**To:** MJG Capital Limited Partners

**From:** Matt Geiger

**Date:** August 1, 2016

**Subject:** 2016 First Half Review

Below is set forth The MJG Capital Fund, LP's performance through June 30, 2016.

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**6 Month Performance:**

| | |
|---|---|
| The MJG Capital Fund, LP (net of all fees and expenses) | 67.54 % |
| S&P 500 | 2.69 % |
| S&P/TSX Venture Composite Index | 38.96 % |

**1 Year Performance:**

| | |
|---|---|
| The MJG Capital Fund, LP (net of all fees and expenses) | 15.15 % |
| S&P 500 | 1.74 % |
| S&P/TSX Venture Composite Index | 8.81 % |

**3 Year Performance:**

| | |
|---|---|
| The MJG Capital Fund, LP (net of all fees and expenses) | (19.76) % |
| S&P 500 | 30.67 % |
| S&P/TSX Venture Composite Index | (17.09) % |

**Performance Since Inception (9/1/11):**

| | |
|---|---|
| The MJG Capital Fund, LP (net of all fees and expenses) | (71.75) % |
| S&P 500 | 72.19 % |
| S&P/TSX Venture Composite Index | (59.66) % |

**Note:** All returns for MJG Capital partners are estimated and subject to the completion of an audit at a future date. The returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

## *Introduction & Partnership Update*

This is The MJG Capital Fund, LP's tenth semi-annual letter. The Partnership was formed fifty-eight months ago and the results are detailed on the previous page. The S&P 500 represents "the alternative investment of choice", while the TSX Venture (also known as the "TSXV") is the closest proxy to the universe of resource equities that the Partnership selects from.

What we've seen over the past six months has been nothing short of extraordinary, and is yet another example of the bipolar nature of the junior resource market (and the cyclicality of resource extractive industries in general). Who would have thought during the bleak days of December 2015 that, a mere six months later, hope and capital would pour into the mining space in the way that it has.

The devastating, multi-year bear market that began in 2011 has finally run its course, and we are now 150 days into a new bull market that has so far been very powerful.

Whether this uptrend lasts for three years or six years is anybody's guess, but I will say with some confidence that the remainder of 2016, the whole of 2017, and the whole 2018 will be a truly golden period for both the Partnership and likeminded investors.

Focusing specifically on the Partnership, I see three main points of encouragement:

1. We outperformed the TSXV by roughly 75% which, for the time being at least, indicates that our 18 holdings are outperforming the junior mining space at large.

2. Over the past year, both the Partnership and the TSXV have handily outperformed the S&P 500 – which supports my belief that we are witnessing the beginning of a massive transition into hard assets.

3. It was a busy 6 months – we participated in 7 private placements over the period (I reviewed roughly 40 deals). The advantage of doing private placements is the warrants that come attached with the deal. These warrants provide you free upside on your investment that you don't get from buying common shares; the key is access to the deal.

I stated in the January 2016 letter: "*The opportunities currently available in the natural resource industry are astounding. In this cyclical industry, when things turn, they do so dramatically. We're talking about 300-1000% portfolio gains over 3-5 year periods.*"

Even with the dramatic gains seen so far in 2016, I still echo this sentiment – we are early in this cycle and it is a fantastic time to be intelligently putting money to work in precious metal, energy metal, and even industrial metal investments.

In this letter's *Market Outlook*, I discuss why I'm confident that we are in a new bull market….and why it should be of similar duration and magnitude to the bear market we just endured. Then I comment on the performance of specific commodities and how I expect them to behave over the course of this bull market.

In the *Overview of Partnership Holdings*, I provide information on how the Partnership is allocating our capital by (1) commodity, (2) jurisdiction, and (3) operational phase. Keep in mind that we have 18 holdings (all resource-focused) at current.

I conclude by presenting two *Featured Investments* (Golden Arrow Resources and Excelsior Mining) as well as updates on companies featured in past letters (Almadex Minerals, TFS Corporation, Nevsun Resources, and Western Lithium).

## *Market Outlook*

### We Are In A New Resource Bull Market

After four grinding years of falling metal prices and vanishing market capitalizations, we have seen a stunning shift in market sentiment since mid-January. Multiple physical commodities are now in technical bull markets and resource equities in particular have enjoyed a spectacular 2016 thus far. It is obvious to me that we are in the early stages of a new bull market for the following reasons:

1. Metal prices are again on the rise. Particular standouts include: silver, lithium, zinc, gold, platinum, and palladium. All of the aforementioned metals have entered new technical bull markets in 2016 and seem to be building momentum.

It took four painful years, but this proves yet again that low prices are the best cure for low prices. When the price of a particular commodity drops precipitously, two phenomenon inevitably occur: (i) higher cost suppliers of the commodity cut production and (ii) buyers of the commodity purchase more in real terms. These twinning events may take a while to play out, but they inevitably do.

The story of this bull market so far has been supply disruption, with production cuts occurring across multiple metals for the past 18 months. We haven't seen significant demand growth so far (aside from lithium and a few other outliers) but this could change over the coming 24 months.

2. M&A activity has picked up, particularly in Q2 2016. Notable transactions over the period included:

- Nevsun's $500m takeover of Reservoir Minerals and its Timok Project
- Goldcorp's $400m takeover of Kaminak Gold and its Coffee Project
- Centerra's $1.1b takeover of Thompson Creek Metals
- Freeport's $2.7b sale of Tenke to China Molybdenum
- Anglo's $1.5b sale of niobium & phosphate businesses to China Molybdenum
- Silver Standard's $250m takeover of Claude Resources
- Tahoe's $540m takeover of Lake Shore Gold
- Hecla's $600m takeover of Aurizon Mining

This pick up in deal volume is great news for quality development projects not yet owned by a major producer. The recent bear market has a left a dearth of near-term production candidates and those still remaining are that much more valuable to a potential acquirer.

Additionally, if this indeed becomes a multi-year bull market, then explorers too will receive increased attention. Within the past month, mining legend Eric Sprott stated that it was an appropriate time to be buying junior explorers. Shareholders of well-managed prospect generators are poised to do very well over the coming few years.

3. The increase in private placement volume has been even more pronounced. Mining investor Marin Katusa reported earlier this year "the first 55 days of 2016 have already seen almost 50% of the capital raised in the mining sector during all of 2015." Since then, metal prices have continued to rise and the financing pace has only quickened. I would not be surprised to see more capital raised this year than in 2014 and 2015 combined ($7.7b USD).

4. People are making serious money again in a space that has been hated for so long. Meanwhile, the global financial market is starved for yield in a world of real negative interest rates.

Those who don't normally invest in resources are just recognizing the tremendous wealth creation that is taking place. These investors will be tempted to join the fray. Inflows from generalist funds and retail investors will increase into 2017.

## Bull Market To Be Similar In Duration And Magnitude To The 1200-Day Bear Market We Just Endured

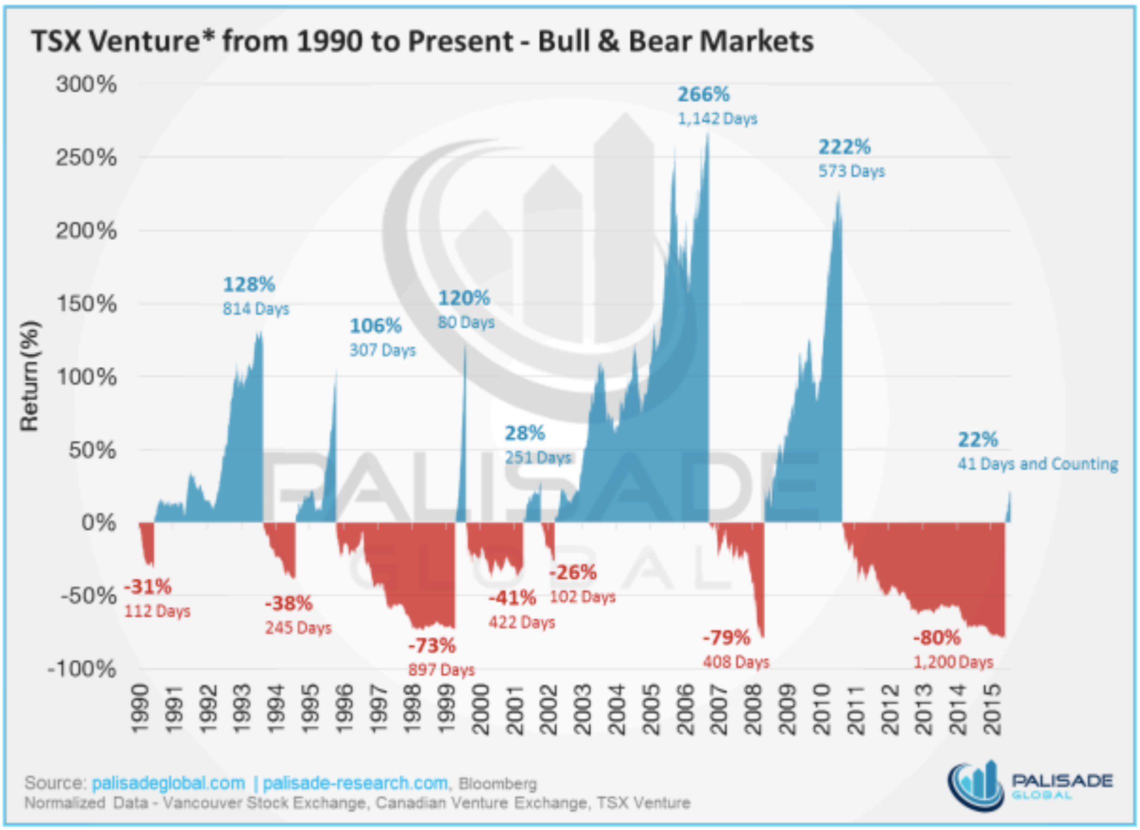
As Rick Rule famously says "bear markets are the authors of bull markets." What we witnessed between 2011-2015 leads me to believe that the ensuing bull market will be similarly long-lived and similarly violent.

The below chart from our friends at Palisade Research does a great job of illustrating the following:

1. The natural resource industry is as cyclical as it gets.

2. The bear market we just endured was the longest and most severe of the past 25 years.

3. Long periods of losses are often followed by long periods of gains, and vice versa.



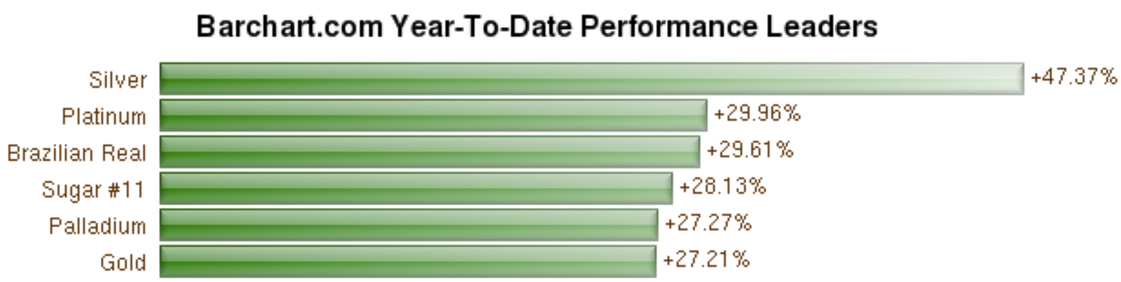

Anyone proclaiming to know the exact duration of any cycle is fooling you, fooling themselves, or both.

However, I do believe it is important to have a rough expectation of what will transpire – based on history, one's experience, and common sense. My expectation is for this current cycle to last between 900 and 1500 days. Operating under this assumption, we still have two years to feast ourselves before we need to worry about cashing in.

**Musings On Specific Commodities**

***Precious Metals***

The clear winners of this bull market so far have been the precious metals -gold, silver, platinum and palladium. Mining equities associated with these metals have done even better, with 200% gains year to date not uncommon. Barchart.com provides a YTD chart with 57 major commodities, currencies, and stock indices. Silver, platinum, palladium, and gold occupy four of the top six spots.




Precious metals are likely to continue their outperformance for at least another 18 months. After years of pain there are at least two major tailwinds:

1. The age of negative real interest rates has invalidated one of the major bear cases against precious metals. For now at least, it is more expensive to hold OECD debt than it is to hold bullion. Wall Street is recognizing this and every month another bank seems to turn positive on gold.

2. Precious is metal ownership is at a historic low. Over the past thirty years, precious metal investments have generally constituted ~2% of total assets under management in the United States. As recently as the 1980's this number was closer to 7%. Today we're at 0.3% of total investments but the tide is quickly turning.

Out of the aforementioned precious metals, silver will be the biggest beneficiary. Roughly 80% of the world's silver comes as a by-product from base metal mines. This is significant because these base metal mines are not as sensitive to the price of silver (as it is often a small percentage of the overall revenue mix), and won't necessarily respond to higher silver prices by increasing production. You don't see this dynamic for gold, platinum, and palladium, which are mostly produced from primary sources.

***Rare Earths***

Rare earths seem to be a nice contrarian bet at the moment. After the monumental REE bubble of 2009-2011 and the ensuing collapse, rare earth prices have languished near pre-bubble levels. While real demand destruction occurred with the prices surge we saw five years ago, we can't forget the significance of these metals in our high tech world.

The market is currently discounting the possibility, but a 20-30% rise in rare earth prices is likely over the next 12-24 months. Low capex projects with a short timeline to production should be able to benefit from this expected rebound.

***Uranium***

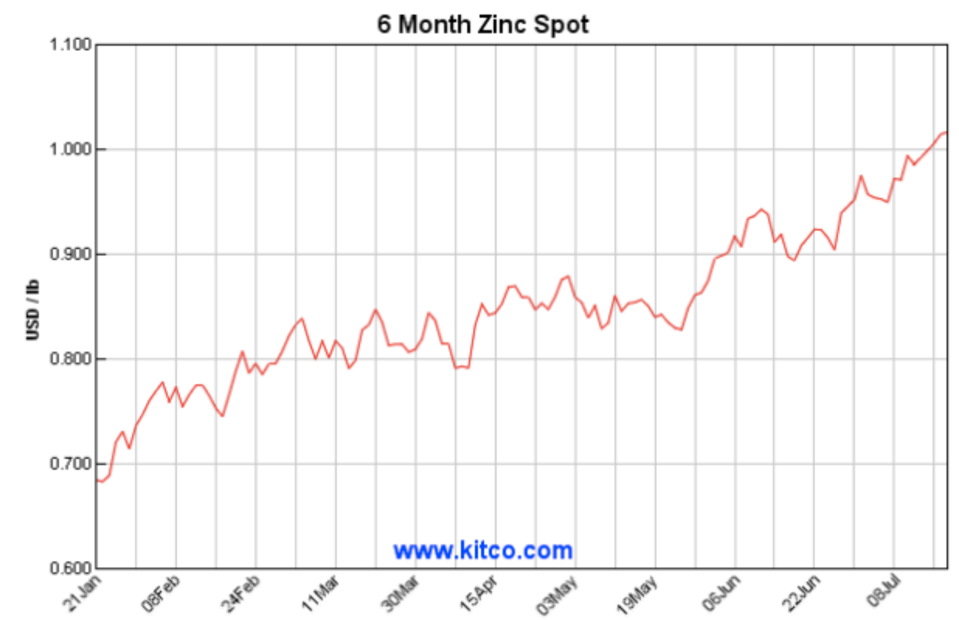
Uranium is indisputably THE contrarian bet in the resource sphere right now. Despite supply-demand dynamics over the next 5-10 years that look more promising than most any other commodity, uranium has lagged considerably –U308 prices are down by roughly 30% year to date.

This will reverse and, as long as you have the stomach for it, now is a fantastic time to put money to work in select uranium equities. Out of conservatism, one should be willing to wait at least two years before we start seeing a significant rebound.

Uranium likely will be one of the best performing metals in the later stages of this bull market, and the recent weakness means that you can still snap up ounces at dirt-cheap prices.

***Zinc***

It is safe to say that industrial metals won't see significant price moves for another 12-18 months. The one exception that I am particularly excited about is zinc – which has seen substantial supply cuts over the past year. Zinc smelters are running out of feed, and the few near term production stories are currently being inundated with off-take requests for zinc concentrate.



The zinc price has already had a significant run in 2016, but I wouldn't be surprised to see another move of 20% over the next 12 months. The supply-demand dynamics for this metal have been skewed for too long, and it appears as if the market is beginning to recognize that the current price isn't sustainable. There are plenty of signs pointing to a new equilibrium above $1.20 USD per pound.

One implicit assumption in the above statements on precious metals, rare earths, uranium, and zinc is that each commodity will trade on its own merit for at least the next two years. (Remember this is not always the case – we've seen within the past decade multiple instances where ALL commodities have traded in unison for relatively long periods of time.) However a decoupling of commodity prices has been apparent throughout the whole of 2016, and I expect supply-demand fundamentals to continue win out for some time. I don't believe we will see extreme correlation between commodities return until the manic stages of this current bull market, whenever that may be.

In summary, we are just entering the second inning of a major metal bull market. Now is the time to get greedy - as long as you can stand a 20% correction in the next 6 months without panic selling. There are still excellent management teams out there trading at insulting valuations, and there are plenty of opportunities beyond the metals I discussed above. We can worry about taking profits in the sixth inning or so – but for now let's feast!

## *Overview of Partnership Holdings*

Below is a breakdown of the Partnership's holdings as of July 15, 2016. The Partnership is exposed to different commodities, different jurisdictions, and different stages of the development cycle.

The Partnership continues to accumulate "Alternative Resource Holdings", indicated in the below chart with asterisks. These holdings are resource-focused yet minimally correlated to the mining cycle. My target is for a minimum of 30% of our weighted holdings to fall into this category, which should reduce the volatility of the overall portfolio.

| Allocation By Commodity | |
|---|---|
| ***Food & Water*** | |
| Sulphate of Potash (SOP) | 5% |
| Agriculture* | 4% |
| Phosphate | 4% |
| ***Forestry*** | |
| Sandalwood* | 5% |
| ***Energy Metals*** | |
| Uranium | 10% |
| Scandium | 6% |
| Lithium | 3% |
| ***Industrial Metals*** | |
| Zinc | 11% |
| Copper | 6% |
| ***Precious Metals*** | |
| Silver | 26% |
| Gold | 10% |
| ***Cash (USD)*** | 10% |

*** Signifies minimal correlation to the "Mining Cycle"**

| Allocation By Country | |
|---|---|
| United States | 29% |
| Australia | 18% |
| Argentina | 11% |
| Canada | 10% |
| Mexico | 10% |
| Peru | 6% |
| Eritrea | 6% |
| ***Cash (USD)*** | 10% |

| Allocation By Operational Phase | |
|---|---|
| Exploration | 22% |
| Development | 49% |
| Production | 19% |
| ***Cash (USD)*** | 10% |

## Featured Investment #1: Golden Arrow Resources

Of our 17 current holdings, Golden Arrow Resources (CVE:GRG) has been the single strongest performer in 2016. The company, founded by the experienced Joe Grosso, has been exploring and developing precious metal projects in Argentina for over two decades. GRG's flagship asset, the Chinchillas Project in Jujuy Province, looks increasingly likely to reach production by the end of 2017 thanks to a JV with silver heavyweight Silver Standard. Once the Chinchillas joint venture begins generating cash flow (or conversely is bought outright by Silver Standard), the company will return to its roots as a prospect generator focused solely on Argentina.

At a current net enterprise value of ~$85m CAD, Golden Arrow is moderately undervalued, provides excellent leverage to continued outperformance in the price of silver, and offers exposure to an Argentinean mining boom that is just in its infancy. These points will be demonstrated later in this piece.

GRG shares have been on an absolute tear this year – with a gain of ~515% YTD. Clearly the company is not as cheap as when shares were trading below $0.20 CAD as recently as January, but there is plenty of room for the stock to run over the coming few years. The market has rewarded GRG so far in 2016 for the following reasons:

(1) Chinchillas offers near-term production potential with a very affordable initial capex (thanks to synergies with JV partner Silver Standard and their producing Pirquitas asset)

(2) Due to its massive size and relatively low grade, Chinchillas' is a classic "optionality play" with significant leverage to the price of silver (which has been the best performing commodity so far in 2016)

(3) Argentina's election of pro-business President Mauricio Macri has opportunistic mining investors streaming into the country

The Partnership has been shareholders of GRG since February 2014, with an average cost of $0.24 CAD per share. As of July 29th, GRG was trading at $1.23 CAD. After years of waiting, our patience has been rewarded over the past 6 months.

In this featured investment piece, I will be providing color on why GRG has grabbed headlines this year.

Then comes the investment thesis for GRG - covering the company's background, management team, and other company essentials.

I will then determine a fair value per GRG share using reasonably optimistic silver prices and assuming that Silver Standard exercises their option for 75% of Chinchillas by year end.

Next, I discuss how the company's other Argentina prospects currently are NOT reflected in the company's current share price, and how GRG management hopes to find another Chinchillas in the next 2 years (which would be the Grosso Group's 4th major discovery in Argentina).

We conclude with the company's expected milestones over the coming 24 months, so that fellow shareholders can track progress alongside me.

***Near-Term Production with Low Initial Capex***

On October 1st 2015, Golden Arrow (which then had a market cap of only ~$10m CAD) entered into an agreement with multi-billion dollar silver miner Silver Standard. The market barely batted an eye; at that time we were in the final throes of a multi-year bear market. Here are the deal terms straight from GRG's news release:

*"Subject to an 18-month period of pre-development activities (the "Preliminary Period"), Silver Standard will have the right to commence a business arrangement that will see the Pirquitas Mine and the Chinchillas project combined into a 75% (Silver Standard) 25% (Golden Arrow) jointly owned mining business, with Silver Standard assuming the role of operator.*

*During the Preliminary Period, Silver Standard will pay Golden Arrow up to C$2M on completion of certain milestones, and invest up to an estimated US$12.6M, with a minimum expenditure commitment of US$4M, at Chinchillas to advance the project and evaluate the feasibility of developing a combined mining business with its existing Pirquitas operation. Golden Arrow will assist in the pre-development activities and evaluation process. Furthermore, Golden Arrow will be paid an amount equal to 25% of the Pirquitas mine's cash equivalent earnings during the Preliminary Period, less certain expenditures for exploration (including pre-development expenditures), capital investment and closure costs incurred during the Preliminary Period, based on a pre-defined formula, payable on closing of the business combination."*

To summarize, the deal goes as follows:

- Silver Standard has the option to acquire a 75% interest in the Chinchillas Project
- Silver Standard must pay $2m CAD to GRG (in four separate installments)
- Silver Standard must complete $4m USD of "pre-development work" on Chinchillas between Oct 1st 2015 and April 1st 2017

- By April 1st 2017, Silver Standard must pay "an amount equal to 25% of the Pirquitas mine's cash equivalent earnings" (less certain expenditures) to exercise the option. Otherwise, 100% control of Chinchillas returns to Golden Arrow.

Golden Arrow CEO Joseph Grosso provided the rationale for the deal in the same news release:

*"Combining these two neighboring assets offers compelling benefits and allows us to accelerate the development of Chinchillas while benefiting from the existing infrastructure and cash flow being generated at the producing Pirquitas Mine" stated Joseph Grosso, Executive Chairman, President and Chief Executive Officer of Golden Arrow. "With this partnership we have the potential to deliver attractive returns to our shareholders while ensuring the Chinchillas project is advanced, creating immediate and lasting benefits for residents and communities in the region."*

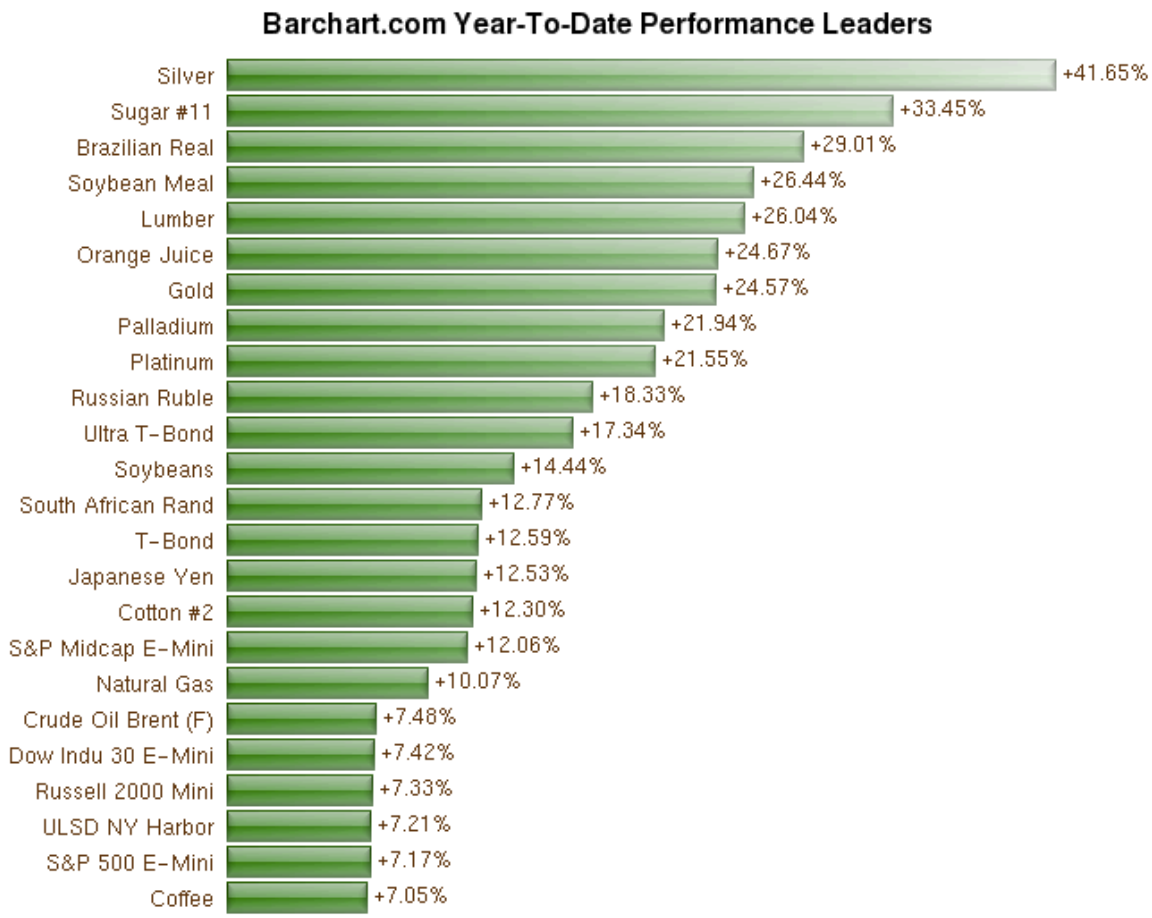
The Pirquitas Mine reached commercial production in December 2009. The operation cost $146m USD to get up and running, and has generated excellent cash flow for Silver Standard over the past seven years. Unfortunately for the company, feed from the open pit is expected to run out within the next 6 months. Silver Standard then has roughly twelve months of ore stockpiled but, if the company does not have a new source of feed by Q1 2018, then the operation will have to come to a halt.

Understanding the importance of maintaining cash flow and not letting existing infrastructure go to waste, Silver Standard has identified Chinchillas as the best option for this new mill feed. The two deposits have similar metallurgy and are only located 35 kilometers apart in Jujuy Province, Argentina.

It is important to note that Silver Standard has not yet paid Golden Arrow to formally initiate the 75%/25% joint venture. However, since the agreement was signed in October 2015, silver has had a powerful 38% move in price and Silver Standard has spent most if not all of the $12.6m specified in the JV agreement on drilling and metallurgical work. The chances of the agreement coming to fruition are high, and Silver Standard's hand will be forced soon – per the agreement, a decision on the Chinchillas JV must occur before April 1, 2017.

### *Optionality Play for This Year's Best Performing Asset*

Silver has been king thus far in 2016. As you can see in the following chart, the metal itself has outperformed virtually every investable asset out there.




The share prices of companies involved in silver development and production have in most cases done even better. With the help of John Kaiser's comprehensive "KRO Silver Developer" and "KRO Silver Producer" indexes, I've created the two graphs below. The first one displays the average year to date performance of the sixteen silver DEVELOPMENT stories that I track. As you can see, the share price performance has been astounding with a 285% average gain.

This second chart displays the average YTD performance for the thirteen silver PRODUCERS on my radar. The average performance here is similar at 225%.


These numbers are undoubtedly impressive, but Golden Arrow has performed even better that its peers – with GRG shares having appreciated 515% so far in 2016.

What has been the key to Golden Arrow's relative outperformance? The answer is simple: optionality.

The main premise of "optionality" is that, in an environment of RISING metal prices, marginal projects will see the largest gains in value.

In practice, this means a couple of things, which may at first seem counter-intuitive:

1. Large, low-grade development projects will generally see greater increases in value than small, high-grade deposits.

2. Higher cost producers will generally see greater share price appreciation than lower cost producers.

To demonstrate this concept, I will use two hypothetical silver mines as an example.

Silver Mine A is able to produce silver at an all in cost of $5 per ounce. Silver Mine B, which is on the higher end of the cost curve, has to settle for an all in cost of $11 per ounce. To keep thing simple, let's assume the two companies are each producing 1 million ounces of silver per year.

At $14 silver (which we saw as recently as January 2016), Silver Mine A would reasonably expect to generate $9m in profits over the coming year. This equates to a profit margin of 64%.

Silver Mine B on the other hand will have to settle for only $3m over the next 12 months, for a profit margin 21%.

Now let's assume that silver unexpectedly jumps to $20 in very short order.

Revisiting Silver Mine A, the new expectation would be $15m in profits over the coming year (a healthy 66% jump from the $14 scenario). Logically the gross margin would also increase (to 75%, eleven percentage points higher than before).

At $20 silver, Silver Mine B can now expect $9m in profits over the next 12 months (a massive 200% jump from the previous scenario). Additionally, the gross margin of the company's operation would more than double to 45%. Not bad!

There is no doubt that Silver Mine A displays superior economics in both scenarios. All things equal, the net present value of Silver Mine A is still significantly higher than Silver Mine B.

However, it is also evident that shareholders of Silver Mine B received more benefit from silver's rise in price than their counterparts. All things equal, they made more money in this scenario.

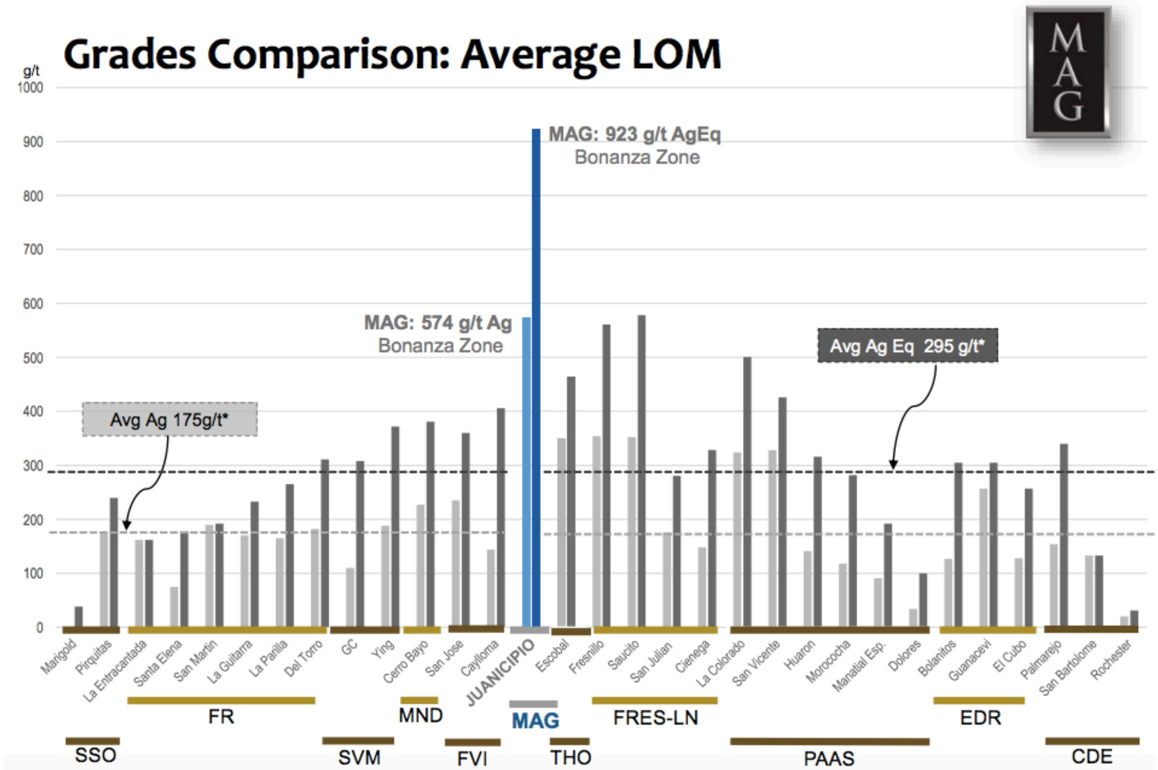
I'll skip the hypothetical this time, but the same concept occurs to development stage projects. To put it simply, development stage projects that are anticipating future low-cost production have LESS to gain from spikes in the price of the underlying commodity. Meanwhile, projects that may have been worthless at say $14 silver could be worth hundreds of millions at $20 silver.

Golden Arrow's Chinchillas project is a textbook optionality play – a relatively low-grade deposit that contains over 200m silver-equivalent ounces. I've provided below the most recent Mineral Resource Estimate for Chinchillas, which was released April 2016).

| Type | Mtonnes | Ag Eq (g/t) | Ag (g/t) | Pb (%) | Zn (%) | Ag Eq (Moz) | Ag (Moz) | Pb (Mlbs) | Zn (Mlbs) |
|---|---|---|---|---|---|---|---|---|---|
| **Measured** | **3.6** | **149** | **115** | **0.56** | **0.38** | **17** | **13** | **44** | **30** |
| **Indicated** | **30.6** | **141** | **88** | **0.85** | **0.60** | **138** | **87** | **574** | **401** |
| **Measured & Indicated** | **34.2** | **142** | **91** | **0.82** | **0.57** | **155** | **100** | **618** | **431** |
| **Inferred** | **32.9** | **85** | **42** | **0.44** | **0.76** | **90** | **44** | **322** | **548** |

One key takeaway is that this is a massive project, particularly when you consider that at least 50% of the land package has yet to be explored. An ultimate resource of 500m silver-equivalent ounces is optimistic but not impossible.

Secondly, the grade of Chinchillas is low by global production standards. The below chart, generously provided by MAG Silver, suggests that the average silver-equivalent grade of primary silver producers is roughly 295 g/t.




Meanwhile, Chinchillas sports a grade of roughly 140 g/t silver equivalent (or less than half of the producing average). This makes the company's share price particularly sensitive to the price of silver and, lo and behold, silver's run from $14 to $20 has transformed the project from an uneconomic proposition to a multi-hundred million-dollar project (at least in the eyes of the market). If we see $30 silver and the deposit continues to grow in size, I wouldn't be surprised to see the market valuing Chinchillas at over $1b. It is largely for this reason that silver bulls have been attracted to the Golden Arrow story so far this year.

### ***Argentina Is Open For Business Again***

With the surprise election of Mauricio Macri in November 2015, Argentina overnight became the emerging market darling for the global investment community. For years, doing business in Argentina had been enormously frustrating, with 30 percent inflation, currency controls that make it costly to get money out of the country, sub-par economic growth and unpredictable government policies.

Macri's defeat of Daniel Scioli (a *peronista* promising to maintain the status quo) gave hope to investors that Argentina would be more receptive to their involvement in the country. So far, Macri has yet to disappoint as his center-right government has accomplished the following in less than a year:

- **December 2015 -** Finance Minister Alfonso Prat-Gray scraps most of the country's currency controls and allowed the peso to begin trading freely.

- **December 2015 -** Macri's government eliminates export tarrifs on beef, corn, and wheat.

- **January 2016 –** Argentinean government agrees to $5b loan deal with HSBC, JP Morgan, Goldman Sachs, Deutsche Bank, Citibank, Santander and BBVA to bolster foreign-currency reserves.

- **April 2016 –** Argentina settles a 15-year dispute with a high-profile group of bondholders, most notably Elliott Management from New York.

- **June 2016 –** Macri lifts the statistical blackout of INDEC – the agency responsible for collecting and processing economic data. This indicates a renewed confidence in the accuracy of INDEC's numbers.

Investors have responded to these tangible milestones, with foreign direct investment pouring into Argentinean agriculture, livestock, mining, banking, and consumer products. Within 60 days of Macri reaching office, the country had already received a "$1b investment pledge" from Coca Cola and "hundreds of millions of dollars each" from Total SA, Royal Dutch Shell, Dow Chemical, and BP.

Macri optimistically anticipates $20b in FDI inflows in 2016 alone. Even if he is off by 50%, this result will dwarf Argentina's 2015 FDI number – which was a measly $1.2b.

Argentina's fragile economic situation has yet to be fully resolved, and there's no way it will be during Macri's first term. However, things are certainly moving in the right direction and foreign investors are rewarding the country with massive capital inflows. This macroeconomic tailwind should continue to draw investors to the GRG story over the coming years.

***Investment Thesis for Golden Arrow***

Golden Arrow is a silver development company that has been exclusively focused on Argentina since 1993, with CEO Joseph Grosso involved the entire time. The company has made three major discoveries over its history:

- **Navidad** - a development stage project now in the hands of Pan American Silver (a $3.5b CAD silver producer)
- **Gualcamayo** - a producing asset owned by Yamana Gold (a $6.4b gold producer)
- **Chinchillas**

After four extremely lean years, the recent excitement around both Argentina and silver have revitalized the company's treasury. Golden Arrow currently has a working capital position of ~$9m CAD, as the company just announced the closing of a $6.7m CAD placement which included a handful of notable institutional investors.

This gives the company a 5-year runway at the current monthly burn of $150k CAD. However, I expect the company's burn to double or triple in short order considering the imminent financing and GRG's ambitious plans beyond Chinchillas.

Ultimately there are two parts to the Golden Arrow story:

1. Golden Arrow's soon to be 25% stake in the Chinchillas/Pirquitas JV with Silver Standard.

2. GRG's prospect generator efforts elsewhere in Argentina, which will ramp up tremendously over the next 3 years.

First let's determine a fair value per GRG focusing solely on Chinchillas. I've provided some math below that demonstrates that Golden Arrow shares are moderately undervalued for this project alone.

Keep in mind that I've used three key assumptions here: (a) the fact that Silver Standard exercises its 75% option on Chinchillas by the end of this year, (b) I assume $20 silver for the remainder of 2016, and (c) I assume $25 silver by the time Chinchillas reaches production - which is 25% above current spot prices.

As mentioned earlier in this piece, in order to exercise its 75% option at Chinchillas, Silver Standard must pay Golden Arrow 25% of Pirquitias' cash earnings (minus a few adjustments) since the agreement was signed October 1, 2015. This payment must be made by April 1, 2017 but is very likely to occur in 2016.

Given the significant jump in silver prices (and the substantial reductions to opex at Pirquitas) since the agreement was signed, this option payment is likely to be a substantial sum of money. Assuming the deal is signed in December 2016, I expect GRG to be paid for the following five quarters of Pirquitas production:

Q4 2015 Average Silver Price = $14.80 USD
Q4 2015 All In Sustaining Cost @ Pirquitas = ~$12 USD
Q4 2015 Silver Production @ Pirquitas = 2.6m ounces of silver-equivalent
**Q4 2015 Cash flow @ Pirquitas = $7.3m USD**

Q1 2016 Average Silver Price = $14.50 USD
Q1 2016 All In Sustaining Cost @ Pirquitas = ~$10 USD
Q1 2016 Silver Production @ Pirquitas = 2.6m ounces of silver-equivalent
**Q1 2016 Cash flow @ Pirquitas = $11.7m USD**

Q2 2016 Average Silver Price = $17.20 USD
Q2 2016 All In Sustaining Cost @ Pirquitas = ~$10 USD
Q2 2016 Silver Production @ Pirquitas = 2.6m ounces of silver-equivalent
**Q2 2016 Cash flow @ Pirquitas = $18.7m USD**

Q3 2016 Average Silver Price = $20 USD
Q3 2016 All In Sustaining Cost @ Pirquitas = ~$10 USD
Q3 2016 Silver Production @ Pirquitas = 2.5m ounces of silver-equivalent
**Q3 2016 Cash flow @ Pirquitas = $25m USD**

Q4 2016 Average Silver Price = $20 USD
Q4 2016 All In Sustaining Cost @ Pirquitas = ~$10 USD
Q4 2016 Silver Production @ Pirquitas = 2.5m ounces of silver-equivalent
**Q4 2016 Cash flow @ Pirquitas = $25m USD**

The total Pirquitas earnings for the quarters listed above is likely to be ~ $88m USD, or ~$116m CAD. To estimate GRG's share, we must perform a few adjustments:

$116m CAD minus $12.5m CAD (Golden Arrow's 25% share of anticipated initial capex for Chinchillas/Pirquitas JV) = $103.5 CAD

$103.5 CAD minus $2m CAD (GRG's share of anticipated reclamation costs @ Pirquitas Mine) = $101.5 CAD

$101.5 CAD minus $17.4 CAD (anticipated Argentina repatriation tax) = $84.1m CAD

To exercise the option, Silver Standard will have to pay GRG 25% of the above $84.1m CAD number, which results in a $21m CAD anticipated payment to Golden Arrow later this year.

Because this payment is not yet in GRG's hands, we'll discount the number by 5%. **This results in a present payment value of ~$20m CAD.**

In addition to the $20m value for the expected payment from Silver Standard, Golden Arrow shareholders will also own 25% of the Chinchillas/Pirquitas joint venture.

Using conservative parameters, I estimate the value of this 25% stake below:

In October 2014 Golden Arrow announced a PEA for Chinchillas, which resulted in a $305m CAD after-tax NPV for a standalone operation (at $25 silver). Keep in mind that the initial capex for this operation was anticipated to be $240m CAD.

Fast forward to the present day, in which Silver Standard is proposing to utilizing the existing infrastructure at Pirquitas (see below) to reduce Chinchillas' initial capex to roughly $50m CAD for a similarly sized operation.

While a formal estimate has yet to be publically released by Silver Standard, there is no doubt that this 80% reduction in initial capex will work wonders for the project's economics – perhaps increasing the after-tax NPV by 50-100%. Sure Golden Arrow will now only own 25% of the operation, but there is no doubt it will be a more valuable operation than Chinchillas as a standalone project.

Despite this fact, I'm going to assume that the combined operation is ONLY worth $305m after-tax at $25 silver - the exact numbers GRG used in their 2014 PEA. Some would call this assumption comically conservative; others would say this is an appropriate (albeit back of the envelope) approach as there hasn't been a NI 43-101 compliant economic study done on Chinchillas since the 2014 PEA.

**25% of a $305m CAD project results in a project value of $77m CAD for Golden Arrow.**

**This leads to a ~$97m CAD value for Chinchillas alone – when one factors in (1) the option payment and (2) GRG's 25% stake in the joint venture.**

**The company's net enterprise value of $85m CAD does not fully reflect the value of Chinchillas.**

This also means that Golden Arrow's other Argentinean prospects are NOT reflected in the company's current share price, and any future value creation is pure upside for GRG shareholders.

I will now give a summary of Golden Arrow's prospect generation activity elsewhere in Argentina, and why I think the company will find another Chinchillas within the next few years (this would be the GRG's 4th major discovery in the country).

We must start with Antofalla as it is the company's most exciting prospect and most recent acquisition. The deal, which was announced in a July 11th news release, seems like a steal. Golden Arrow must pay a modest $1.5m over 5 years to the seller. The seller retains a 1% NSR royalty that can be bought back by GRG for $1.5m.

The project has seen a surprising amount of work already. Management estimates that $5m worth of work has already been performed on the property, with a past intercept returning a healthy 18m @ 128 g/t silver. Below is an image of the expansive property.

In a recent discussion, the normally tight-lipped Brian McEwen could hardly hold back his enthusiasm about the property. (Brian is the company's VP Exploration & Development; he was instrumental in the discovery and development of Chinchillas.) Below is an excerpt from a recent Northern Miner interview with Brian where he discussed the Antofalla acquisition in detail:

*"It's one of the ones that we've had our eye on for a couple of years," says Brian McEwen, the company's vice president of exploration and development. "You can see*

*this large area of alteration at Antofalla and we started looking at it on Google Earth two or three years ago."*

*"When we signed our due diligence deal and did some chip channel sampling on outcrops we came back with some spectacular results, like 14.9 metres of 271 grams silver and 1% lead."*

*"It's an incredible deal and it's back-ended, so we're not putting too much upfront," McEwen says, noting that the company's management team and the seller had come up with the structure of the deal a year and a half ago.*

*"It's fair to say that if we were going to go in and try to negotiate a deal today, it would be difficult to strike one this attractive in today's market, given the positive outlook in Argentina [following the election of President Macri in late 2015] and the uptick in the market and metal prices in general."*

*"People believed Chinchillas was too small and we went in and found it is not," he says. "It's a big deposit and it's getting bigger. At Antofalla we see a similar environment with younger rocks and mineralizing events intruding much older sediments with a big footprint. The potential is there to find something significant."*

Over the remainder of 2016, Golden Arrow will spend roughly $500,000 at Antofalla on grassroots exploration work. Management won't admit it yet, but an aggressive drill program beginning in Q1/Q2 of next year is highly likely. We should know within the next 18 months whether or not Antofalla is the company's next big project.

There are two more projects that may be drilled by Golden Arrow within the next 18 months: Potrerillos and Pescado.

Potrerillos is a 4000-hectare gold-silver project in Argentina's San Juan Province. The project is located just 8 kilometers away from Barrick's producing Veladero gold mine – the geology and location are certainly enticing.

In 2010-2011 Golden Arrow completed a significant exploration program, including:

- Diamond drilling (508m in 3 holes)
- Bulldozer roads and trenches (23 km)
- Surface rock chip samples (1,754)
- IP/Resistivity and CSAMT Resistivity geophysics (16.5 line km)
- Ground magnetic surveys (54 line km)
- Detailed geological mapping (covering 3,950 ha)

The project has remained dormant in GRG's portfolio for the past 5 years due to the success at Chinchillas coupled with the 2011-2015 bear market. However I wouldn't be surprised to see Golden Arrow revitalize Potrerillos in 2017.

Pescado is also an interesting precious metals prospect – located just 10km from Gualcamayo, a previous Golden Arrow discovery. The company performed an airborne survey in 2007, which was followed up by a soil sampling campaign in early 2008. No drilling has been performed on the property, however, as further exploration was derailed by the 2008-2009 bear market and a failed JV with Coronation Resources. Now that Golden Arrow is cashed up and the project is 100% in their hands again, I expect to see GRG drills turning in the near future.

Three more Golden Arrow projects warrant a mention – Mogote in San Juan Province, Don Bosco in La Rioja Province, and Caballos (also in La Rioja). Each of these is a classic copper-gold porphyry target, similar in geology to what is found in Chile. Golden Arrow has conducted preliminary work at all three projects, including significant drilling at Mogote through its previous joint venture partner Vale.

Despite the promise, Golden Arrow management would rather farm each of these projects out to a larger entity (versus drilling out the projects internally). Massive copper-gold porphyry targets are expensive to develop and, given the company's recent success with Chinchillas, Brian McEwen would rather focus on finding a similar silver-zinc-lead deposit. I'm hopeful that the company can find JV partners for all three of these within the next 18 months. If successful, this would expose the company to non-dilutive value creation.

As a final note on Golden Arrow's project portfolio, the company is likely to "add another horse to the stable" once the aforementioned private placement closes. This acquisition would likely be similar in geology to Antofalla, and the goal would be to discover another Chinchillas-like deposit. The company's deep experience in Argentina will give them a leg up in any negotiations that may take place.

To conclude this piece, I've provided below my expectations as a Golden Arrow shareholder for the coming two years:

Purchase of another Argentinean exploration target **by end 2016**

Finalized JV Deal Announced by Silver Standard **by end 2016**

First Drill Assays at Antofalla **by end Q2 2017**

Additional Drill Assays at Potrerillos and Pescado **by end 2017**

Joint ventures announced at Mogote, Don Bosco, and/or Caballos **by end 2017**

Of these milestones, the most significant is surely Silver Standard's decision on the Pirquitas/Chinchillas JV. This decision must occur by April 1, 2017 but most Golden Arrow observers expect an announcement this year as Pirquitas is rapidly running out of feed. A negative decision by Silver Standard seems highly unlikely at this point; if anything a full on takeover for Golden Arrow is a greater probability.

Once the Chinchillas situation is resolved within the coming months, Golden Arrow can return full-time to what they do best – prospect generation in Argentina. As long as the market continues to assign zero value beyond Chinchillas, then I am a strong buyer of GRG shares.

## Featured Investment #2: Excelsior Mining (CVE:MIN)

Excelsior Mining is a copper development company with the PFS-stage Gunnison Project in Arizona. At the current implied project value of $35m USD, Excelsior shares present significant value from a risk-adjusted NPV perspective. One could make a conservative case that expected fair value per share is 100-200% above current levels.

Risk-adjusted NPV investments only succeed if the company in question makes it into production within a reasonable time window. Excelsior seems to have a realistic chance of reaching production in early 2018, after taking into account the following:

(1) the excellent projected NPV, IRR, and payback period announced in last month's Updated Prefeasibility Study

(2) the company's opportunistic December 2015 acquisition of the neighboring Johnson Camp Mine, significantly reducing initial capex and shortening expected construction time

(3) the current mkt cap to initial capex ratio indicates that the company could be able to finance mine construction themselves without severe dilution

In April 2014 I was given an extensive tour of Excelsior operations by Executive VP Roland Goodgame - we visited the company's core shed and the Gunnison project itself, located 65 miles SE of Tucson. The Partnership initiated a position shortly thereafter and we've added since, with an average cost of $0.24 CAD per share. As of July 29th, MIN shares were trading at $0.37 CAD. While the gains have been modest, those involved in the junior resource space can testify that positive share price performers *over the trailing 24 months* are few and far in between.

One possible explanation for the discrepancy between the current share price and expected risk-adjusted fair value is market skepticism over the economics of

Excelsior's proposed In-Situ Recovery (ISR) mining method. I start this *Featured Investment* piece by discussing the history of ISR copper mining in Arizona – as the state has already seen has already seen 40+ years of production between multiple IRS mines.

Next comes the chief risk that the Gunnison Project faces: permitting. Taseko Mines owns the other advantaged-stage ISR copper development project in Arizona, which has struggled to receive permits in a timely manner. I'll highlight the key differences between the Florence and Gunnison projects.

We conclude with the investment thesis for Excelsior, covering the company's background, management team, and other company essentials. I then discuss three key assumptions I'm making as an investor, MIN's upside as an investment, and expected company milestones over the coming two years.

***In-Situ Copper Mining in Arizona***

In-Situ Recovery (ISR) is an alternate mining method that differs from traditional "open pit" or "underground" mines. ISR involves leaving the ore where it is in the ground, and recovering the minerals from it by dissolving them and pumping the pregnant solution to the surface where the minerals can be recovered. Consequently there is little surface disturbance and no tailings or waste rock generated.

ISR is much more prevalent in the uranium industry – it is estimated that 30% of global uranium production comes from this style of mining. ISR is a far less significant portion of global copper production, but it has still known to be a commercially viable technique for at least three decades.

Arizona itself has a rich history in ISR copper production. The San Manuel copper mine, owned by BHP Billiton, was a successful operation that integrated ISR methods with open pit and underground mining and produced approximately 3.25 billion pounds of copper in 14 years of production. Another project owned by BHP, Pinot Valley, also used ISR to extract copper. Excelsior's proposed ISR operation at Gunnison is nothing out of the ordinary for the state of Arizona.

***Permitting: Gunnison vs. Florence***

The Gunnison Project is often compared with the Florence Project – an Arizona-based ISR copper project that was bought in November 2014 by Taseko Mines (a $140m USD mid-tier copper producer). The Florence Project has been stalled for a few years now – quoting the company's website "only two outstanding permits required to move forward with the Phase 1 Test Facility". Unfortunately those two permits have been elusive thus far for Taseko.

The key question for Excelsior shareholders is whether or not Gunnison will face the same permitting headwinds that Taseko's Florence has experienced. This is *the* key risk for Excelsior currently – if the company is not able to receive permits in a timely manner, then shareholders will be left disappointed.

My belief is that Excelsior will surprise the market with a relatively smooth permitting process. There are some massive differences (in terms of permitting) between Taseko's Florence and Excelsior's Gunnison Project. I've highlighted a few key differentiators below:

1. The Florence Project is zoned within the Florence city limits and is located two miles from downtown Florence, Arizona (pop. 25,000). Gunnison is located about four miles north of an unincorporated town– Dragoon. The difference here is that Dragoon has a population that that is only 1% of Florence's total– at 209 residents. I visited the Gunnison in April 2014 and can attest to the project's remoteness. The below images nicely juxtapose these two projects; the first is Taseko's Florence (notice the town of Florence in the immediate background) followed by Excelsior's Gunnison.


2. ISR operations use a sulfuric acid solution to separate the economic metal from its host rock. A key environmental worry is that this solution will escape the hydraulic barrier and contaminate local groundwater. Both the Gunnison and Florence deposits are located near groundwater aquifers, but with very different circumstances.

Gunnison is located in a basin where the aquifer is not "actively managed" by any county, state, or federal agency. This is due to the basin's miniscule population and lack of economic activity. In essence, no one is using this water. For this reason, the

Dragoon Water Company is in full support of the Gunnison Project – a massive vote of confidence given the nature of ISR operations.

The Florence Project, on the other hand, is located in a very populous basin. The aquifer in this instance is used for existing agricultural operations, is "actively managed" by at least one government agency, and is located near one of the main sources of water for Phoenix (the Gila River). For this reason, the Florence Water Company is in vehement opposition to the construction of the project. This opposition will continue to shape public opinion and hamper Taseko's continued efforts to acquire the remaining two permits.

3. After Excelsior's opportunistic acquisition of the neighboring Johnson Camp Mine closed in December 2015, the Gunnison project in essence became a "brownfield project". This means that the company can utilize existing mining infrastructure to both reduce capex and the operation's environmental footprint. Indeed, the Johnson Camp includes the existing copper processing infrastructure: "a 4,500 gallon per minute solvent extraction plant, a tank farm, an electrowinning plant with 88 electrowinning cells with capacity for 25 million pounds of copper cathode per annum, solution storage ponds, a truck shop, core storage building, offices, warehouse, laboratory, mechanical shop, a primary and secondary crusher, and various other equipment." All of this infrastructure has already been built, and can be utilized be Excelsior in their mining plan (versus sitting idle, as it has since the Johnson Camp halted operations in 2010).

This contrasts with Taseko's Florence Project, which would fully be considered a "greenfield" operation. This means that the proposed mine is NOT located near existing mining infrastructure, and the company will have to construct their mine from scratch. Intuitively, greenfield operations can be difficult to permit – locals who are not used to nearby mining operations are more likely to balk at proposed mines.

In conclusion, permitting remains the key risk for Excelsior shareholders. Additionally, it is clear that Taseko's struggles at Florence have turned off potential investors from backing Excelsior. The three points provided above demonstrate that the Gunnison Project differs in many ways from the beleaguered Florence Project, and I think permitting is far more likely than the market currently expects.

Excelsior shareholders should have an answer to this "permitting question" by mid 2017. According to an April 26$^{th}$ news release from the company:

*Administrative Completeness Review (ACR) ("Administrative Review") has been achieved for both the Federal Underground Injection Control (UIC) Permit and for the State Aquifer Protection Permit (APP). The UIC is issued by the Environmental Protection Agency (EPA) under the Safe Drinking Water Act; whereas the APP is issued by the Arizona Department of Environmental Quality (ADEQ) under the Environmental Quality Act. Administrative Review is the first stage of the permitting* *process. It confirms that the permitting application is administratively complete, meaning that all the required documentation and technical data are present. Excelsior is working closely with the State and Federal regulatory agencies to help advance the issuance of draft permits, which Excelsior expects will occur early next year. Excelsior has now entered the technical review component of the permitting process.*

I expect the company to receive their APP and UIC permits in Q1 2017, and final operating permits in Q2 2017. Should they be able to acquire these permits in a timely manner, construction would commence in Q3 2017 - as well as a massive re-rating of Excelsior's share price.

***Investment Thesis for Excelsior Mining***

Excelsior Mining is a copper development company focused on advancing their PFS-stage Gunnison Copper Project. The project has been the company's sole focus for over seven years, and CEO Stephen Twyerould and Executive VP Roland Goodgame have been involved the entire time. Both are obsessed with the prospect of Gunnison reaching production. The two have done a commendable job in proactively to mitigating environmental and social risks. A recent example: In 2014, the company commissioned an independent study to demonstrate the economic benefits to Cochise County if the proposed Gunnison Mine is indeed built. The study was conducted by researchers from Arizona State University, the Seidman Research Institute, and the WP Carey School of Business; further details can be found here: http://goo.gl/4JZAiT

At current prices MIN shares present tremendous *risk-adjusted expected value*. What does this mean exactly? Here's a simple hypothetical to demonstrate the point…

*How much would you pay for a 50% chance to win $100?*

On first glance, as long as you don't pay more than $50 in the scenario outlined above, then you aren't getting ripped off. That is absolutely correct. However, I presume that Benjamin Graham (the father of value investing) would provide a slightly more nuanced answer - $33 or less. Graham looked for a Margin of Safety of at least 33% in all of his investments to mitigate human error; while it is possible for a discerning investor to know the *approximate chance* of something occurring, it doesn't take a genius to understand that real life probabilities cannot be predicted with the same accuracy of a coin flip. Hence, Graham's insistence on a Margin of Safety.

The above hypothetical is relevant to Excelsior Mining due to the permitting scenario that Gunnison faces. In essence, this is a binary outcome similar in some ways to a coin flip – if Excelsior gets their permit then investors get their $100, if not investors get $0.

To go a bit deeper, below are three assumptions that I'm making as an Excelsior shareholder:

1. If permitted, this mine will be fast-tracked to production, will be profitable at current copper prices, and will be a lowest-quartile producer. This story will not fail due to management ineptitude or project economics.

2. If not permitted, the company's market cap will drop to $0. This is not entirely accurate, but out of conservatism it is worth assuming entire loss of capital if things don't work out.

3. The chances of Gunnison being permitted are between 40-60%, as the amount of money and effort that has been put into the project suggests that there is at least a reasonable chance of a successful permitting issuance. Out of conservatism, I'll use a 40% chance of SUCCESS for the rest of this piece.

Before I address the above points, I want to emphasize something that should be obvious at this point. Due to the nature of this investment, an investment in Excelsior should only take up a small percentage of one's portfolio and would ideally be coupled with 10-15 unrelated investments that offer similar risk-adjusted expected value. Now on to the assumptions.

*If permitted, this mine will be fast-tracked to production, will be profitable at current copper prices, and will be a lowest-quartile producer. This story will not fail due to management ineptitude or project economics.*

As outlined in the introduction, Gunnison has the potential to be the next low-cost copper producer to reach production in the United States. Permitting worries aside, the project has a tremendous amount going for it:

(a) The company released an Updated Prefeasibility Study in February 2016 with stellar economics. This PFS was commissioned primarily to illustrate the tremendous impact that the Johnson Camp acquisition has on Gunnison's economics, and also to adjust for the lower copper prices we have seen since Gunnison's original PFS in Feb 2014. The main highlight of the study was that the project's initial capex estimate dropped from $284m to $50m – a decrease of over 80%. Other headline numbers included an $829m post-tax NPV (using $2.75 copper and a 7.5% discount rate), an after-tax IRR of 26% at $2 copper, and projected All-In Cost of $1.24/lb.

(b) The company's opportunistic December 2015 acquisition of the neighboring Johnson Camp Mine for a total of $8.4m. As mentioned above, this significantly reduces capex and in essence turns Gunnison into a brownfield operation. Another under looked benefit is that the construction time now estimated by management is a mere 9 months – 25% less than the 12 months projected in the original PFS. This near term production potential improves project payback and is another reason why Excelsior's market cap should be much closer to Gunnison's projected NPV.

(c) Excelsior's current market capitalization of $36m USD is pretty close to Gunnison's initial capex of $50m USD. This ratio indicates that the company could potentially finance Gunnison's construction themselves without severe dilution. As a hypothetical, if the MIN's share price rises by 50% between now and construction financing, the company could finance Gunnison 50% debt/50% equity and only dilute shareholders by 30%. Yes 30% dilution is not pretty – but the beauty of this optimistic scenario is that MIN shareholders can keep Gunnison's value fully to themselves as the mine races towards production.

*If not permitted, the company's market cap will drop to $0. This is not entirely accurate, but out of conservatism it is worth assuming entire loss of capital if things don't work out.*

This assumption is admittedly conservative. For the sake of conversation, if permits are not granted for ISR production, the company still does have a large amount of copper in the ground that could be mined through traditional practices. However, in order to make the economics work, significantly higher copper prices would be needed and the value placed on MIN shares in this scenario would be significantly lower than where they are now.

*The chances of Gunnison being permitted are between 40-60%, as the amount of money and effort that has been put into the project suggests that there is at least a reasonable chance of a successful permitting issuance.*

Permitting is the biggest risk to this investment. There are reasons to doubt that permitting issuance in a timely manner will happen – the problems at Florence's ISR project, a stricter EPA, and the general stigma surrounding ISR mining all loom large. However, as covered above in the Gunnison vs. Florence discussion, there are plenty of reasons to believe that Excelsior can successfully navigate the permitting maze. The following factors are also relevant: (i) management has had enough belief to focus on this project for more than ten years, (ii) a respected mining private equity firm has invested $22m into Excelsior over the past 18 months, (iii) two prominent Arizonans, Jim Kolbe and Steven Lynn, sit on the company's board, and (iv) the company has proactively demonstrated that Gunnison has the ability to spur tremendous economic activity in a relatively depressed county.

Ignoring the permitting worries for a second, how much exactly is the Gunnison project worth? The recently released Prefeasibility Study provides us with a good place to start. I've included below an excerpt straight out of Excelsior's February 9th news release discussing the PFS's headline numbers:

***Highlights of the North Star Gunnison Copper Project Updated PFS (United States dollars)***

*Net Present Value ("NPV") of $1.2 billion pre-tax and $829 million post-tax at 7.5% discount rate using a life of mine ("LOM") copper price of $2.75/lb;*

*Internal Rate of Return ("IRR") of 57.9% pre-tax and 45.8% post-tax;*

*Initial construction capital costs of $45.9 million (includes 20% contingency, 16% EPCM, freight, mobile equipment, owner's costs and capital spares);*

*Payback period for initial capital of 1.8 years pre-tax and 2.6 years post-tax;*

*Average life-of-mine operating costs of $0.70/lb;*

*All-In Cost (all capital plus operating costs) of $1.24/lb;*

*Sensitivity analysis at a LOM copper price of $2.00/lb generates an IRR of 30.8% pre-tax and 26.2% post-tax.*

*Over 850 million pounds of copper added to the probable mineral reserve, an increase of 24%;*

*Mine life of 27 years;*

*Staged production profile: initial production rate of 25 million pounds of copper cathode per annum using the existing JCM facilities, followed by an intermediate expansion stage to 75 million pounds per annum and final expansion stage to full production of 125 million pounds per annum (includes the construction of an acid plant at full production). The staged production profile makes possible the funding of future expansions out of cash flow;*

*Staged production approach lowers initial capital costs, reduces financing risk and speeds the timeline to first production.*

These are no doubt impressive numbers, but out of conservatism they need to be discounted.

Let's focus on the project's after-tax NPV, as this number tells us what the value of Gunnison would be if it were put into production today.

The company estimates an "$829m USD post-tax NPV $829 million post-tax at a 7.5% discount rate using a life of mine ("LOM") copper price of $2.75/lb". While I do believe that the long-term price of copper will actually be above this $2.75 number for the majority of the mine's producing life, out of conservatism we need to adjust for the current copper price of roughly $2.20 per pound. As can be seen below, the company included a sensitivity analysis in their PFS that accounts for lower copper prices.

**Table 1-12: Base Case After – Tax Sensitivities ($millions)**

| | Copper Price | | |
|---|---|---|---|
| | NPV @ 7.5% | IRR% | Payback (yrs) |
| Base Case | $ 829.1 | 46.0% | 4.3 |
| 20% | $ 1,142.8 | 60.6% | 3.6 |
| 10% | $ 986.0 | 53.2% | 3.8 |
| -10% | $ 670.5 | 38.7% | 6.5 |
| -20% | $ 511.8 | 31.6% | 7.1 |
| | **Operating Cost** | | |
| | **NPV @ 7.5%** | **IRR%** | **Payback (yrs)** |
| Base Case | $ 829.1 | 46.0% | 4.3 |
| 20% | $ 753.5 | 41.8% | 5.0 |
| 10% | $ 791.3 | 43.9% | 4.6 |
| -10% | $ 865.8 | 48.0% | 4.0 |
| -20% | $ 902.5 | 50.1% | 3.9 |
| | **Initial Capital** | | |
| | **NPV @ 7.5%** | **IRR%** | **Payback (yrs)** |
| Base Case | $ 829.1 | 46.0% | 4.3 |
| 20% | $ 824.0 | 43.6% | 4.4 |
| 10% | $ 826.5 | 44.7% | 4.3 |
| -10% | $ 831.6 | 47.3% | 4.2 |
| -20% | $ 834.0 | 48.8% | 4.1 |

This adjustment for copper prices that are 20% lower than the $2.75 price assumption leads us to an after-tax NPV of $512m USD.

Additionally, my belief is that a 10% discount rate should be used for all mining companies across the board. While some would call this harsh, a particularly trusted friend of mine advocates for a 20% discount rate to account for (a) the uncertainty inherent in mining and (b) the significance of near term cash flow. With this perspective in mind, I think 10% is pretty reasonable.

Excelsior management used a 7.5% discount rate in the PFS, so we're going to chop the $512m number by another 33% (our preferred 10% discount rate is 33% greater than the 7.5% used). This is an admittedly back of the envelope way of calculating, and is overly harsh to Gunnison's value. Regardless, let's discount the $512m by 33% to reach an after-tax NPV of $340m.

Next, we discount this $340m NPV by another 60% to reflect the permitting risk discussed in length above (aka only 40% chance of success).

This results in a risk-adjusted, after-tax NPV of $136m USD, or $1.07 CAD per fully diluted share of MIN. Despite the fact that this is 190% above Excelsior's current share price, I believe this ~$1 CAD number is the company's fair value per share at this time.

Let's expand our outcome visualization a little further and speculate on what would occur if/when the permits are successfully obtained in H1 2017. While the company won't be trading at Gunnison's full NPV immediately after permit approval, it would be reasonable for the company's enterprise value to equal the full $340m USD by the time Gunnison reaches production. Thanks to the accelerated construction time due to the Johnson Camp annex, this could happen as early as 2018. If the company's EV does indeed equal the $340m NPV upon first production in 2018, this would result in a $2.69 CAD share price, or a 691% return over twenty-four months.

Drawing back to the coin flip analogy discussed earlier, I view this as the equivalent of paying $34 (i.e. MIN's current share price) for a roughly 50% chance to win $269 (i.e. Gunnison's adjusted NPV per share). As long as one can accept that a negative outcome is a distinct possibility, these are very good odds indeed.

Before we get too excited about the best-case scenario outlined above, we have to take into account a couple points. The first is that any equity dilution associated with project financing is not factored into the above numbers. My view on this is that the potential upside discussed above is so large that any potential equity dilution involved with project financing is a virtually a non-issue. Permitting is far and away the bigger risk here.

The second is that there is always the risk that Excelsior shareholders will not be able to realize the full value of Gunnison in the event of a takeover by an existing copper producer. This is always a risk inherent in deeply undervalued development projects. My opinion in the event of a takeover is that, as long as a reasonable premium is offered and management acts in the best interest of shareholders, it's worth smiling, taking the money, and moving onto the next play.

To conclude this piece, I've provided below my expectations as an Excelsior shareholder for the coming two years:

$4m Financing (provides sufficient working capital through a production decision) **by end 2016**

Gunnison Feasibility Study Released **by end 2016**

APP, UIC, and Operating Permits Received **by end Q2 2017**

$45m Construction Financing Raised **by end Q2 2017**

First Production at Gunnison **by end Q2 2018**

Of these milestones, the most significant is surely Excelsior's expectation that APP, UIC, and Operating permits will be received in H1 2017. If the company hasn't announced a permitting success by July 2017, then it will be time to seriously consider liquidating your investment. If Excelsior does in fact defy the market and announce successful permitting, then I expect the share price to double overnight. Time will tell here – the good news is that we will know the answer to this permitting question within 1 year, which in the world of junior mining isn't a particularly long time.

## Past Featured Investments

### Almadex Minerals (CVE:AMZ)

Featured In: **July 2015**
Partnership Average Cost per Share: **$0.16 CAD**
Current Market Price (July 29, 2016): **$0.43 CAD**

Almadex Minerals was the Partnership's featured investment in January 2016. At the time, the company's market capitalization was equal to its working capital position – a ludicrous proposition considering management's deep mineral exploration expertise and the company's unique collection of precious metal assets (royalties + promising exploration properties). It was a classic Graham-Dodd value investment with very limited downside and ample upside potential.

While deep value investments generally take years to pan out, AMZ shares have had a stunning 180% gain year to date – helped in a large part by the nascent metals bull market that began in February 2016. But company-specific news also played a big role.

On the prospect generation front, the company reported moderately positive results over the first half of this year. In early February, the company issued a news release stating that the company had "commenced exploration activities on several of its projects and work programs are currently underway. The focus of work to date has been the Company's El Cobre and Los Venados prospects in Mexico. Some regional exploration work has also been initiated."

Roughly 4 months later, on June 1st, the company announced the results of three holes at El Cobre. One of the holes showed promise (Hole EC-16-008), but the market was unimpressed. Chairman Duane Poliquin, a prospect generation legend, made sure to point out in the news release that "these first results are from only one of the targets identified" – indicating that more drill results are imminent from elsewhere on the El Cobre property.

Beyond El Cobre, it seem nearly certain that we will see results from Los Venados in the coming months. The property is a textbook "area play", located immediately adjacent to the operating La India and Mulatos gold mines (owned by Agnico Eagle and Alamos Gold, respectively). I am also hopeful that we will see drill results from the following two properties by the end of the year: Willow in Nevada, USA and Caldera in Puebla State, Mexico.

Almadex's future as a prospect generator is undoubtedly bright, but thus far in 2016 the company's royalty and equity holdings have provided the most excitement. There have been three major developments:

(1) the materialization of Gold Mountain Mining's Elk Gold Project into a legitimate British Columbia development play (now supported by the likes of Marin Katusa, Doug Casey, and Rick Rule)

(2) the revitalization of the Ixtaca Project, on which Almadex owns a 2% NSR royalty

(3) the sale of El Encuentro to McEwen Mining for $250k CAD (Almadex retained a 2% NSR royalty on the property)

When I first wrote about Almadex six months ago, I only mentioned in passing AMZ's exposure to Gold Mountain Mining and their Elk Gold Project. Almadex did at the time own 27m GUM shares and a 2% royalty on Elk Gold, but Gold Mountain had a sub $2m CAD market cap and scant working capital. Accordingly, I wrote this off as a near term value driver for Almadex shares.

Boy was I wrong – Gold Mountain shares have proceeded to rally from $0.025 to $0.33, a stunning 1200% YTD gain. Just as importantly, development at Elk Creek has been progressing and first production by 2020 is a distinct possibility. Production at Elk Creek would result in at least 7 years of royalty payments to Almadex.

The catalyst for this breathtaking move has been heavy buying from KCR LLC – a group compromised of mining investment legends Marin Katusa, Doug Casey, and Rick Rule. KCR now owns ~44% of outstanding Gold Mountain shares and the market is slowly beginning to take notice (as evidenced by the spike in GUM trading volume we've seen in July).

Just a few weeks ago, CEO Morgan Poliquin negotiated a deal directly with KCR and sold $2m CAD in Gold Mountain shares to the group. This is not an insignificant amount of money at all; Almadex is a lean company with an annual burn of $1.5m. So in essence this sale added a year to the company's runway. Additionally, Almadex still owns 6.75m shares of Gold Mountain for a current market value of ~$2.2m. Almadex shareholders should continue to follow the Gold Mountain story with interest.

Almadex's most significant royalty asset is not Elk Gold, but rather a 2% royalty that covers the Ixtaca Gold-Silver deposit in Puebla State Mexico. Morgan Poliquin knows the Ixtaca project very well, as he discovered it with his father Duane in 2008. After developing the project within a company named Almaden Minerals, in 2015 the father-son duo spun out all prospect generation activities into ALMADEX and kept Ixtaca within ALMADEN. (The companies are often confused, hence the all caps.) Almadex shareholders still have a lot to gain from success at Ixtaca due to the 2% NSR royalty.

Ixtaca is a relatively large development-stage asset. An updated PEA released in early 2016 envisions a $100m operation that is marginally economic at $1150 gold and $16 silver. However, as most of us know, both gold and silver are trading well above these prices (17% and 27%, respectively), and the market is catching on to the fact that Almaden may be able to get Ixtaca into production within 3 years. The company is currently working on a Pre-Feasibility Study that should be released by year-end.

A third notable transaction was the company's sale of El Encuentro to McEwen Mining on May 2nd. The project is located just 10 kilometers from McEwen's operating El Gallo gold-silver project in Sinaloa State, Mexico. Almadex received $250k USD and a 2% NSR royalty in exchange for ownership of the property.

In the news release, Duane Poliquin discussed the deal in further detail: "I have been involved with this project since the early 1990s and believe very strongly in its mineral potential. This sale to McEwen is beneficial to Almadex as it puts US$250,000 in the treasury immediately while preserving upside for shareholders through the creation of a new NSR royalty. Given McEwen's presence in the area, they are best placed to develop these assets in the near term".

It is possible that El Encuentro could be fast-tracked to production even more quickly than Ixtaca or Elk Gold, due to McEwen's existing operations in the area. In fact, the deal included an uncommon term: "advance annual royalty payments in an amount up to US$100,000 per year commencing January 1, 2021, in the event that commercial production does not occur prior to that date." The fact that McEwen agreed to this non-standard stipulation demonstrates management's belief that El Encuentro will begin supplying mill feed for El Gallo within the next few years. This of course would result in cash flow to Almadex from the 2% royalty.

Almadex shares are not nearly as cheap as when I last wrote about the company (current net enterprise value of ~$8m CAD versus $0 just six months ago). That said, this is still a classic value investment – the company's prospect generation business alone is worth at least $25m in my estimation. The three holding assets discussed above only provide additional upside beyond the company's core business.

To conclude, I've provided below the relevant milestones I'm expecting over the next 18 months:

Additional drill results at El Cobre **by end Q3 2016**

Almaden Minerals announces Pre-Feasiblity Study at Ixtaca **by end Q3 2016**

First drill results at Los Venados **by end 2016**

First drill results at Willow **by end 2016**

First drill results at Caldera **by end 2016**

Almaden Minerals announces Feasibility Study at Ixtaca **by end Q2 2017**

Almaden Minerals commences construction at Ixtaca **by end 2017**

Gold Mountain commences construction at Elk Gold **by end 2017**

**TFS Corporation (ASX:TFC)**

Featured In: **July 2015**
Partnership Average Cost per Share: **$1.86 AUD**
Current Market Price (July 29, 2016): **$1.63 AUD**

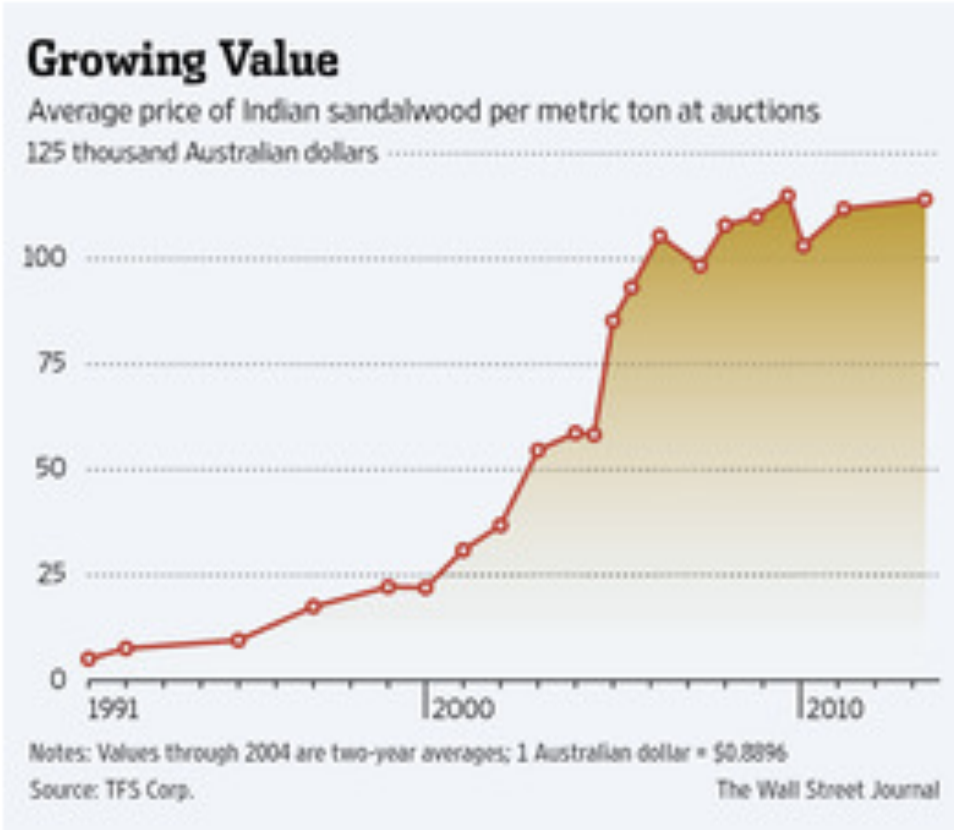
TFS Corporation was the Partnership's featured investment in July 2015. The company remains my favorite forestry pick. Though shares have remained virtually flat year to date, it was another productive six months for the company and TFS investors saw constant news flow. Four company-specific developments stood above the rest:

1. In late February, TFS announced in their mid-year earnings report that numerous multi-year supply agreements had been signed with Chinese and Indian wood buyers. CEO Frank Wilson, who co-founded TFS nearly two decades ago, commented on the transaction:

*"I am delighted we have signed new agreements with wood buyers in China and India at attractive prices for TFS. With our existing contracts with Galderma and Lush Cosmetics, I am very pleased to announce that we have now forward sold all of the TFS owned yield from the forthcoming two harvests. We are now in the enviable position of having multiple customers across multiple markets in four different continents and this perfectly illustrates the global demand for Indian sandalwood."*

Not only does this deal provide earnings visibility for the next 2 years, but it also confirms that Indian Sandalwood prices have been entirely untouched by the soft commodities slump that began in mid-2014. The last time TFS publically announced the price of a supply agreement was in August 2014 – when the company signed an agreement with Galderma, a Nestle-owned dermatology company. The deal was to sell up to 20 years of sandalwood oil at $4500 USD per kilogram.

This year's supply deal was also struck at prices "broadly equivalent to US$4,500 per kg of oil". Skeptics of the sandalwood story should take note; there are now buyers on multiple continents willing to pay this price for TFS's sandalwood oil. While sandalwood's price increase over the past two decades has been monumental, it is clear to me at least that the market can handle these prices. This bodes very well for TFS over the coming decade.




2. In April 2016, the company undertook a $60m AUD placement at $1.55 per share. While the dilution is unfortunate, the company raised this placement for good reason - to embark on a project with a "blended internal rate of return of approximately 37% over the period of FY17 to FY23". This type of IRR is unheard of in the forestry space and, as long as the company gets reasonably close to this 37% goal, the investment seems very well warranted.

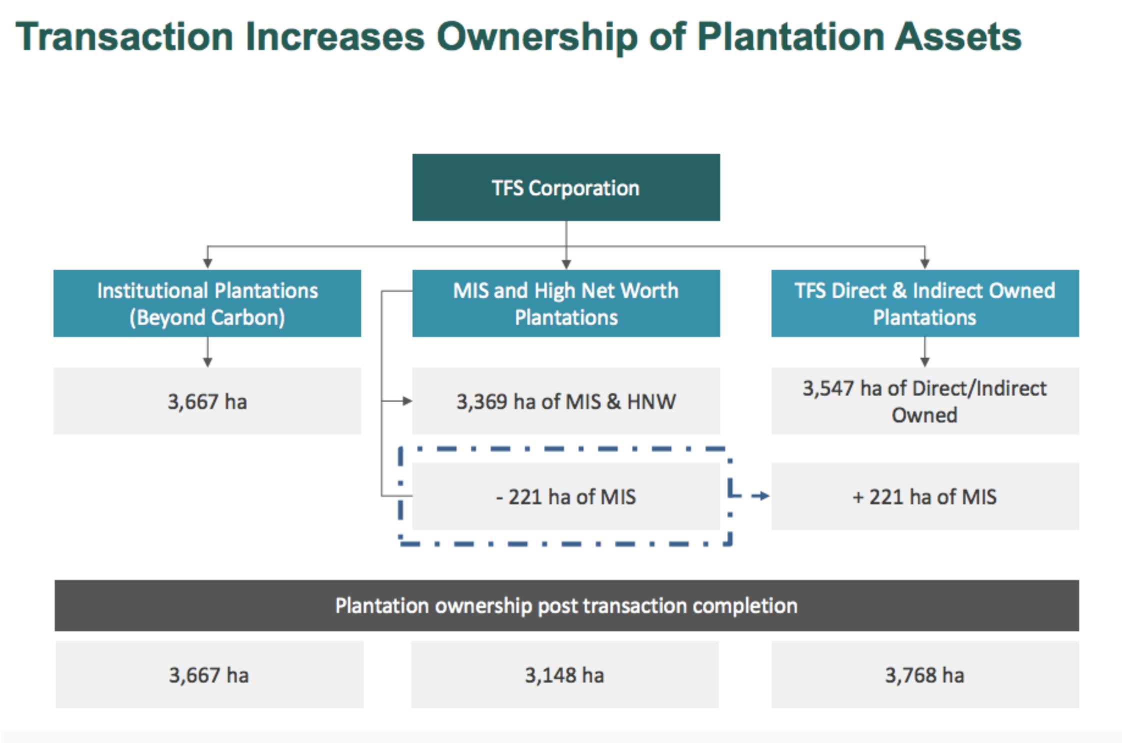
What exactly is this project? Remember that TFS both (a) directly owns sandalwood plantations and (b) manages sandalwood plantations owned by large investors. TFS sees an opportunity to "buy out" some of these larger investors earlier than originally expected, and would then use this sandalwood to satisfy the company's end-user obligations over the coming years. The company provided more specifics in an April 2016 presentation:

- The Company will make offers to acquire up to 221 hectares of MIS Grower interests in five MIS Projects due to be harvested between 2016 and 2022

- TFS's offers will provide growers with an option to sell ahead of harvest at a cash price based initially on the 31 December 2015 book value

- The Buy-Back is expected to have a maximum cost of $53m AUD

- The acquired plantations are expected to yield around 600 tonnes of heartwood which TFS intends to supply to its recently announced customers in China, India and the Middle East




A month later, the company announced that "the first of a series of its buy-back offers to investors in certain of TFS's Managed Investment Schemes closed with a 66% acceptance rate." This high rate of acceptance shows that the project is off to a fast start. The company will be making additional buy back offers over the rest of this year.

3. TFS has announced publically that they want to sell a $40m loan book by the end of this year to raise cash for operations. This makes sense – the company is not a financial institution and would be better served putting this money into new company-owned plantations.

On June 28th, TFS announced that it had "entered into agreements to sell loans and receivables with a book value of $25 million for cash proceeds of $24 million."

This is a very small discount to the loan book value, and demonstrates that the company should be able to get another ~$15m by the end of the year. This is not insignificant money, and it comes without dilution. Additionally, it sets the precedent for additional loan monetization down the line. As stated by Frank

Wilson: "the establishment of the on-going funding programs provides TFS with valuable optionality to release capital from future loans on pre-arranged terms."

4. On June 28th, TFS announced yet another plantation sale to a new institutional investor. According to the news release, "The new investor is a US-based global investment management firm with over US$100 billion of assets under management and an established track record of investing in Australian and New Zealand agriculture."

The key terms of the investment include:

- Sale of new Indian sandalwood plantations.

- Sale of the freehold land in the Northern Territory, originally acquired by the Company in 2015.

- TFS to manage the plantations through to harvest.

- Total FY16 revenue from the sale of the land and plantations of AU$27.0 million.

- Cash settlement scheduled for 29 June 2016.

TFS already manages sandalwood plantations for a whole host of institutions, including Harvard and the Church of England. Management fees derived from these partnerships compromise an important component of the company's earnings. Additional institutional plantation sales are to be expected over the coming months.

TFS's market capitalization is still below the net value of the company's assets – though the discount has narrowed from 10% to 5% since I last wrote about the company. For those with longer-term time horizons, TFS shares offer compelling upside with minimal risk. The market clearly doubts the credibility of TFS's core plantation ownership/management business. Continued operational execution and consistent dividend payments will slowly change this sentiment going forward.

**Nevsun Resources (NYSE:NSU)**

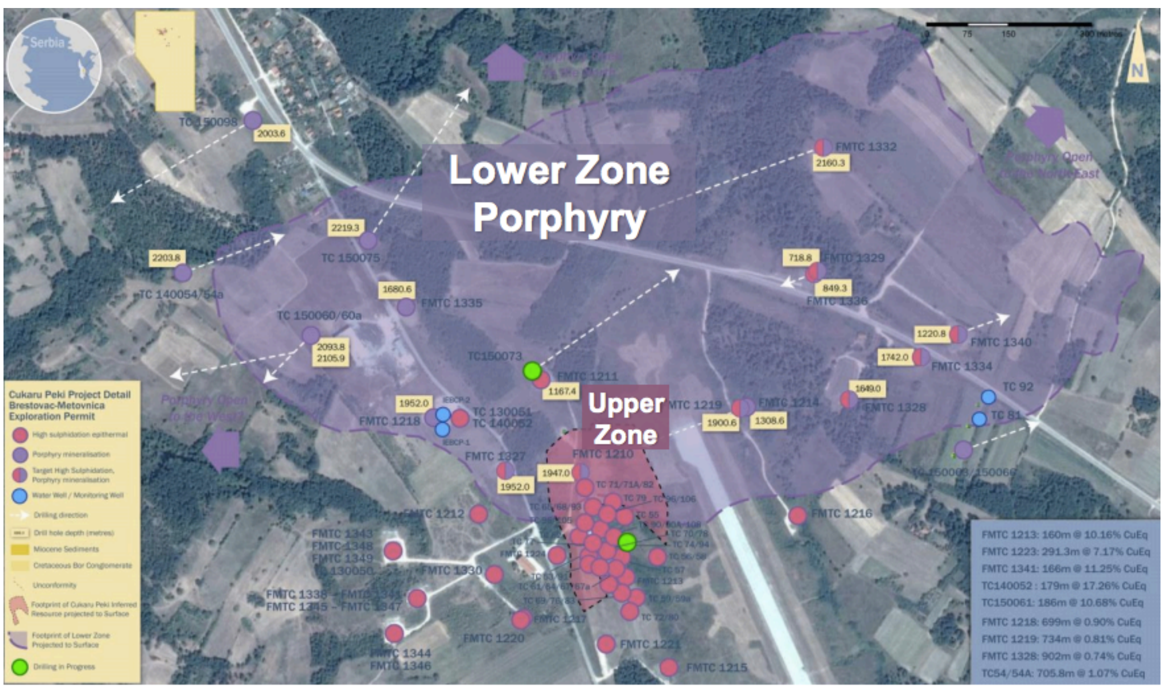
Featured In: **January 2015**
Partnership Average Cost per Share: **$3.07 USD**
Current Market Price (July 29, 2016): **$3.32 USD**

Nevsun was the Partnership's featured investment in January 2015 and remains my favorite mid-tier base metal play. While the NSU share price has lagged many of its peers, the company has had a sensational 2016 from a business perspective. The market will soon catch on.

There have been multiple positive developments thus far this year, but Nevsun's most significant was the acquisition of Reservoir Minerals and its world class Timok copper-gold project in Serbia. Close followers of the Nevsun story knew that a big deal was likely on the horizon - I stated myself in January 2016:

*While there is no hard deadline for the company, I fully expect one of the following two outcomes in the next 12 months – (a) an opportunistic acquisition of a low-cost copper operation to complement Bisha or (b) the distribution of a large special dividend. Either of these events would be a welcome development for shareholders, as it's time for the company to put this outsized cash position to work in one form or another.*

Sure enough the company has come through on their promise of an opportunistic acquisition, but I must say that the result exceeded my expectations. After its discovery by Reservoir Minerals in mid-2012, Timok has become one of the most significant undeveloped base metal deposits in the world – due to its high grade, massive size, and proximity to existing mining infrastructure.




An April 2016 PEA on Timok's Upper Zone outlines the project's exceptional economics:

- Initial capex of $213m USD
- Post-tax NPV of $1b USD (at 8% discount rate and spot metal prices)
- Post-tax IRR of 86%

- Payback of less than 1 year

For a project of this size, these economics are virtually unheard of. Additionally they don't take into account Timok's Lower Zone, which may have a potential production life of 15-20 years. We'll learn more about the Lower Zone over the coming year as Nevsun has initiated an aggressive drilling program. In a best case scenario, the Lower Zone could double or triple the overall value of Timok.

Nevsun ultimately bought Reservoir for $512m USD, with a combination of shares and cash. On face value, Nevsun paid a fair price for Timok's Upper Zone – 50% of NPV is steep for a PEA stage project but not unheard of for world-class deposits. (As a recent example, Goldcorp offered 60% of NPV for Kaminak Gold's PEA stage Coffee Project in May 2016.)

However, the market has yet to appreciate what Nevsun acquired beyond Timok's Upper Zone:

- Exposure to the Lower Zone as discussed above

- Participation in a massive $75m JV agreement with Rio Tinto (exploring four prospective properties located in close proximity to Timok)

Both the Lower Zone and the Rio Tinto JV have the potential to add tremendous value over the coming years and should be viewed as free upside for current Nevsun shareholders.

Developments at the Bisha Mine have been overshadowed by the high-profile Timok deal. However, there have been three significant developments this year worth noting:

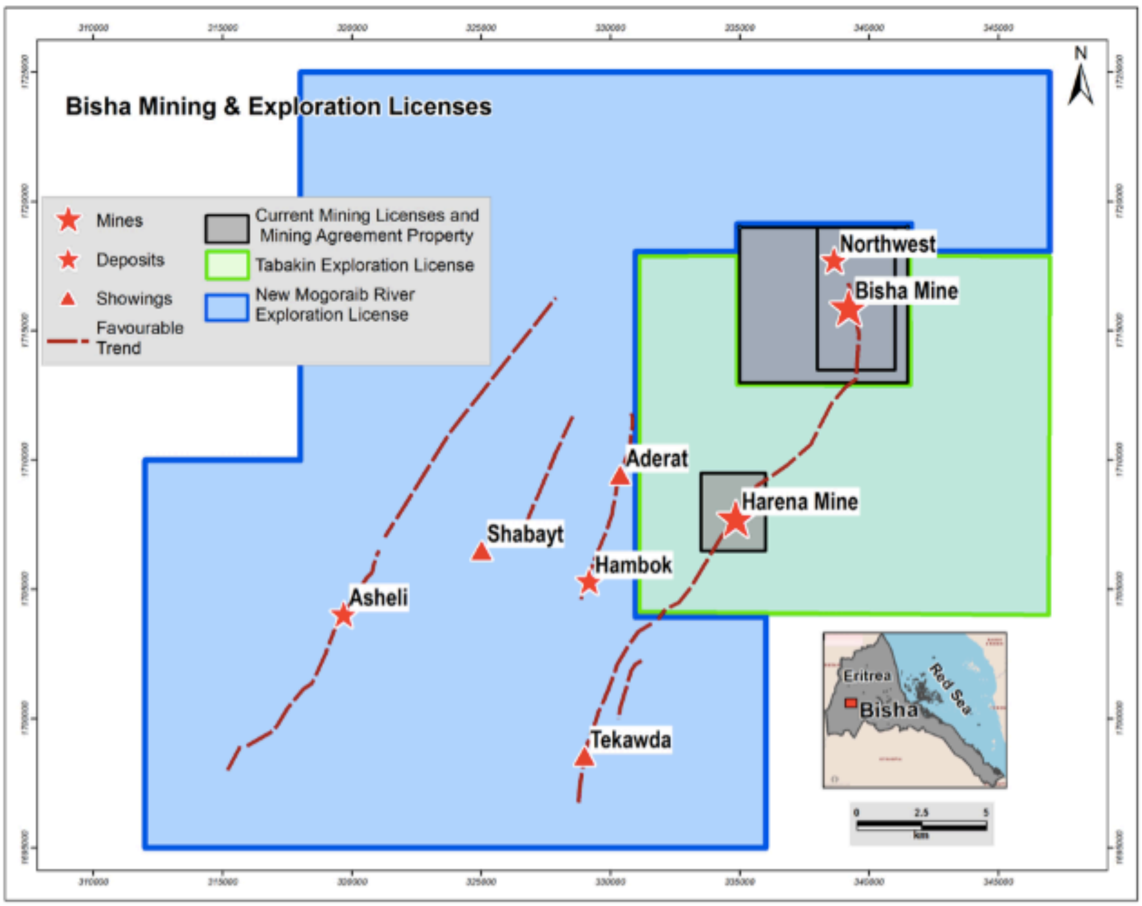
1. On a July 29th earnings call, management confirmed that the final cost of Bisha's zinc expansion was $77m USD. This compares to a guidance of $100m. This is the company's third major capital project to be completed on-time and under budget within the past 6 years – a tremendous achievement that reflects well on management and bodes well for the development of Timok.

2. In a February 11th new release, the company released the following cost guidance for 2016: "Remaining supergene ore processing in the first half of 2016 is expected to produce 40 to 50 million pounds of copper in copper concentrate at a C1 cash cost of $1.20 to $1.40 per payable pound of copper."

Sure enough, the market was surprised when just last week the company announced Q1/Q2 supergene copper production of 55.8 million pounds at a C1 cash cost of $1.04 per payable. NSU shareholders were rewarded with a 10% move on Friday largely due to this result.

3. The most significant Bisha development occurred just last week, when Nevsun announced that it had increased its total land package of exploration licenses to 814 square kilometers in Eritrea's Bisha VMS District. This represents a 1,891% increase from the 41 square kilometers the company had before the deal. In the news release, CEO Cliff Davis elaborated on the importance of this deal:

*"The Bisha VMS District remains vastly under-explored. Expanding our exploration land package has been a high priority that required a negotiation with the Ministry of Energy and Mines for extended and improved license terms. BMSC now has ownership of all of the exploration land in the Bisha district. With greater access to additional high-priority targets and increased time to evaluate results, we have added another key element to our strategy to deliver shareholder value through exploration in this prolific mining district."*




This acquisition solidifies my belief that Nevsun will find enough ore to keep the Bisha mine producing for another three decades. This may be a VMS district on the same scale as Manitoba's Flin Flon district, which has seen 25 producing mines in the past century. I'm thrilled to see what the company can discover elsewhere in the district over the coming years.

To conclude, I've provided below the relevant milestones shareholders should expect from both Bisha and Timok over the next 18 months:

First zinc concentrate sale at Bisha **by end Q4 2016**

2016 copper production of 80-110m lbs **by end 2016**

2016 zinc production of 70-100m lbs **by end 2016**

Maiden resource estimate at Asheli Deposit (located trucking distance from Bisha) **by end Q1 2017**

Underground exploration ramp completed at Bisha **by end 2017**

Pre-Feasibility Study released at Timok **by end 2017**

**Tsodilo Resources Ltd (CVE:TSD) – NO LONGER A PARTNERSHIP HOLDING**

Featured In: **July 2014**
Partnership Average Cost per Share: **$0.86 CAD**
Exit Price: **$0.71 CAD**

**Lithium Americas Corp (TSE:LAC)**

Featured In: **January 2014**
Partnership Average Cost per Share: **$0.24 CAD**
Current Market Price (July 29, 2016): **$0.96 CAD**

Lithium Americas (formerly named Western Lithium) was the Partnership's featured investment in January 2014. When I last provided an update on LAC in January, the company was trading at approximately $0.40 CAD.

The company's fortunes have shifted significantly over the past 6 months, and shareholders have been rewarded with a 140% YTD gain. While increasing buzz around the lithium space hasn't hurt matters, the catalyst for this move was the transformative joint venture deal that Lithium Americas reached with $7b lithium heavyweight SQM. This JV deal, which was announced on March 28th, will be the focus of this update.

The announcement of the SQM joint venture was a surprise to most market participants, considering Lithium Americas had just signed a "Heads of Agreement" with industrial conglomerate POSCO in August 2015. POSCO however had its chance to lock up the Cauchari-Olaroz project, but spent the remainder of 2015 bickering over terms with Lithium Americas management.

Once the HOA's exclusivity clause expired in January 2016 and no deal had been reached, Lithium Americas began to once again consider third party offers. This is when SQM stepped up to the plate, with the following deal announced after 2-3 months of negotiations:

*The Joint Venture will go into effect following a capital contribution of US$25 million by SQM in exchange for a 50% ownership stake in Minera Exar S.A. ("Minera Exar"), a wholly owned subsidiary of LAC. SQM's contribution includes US$15 million to repay intercompany loans between Minera Exar and LAC; the remaining US$10 million will be allocated to project development. SQM and LAC intend to immediately advance a work and engineering plan, which contemplates completion of an updated definitive feasibility study based on an existing study for Cauchari that was completed by Minera Exar in 2012. The updated study will evaluate economic feasibility for a project with a nameplate production capacity of approximately 40,000 metric tons per year of lithium carbonate equivalent. Depending on the results of the study, the project may be executed in stages.*

The key takeaways here include:

1. SQM pays Lithium Americas $25m for 50% of Cauchari-Olaroz

2. Lithium America's remaining 50% stake in the JV is NOT free carried (meaning that the company will have to pay for their fair share of feasibility-related costs and the project's initial capex)

3. A feasibility study will be released by year-end demonstrating the economics of a 40,000 ton per year operation. This is twice the nameplate capacity that previous economic studies had envisioned.

John Kanellitsas, who is Vice Chairman of Lithium Americas, commented:

*"Lithium Americas' board has determined that SQM represents the premier partner in the world for our project. Their understanding of brine chemistries, pond and chemical plant construction, knowledge of all end-user product specifications and the collaborative approach with our team were important criteria in our selection process. We believe that SQM is the world's largest and lowest cost producer of lithium from brines and our board has determined that a joint venture with SQM in which we pursue a production path utilizing a proven, low-cost brine evaporation process represents the optimal course to maximize long term value for Lithium Americas' shareholders."*

Market reaction to the deal was at first muted, as some believed that Lithium Americas had not received sufficient compensation for 50% of the project. However, LAC's share price started climbing once the sheer magnitude of the operation (and the significance of SQM's involvement) began to sink in.

In a May 4th news release, SQM assured the market of their intentions to fast-track Cauchari-Olaroz to production:

*"In March of this year, SQM and Lithium Americas announced a joint venture to develop the Cauchari-Olaroz lithium project in the Jujuy province of Argentina. The project's production capacity is targeted at 40,000 tons per year of lithium carbonate equivalent. Under the current project timeline, the companies expect to begin plant commissioning and production by 2019. Total capital expenditures for the project are estimated to range between US$500 million and US$600 million, depending on final design criteria and project staging.*

*SQM has been diligently working on this project since the beginning of April 2016 and hopes to be able to start construction by the first half of 2017. SQM is committed to successfully developing the Minera Exar project in order to meet the world's lithium needs, complementing its existing lithium operations in Chile."*

Another recent development demonstrates the tremendous excitement surrounding the company. In a May 2nd news release, Lithium Americas announced the appointment of David Deak as the company's CTO.

Lithium Americas CEO Tom Hodgson commented:

*"David is widely respected throughout the global lithium supply chain. He has the technical insight, commercial experience, and industry relationships required to advance the Lithium America's mission, including the Nevada clay project. We expect to benefit from David's leadership in his role as the corporate CTO and contributions to our recently-announced Joint Venture with SQM for the Cauchari-Olaroz project in Argentina. We have also asked David to lead the development efforts for our Nevada-based project, which represents one of the largest lithium resources in North America, and remains an important corporate priority."*

David was previously a high-ranking officer at Tesla working on raw material procurement for the gigafactory. To accept the CTO position, he had to turn down an offer from Apple - presumably to work in their secretive car division, dubbed "Project Titan". David's involvement is further validation for the significance of the Cauchari-Olaroz project.

What is the project worth to LAC shareholders? This is a tough question, particularly as the 40,000 tpy Feasibility Study is still in progress. Additionally, there is much controversy about the appropriate long-term lithium carbonate price.

Assuming an initial capex of $500m USD and long-term lithium carbonate prices of $9000 USD per ton, my internal model spits out an after-tax NPV @ 10% discount rate of $1.1b USD (or $1.45b CAD).

Lithium America's share of this NPV would 50%, or $700m CAD. We will now discount this number by another 50%, to reflect the fact that Cauchari-Olaroz is not yet a producing mine (and, even in a best case scenario, won't be producing lithium until 2019). This results in a $350m CAD present value for LAC's stake in the joint venture, or $1.05 CAD per fully diluted share.

This indicates that Lithium Americas is undervalued for their stake in the Cauchari-Olaroz JV alone. This ignores the company's two additional operations: the Lithium Nevada Project and the company's Hectatone division. We may see the market begin to assign value to each of these operations in Q4 this year, which would be unexpected upside for current LAC shareholders.

In the case of the Lithium Nevada Project, management expects to release a Pre-Feasibility Study on the property by the end of this year. This is a massive milestone and will provide updated economic projections for the first time since January 2012.

Meanwhile, the company's Hectatone division hasn't performed up to expectations since reaching production in 2014. Management expects, however, that by the end of the year Hecatone will be cash flow positive. A positive announcement here would be well received by the market – a cash flow positive Hectatone division would allow the company to develop the Lithium Nevada Project with minimal share dilution.

At current, my fair value for LAC shares is $1.40 CAD. This is roughly 45% above the current share price. Once we see results of the Cauchari-Olaroz Feasibility Study and Lithium Nevada Project Pre-Feasibility Study, we can make adjustments to this number. Below I've provided below the expected LAC milestones over the coming 24-36 months:

Project Update at Cauchari-Olaroz **by end Q3 2016**

Feasibility Study Released at Cauchari-Olaroz **by end 2016**

Pre-Feasibility Study Released at Lithium Nevada Project **by end 2016**

Hectatone Division is cash flow positive **by end 2016**

Construction begins at Cauchari-Olaroz **by end Q1 2017**

Feasibility Study Released at Lithium Nevada **by end 2017**

First Production at Cauchari-Olaroz **by end 2018**

**Phoscan Chemical Corp (TSE:FOS) – NO LONGER A PARTNERSHIP HOLDING**

Featured In: **July 2013**
Partnership Average Cost per Share: **$0.29 CAD**
Exit Price: **$0.32 CAD**

**South Boulder Mines (ASX:STB) – NO LONGER A PARTNERSHIP HOLDING**

Featured In: **July 2012**
Partnership Average Cost per Share: **$0.48 AUD**
Exit Price: **$0.28 AUD**

**Northern Graphite (CVE:NGC) – NO LONGER A PARTNERSHIP HOLDING**

Featured In: **January 2012**
Partnership Average Cost per Share: **$0.97 CAD**
Exit Price: **$0.80 CAD**