and/or associates who prepared this report are compensated based upon (among other factors) the overall profitability of Clarus Securities and its affiliate, which includes the overall profitability of investment banking and related services. In the normal course of its business, Clarus Securities or its affiliate may provide financial advisory and/or investment banking services for the issuers mentioned in this report in return for remuneration and might seek to become engaged for such services from any of such issuers in this report within the next three months. Clarus Securities or its affiliate may buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. Clarus Securities, its affiliate, and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities discussed herein, or in related securities or in options, futures or other derivative instruments based thereon.

### Analyst's Certification

Each Clarus Securities research analyst whose name appears on the front page of this research report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's personal views about the Company and securities that are the subject of this report and all other companies and securities mentioned in this report that are covered by such research analyst and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by such research analyst in this report.

### Equity Research Ratings

**Buy:** Attractively valued and expected to appreciate significantly from the current price over the next 12-18 months.

**Speculative Buy:** Expected to appreciate significantly from the current price over the next 12-18 months. Financial and/or operational risk is high in the analyst's view.

**Accumulate:** Attractively valued, but given the current market price, is expected to appreciate moderately over the next 12-18 months.

**Hold:** Fairly valued and expected to trade in line with the current price over the next 12-18 months.

**Sell:** Overvalued and expected to decline from the current price over the next 12-18 months.

**Under review:** Pending additional review and/or information. No rating presently assigned.

**Tender:** Company subject to an acquisition bid: accept offer.

A summary of our research ratings distribution can be found on our website.

### Dissemination of Research

Clarus Securities' Equity Research is available via our website and is currently distributed in electronic form to our complete distribution list at the same time. Please contact your Clarus institutional sales or trading representative or investment advisor for more information. Institutional clients may also receive our research via THOMSON and REUTERS.

For additional disclosures, please visit our website <http://www.clarussecurities.com>.

© Clarus Securities Inc. All rights reserved. Reproduction in whole or in part without permission is prohibited.

# Alio Gold Inc.

ALO-TSX | ALO-NYSE MKT

Tara Hassan P.Eng | 604.659.8064 | tara.hassan@raymondjames.ca

Jeremy Poon (Associate) | 604.659.8294 | jeremy.poon@raymondjames.ca

Mining | Precious Metals - Gold

May 10, 2018 | 7:40 am EDT

Company Comment

## Market Perform 3 C\$5.00 target price

Current Price ( May-09-18 )	C\$2.54
Total Return to Target	99%
52-Week Range	C\$7.99 - C\$2.23
Suitability	High Risk/Growth

<b>Market Data</b>	
Market Capitalization (mln)	C\$112
Current Net Debt (mln)	-C\$26
Enterprise Value (mln)	C\$86
Shares Outstanding (mln, basic)	44.7
10 Day Avg Daily Volume (000s)	131
Dividend/Yield	C\$0.00/0.0%

## Focused on Improving Operations in Remainder of 2018

### Recommendation

While Alio's 1Q18 results were impacted by weaker production (pre-released), lower production costs drove a beat over RJL and consensus estimates. With the merger with Rye Patch Gold set to close in 2Q18, we maintain our cautious view on Alio in the near-term as it could face an overhang due to the share issuance and will require time to improve operations at Florida Canyon. We reiterate our view that if Alio can deliver strong operating results from Florida Canyon and San Francisco post the merger, it could be positioned for a market re-rating later in 2018.

### Analysis

- Financials Beat, But Driven by Inventory Adjustment** – Alio reported EPS of US\$0.07, which included a US\$7 mln inventory adjustment to production costs, above RJL and consensus estimate of US\$(0.02). Adjusted CFPS for the quarter of US\$0.09 also beat our estimate of US\$0.01 and consensus estimate of US\$0.02. Excluding the US\$7 mln adjustment, earnings from mining operations would be ~US\$(1) mln.
- San Francisco Budgeted to Improve through 2018** – Production of 17.6 koz was pre-released and was below our estimate of 18.6 koz and 1Q17 production of 26 koz driven by lower head grade. AISC of US\$1,262 was below our estimate of US\$1,412/oz, largely on the back of the inventory adjustment, but well above 1Q17 AISC of US\$848/oz and 2018 guidance of US\$1,000–US\$1,100/oz. Alio expects production to improve at San Francisco through the year and reiterated project guidance of 90–100 koz Au at AISC of US\$1,000–US\$1,100/oz. We have adjusted our estimates to reflect guidance that higher dilution has continued into early 2Q18.
- Rye Patch Acquisition On Track to Close in 2Q18** – Alio is set to close the Rye Patch transaction in late May 2018. Guidance for Florida Canyon is expected to be provided in 2H18 post the close of the transaction. Our valuation already incorporates the Florida Canyon project and the related share dilution.
- Cash Balance Remains Strong** – Alio ended the quarter with US\$39.3 mln in Cash and Marketable Securities compared with our estimate of US\$44.2 mln. After the merger with Rye Patch, we expect Alio to carry a debt of US\$15 mln with only a small addition to the cash balance as a large portion of the Rye Patch cash will be consumed on property and debt payments and transaction costs.

### Key Financial Metrics

	2017A	2018E	2019E
P/CFPS	3.8x	4.4x	3.1x
P/NAV		0.40x	
Gold Price (US\$/oz)	US\$1,258	US\$1,307	US\$1,300
Gold Production (000 oz Au)			
Old	84	131	174
New	84	134	174
Total Cash Costs (US\$/oz)			
Old	US\$831	US\$978	US\$856
New	US\$831	US\$957	US\$877
AISC (US\$/oz)			
Old	US\$1,034	US\$1,094	US\$936
New	US\$1,034	US\$1,115	US\$964

### Company Description

Alio Gold is a junior gold producer focused on its 100% owned San Francisco mine and its Ana Paula development project, both of which are in Mexico.



### Valuation

Our target is based on a 30-70 blend of 1.0x our fully funded NAV5% and 6.0x NTM OCF. Our NAV also considers an exploration credit of US\$50 mln for AP and FC (see Exhibit 2). Our NAV multiple is in-line with junior producing peers. Our CF multiple is below these peers to reflect the higher cost structure and recent operating challenges.

CFPS	1Q	2Q	3Q	4Q	Full	Revenues	NAV
	Mar	Jun	Sep	Dec	Year	(mln)	
2017A	US\$0.25	US\$0.18	US\$0.14	US\$(0.05)	US\$0.51	US\$105	
Old 2018E	0.01	0.15	0.13	0.12	0.41	170	C\$6.46
<b>New 2018E</b>	<b>0.09</b>	<b>0.13</b>	<b>0.10</b>	<b>0.11</b>	<b>0.45</b>	<b>173</b>	<b>C\$6.20</b>
Old 2019E	0.18	0.17	0.17	0.15	0.67	225	
<b>New 2019E</b>	<b>0.16</b>	<b>0.16</b>	<b>0.16</b>	<b>0.15</b>	<b>0.63</b>	<b>225</b>	

Source: Raymond James Ltd., Thomson One

## Exhibit 1: 1Q18 Quarterly Summary

	Units	Quarterly Summary		Q/Q		Y/Y	
		Estimate Q1 2018	Actual Q1 2018	Actual Q4 2017	% Δ	Actual Q1 2017	% Δ
Total Revenue	US\$mln	23.2	23.3	20.6	13%	32.3	-28%
Cost of Sales (excl. D&D)	US\$mln	21.2	15.5	16.9	-8%	19.4	-20%
Depreciation and Depletion	US\$mln	1.3	1.3	1.1	20%	1.8	-31%
Earnings from mine operations	US\$mln	0.7	6.6	2.7	146%	11.1	-41%
Corporate G&A	US\$mln	1.8	2.9	3.2	-10%	1.3	119%
Earnings before taxes	US\$mln	(1.0)	4.3	0.3	1221%	8.2	-48%
Net Income	US\$mln	(1.0)	3.2	(2.9)	213%	6.0	-47%
EPS	US\$/sh	(0.02)	0.07	(0.06)	213%	0.17	-57%
Operating CF (Before WC)	US\$mln	0.5	5.3	1.0	420%	11.7	-55%
Investing CF	US\$mln	(7.9)	(10.5)	(17.3)	-39%	(4.8)	116%
Financing CF	US\$mln	0.0	0.0	2.8	-	(0.0)	-
Reported Op. CFPS	US\$/sh	0.01	0.12	0.02	419%	0.33	-64%
Adj. Op. CFPS	US\$/sh	0.01	0.09	(0.05)	295%	0.25	-62%
Cash and Cash Equivalents	US\$mln	44.2	39.3	51.6	-24%	39.2	0%
<b>San Francisco</b>							
Gold Production*	000 oz	17.6	17.6	16.1	10%	26.0	-32%
Cash Costs/oz Sold	US\$/oz	\$1,218	\$884	\$1,041	-15%	\$735	20%
AISC Cash Costs/oz Sold	US\$/oz	\$1,412	\$1,262	\$1,357	-7%	\$848	49%

\* Denotes Previously Reported Data

Source: Alio Gold Inc., Raymond James Ltd.

## Exhibit 2: NAV Breakdown

Projects	(Cdn\$mIn)	Per Sh.	Multiple	Adj. Per Sh.	NAV Waterfall
<b>Net Asset Value - DCF</b>					
San Francisco	\$133.0	\$1.23	1.00x	\$1.23	\$1.23
Ana Paula	\$278.4	\$2.58	1.00x	\$2.58	\$2.58
Exploration Credit	\$60.7	\$0.56	1.00x	\$0.56	\$0.56
Florida Canyon	\$170.2	\$1.58	1.00x	\$1.58	\$1.58
Project NAV	\$642.2	\$5.95		\$5.95	\$5.95
Working Capital	\$56.5	\$0.52		\$0.52	\$0.52
Long Term Debt	-\$19.0	-\$0.18		-\$0.18	-\$0.18
Corp. Adjustments	-\$49.1	-\$0.46		-\$0.46	-\$0.46
Cash from Options, Warrants	\$38.1	\$0.35		\$0.35	\$0.35
NAV	\$668.7	\$6.20		\$6.20	\$6.20

Source: Raymond James Ltd.



## IMPORTANT INVESTOR DISCLOSURES

Raymond James & Associates (RJA) is a FINRA member firm and is responsible for the preparation and distribution of research created in the United States. Raymond James & Associates is located at The Raymond James Financial Center, 880 Carillon Parkway, St. Petersburg, FL 33716, (727) 567-1000. Non-U.S. affiliates, which are not FINRA member firms, include the following entities which are responsible for the creation and distribution of research in their respective areas; In Canada, Raymond James Ltd. (RJL), Suite 2100, 925 West Georgia Street, Vancouver, BC V6C 3L2, (604) 659-8200; In Europe, Raymond James Euro Equities, SAS, 40, rue La Boetie, 75008, Paris, France, +33 1 45 61 64 90, and Raymond James Financial International Ltd., Broadwalk House, 5 Appold Street, London, England EC2A 2AG, +44 203 798 5600.

This document is not directed to, or intended for distribution to or use by, any person or entity that is a citizen or resident of or located in any locality, state, country, or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. The securities discussed in this document may not be eligible for sale in some jurisdictions. This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation nor does it take into account the particular investment objectives, financial situations, or needs of individual clients. Information in this report should not be construed as advice designed to meet the individual objectives of any particular investor. **Investors should consider this report as only a single factor in making their investment decision.** Consultation with your investment advisor is recommended. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur.

The information provided is as of the date above and subject to change, and it should not be deemed a recommendation to buy or sell any security. Certain information has been obtained from third-party sources we consider reliable, but we do not guarantee that such information is accurate or complete. Persons within the Raymond James family of companies may have information that is not available to the contributors of the information contained in this publication. Raymond James, including affiliates and employees, may execute transactions in the securities listed in this publication that may not be consistent with the ratings appearing in this publication.

With respect to materials prepared by Raymond James Ltd. ("RJL"), all expressions of opinion reflect the judgment of the Research Department of RJL, or its affiliates, at this date and are subject to change. RJL may perform investment banking or other services for, or solicit investment banking business from, any company mentioned in this document.

Raymond James ("RJ") research reports are disseminated and available to RJ's retail and institutional clients simultaneously via electronic publication to RJ's internal proprietary websites ([RJ Investor Access](#) & [RJ Capital Markets](#)). Not all research reports are directly distributed to clients or third-party aggregators. Certain research reports may only be disseminated on RJ's internal proprietary websites; however such research reports will not contain estimates or changes to earnings forecasts, target price, valuation, or investment or suitability rating. Individual Research Analysts may also opt to circulate published research to one or more clients electronically. This electronic communication distribution is discretionary and is done only after the research has been publically disseminated via RJ's internal proprietary websites. The level and types of communications provided by Research Analysts to clients may vary depending on various factors including, but not limited to, the client's individual preference as to the frequency and manner of receiving communications from Research Analysts. For research reports, models, or other data available on a particular security, please contact your RJ Sales Representative or visit [RJ Investor Access](#) or [RJ Capital Markets](#).

Links to third-party websites are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any third-party website or the collection or use of information regarding any website's users and/or members.

In the event that this is a compendium report (i.e., covers 6 or more subject companies), Raymond James Ltd. may choose to provide specific disclosures for the subject companies by reference. To access these disclosures, clients should refer to: <http://www.raymondjames.ca> (click on Equity Capital Markets / Equity Research / Research Disclosures) or call toll-free at 1-800-667-2899.

---

## ANALYST INFORMATION

**Analyst Compensation:** Equity research analysts and associates at Raymond James are compensated on a salary and bonus system. Several factors enter into the compensation determination for an analyst, including i) research quality and overall productivity, including success in rating stocks on an absolute basis and relative to the local exchange composite Index and/or a sector index, ii) recognition from institutional investors, iii) support effectiveness to the institutional and retail sales forces and traders, iv) commissions generated in stocks under coverage that are attributable to the analyst's efforts, v) net revenues of the overall Equity Capital Markets Group, and vi) compensation levels for analysts at competing investment dealers.

The views expressed in this report accurately reflect the personal views of the analyst(s) covering the subject securities. No part of said person's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report. In addition, said analyst has not received compensation from any subject company in the last 12 months.

## RATINGS AND DEFINITIONS

**Raymond James Ltd. (Canada) definitions:** Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

**Raymond James & Associates (U.S.) definitions:** Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months. Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months. Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months. Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold. Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

**Raymond James Europe (Raymond James Euro Equities SAS & Raymond James Financial International Limited) rating definitions:** Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months. Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months. Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months. Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months. Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

In transacting in any security, investors should be aware that other securities in the Raymond James research coverage universe might carry a higher or lower rating. Investors should feel free to contact their Financial Advisor to discuss the merits of other available investments.

### Suitability Ratings (SR)

**Medium Risk/Income (M/INC)** Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

**Medium Risk/Growth (M/GRW)** Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

**High Risk/Income (H/INC)** Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

**High Risk/Growth (H/GRW)** Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

**High Risk/Speculation (H/SPEC)** High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

Note that Raymond James Ltd. (RJL) has developed a proprietary algorithm for risk rating individual securities. The algorithm utilizes data from multiple vendors, and all data is refreshed at least monthly. Accordingly, Suitability Ratings are updated monthly. The Suitability Rating shown on this report is current as of the report's published date. In the event that a Suitability Rating changes after the published date, the new rating will not be reflected in research materials until the analyst publishes a subsequent report.



### RATING DISTRIBUTIONS

	Coverage Universe Rating Distribution*			Investment Banking Distribution		
	RJL	RJA	RJEE/RJFI	RJL	RJA	RJEE/RJFI
<b>Strong Buy and Outperform (Buy)</b>	71%	56%	52%	36%	22%	0%
<b>Market Perform (Hold)</b>	25%	39%	34%	13%	12%	0%
<b>Underperform (Sell)</b>	5%	5%	14%	10%	7%	0%

\* Columns may not add to 100% due to rounding.

### RAYMOND JAMES RELATIONSHIP DISCLOSURES

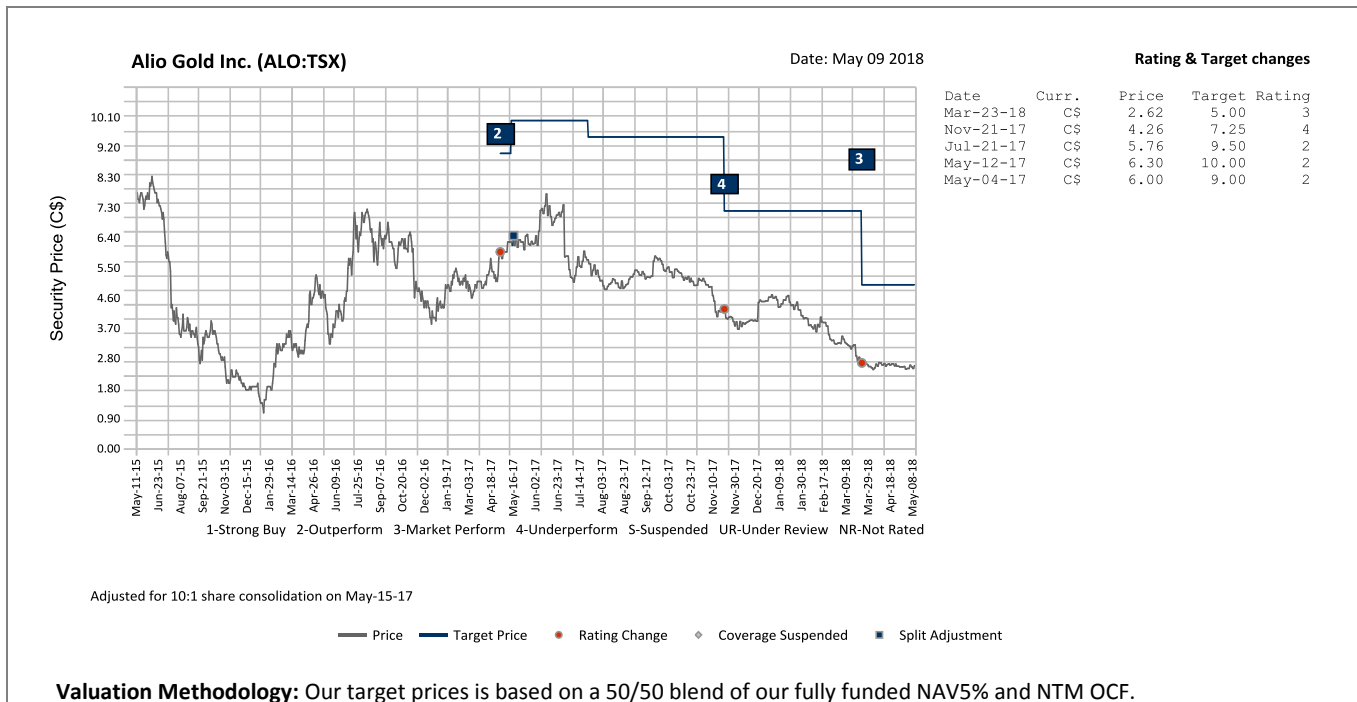
Raymond James Ltd. or its affiliates expects to receive or intends to seek compensation for investment banking services from all companies under research coverage within the next three months.

Company Name	Disclosure
Alio Gold Inc.	Raymond James Ltd. has managed or co-managed a public offering of securities within the last 12 months with respect to ALO.  Raymond James Ltd. has provided investment banking services within the last 12 months with respect to ALO.  Raymond James Ltd. has received compensation for investment banking services within the last 12 months with respect to ALO.

### STOCK CHARTS, TARGET PRICES, AND VALUATION METHODOLOGIES

**Valuation Methodology:** The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

**Target Prices:** The information below indicates our target price and rating changes for ALO stock over the past three years.



## RISK FACTORS

**General Risk Factors:** Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

### Risks - Alio Gold Inc.

**Gold Price and Currency Risk –** A decline in the gold price or strengthening of the Mexican Peso could impact cash flow from San Francisco and impact project economics at Ana Paula. Negative movements could be detrimental to Alio Gold's ability to fund construction of Ana Paula or complete further capital investment at San Francisco.

**Cost Inflation Risk –** Our outlook assumes certain operating costs for both San Francisco and Ana Paula. Although we believe these estimates are conservative, there is a risk that we have understated these costs or that these costs may increase in the future.

**Resource Risk –** Geological models and mineralization are interpretative and the current resource may be more complex (or different) than modeled, which could result in lower grade or tonnage than estimated using the current NI 43-101 resource/reserve statement.

**Exploration Risk –** There is no certainty that Alio will be able to convert resources in line with our assumptions, nor is there certainty surrounding the discovery of new zones.

**Geopolitical Risk –** The area in which Ana Paula is located has experienced heightened security risks and threats at various points over the last number of years.

**Additional Risk and Disclosure information, as well as more information on the Raymond James rating system and suitability categories, is available for Raymond James at [rjcapitalmarkets.com/Disclosures/index](http://rjcapitalmarkets.com/Disclosures/index) and for Raymond James Limited at [www.raymondjames.ca/researchdisclosures](http://www.raymondjames.ca/researchdisclosures).**

## INTERNATIONAL DISCLOSURES

### FOR CLIENTS IN THE UNITED STATES:

Any foreign securities discussed in this report are generally not eligible for sale in the U.S. unless they are listed on a U.S. exchange. This report is being provided to you for informational purposes only and does not represent a solicitation for the purchase or sale of a security in any state where such a solicitation would be illegal. Investing in securities of issuers organized outside of the U.S., including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of, the U.S. Securities and Exchange Commission. There may be limited information available on such securities. Investors who have received this report may be prohibited in certain states or other jurisdictions from purchasing the securities mentioned in this report. Please ask your Financial Advisor for additional details and to determine if a particular security is eligible for purchase in your state.

Raymond James Ltd. is not a U.S. broker-dealer and therefore is not governed by U.S. laws, rules or regulations applicable to U.S. broker-dealers. Consequently, the persons responsible for the content of this publication are not licensed in the U.S. as research analysts in accordance with applicable rules promulgated by the U.S. Self Regulatory Organizations.

Any U.S. Institutional Investor wishing to effect trades in any security should contact Raymond James (USA) Ltd., a U.S. broker-dealer affiliate of Raymond James Ltd.

### FOR CLIENTS IN THE UNITED KINGDOM:

**For clients of Raymond James Financial International Limited (RJFI):** This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in the FCA rules or persons described in Articles 19(5) (Investment professionals) or 49(2) (High net worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) or any other person to whom this promotion may lawfully be directed. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

**For clients of Raymond James Investment Services, Ltd.:** This report is for the use of professional investment advisers and managers and is not intended for use by clients.

For purposes of the Financial Conduct Authority requirements, this research report is classified as independent with respect to conflict of interest management. RJFI, and Raymond James Investment Services, Ltd. are authorised and regulated by the Financial Conduct Authority in the United Kingdom.

**FOR CLIENTS IN FRANCE:**

This document and any investment to which this document relates is intended for the sole use of the persons to whom it is addressed, being persons who are Eligible Counterparties or Professional Clients as described in “Code Monétaire et Financier” and Règlement Général de l’Autorité des Marchés Financiers. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and may not be relied upon by such persons and is therefore not intended for private individuals or those who would be classified as Retail Clients.

**For clients of Raymond James Euro Equities:** Raymond James Euro Equities is authorised and regulated by the Autorité de Contrôle Prudentiel et de Résolution and the Autorité des Marchés Financiers.

**For institutional clients in the European Economic Area (EEA) outside of the United Kingdom:** This document (and any attachments or exhibits hereto) is intended only for EEA institutional clients or others to whom it may lawfully be submitted.

---

**Proprietary Rights Notice:** By accepting a copy of this report, you acknowledge and agree as follows:

This report is provided to clients of Raymond James only for your personal, noncommercial use. Except as expressly authorized by Raymond James, you may not copy, reproduce, transmit, sell, display, distribute, publish, broadcast, circulate, modify, disseminate or commercially exploit the information contained in this report, in printed, electronic or any other form, in any manner, without the prior express written consent of Raymond James. You also agree not to use the information provided in this report for any unlawful purpose.

This report and its contents are the property of Raymond James and are protected by applicable copyright, trade secret or other intellectual property laws (of the United States and other countries). United States law, 17 U.S.C. Sec.501 et seq, provides for civil and criminal penalties for copyright infringement. No copyright claimed in incorporated U.S. government works.

Additional information is available upon request. This document may not be reprinted without permission.

RJL is a member of the Canadian Investor Protection Fund. ©2018 Raymond James Ltd.