



CORPORATE UPDATE August 17, 2018

ALIO GOLD INC.
(T-ALO) \$1.02

RATING: BUY
(unchanged)

TARGET: \$2.70
(decreased, previously \$3.50)

Unknown Territory Ahead

- ▶ **EVENT:** Upon further evaluation of Alio's recent production results which were below expectations and led to guidance being stripped from San Francisco for 2018 ([see note dated August 10, 2018](#)).
- ▶ **IMPACT: NEGATIVE.** Confirming a miss to annual guidance and suspension of development work at Ana Paula spells for capital preservation mode for Alio.
- ▶ **DISCUSSION:** The disappointing output from San Francisco and lack of cash flow being generated has resulted in management slowing down waste stripping of Phases 6&7 of mine plan. Various attempts to help improve feed grades (ore control, blasting) appear to have failed and has resulted in lower than expected production at San Francisco. A scaled back operating profile is expected as management monitors cash flow.
- ▶ With a reduced outlook for the remainder of 2018, Alio also suspended all development work at its attractive Ana Paula project including underground development and advancement of the feasibility work. This project is a key driver to Alio's valuation and any delay in its potential development timeline has a negative impact on Alio.
- ▶ On the bright side, production and recovery levels appear to be improving at the recently acquired Florida Canyon Mine. On a quarterly basis, the mine produced 11,587oz at a recovery of 61%. Alio is targeting an updated reserve/resource estimate along with an updated mine plan for FCM later in 2018.
- ▶ **OUTLOOK:** With management focused on cash flow from existing operations, we anticipate Alio scaling back production at San Francisco while aiming to continue improvements being realized at FCM. Our updated model forecasts just 71,500oz for San Francisco in 2018 at cash costs of \$1,066/oz and AISC of \$1,370/oz.
- ▶ **RECOMMENDATION:** Given the various updates to our model, we are decreasing our target price from \$3.50/sh to \$2.70/sh. With increased awareness of uncertainty moving forward, we maintain our **BUY** rating but with caution given the recent pull-back in spot gold prices and San Francisco's relatively narrow operating margins. Shares of Alio remain rated as **SPECULATIVE**.

Philip Ker, P.Geo, MBA
pker@pifinancial.com 647.789.2407

Neehal Upadyaya, BAFM, MAcc
nupadyaya@pifinancial.com 416.775.5107

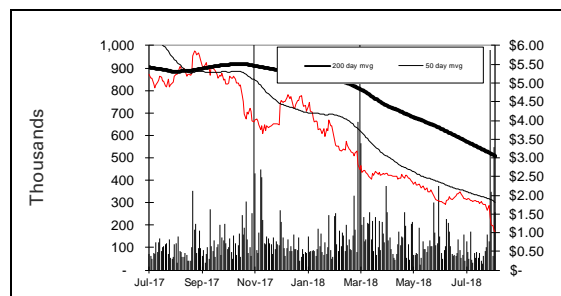
Company Statistics

Risk:	SPECULATIVE
52-week High/ Low:	\$6.05/\$1.03
Shares Outstanding:	84M (basic) 84M (fd)
Market Capitalization (US\$):	\$85M
3-Month Avg. Daily Volume:	129K
Working Capital (US\$):	\$67M
Long Term Debt (US\$):	\$0M
Enterprise Value (US\$):	\$26M
CEO:	Greg McCunn

Financial Summary

(FYE Dec. 31)

US\$	2017	2018E	2019E
Revenue (\$M)	\$105	\$141	\$198
Cash Costs (\$/oz)	831	\$1057	\$971
Gold Sold (K oz)	83.2	106.0	148.5
Net Income (\$M)	\$12	\$8	\$19
EPS	\$0.30	\$0.18	\$0.10
CFPS	\$0.71	\$0.17	\$0.27



PI Financial Corp. has received compensation for acting as a fiscal agent for ALO in the previous 12 months. See the disclosure section for additional details.

Corporate Information

Alio Gold is a growth oriented gold mining company, focused on exploration, development and production in Mexico and the USA. Its principal assets include its 100%-owned and operating San Francisco Mine in Sonora, Mexico, its 100%-owned and operating Florida Canyon Mine in Nevada, USA and its 100%-owned development stage Ana Paula Project in Guerrero, Mexico. Located within the highly prospective Guerrero Gold Belt on 56,000 hectares of underexplored land the Ana Paula Project is a high-grade, high margin project currently in the definitive feasibility stage.

A Disclosure fact sheet is available on Pages 5-6 of this report.

Company Snapshot

ALIO GOLD INC. (TSX-ALO)

ALO.TO	\$1.02
Rating	BUY
Risk	SPECULATIVE
Target Price	\$2.70
Projected Total Return	166%

Market Data	
Shares O/S (M)	84
Shares O/S F.D. (M)	84
52-Week High (\$)	\$6.05
52-Week Low (\$)	\$1.03
Market Cap (\$M)	\$85
Working Capital (\$M)	\$67
Long Term Debt (\$M)	\$0
Enterprise Value (\$M)	\$18
Fiscal Year End	Dec. 31

Valuation	
Ana Paula	\$0.67
San Francisco	\$0.33
Florida Canyon	\$0.87
Lincoln Hill	\$0.14
Other Properties	\$0.09
Pro Forma Working Capital	\$0.60
ITM Proceeds	\$-
Corp Adjustments (\$M)	\$-
NAV (C\$/sh)	\$2.71
P/NAV	0.4 x

Resources			
	Tonnage	Grade	Ounces
Florida Canyon	(Kt)	(g/t Au)	(Koz Au)
M&I	76.4	0.46	1,126,300
Inferred	0.3	0.52	5,300

San Francisco			
M&I	74.8	0.54	1,302,000
Inferred	0.7	0.57	13,000

Ana Paula			
Open Pit			
M&I	18.0	2.06	1,195,000
Inferred	0.2	1.27	10,000

Underground			
M&I	3.0	2.80	266,700
Underground	0.6	2.07	41,400

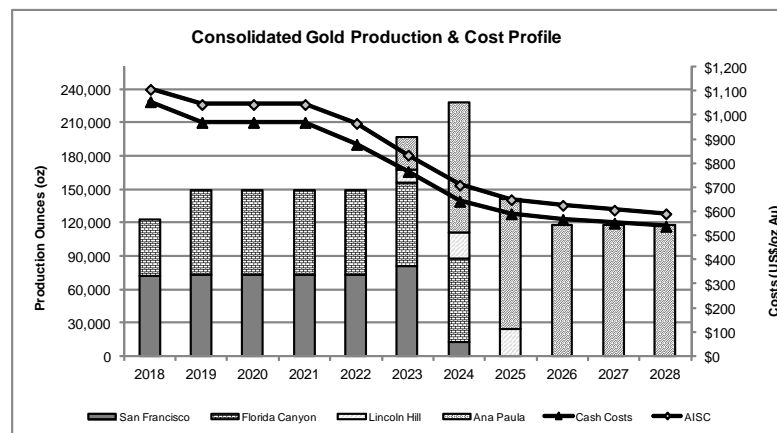
Lincoln Hill			
M&I	29.3	0.39	364,000
Inferred	20.8	0.38	255,000

Management
 Greg McCunn - CEO
 Colette Rustad - CFO & EVP
 Bryan Coates - Chairman

Key Shareholders
 Ruffer LLP - 2.97%
 Goldcorp - 2.93%
 Aegis Financial - 1.73%
 Sun Valley Gold - 0.8%

Sources: PI Financial Corp., Thomson Eikon, Company Documents

Operation	Metric	Units	2017	2018E	2019E	2020E	2021E
Florida Canyon	Gold Sold	Koz Au	-	51,419	75,410	75,410	75,410
	Tonnes Mined	Mt	-	13.5	14.8	14.8	14.8
	Ore Processed	tpd	-	19,620	22,500	22,500	22,500
	Au Grade	g/t Au	-	0.42	0.42	0.42	0.42
	Au Recovery	%	-	58%	68%	68%	68%
Capex	US\$M	-	6.2	12.5	12.5	10.0	
San Francisco	Gold Sold	Koz Au	83,214	71,350	73,054	73,054	73,054
	Tonnes Mined	Mt	26.0	29.5	40.2	40.2	40.2
	Ore Processed	tpd	20,649	21,479	22,000	22,000	22,000
	Au Grade	g/t Au	0.45	0.45	0.45	0.45	0.45
	Au Recovery	%	78%	62%	65%	65%	65%
Capex	US\$M	8.7	12.1	6.0	6.0	6.0	
Ana Paula	Gold Sold	Koz Au	-	-	-	-	-
	Tonnes Mined	Mt	-	-	-	-	-
	Ore Processed	tpd	-	-	-	-	5,000
	Au Grade	g/t Au	-	-	-	-	2.4
	Au Recovery	%	-	-	-	-	85%
Capex	US\$M	-	10.3	15.0	95.0	60.0	
Consolidated	Gold Sold	Koz Au	83,214	122,768	148,464	148,464	148,464
	Capex	US\$M	8.7	28.6	37.3	132.3	78.5
	Cash Costs	US\$/oz Au	-	1,057	971	971	971
	AISC	US\$/oz Au	-	1,108	1,045	1,045	1,045
Forecast		Units					
Gold Price - Assumption	US\$/oz		1,258	1,334	1,350	1,350	1,350
Silver Price - Assumption	US\$/oz		17.07	17.57	18.50	18.50	18.50
Foreign Exchange Rate	US\$/C\$		0.77	0.79	0.80	0.80	0.80
Revenue	US\$M		105	141	198	198	197
Net Income	US\$M		12	8	19	14	12
Cash Flow from Operations	US\$M		28	15	29	27	25
EPS	US\$M		0.30	0.09	0.18	0.10	0.07
CFPS	US\$M		0.71	0.17	0.27	0.20	0.15





Model Update For Alio

Various Changes Include:

- A reduced production profile at San Francisco in 2018 to ~71,500oz from ~84,000oz;
- Reduced sustaining capital at San Francisco;
- A suspension of capital being deployed to the advancement of Ana Paula;
- A delay in our projected start date of production at Ana Paula from Q4/2021 to Q4/2022;
- An increase in equity dilution from our projected capital needs to develop Ana Paula (was \$100M @ \$2.5/sh now \$125M @ \$2/sh);
- Due to increased risk of adequate project advancement, we have amended our discount rate for Ana Paul from 5% to 8%

Valuation

The negative impact of the recent announcement by Alio hinders their ability to generate adequate cash flow to fund its various initiatives. A reduced outlook for San Francisco is further exacerbated by the recent pull back in spot gold prices. With an abundance of capital stripping still required at San Francisco, we acknowledge that management may retrace its mine plan to a more conservative approach at a smaller scale until market conditions improve. We remain cautious until further clarity is provided. Although Alio currently trades at 0.4x our NAVPS, significant risk should be applied considering a) San Francisco's high cost profile b) the on-going ramp-up and unknown mine plan for FCM c) uncertainty in the ability to advance Ana Paula towards a construction decision.

Exhibit 1: Updated NAVPS Breakdown

	Interest	Discount	NAV Multiple	NAV (US\$)	NAVPS (C\$)
Ana Paula	100%	8%	0.5X	\$75.9	\$0.67
San Francisco	100%	5%	1.0X	\$37.6	\$0.33
Florida Canyon	100%	5%	0.8X	\$98.2	\$0.87
Lincoln Hill	100%	5%	0.5X	\$16.1	\$0.14
Other Properties	100%	-	-	\$10.0	\$0.09
Pro Forma Working Capital				\$67.4	\$0.60
ITM Proceeds				\$0.0	\$0.00
Long Term Debt				\$0.0	\$0.00
NAV (US\$)				\$305.1	\$2.09
NAV (C\$)				\$396.7	\$2.71

Source: PI Financial

Recommendation

In the near term, we expect Alio to be focused on increasing cash flow from San Francisco and FCM while monitoring capital outlays. We anticipate Alio tightening its belt on sustaining capital and focusing on further improvements at FCM as its production profile continues its ramp-up. With two operating assets and a third undeveloped yet attractive high-grade open-pit project, Alio does

offer compelling valuation potential but remains highly levered to spot metal gold prices. Should gold rally and increased cash flow be realized, we foresee good value in Alio, its assets and their production growth potential.

Given the updates to our model, we are reducing our target price from \$3.50/sh to \$2.70/sh and maintain our BUY rating. Considering the uncertainty ahead, we remain cautious at this time and shares of Alio are rated as SPECULATIVE.

Disclosure Fact Sheet

Ratings

BUY : recommendation: stock is expected to appreciate from its current price level at least 10-20% in the next 12 months.

NEUTRAL : recommendation: stock is expected to trade in a narrow range from its current price level in the next 12 months.

SELL : recommendation: stock is expected to decline from its current price level at least 10-20% in the next 12 months.

U/R : Under Review

N/R : No Rating

TENDER: Investors are guided to tender to the terms of the takeover offer.

Analyst recommendations and targets are based on the stock's expected return over a 12-month period or may be based on the company achieving specific fundamental results. Under certain circumstances, and at the discretion of the analyst, a recommendation may be applied for a shorter time period. The basis for the variability in the expected percentage change for a recommendation, relates to the differences in the risk ratings applied to individual stocks. For instance stocks that are rated Speculative must be expected to appreciate at the high end of the range of 10-20% over a 12-month period.

Price Volatility / Risk

SPECULATIVE : The Company has no established operating revenue, and/or balance sheet or cash flow concerns exist. Typically low public float or lack of liquidity exists. Rated for risk tolerant investors only.

ABOVE AVERAGE : Revenue and earnings predictability may not be established. Balance sheet or cash flow concerns may exist. Stock may exhibit low liquidity.

AVERAGE : Average revenue and earnings predictability has been established; no significant cash flow/balance sheet concerns are foreseeable over the next 12 months. Reasonable liquidity exists. Price Volatility/Risk analysis while broad based includes the risks associated with a company's balance sheet, variability of revenue or earnings, industry or sector risks, and liquidity risk.

Analyst Certification

I, Philip Ker, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this report. I am the research analyst primarily responsible for preparing this report.

Research Disclosures

	Applicability
1) PI Financial Corp. and its affiliates' holdings in the subject company's securities, in aggregate exceeds 1% of each company's issued and outstanding securities.	1) No
2) The analyst(s) responsible for the report or recommendation on the subject company, a member of the research analyst's household, and associate of the research analyst, or any individual directly involved in the preparation of this report, have a financial interest in, or exercises investment discretion or control over, securities issued by the following companies.	2) No
3) PI Financial Corp. and/or its affiliates have received compensation for investment banking services for the subject company over the preceding 12-month period.	3) Yes
4) PI Financial Corp. and/or its affiliates expect to receive or intend to seek compensation for investment banking services from the subject company.	4) Yes
5) PI Financial Corp. and/or its affiliates have managed or co-managed a public offering of securities for the subject company in the past 12 months.	5) No
6) The following director(s), officer(s) or employee(s) of PI Financial Corp. is a director of the subject company in which PI provides research coverage.	6) No
7) A member of the research analyst's household serves as an officer, director or advisory board member of the subject company.	7) No
8) PI Financial Corp. and/or its affiliates make a market in the securities of the subject company.	8) No
9) Company has partially funded previous analyst visits to its projects.	9) No
10) Additional disclosure:	10) No

General Disclosure

The affiliates of PI Financial Corp. are PI Financial (US) Corp., PI Financial Services Corp., and PI Capital Corp.

Analysts are compensated through a combined base salary and bonus payout system. The bonus payout is amongst other factors determined by revenue generated directly or indirectly from various departments including Investment Banking. Evaluation is largely on an activity-based system that includes some of the following criteria: reports generated, timeliness, performance of recommendations, knowledge of industry, quality of research and investment guidance, and client feedback. Analysts are not directly compensated for specific Investment Banking transactions.

None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PI Financial Corp.

PI Financial Corp.'s policies and procedures regarding dissemination of research, stock rating and target price changes can be reviewed on our corporate website at www.pifinancial.com (Research: Research and Conflict Disclosure).

The attached summarizes PI's analysts review of the material operations of the attached company(s).

Analyst	Company	Type of Review	Operations / Project	Date
Philip Ker	Alio Gold Inc.	Update w/Management	Mexico/Nevada	8/18

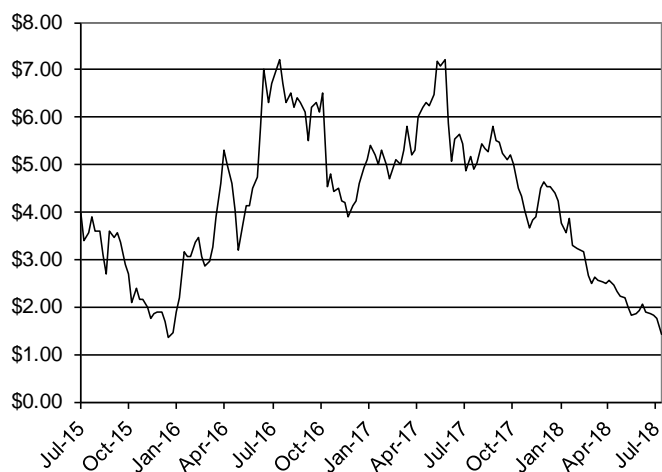
Disclosure to US Residents

PI Financial (US) Corp. is a U.S. registered broker-dealer and subsidiary of PI Financial Corp. PI Financial (US) Corp. accepts responsibility for the contents of this research report, subject to the terms and limitations as set out above. U.S. residents seeking to effect a transaction in any security discussed herein should contact PI Financial (US) Corp. directly.

Recommendations	Number of Recommendations	Percentage
BUY	63	91.30%
NEUTRAL	4	5.80%
SELL	0	0.00%
TENDER	2	2.90%
U/R	0	0.00%
N/R	0	0.00%
TOTAL	69	

Stock Rating and Target Changes

For reports that cover more than six subject companies, the reader is referred to our corporate web site for information regarding stock ratings and target changes. www.pifinancial.com (Research: Research and Conflict Disclosure).



Alio Gold Inc. (Initiated Coverage: July 26 /17)

Date	Rating Change	Target Change	Share Price
Aug 17/18	Buy	\$3.50 to \$2.70	\$1.02
Jun 18/18	Buy	\$0.55 to \$3.50	\$3.50
<i>Note: 0.48 for 1 share consolidation on May 25/18</i>			
Feb 1/18	Buy	\$4.22 to \$3.45	\$1.30
<i>Note: 1 for 6.5 share consolidation on Jan 10/18</i>			
Jan 10/18	Buy	\$0.55 to \$0.65	\$0.25
Sep 18/17	Buy	\$0.80 to \$0.55	\$0.21
May 23/17	Buy	\$0.80	\$0.24

Capital Markets Group

Managing Director, SVP Capital Markets

Jeremiah Katz
604.664.2916

Managing Director, Head of Research

Bob Gibson, B.Comm, CFA
416.883.9047

Managing Director, Head of Institutional Sales & Trading

Jim Danis, B.Sc. (Hons.)
604.718.7551

Managing Director, Co-Head of Investment Banking

Dan Barnholden, MBA
604.664.3638

Managing Director, Co-Head of Investment Banking

Blake Corbet, BA
604.664.2967

Research Analysts

Consumer Products

Bob Gibson, B.Comm, CFA
416.883.9047

Mining

Chris Thompson, P. Geo
Head of Mining Research
604.718.7549

Philip Ker, PGeo, MBA
647.789.2407

Gary Sidhu, B.Sc., MBA
604.718.7544

Special Situations & Cannabis

Jason Zandberg, B.BA, CFA
604.718.7541

Industrials

Devin Schilling, CFA
604.718.7557

Technology

David Kwan, CFA
604.718.7528

Associate Analyst

Justin Stevens, EIT
604.718.7542

Research Associates

Fayassir Haqna, B.BA
604.718.7556

Neehal Upadhyaya, BAFM, MAcc
416.775.5107

Institutional Sales

Vancouver

Jim Danis, B.Sc. (Hons.)
604.718.7551

Jeremiah Katz
604.664.2916

David Goguen, CFA
604.664.2963

Doug Melton, FCSI
604.718.7532

Brodie Dunlop
604.718.7533

Toronto

Jose Estevez, CFA
416.883.9042

John McBride
416.883.9045

Institutional Trading

Vancouver

Darren Ricci
604.664.2998 or 800.667.6124 (US)
or 877.682.7233 (CDN)

Adam Dell, CFA
604.718.7517 or 888.525.8811

Toronto

Lucas Atkinson
416.883.9048

Scott Brophy
416.883.9043

Investment Banking

Mining

Dan Barnholden, MBA
604.664.3638

Russell Mills, CFA, MFin
647.789.2405

Tim Graham, B.Comm
604.664.3656

Jim Locke, CFA
604.664.2670

Technology

Blake Corbet, BA
604.664.2967

Equity Capital Markets/Syndication

Tim Johnston
416.775.5112

Trina Wang
604.664.3637

Investment Banking Associate

Joe Brunner
604.664.3633

Investment Banking Analyst

Cameron Dowle
604.718.7516

Marketing and Publishing

Michelle Kwok
604.664.2724

PI Financial Corp.

www.pifinancial.com

Head Office

Suite 1900, 666 Burrard Street
Vancouver, BC V6C 3N1
ph: 604.664.2900 fx: 604.664.2666

Toronto Office

Suite 3401, 40 King Street West
Toronto, ON M5H 3Y2
ph: 416.883.9040 fx: 647.789.2401

Calgary Office

Suite 1560, 300 5th Avenue SW
Calgary, AB T2P 3C4
ph: 403.543.2900 fx: 403.543.2800

For a complete list of branch office locations and contact information, please go to www.pifinancialcorp.com

Participants of all Canadian Marketplaces. Members: Investment Industry Regulatory Organization of Canada, Canadian Investor Protection Fund and AdvantageBC International Business Centre - Vancouver. Estimates and projections contained herein are our own and are based on assumptions which we believe to be reasonable. Information presented herein, while obtained from sources we believe to be reliable, is not guaranteed either as to accuracy or completeness, nor in providing it does PI Financial Corp. assume any responsibility or liability. This information is given as of the date appearing on this report, and PI Financial Corp. assumes no obligation to update the information or advise on further developments relating to securities. PI Financial Corp. and its affiliates, as well as their respective partners, directors, shareholders, and employees may have a position in the securities mentioned herein and may make purchases and/or sales from time to time. PI Financial Corp. may act, or may have acted in the past, as a financial advisor, fiscal agent or underwriter for certain of the companies mentioned herein and may receive, or may have received, a remuneration for their services from those companies. This report is not to be construed as an offer to sell, or the solicitation of an offer to buy, securities and is intended for distribution only in those jurisdictions where PI Financial Corp. is registered as an advisor or a dealer in securities. Any distribution or dissemination of this report in any other jurisdiction is strictly prohibited.

For further disclosure information, reader is referred to the disclosure section of our website.