MJG Capital

To: MJG Capital Limited Partners
From: Matt Geiger
Date: August 19, 2018
Subject: 2018 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 31, 2018.

6 Month Performance	
MJG Capital Fund, LP (net of all fees and expenses)	(20.56) %
S&P 500	1.68 %
S&P/TSX Venture Composite Index	(13.02) %
1 Year Performance	
MJG Capital Fund, LP (net of all fees and expenses)	11.83 %
S&P 500	12.16 %
S&P/TSX Venture Composite Index	(3.51) %
3 Year Performance	
MJG Capital Fund, LP (net of all fees and expenses)	65.27 %
S&P 500	31.77 %
S&P/TSX Venture Composite Index	10.21 %
5 Year Performance	
MJG Capital Fund, LP (net of all fees and expenses)	15.17 %
S&P 500	69.25 %
S&P/TSX Venture Composite Index	(16.02) %
Performance Since Inception (9/1/11)	
MJG Capital Fund, LP (net of all fees and expenses)	(59.46) %
S&P 500	123.02 %
S&P/TSX Venture Composite Index	(59.13) %

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

The MJG Capital Fund, LP was formed roughly seven years ago and the results are detailed on the previous page. The S&P 500 represents the alternative investment of choice, while the TSX Venture is the closest proxy to the universe of resource equities that fit the fund's investment mandate.

In the January investor letter, I proclaimed that 2018 "will be the defining year of this mining bull market." My rationale was supported by three relatively straightforward points: (1) commodities are cheaper relative to general equities than they have been in almost 50 years, (2) we are in the late stages of an expansionary economic cycle which is generally when inflation and metal prices perk up, and (3) I don't see this economic cycle ending in the next 12 months. After two straight years of substantial portfolio gains, I was expecting more of the same in 2018.

Well, I was wrong. This year so far has been nothing short of a gut punch. After an excellent January which saw the fund's NAV rise by over 20%, we've given back all of those gains and then some in the months since. May and June were particularly painful months (with the MJG fund falling by 16% over the period) spurred by investor worries about the health of the Chinese economy, the impact of Trump's trade belligerence on global economic growth, and the effects of a strengthening US dollar.

This has made me consider whether we have entered a new mining bear market. While it is an unpleasant thought, investors should always be reexamining their assumptions. (In Silicon Valley parlance, this is known as "having strong opinions, weakly held.") In short, I do NOT believe that we are in a new mining bear market and instead consider the past six months a consolidation period before the next leg higher in this current bull market which began in January 2016.

At the risk of sounding foolish again, I feel good about these upcoming 12-18 months. No, it's no longer likely that 2018 will be viewed as the "defining year of this bull market" as a result of the pain commodity investors have experienced so far this year. However, I do think that those who have remained in the game will be pleasantly surprised with how things play out.

My optimism stems from the fact that commodities are still extremely cheap relative to most every asset class. My belief is that we're still 12-24 months from reaching the crest of the broader business cycle. In the meantime, hard assets and associated equities are set to play major catch up relative to other asset classes (US equities, corporate debt, real estate, cryptos, etc).

Additionally, given the carnage of the past few months, investor sentiment in the metals complex has reached extremely bearish levels last seen in 2015. This paradoxically is a good thing. We all remember the explosive upside that followed in the first nine months of 2016. As Rick Rule has said one or two times: "In this industry, you're either a contrarian or a victim." Now is a prime opportunity to act as a contrarian.

Furthermore, as evidenced by the recent M&A activity surrounding names such as Arizona Mining, Nevsun, Novagold, Peregrine, and Northern Empire, the senior miners are more than willing to deploy capital into development stage projects. I expect this M&A wave to continue for the foreseeable future as cashed-up senior miners take advantage of depressed valuations to restock their dwindling project pipelines with new assets.

For junior mining specifically, investors still likely have a few months to position themselves before the next move higher. Unlike 2016, I don't expect this rising tide to lift all boats. Instead, investors should focus on (a) development stage stories that work at current metal prices with sufficient working capital to deliver on 1-2 major catalysts without further equity dilution, (b) well-managed junior royalty names trading at a P/CF multiples in the single digits, and (c) private placements that include full warrants with 3-5 years to expiry and no acceleration clause.

The private placement environment has been the one redeeming aspect of 2018; the partnership has participated in three placements which included full 5-year warrants and two placements which included full 3-year warrants. In the immediate term, there will be similar opportunities available to enterprising investors. But once the market picks up again, these investor friendly deal terms will quickly disappear.

In this letter's *Market Musings*, I discuss the disappointing year so far for resource investors, whether we have dipped into a new bear market, and the potential catalysts to end this slump.

In the *Overview of Partnership Holdings*, I provide an update on how the partnership is allocating our capital by (1) commodity, (2) jurisdiction, and (3) operational stage. At current, we have twenty-one publicly traded positions in the portfolio.

We finish with the most recent *Featured Investment* (Golden Valley Mines) as well as updates on four current holdings featured in previous letters (Sama, Ardea, Excelsior, & Nevsun).

Market Musings

Are we in another mining bear market?

After a screaming January to start 2018, it's been six consecutive months of pain across the mining industry. The catalyst for this has largely been fear that the Trump tariff tantrum will derail global GDP growth, coupled with fears that the US Dollar is set to continue its seven-year bull market and stifle raw material demand from emerging economies. The pain has been particularly acute over the past few months, leading many industry observers to question whether we have plunged into a new mining bear market.

This is not an unreasonable question. After all, the TSXV is off 28% since reaching a multi-year high in January as seen in the chart below. (Any drop of greater than 20% is generally considered bear market territory.) Just two weeks ago, money managed short positions in copper hit a new all-time high. It's a similar story for gold where in early July speculators went net-short the metal for the first time in two years.

The anecdotal evidence is out there as well. In mid-July, the widely-followed resource investor Marin Katusa blasted an email to his mailing list announcing that he was "cashing up" and expecting resource stocks to drop to significantly lower levels over the rest of 2018. Not long thereafter, Vanguard announced that its $2.3 billion Vanguard Precious Metals and Mining Fund (VGPMX) was being be renamed to Vanguard Global Capital Cycles Fund and broadening its investment mandate beyond mining. This is exactly the type of behavior that you expect to see in bear markets.

In light of these negative developments, it's clear that we're in another mining bear market right? Not so fast. My read is that we are NOT in another bear market and this instead should be viewed as a consolidation period within the mining bull market that began in early 2016. This view stems from a couple of factors.

The first is that, by historical standards, the bull market that began in Jan 2016 would have been abnormally short and weak if it indeed ended this past January. As pointed out recently by newsletter writer Gwen Preston, the average junior mining bull market has "averaged 47 months with a 202% gain…If this [bull] market indeed ended in January (the last high), it would have been the shortest (25 months) and the weakest (73%) in four decades."

This in and of itself is of course not conclusive evidence that this bull market is still ongoing. It is indeed possible that a decade from now we'll look back on the two-year period between Jan 2016 and Jan 2018 as the shortest resource bull market of the past 50 years.

However, it is my belief that markets generally adhere to Newton's Third Law: *For every action, there is an equal and opposite reaction*. This is particularly true for mining which, like shipping, is abnormally cyclical due to the capital-intensive nature of the business. It is said that bear markets are the authors of the following bull market. And we generally find that the more ugly the bear, the more attractive the bull.

With this principal in mind, it seems unlikely to me that the most severe bear market in a generation (2011-2015) would be followed by the shortest and weakest bull market in four decades. This suggests to me that at least one more dramatic up leg is still forthcoming before we see the next bear.

The second and more persuasive piece of evidence that this bull market is ongoing is that the senior miners continue to deploy capital into junior developers and explorers at a healthy clip. I mentioned earlier the recent M&A activity surrounding Arizona Mining, Nevsun, Novagold, Peregrine, and Northern Empire. We're also seeing an increased appetite for strategic investments into earlier stage juniors. Big boys South 32, Newcrest, and Goldcorp have been particularly active on this front.

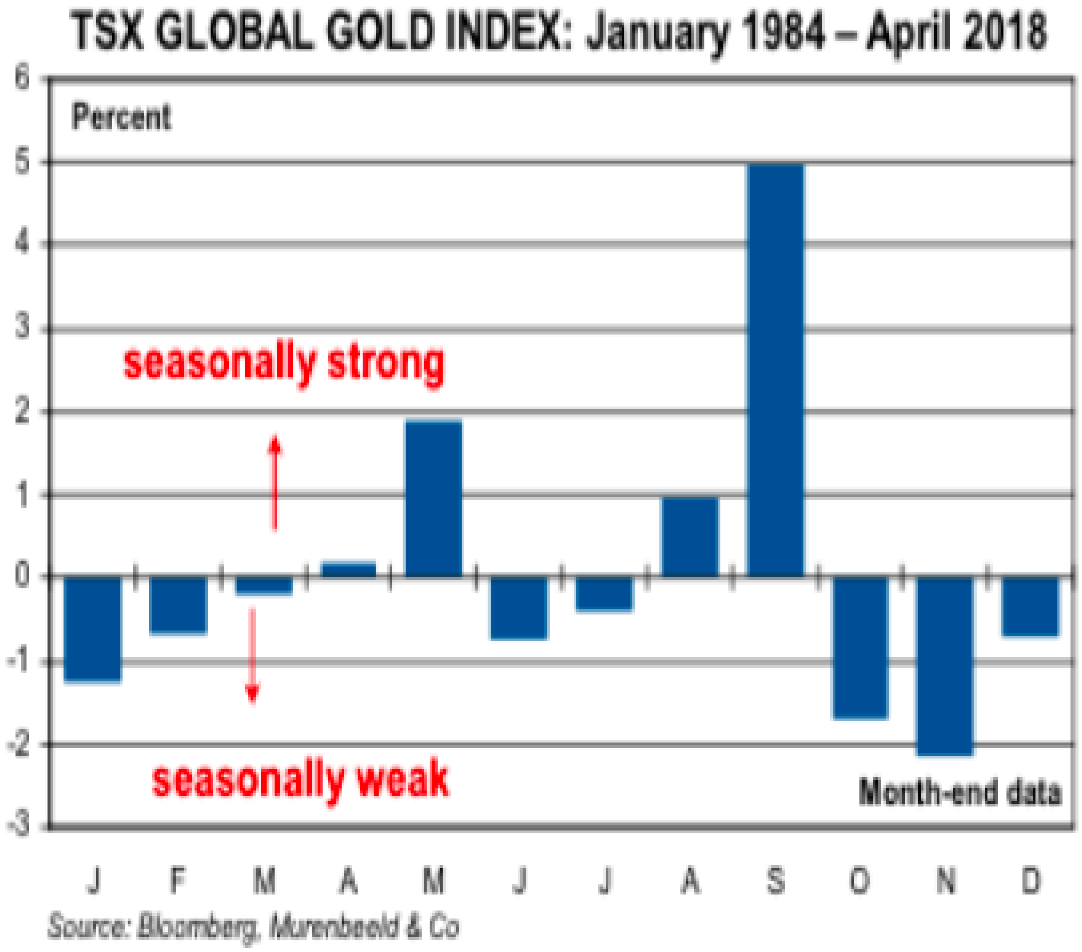
This is sustainable, at least for the next few years. The senior miners of both base and precious metals have markedly healthier balance sheets than they did just a few years ago. They also have the desperate need to replenish their project pipeline, after years of divestments and minimal development spending through the 2011-2015 mining bear market. More deals are coming, and soon.

For these reasons, I view this current market weakness as consolidation before the next leg up and NOT a prolonged bear market. However at this point you may be thinking:

I don't care whether this is technically a correction or a bear market. These are just semantics. I'm losing money and I'm tired of it. When will things start going up again? And when they do start going up, how long will the good times last?

We'll take these one at a time. There are a few potential catalysts in the coming months with the potential to reverse the weakness we've seen in metals and in particular juniors.

While this may be viewed as overly simplistic to some, it may take something as obvious as traders and fund managers getting back to their desks after the summer holiday. Up until the past couple of weeks, it was a particularly slow summer with low trading volume and investor interest. Given that historically precious metals perform exceptionally well in September (see chart below), it may take a simple change of season to draw attention back to the metals complex. The aforementioned newsletter writer Gwen Preston is one proponent of this view. We'll learn shortly whether this year is different.



Another possibility is that, after spending the last six months worried about deflation, we could see the market come to the realization that if anything the China/US trade spat is inflationary and does not have the potential to seriously undermine global GDP. As noted by Sprott's Shree Kargutkar: "The US currently trades approximately $2.3 trillion worth of goods with the world and the portion of goods affected by import tariffs is estimated to be $92 billion, or a mere 4%."

4% is inconsequential. The real risk of course is that this skirmish between the United States and China sets off a global wave of protectionist policies. However, at the moment, Trump seems to be the only global leader reveling in this conflict.

Barring a global wave of protectionism, the real impact of the trade war will be inflation. Quietly, it was announced last week that the 12-month rate of core inflation in the United States rose to 2.4%, the highest rate in just under a decade. This is generally the type of announcement that is greeted by traders flocking to metals and commodities in general. That has not been the case but, if data continues to point towards higher than expected inflation, investors will begin to take notice.

The third possibility is that Trump and Xi come to a compromise on trade by the end of the year. I think there is a distinct possibility of this coming to pass. It's in neither country's economic interest for the face off to continue. Both leaders will likely sit down at some point and, when this occurs, there will be an opportunity for them to cut a deal (even if it's not substantively different than the status quo of the past two decades) and then both declare victory. If we do indeed see a resolution, the market will likely flip to a "risk on" mentality resulting in increased capital inflows to industrial metals and associated mining equities.

Now that we've discussed the potential catalysts for the next stage of this mining bull market, the next question is how long this up leg will last. This is a good time to reference Rick Rule from an early July interview with *The Next Bull Market Move*:

"My suspicion is that, absent a global recession, and I should qualify that. We've been a long time without a recession, but absent a global recession, I sort of think this business is poised for some very good times.

You and I talked in the prior interviews, I said earlier about supply destruction, and supply destruction has happened in our business.

As demand recovers, the ability to meet changing price signals by adding supply is absent in the two, or three, or four year timeframe in the mining business. Absent a global recession, I suspect that you're going to see stronger commodity prices across the board.

I also think that as a consequence of nearly a decade of underinvestment in resources, that the development and exploration pipelines throughout the sector are empty.

The consequence of that is that you're going to see exploration budgets increase fairly dramatically. So absent a global recession, this is a big ask, I think that we're in for two or three pretty good years in our sector, perhaps more depending on the way that the global economy behaves."

Rick is correct in that the mining industry *deserves* to boom for another 2-3 years as a consequence of the supply destruction we've witnessed over the past half-decade. This may very well come to pass. But he's also right to add the caveat that any synchronized global recession or black swan liquidity crisis like we saw in 2008 would not spare mining equities by any stretch of the imagination. These are equities after all, and risky ones at that.

Therefore, we need take into account the general economic picture to get a sense of how long this next mining up leg will last. We are undoubtedly in the later stages of a powerful economic cycle that began just under a decade ago. I feel strongly that this cycle will crest sometime in the next 1-3 years. It's just the way these things work. The economy is cyclical and this current expansionary wave is already longer than most.

My sense is that this global recession that Rick worries about will indeed materialize in late 2019 or 2020. To account for this possibility, by Q3 2019 the partnership's portfolio will be more conservative with increased exposure to farmland, forestry, and cash.

If I'm wrong and the mining business booms for the next four years without being interrupted by a global recession, then roughly half of our portfolio will still be exposed to mining and we'll do great.

If however we do see a recession in the 2020 timeframe, then losses within the portfolio will be cushioned by this more conservative tilt. Once we are deep in the next mining bear market (whether in 2020 or 2024), I will then again ratchet up our hard asset exposure to 80-90% of the MJG portfolio.

While thinking about the next global economic recession isn't fun, there are a couple positives to keep in mind: (1) we should have a good 12-18 months to make substantial returns from well-managed exploration and development stocks in the meantime and (2) assuming it is caused by a global recession, the next mining bear market should be relatively short in duration. This is because demand-side worries are generally more short-lived than overcapacity issues. Just compare the sharp 2008-2009 resource bear market (sparked by demand worries) with the prolonged 2011-2015 resource bear market (caused by oversupply).

You can sum up my perspective on mining equities as positive over the next 12-18 months, cautious over the medium term (2-3 years), and extremely bullish over the long term (5+ years).

Overview of Partnership Holdings

Below is a snapshot of our investments as of August 17, 2018.

The partnership is exposed to different commodities, different jurisdictions, and different stages of the development cycle. At current, we have twenty-one publicly traded positions in the portfolio.

Over the next six months, we will be increasing our exposure to our uranium, silver, ag minerals, and farmland.

Allocation by Commodity	
Farmland*	
Canola	3%
Cotton	2%
Ag Minerals	
Potash	3%
Energy Metals	
Copper	18%
Uranium	13%
Nickel	10%
Cobalt	5%
Vanadium	3%
Industrial Metals	
Zinc	4%
Bauxite	4%
Iron Ore	3%
Precious Metals	
Gold	21%
Silver	5%
Cash (USD)	6%

*** Signifies minimal correlation to the mining sector**

Allocation by Jurisdiction	
United States	28%
Canada	18%
Côte d'Ivoire	10%
Australia	6%
Chile	6%
Serbia	5%
Russia	5%
Cameroon	4%
Brazil	3%
Ukraine	3%
Mexico	2%
Peru	2%
Ecuador	2%
Cash (USD)	6%

Allocation by Operational Stage	
Exploration	25%
Development	54%
Production	15%
Cash (USD)	6%

Featured Investment

Golden Valley Mines (TSXV: GZZ)

Golden Valley Mines has been a partnership holding since April 2016 with an average cost basis of C$0.28. The company is a gold-focused prospect generator active primarily in Quebec and Ontario. CEO Glenn Mullan is the current president of the PDAC and an esteemed prospector who originally staked what is now the world-class Canadian Malartic Mine. GZZ owns a 44.7% stake in Abitibi Royalties which has been one of the top performing gold companies over the past half-decade. The company also has multiple active option deals as well as a sizable 100%-owned property portfolio. Despite these attributes, GZZ is valued at a substantial 40% discount to the value of its cash + marketable securities.

Many of you know that I dislike gold relative to most any other commodity. I prefer the resources that help us live our 21st century lifestyle. The ag minerals blended into inorganic fertilizer, the silver capturing the sun's electrons in solar cells, the nickel powering electric cars, the cotton spun into clothing, and the grapes aged into wine. Gold, with less than 10% of demand going to industrial applications, is not nearly as interesting from this perspective.

However the classic Graham-Dodd value proposition offered by Golden Valley Mines makes me happily put aside this ambivalence towards gold. This opportunity is too good to pass up. The risk/reward profile is simply too compelling. This is an investment that would make Ben Graham proud.

In this *Featured Investment* piece, I begin by providing an overview of the company - with a particular emphasis on Glenn Mullan's background, the GZZ share structure, the company's lean overhead, the insider ownership positioning, and an overview of the company's assets.

We then dig deeper into Golden Valley's 44.7% stake in Abitibi Royalties (TSXV: RZZ). Any investor looking to purchase GZZ must first get comfortable with the RZZ story.

Next, we discuss how GZZ shares offer significant upside on a sum of the parts basis. The bonus is that the company also offers exploration upside that is harder to quantify but is very real.

We conclude with Golden Valley's expected catalysts over the coming months, so readers can keep tabs on the company's progress alongside me.

Company Background

Golden Valley Mines is an 18-year-old company listed on the TSXV under the ticker GZZ. CEO Glenn Mullan has been with the company from day one and has a fascinating background. Glenn began prospecting as a teenager and now has 40 years of experience in the mineral exploration industry. His first big success was as CEO and founder of Canadian Royalties Inc., which discovered and developed the Nunavik nickel-copper-PGE mine in Quebec. The mine was eventually acquired in a hostile takeover by the Chinese group Jilin Jien Nickel Corp for C$192.5m in 2009. Jilin has since spent another $2b on the now producing asset. Nunavik is quite the operation with 300 employees and a full operating mill.

Glenn struck gold a second time in the early 2000's when he staked 100% of the eastern portion of the Malartic property under the banner of Golden Valley Mines. Glenn optioned the Quebec-based project to Osisko Mining for a 30% free-carried interest in 2006. Over the ensuing years, Osisko proved out a world class, multi-million ounce (>10m oz) gold project which culminated in a 2014 takeover battle ultimately won by a joint bid from Agnico Eagle and Yamana. The Canadian-Malartic Mine is now in production and is home to the largest gold mill (55,000 tpd) in Canadian history. Abitibi Royalties, of which Golden Valley Mines owns 44.7%, holds a 3% NSR royalty over a substantial portion of the Malartic land package.

Despite Golden Valley's near two-decade existence, the company has a tight share structure of 146m fully diluted shares with no rollbacks in the company's history. GZZ has been successful in minimizing share dilution for a couple reasons. The first is by virtue of the company's prospect generator business model where Golden Valley attracts other parties to "earn into" its projects and gets to keep a free carried interest in the form of either an NSR royalty, minority project-level interest, and/or equity stake. GZZ has stayed true to this business model throughout the company's existence.

The second factor contributing to this tight share structure is the company's emphasis on minimizing overhead. This is no better demonstrated than the 2011-2014 period where NOBODY in the company received a salary. Needless to say, this type of behavior by management is far from normal in the junior mining space. In recent months, the GZZ burn has increased to C$200k per month now that markets have picked up from the 2011-2015 bear market. I don't anticipate this number moving any higher.

Glenn owns roughly 5% of Golden Valley Mines on a fully diluted basis. The largest individual shareholder is board member Jimmy Lee at roughly 21%. Other notable shareholders include: QC Labour Funds at 4%, Rob McEwen at 3%, and Jilin Jien at 1.5%.

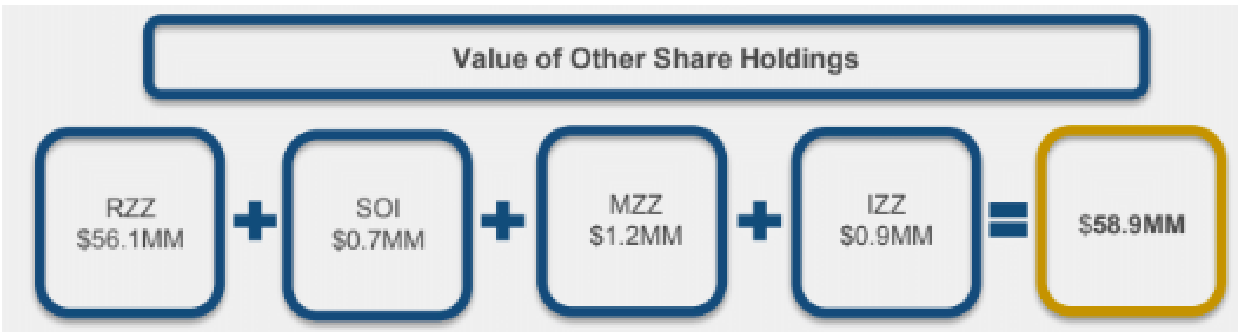
Most significantly, Osisko Gold Royalties has quietly accumulated a 7% position in Golden Valley with a cost basis between C$0.25-C$0.30. This is a recent development of which the market is largely unaware. It remains to be seen whether Osisko views Golden Valley as merely an attractive passive investment or whether this is the first step in a potential buy out.

Golden Valley's asset base can be broken down into three distinct categories:

1. Equity interests in publicly traded companies
2. Partner-funded option agreements
3. 100%-owned property portfolio

The bulk of GZZ's value comes its 44.7% ownership position in Abitibi Royalties. Adjusted for Abitibi's most recent share price of C$10.00, this equity interest is worth roughly C$54m. This alone compares very favorably to Golden Valley's fully diluted market cap of C$34m.

As displayed in the graphic below, Golden Valley also has equity interests in three different juniors: 3% ownership of Sirios Resources (TSXV: SOI), 26.5% ownership of Val-d'Or Mining (TSXV: MZZ), and 17.5% ownership of International Prospect Ventures (TSXV: IZZ). On paper, the combined value of these three equity holdings totals ~C$3m.



It is also worth noting that Golden Valley holds a 2.5-4% sliding NSR on the Cheechoo Project owned by Sirios Resources. In the event that Cheechoo reaches production, the value of this royalty will exceed that of the 3% ownership position in Sirios by an order of magnitude.

Golden Valley's second category of assets is the company's three partner funded option agreements with Bonterra Resources, Alexandria Minerals, and Battery Minerals Resources. These three deals are similar in that the respective partner is earning into what is now a 100%-owned Golden Valley project originally staked by Glenn Mullan. In the event that any or all of these partners complete the option agreement, Golden Valley then retains a 15-20% free carried interest in the project as well as a 1.5-3% net smelter royalty.

The option agreement with Bonterra Resources was announced in March 2016 and gives Bonterra the right to earn an 85% stake in Golden Valley's Lac Barry Prospect in exchange for C$200k in Bonterra shares (already issued) and a work commitment to spend C$2m over a three-year period at Lac Barry. Upon exercise of the option, Golden Valley retains a 15% free carried interest and a 3% NSR (with 1% subject to a C$1m buyback).

The Lac Barry Prospect is located to the southwest along the projected strike extension on the West Arena Property of Bonterra's Gladiator Gold Project, which is currently being drilled on by Bonterra. In addition, the Lac Barry Prospect is adjacent to and immediately southwest of Bonterra's Coliseum Property. Bonterra drilled Lac Barry for the first time in the summer of 2017 and results were announced in September 2017. This program was a success and resulted in the discovery of the *Temica Gold Zone*. Assays from the three best drill holes are outlined in the chart below.

Hole	From (m)	To (m)	Length* (m)	Grade		Zone/Area
				(g/t Au)	(g/t Ag)	
CL-17-14	394.5	397.2	2.7	4.7	44.6	Temica
CL-17-06	351.0	352.0	1.0	13.0		Temica
CL-17-01	64.0	65.0	1.0	4.8		Temica

Bonterra is planning a follow-up exploration program at Lac Barry in 2018. Further ground geophysical and geochemical programs plus mapping are ongoing. Most significantly, a follow up drill program will soon commence with assays expected by the end of the year. This drilling will focus on the Temica Zone as well as additional targets and identified trends on the property.

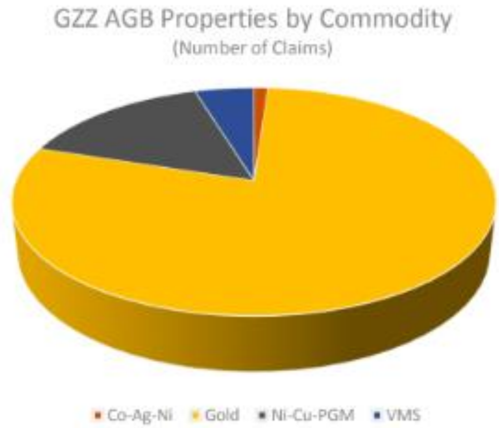
Golden Valley's second partner funded option agreement is with Alexandria Minerals at the Centremaque Property. This deal was announced in April 2017 giving Alexandria the right to earn an 80% stake in Centremaque in exchange for C$250k in Alexandria shares and a work commitment to spend C$4m over a four-year period. Upon exercise of the option, Golden Valley retains a 20% free carried interest and a 1.5% NSR (with 0.5% subject to a C$1m buyback).

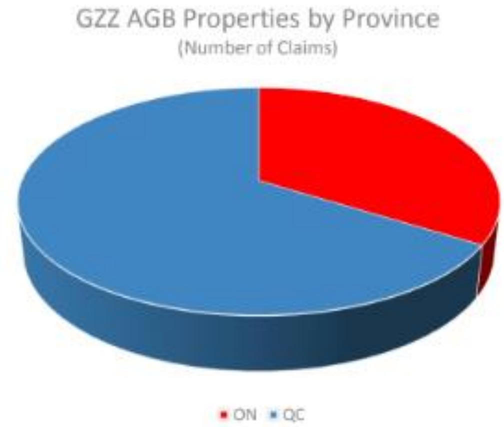
In the spring of 2018, Alexandria reported that a total of 7 holes for 3,348m had been drilled at Centremaque. Hole CAX-18-001 hit 0.65m @ 14.5 g/t Au at 285m depth and hole CAX-18-003 hit 1.8m @ 36.62 g/t Au at 337m depth; assays from the remaining holes are pending. It is expected that Alexandria will initiate another drill program at Centremaque by year end 2018. However, given the recent boardroom turmoil at Alexandria, this is not a certainty.

Golden Valley's third partner funded option agreement is with Australian private co Battery Mineral Resources (BMR) at the Island 27 Cobalt Project. This deal, which was announced in June 2017, gives BMR the right to earn an 80% stake in Island 27 in exchange for C$500k in cash and a work commitment to spend C$5m over a four-year period. Upon exercise of the option, Golden Valley retains a 20% free carried interest and a 1% NSR.

Island 27 had limited historical work before acquisition by Golden Valley, who then drilled hole GIS-08-04 (first drilling ever on property) hitting an impressive 4m @ 4.18% Co, 12.1 g/t Ag, 0.38% Ni, and 0.098 g/t Au at a depth of 110m. Battery Minerals recently commenced its first drill program at Island 27. Assays are expected by year end and it is anticipated that at least 2000 meters will be drilled.

Golden Valley's third category of assets is the 100%-owned property portfolio in the Abitibi Greenstone Belt. This is Glenn Mullan's backyard and the location of much of his past work. Golden Valley's head office is in Val-d'Or, the center of the region's exploration activity and only 20 kilometers from Malartic. The vast majority of this portfolio was staked by Glenn himself. A breakdown of the property portfolio by target commodity and location can be seen below.





Due to its disciplined adherence to the prospect generator business model, it is extremely unlikely that Golden Valley would drill any of these properties themselves. It is however likely that Glenn is in talks with multiple potential partners regarding additional option agreements. It's not unreasonable to expect one or two new agreements to be announced by year end.

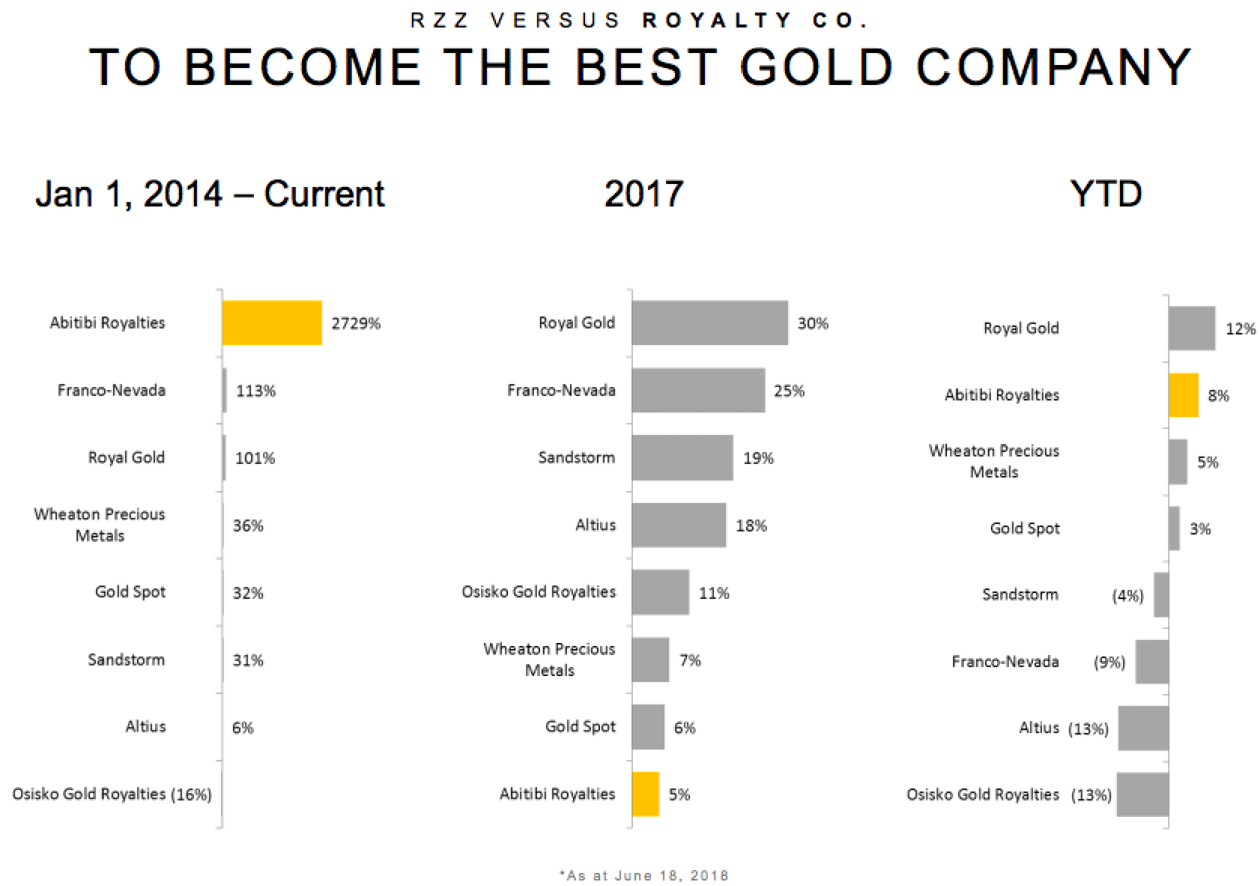
To conclude this section, it's worth mentioning that Golden Valley currently sits on a C$1.2m cash position and no debt. The company expects this cash position to increase over the coming quarters due to management fees + incoming option agreement payments. The company hasn't conducted a private placement since February 2016 and won't need to do so for the foreseeable future. In stark contrast to the vast majority of juniors, there is no worry about further share dilution here.

Abitibi Royalties

This section is dedicated to Abitibi Royalties (RZZ), of which Golden Valley Mines owns 44.7%. Abitibi Royalties was initially spun out and listed as a public company in 2011. The flagship royalty in its portfolio is a 3% NSR on the eastern portion of the Canadian Malartic mine (owned and operated by Agnico Eagle and Yamana Gold), which includes the Jeffrey Zone and the Barnat Extension where production activities are expected to commence in late 2018. The NSR also includes the exciting Odyssey North discovery and other portions of the Odyssey Project, as well as portions of the East Malartic property, which was a historical gold producer.

Golden Valley's CEO Glenn Mullan originally staked the claims covered by this 3% NSR. Glenn serves as Chairman on the Abitibi Board and owns 3.5% of the company (in addition to his indirect stake through Golden Valley). The second key player is Abitibi CEO Ian Ball, who took the reigns from Glenn in mid 2014. Ian owns 2% of the company himself and for a couple years now has used all of his after-tax salary for share purchases. Directors and management own a healthy 9.7% as a group. Other key shareholders include Rob McEwen at 12%, Quebec Labour Funds at 5%, and most recently CDPQ at just under 5%. Including Golden Valley's 44.7% stake, these parties alone control over 70% of Abitibi Royalties shares outstanding.

To Ian Ball's credit, he has done a tremendous job driving shareholder value in the four years since he joined the company as CEO. The chart below demonstrates this sterling performance relative to Abitibi's larger competitors in the royalty space.



Is this insane outperformance set to continue? Probably not. Reversion to the mean is a very real phenomenon. However, at the current C$120m market cap, shares of RZZ are far from overvalued. The company holds no debt and roughly C$45m in cash + marketable securities. This brings the enterprise value down to ~C$75m.

Now compare this EV to the company's projected 2019 cashflow of between C$4-4.5m. (We are using 2019 cashflow as it incorporates the additional royalty revenue expected from the soon to be producing Jeffrey Zone, which is scheduled for first production in Q4 of this year.) This results in a P/CF multiple of between 17x and 19x.

While this P/CF multiple is indeed higher than most of RZZ's junior royalty peers, this is not without good reason. Keep in mind that the Canadian Malartic Mine is not a small or marginal operation by any stretch of the imagination. This is a mine that supports the largest gold mill ever built in Canada! There is no question that even the biggest royalty companies covet exposure to the Malartic. This quite possibly explains why Osisko Gold Royalties recently initiated its 7% position in Golden Valley Mines, which is effectively a 3.5% indirect interest in Abitibi Royalties.

It is also worth noting that RZZ holds an additional 22 non-producing royalties outside of the Canadian Malartic. The most notable of these include: (1) a suite of 1-2% NSR's bordering Goldcorp's Red Lake Mine and Pure Gold's Madsen Mine, (2) a 2% NSR next to New Gold's Rainy River Mine, and (3) a 3% NSR surrounding Eldorado Gold's producing Efemcukuru Mine in Turkey. These provide free upside beyond the numbers discussed above.

Since the company's AGM in June, Abitibi Royalties has been busy. The company announced the new $5m investment from the Quebec pension fund CDPQ in late June, which was followed by a barrage of news releases in early July announcing the acquisition of four new royalties contiguous and proximate to its core holdings in the Malartic. I commend the company for refraining from making these royalty purchases when gold was above $1300 and instead waiting until the recent Au price weakness before making its move.

Valuation

Golden Valley Mines has just under 148m shares fully diluted. This results in a fully diluted market capitalization of roughly C$34m at current share prices.

This looks very attractive when you look at the fair value of GZZ's assets on a sum of the parts basis.

First, you have the 44.7% ownership percentage in Abitibi Royalties. At current market prices, this equity position alone is worth C$54m.

Next comes Golden Valley's equity interests in SOI, MZZ, and IZZ. On paper, the combined value of these interests equals C$3m.

Then comes Golden Valley's current cash position of roughly C$1.2m.

Pausing here, we can see that a valuation of C$58m can be easily justified between GZZ's cash position and equity interests. This is 74% above Golden Valley's current fully diluted market cap. This is a good time to reference Ben Graham, who in *Security Analysis* emphasizes that "net working capital" should be viewed as the minimum fair value placed on a given company.

However, we can't forget the handful of other GZZ assets which are harder to value. These include:

1. The three active partner funded option agreements with Bonterra Resources, Alexandria Minerals, and Battery Minerals Resources collectively providing exploration leverage and up to C$2.5m in 2018 exploration funding, most of which will be spent on drilling gold and cobalt targets.

2. The sliding 2.5-4% NSR on Sirios's Cheechoo Gold Project which has now seen over C$20m in project expenditures.

3. The 100%-owned project portfolio staked by Quebec prospecting legend Glenn Mullan.

Given Glenn's track record of multiple world class discoveries, one could make an argument that the 100%-owned project portfolio alone should be worth C$10m. In a better market, it almost certainly would be. However, out of conservatism, I'm going to assume that the three partner funded option agreements, the Cheechoo NSR, and the 100%-owned project portfolio COMBINED are worth a mere C$5m in additional value.

This results in a fair value of C$63m for all of Golden Valley. The GZZ share price would have to rise 83% from current levels to achieve this valuation on a fully diluted basis. That's substantial upside for a company that's so easy to value. And any exploration upside comes for free.

It bears repeating that, unlike the vast majority of junior miners, further equity dilution should not be an issue for Golden Valley. CEO Glenn Mullan has assured me that the cash position is expected to rise over the coming quarters due to management fees + option payments. If the company does find itself low on cash in the coming years for whatever reason, it is far more likely that we'll see Glenn sell 1-2% of Golden Valley's stake in Abitibi Royalties to raise funds (versus conducting a dilutive private placement).

Upcoming Catalysts

In conclusion, I've provided below the catalysts that can be expected over the coming months and years. I've also included some milestones pertaining to the Canadian Malartic Mine, given the relevance to GZZ shareholders.

- Drill results from Bonterra @ Lac Barry **by end 2018**
- Drill results from Battery Minerals @ Island 27 **by end 2018**
- Drill results from Alexandria @ Centremaque **by end 2018**
- Drill results (10k meters) from Sirios @ Cheechoo **by end 2018**
- Abitibi Royalties announces first production @ Jeffrey Zone **by end 2018**
- Drill results from Val-d'Or Mining @ Baden, Magoma, & Oregon **by end 2019**
- 1-2 new partner-funded option agreements announced **by end 2019**
- Abitibi announces first production @ Norrie, Odyssey & East Malartic Zones **by end 2020**

Positive drill results from Bonterra, Battery Minerals, Alexandria, Sirios, and Val-d'Or Mining all have the potential to drive new investor interest in GZZ. The same stands for any new partner-funded option agreements inked by Glenn Mullan. Additionally, Pilbara-focused International Prospect Ventures (IZZ), of which GZZ owns 17.5% and Rob McEwen owns 15%, is expected to provide a corporate update in the coming months. This is yet another "iron in the fire" for Golden Valley that could act as a positive share price catalyst.

All that said, given the company's outsized equity interest in Abitibi Royalties, I think it is clear that the most important near-term milestone is successful commencement of production at the Jeffrey Zone in Q4 2018. Jeffrey is expected to increase Abitibi's cashflow by roughly 30% and could lead to another re-rating of the RZZ share price. This of course would be an indirect positive for GZZ shareholders.

Golden Valley shares below C$0.30 offer healthy upside with little downside risk. This is an opportunity for investors to align themselves with an accomplished CEO in a company trading at a substantial discount to its cash + marketable securities. Given the handful of catalysts expected over the coming months and the recent buying from Osisko Gold Royalties, I don't anticipate the share price to remain at this level for long.

Past Featured Investments

Over the course of previous letters, I've shared featured investment write-ups for thirteen different companies. These write-ups provide current and prospective investors a glimpse into our portfolio, and also give insight into the methodology I use to identify undervalued securities.

We are current shareholders of four of these companies, and I've provided updates on each of them below. I also include the *average cost per share* and *exit price* of the past featured investments that we no longer own.

Sama Resources (TSXV: SME)

Featured In: **January 2018**
Average Cost per Share: **C$0.11**
Current Market Price (Aug 17, 2018): **C$0.27**

The partnership first initiated a position in Sama Resources through a private placement in late 2016. Subsequent purchases have raised our average cost per share to C$0.11. While this compares favorably to the current share price, there is no denying that 2018 has been a painful year for SME shareholders with the share price down nearly 50% YTD and a dearth of news flow from the company's nickel exploration activities in Côte d'Ivoire.

To be honest, I was expecting much more action from Sama so far in 2018. Remember that in October 2017, the company signed a JV with Robert Friedland's private vehicle HPX - allowing HPX to earn up to a 60% stake in Sama's highly prospective land package by funding exploration expenses and completing the feasibility study through total investments of C$30m. HPX is in theory the perfect partner for Sama given Friedland's experience with world-class nickel sulphide discoveries as well as the advantage afforded by HPX's proprietary Typhoon survey technology.

Friedland generally moves quickly and aggressively but this has not been the case so far in the Ivory Coast. By my count, Sama has issued only two news releases this year specific to the HPX joint venture. The market seems to be interpreting this silence as a lack of interest from Friedland or perhaps a serious operational problem on the ground.

Fortunately, I was able to catch up recently with the company's CEO Dr. Marc-Antoine Audet at the Sprott Symposium in Vancouver and came away reassured that progress in Côte d'Ivoire is well on track. More so, we can expect a bevy of news releases regarding the project in the coming months.

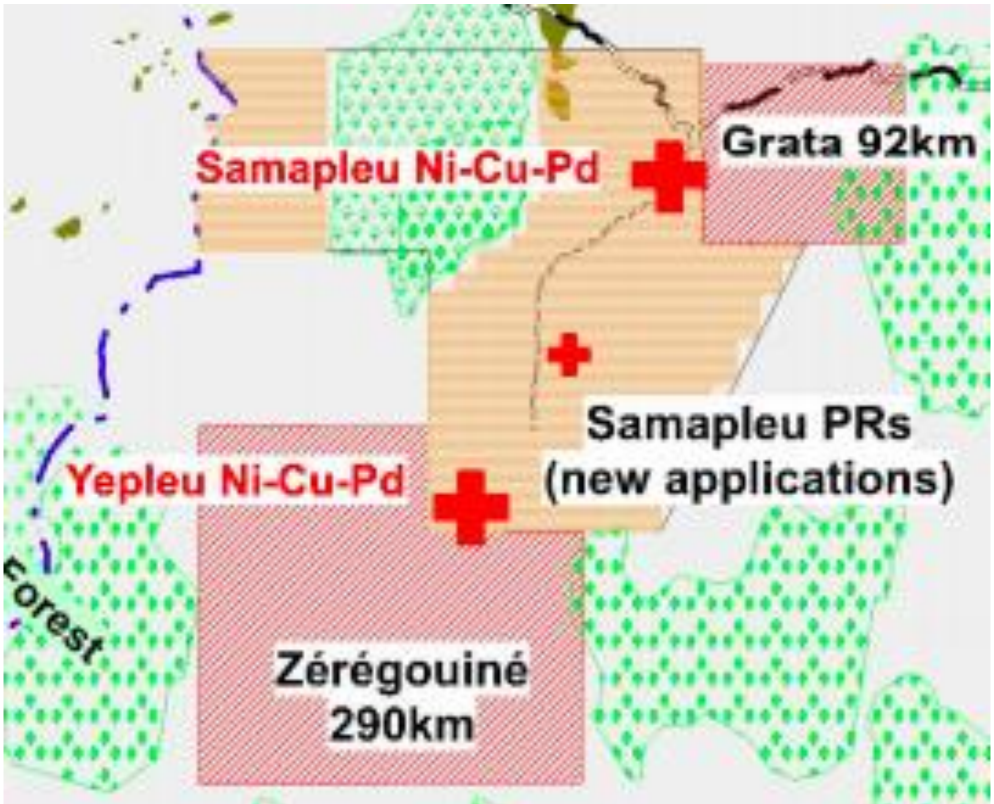
Marc explained how the company's recent radio silence has stemmed from a couple issues that have since been resolved. The first is that execution of the final JV agreement with HPX took longer than expected. It was announced in October 2017 that a non-binding term sheet had been signed between HPX and Sama. Usually it takes 60-90 days for these types of deals to be finalized. However, five months later the market was still awaiting confirmation that the deal had been closed. An executed agreement was finally announced in mid-April to the relief of Sama shareholders.

The second issue pertains to HPX's proprietary Typhoon survey technology. This was one of the primary reasons that Sama was so eager to get HPX involved in the first place, as Typhoon allows the company to survey up to 2000m below the earth's surface to pinpoint the high-grade reservoirs responsible for the nickel mineralization present at surface. (Off the shelf IP technology has a max depth of roughly 500m.)

The issue is that the Typhoon technology is useless if you can't get it into the country! And that's exactly what happened to Sama & HPX this spring. As seen in the photo below, the Typhoon survey is administered by driving a box truck in a loop around the area that you want surveyed. The actual Typhoon technology of course sits in the back of the truck.

Due to bureaucratic inefficiencies, it took Sama & HPX a painful 90 days of haggling with French and Ivorian customs officials before the Typhoon equipment was finally allowed into the country. This is simply a fact of business in this part of the world. The good news is that the problem is now in our rear-view mirror, and on July 30th Sama announced that the Typhoon rig had been officially mobilized at the Yepleu prospect. This is significant as drill targets will be generated at Yepleu immediately after the Typhoon survey is completed. First drill assays can be expected before Christmas.

It is worth noting that in February Sama did complete a 3800m infill drill program at the potentially open-pittable Samapleu deposit. (For clarification, Samapleu and Yepleu are two separate discoveries within the overall Ivory Coast land package; see map below.)



The company however is holding off on reporting the results from this drilling at Samapleu. After discussing with Marc, I have a sense of why the company has made the decision to sit on the drill assays and it is indeed in the best interest of SME shareholders. This is not something that should be worried about and we'll likely see the infill results announced by the end of the year.

With 240.5m shares fully diluted, Sama Resources has a market capitalization of just under C$65m at the current share price.

The company has an outsized working capital position of C$8m in cash and C$24m in shares of SRG Graphite (TSXV: SRG). Assuming that all options and warrants are exercised (which would result in C$11.7m in proceeds), this gives SME a fully diluted enterprise value of only C$21m.

Given the world-class exploration upside demonstrated by Friedland's involvement and the fact that Sama has already put C$25m into the ground exploring the overall land package and drilling out Samapleu, the risk/reward here seems very attractive. If HPX & Sama find what they are looking for, the scale of the discovery will result a five to ten bagger for Sama shareholders. Meanwhile, given the company's large position in SRG Graphite, the SME share price has downside of only 36% before Sama's market cap reaches the value of its cash + marketable securities. Defined downside with exponential upside always gets me excited.

The final key point is that Sama shareholders will not have to worry about equity dilution over the coming years. This is due to the company's C$32m working cap position and ~C$12m in "in the money" warrants/options. This should be more than enough to sustain the company for another 2-3 years. I can't overstate how much of an advantage this is over the vast majority of junior explorers.

I've included below the catalysts that SME shareholders can expect over the coming months. Given the company's outsized ownership position in SRG Graphite, major milestones pending at SRG's Lola Project are included as well.

- Typhoon survey completed @ Yepleu **by end September 2018**
- License renewed for Samapleu PR123 **by end Q3 2018**
- Drill results (3800m) from infill program @ Samapleu **by end 2018**
- Drill results from "deep drilling program to test targets" @ Yepleu **by end 2018**
- 1-2 offtakes announced @ SRG's Lola Project **by end 2018**
- Feasibility Study @ SRG's Lola Project **by end Q1 2019**
- Production decision @ SRG's Lola Project **by end Q1 2019**
- Sama/HPX acquire SODEMI's 33.3% interest in Sampleu PR123 **by end April 2019**
- Mining permit received @ SRG's Lola Project **by end 2019**
- First production @ SRG's Lola Project **by end 2020**

The far and away biggest catalyst for SME shareholders is the post-Typhoon drill program at Yepleu. I've been told by management that first assays can be expected before Christmas. Positive results would generate excitement around Yepleu specifically and would also provide a proof of concept of Typhoon's effectiveness for the overall land package. In the 8-12 weeks before drilling at Yepleu begins, we will likely see strength in the Sama share price as speculators hop onboard in anticipation of the upcoming catalyst. This gives potential SME investors 4-8 weeks to position themselves before the rush.

Ardea Resources (ASX: ARL)

Featured In: **July 2017**
Average Cost per Share: **A$0.82**
Current Market Price (Aug 17, 2018): **A$0.77**

We've owned Ardea for just over one year and it remains the fund's only cobalt-focused investment. After seeing the share price run up as high as A$2.00 late last year, it's been a brutal 2018 for shareholders with ARL down roughly 57% year to date. Despite the ugly chart, I remain convinced that

ARL shares below A$1.00 provide solid speculative and relative value. And with A$19m in the bank, investors can be assured of 2-3 major catalysts before further equity dilution.

Before we get into the valuation, it's worth touching on Ardea's progress operationally since I last wrote about the company earlier this year. In mid-February, the company announced better than expected assays from an infill drill program at its flagship Goongarrie Nickel-Cobalt Project (GNCP) – highlighted by a 32m intercept of 0.09% Co and 1.06% Ni. This was followed by a JORC-compliant resource update in mid-March. The company announced a global resource of 108.3 Mt @ 0.10% Co and 0.79% Ni, reminding investors of the sheer size of this asset.

The company then released a Prefeasibility Study for the GNCP in late March. The headline numbers included an initial capex of A$750m, an after-tax NPV of A$1.4 billion (8% discount rate), an after-tax IRR of 25%, and a payback of 5.6 years. While these numbers exceeded my expectations (particularly the NPV), ARL shares sold off sharply in the weeks after the news. The main culprit for this selling pressure was excessive anticipation surrounding the release of the PFS, which was compounded by a falling cobalt price (which peaked, temporarily in my view, in mid-March) and the expiration of a sizable number of ARL A$0.77 loyalty options on May 31st.

In early June, the company provided drill results from the Patricia Anne orebody, which is earmarked to go first in the GNCP mine plan. The assays below highlight the elevated cobalt content in this zone relative to the overall GNCP resource.

AGSR0055	**42 m at 0.16 % Co, 1.43 % Ni and 46 g/t Sc from 2 m**[1]
AGSR0059	**26 m at 0.18 % Co, 1.13 % Ni and 36 g/t Sc from 12 m**[1]
AGSR0061	**42 m at 0.15 % Co, 0.86 % Ni and 35 g/t Sc from 8 m**[1]
including	**14 m at 0.25 % Co, 1.01 % Ni and 46 g/t Sc from 10 m**[2]

Shortly thereafter, Ardea announced that KPMG would serve as a Strategic Corporate Advisor to the company and "will run a competitive process to identify and attract one or more strategic financing partners to support the development of the flagship Goongarrie Nickel-Cobalt Project". It has subsequently been announced that Ardea has received "positive enquiries from interested parties including industrial conglomerates, battery manufacturers, automakers, trading houses, mining houses and others" and that significant progress is expected in Q3 2018. It's not out of the question that we'll see a strategic partner announced by the end of the year.

Most recently, on July 24th the company announced an updated Prefeasibility Study envisioning a 2.25m tpa operation. Below you can see a comparison between the updated study and the original PFS announced in March.

Case	*Pre-tax NPV$_8$*	*Unleveraged Post-tax NPV$_8$*	*Post-tax IRR*	*Payback*
2.25Mtpa	**A$3.1 billion**	**A$2.3 billion**	**27 %**	**5.1 years**
<u>Previous PFS results</u>				
1.0Mtpa	A$1.43 billion	A$1.04 billion	25 %	5.3 years
1.5Mtpa	A$1.93 billion	A$1.40 billion	25 %	5.6 years

Please note that the initial capex increases 56% from A$746m in the 1.5m tpa scenario to A$1.165b in the 2.25m tpa scenario. The after-tax NPV meanwhile jumps 65% between the two studies. This illustrates the concept of economies of scale, which is particularly relevant in the extremely capital-intensive nickel laterite industry. If you're going to build it, you might as well build it big.

It is worth mentioning that in April Brett Clark was hired as Managing Director of Ardea. However, in late June it was announced that Brett was departing the company due to a serious illness in his immediate family. This is undoubtedly an unfortunate event and our thoughts are with Brett and his family. Despite Brett's departure, the company remains in good hands given that the same core management team that has led Ardea since inception remains fully intact. This includes Ian Buchhorn, Matt Painter, and Katina Law who collectively own ~12% of the company. It is expected that a new Managing Director with mine building experience will be announced by the end of the year.

Now let's look at Ardea's current valuation through a couple of lenses. We'll start with the company's speculative value, which in this case is best served by a risk-adjusted NPV calculation.

Out of conservatism, we're going to use A$1.4b as the project's NPV. As seen in the below chart, this comes from the "Alternative Pricing Scenario" provided in the recent PFS update. It assumes the 100-year average for nickel and cobalt prices, plus a 10% premium for nickel sulphate. This to me seems reasonable and is line with the price inputs used by other credible cobalt development stories.

Table 11 Sensitivity on Pricing

	PFS Pricing	100yr Average prices	Alternative Pricing Scenario[2]
US$/lb(Ni)	8.84	7.00	7.70
US$/lb(Co)	41.63	27.00	27.00
NPV$_8$ A$M	2,291	1,143	1,404
IRR	27%	18%	21%
AUD:USD	0.788	0.75	0.75

[2] Alternate prices are derived from the 100-year average plus a 10% premium for Nickel Sulphate. No premium is assumed for Cobalt.

In my experience, prefeasibility stage projects are generally valued at 20% of the after-tax NPV. Of course exceptional projects can see much higher multiples than this, while projects that are completely impractical can see far less. However this 80% discount is a decent rule of thumb for projects at this stage.

This implies a risk adjusted value of A$280m for the GNCP at prefeasibility stage given the Alternative Pricing Scenario.

Given Ardea's fully diluted share count of 120.3m shares and the company's A$19m working capital position, ARL's fully diluted enterprise value at today's share price is roughly A$71m.

Ardea is trading at a mere 5% of the after-tax NPV derived from the Alternative Pricing Scenario. This suggests that the share price could quadruple before the company's risk adjusted ownership of the GNCP is fairly valued at 20% of after-tax NPV.

Ardea also offers value on a relative basis when compared Robert Friedland's Clean Teq (TSX: CLQ). Clean Teq is advancing its high-profile Sunrise Project in New South Wales, which is roughly 18 months ahead of the GNCP in terms of project development. In late June, Clean Teq announced the results of a Feasibility Study for the Sunrise Project - highlighted by an initial capex of A$1.77 billion, an after-tax NPV of A$1.856 billion (8% discount rate), an after-tax IRR of 19.1%, and a payback of 4.3 years. (Clean Teq uses US$8 nickel and US$30 cobalt as its base case, which is slightly more aggressive than Ardea's Alternative Pricing Scenario of US$7.70 nickel and US$27 cobalt.)

Given Clean Teq's fully diluted share count of 761m shares and the company's A$140m working capital position, Clean Teq's fully diluted enterprise value at today's share price is roughly A$320m. We'll subtract another A$40m to account for Clean Teq's non-core businesses to arrive at an implied project value of A$280m for Sunrise.

Comparing the two projects, we see a 52% higher initial capex for Sunrise when compared to Ardea's 2.25m tpa scenario but an after-tax NPV that is only 32% higher. It's also worth noting that Ardea's GNCP has an infrastructure advantage due to its proximity to Kalgoorlie and has seen more in historical expenditures than Sunrise. Additionally, Ardea is proposing an industry standard flowsheet (fifth generation HPAL) while Clean Teq is attempting a proprietary flowsheet that has never been used before commercially (Clean iX technology).

While the above attributes seem to favor the GNCP, Ardea should of course be priced at a discount due to (1) Robert Friedland's involvement with Clean Teq, (2) Sunrise being 18 months ahead of the GNCP, and (3) CLQ being much farther along in offtake & project finance discussions.

What is the appropriate discount for Ardea when compared to a company like Clean Teq? I think a healthy 50% discount is reasonable for the aforementioned reasons. While the GNCP has plenty of advantages relative to Sunrise, the Friedland factor cannot be underestimated and Sunrise will undoubtedly win the race to first production.

At the current A$280m implied project value, Sunrise is valued at just above 15% of after-tax NPV.

Assuming the 50% discount discussed above, Ardea should be valued at 7.5% of the Alternative Pricing Scenario's after-tax NPV. This results in a risk adjusted NPV of A$105.3m for the GNCP at this stage.

Considering the company's A$19m cash position, this implies that Ardea shares should be trading at roughly A$1.04 on a fully diluted basis. While this result is not nearly as enticing as the 4x return suggested by the risk adjusted analysis, it does indicate that ARL shares have upside of roughly 40% before reaching an appropriate 50% discount to Sunrise's NPV multiple.

Whether the upside ends up being 40% or 300% will simply come down to the direction of the cobalt and nickel prices over the coming 6-12 months. It's important to understand that this project is extremely sensitive to metal price swings. This of course cuts both ways. With the cobalt price booming last year, Ardea was literally the top performing IPO on the ASX in 2017. This year, with the cobalt price down nearly 35% from its mid-March high, it is unsurprising that the ARL share price has suffered.

I must admit that these types of highly levered investments are NOT my preference in this current market environment. I prefer projects with thick margins that can make money at spot metal prices and even lower. However my conviction is that cobalt and nickel sulphate prices will outperform the broader metals complex in a big way over the coming few years as battery demand ramps up. For this, Ardea deserves a special spot in our portfolio.

To conclude this update, I've provided below the milestones that Ardea shareholders should expect at the GNCP and the company's handful of non-core assets:

- Additional drill results @ GNCP **by end Q3 2018**
- Updated reserve estimate @ GNCP **by end Q3 2018**
- Scandium JORC resource @ GNCP **by end Q3 2018**
- New managing director selected **by end 2018**
- Spin out of all NSW assets **by end 2018**
- Drill results @ BTZ Gold Project (adjacent to GNCP) **by end 2018**
- Drill results @ Mt. Zephyr (2-4k meters) **by end 2018**
- AJML commences chrysoprase production **by end 2018**
- Strategic partner announced @ GNCP **by end Q1 2019**
- Feasibility study @ GNCP **by end Q3 2019**

- Final permits received @ GNCP **by end 2019**
- Commence construction @ GNCP **by end Q2 2020**
- First production @ GNCP **by end 2021**

The most significant near-term share price catalyst would be the announcement of a strategic partner coming onboard at the GNCP. It is unclear whether this would be structured as a project-level JV or a strategic investment into Ardea directly. Management has indicated that we may see movement on this front by the end of the year. It's not an issue however if the KPMG-led selection process continues into 2019 given Ardea's strong working capital position of A$19m.

Viscount Mining (TSXV: VML) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2017**
Average Cost per Share: **C$0.33**
Exit Price: **C$0.29**

Golden Arrow Resources (TSXV: GRG) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2016**
Average Cost per Share: **C$0.24**
Exit Price: **C$0.76**

Excelsior Mining (TSXV: MIN)

Featured In: **July 2016**
Average Cost per Share: **C$0.24**
Current Market Price (August 17, 2018): **C$0.90**

We've owned Excelsior Mining since mid-2014, with an average cost basis of C$0.24. The company remains focused on advancing its Gunnison Copper Project to first production in 2019. I was able to visit Gunnison for a second time this recent April and came away even more convinced that this will be a profitable ISR operation in the very near future.

That said, 2018 has been a rocky year for MIN shareholders. Over the first six months of the year, Excelsior was one of the very top performers within the copper development space with shares peaking at C$1.50 in early June. However, a June 25^{th} news release announcing the receipt of the final necessary EPA operating permit triggered a sell-off in MIN shares. This has been compounded by recent weakness in the copper price, resulting in a current Excelsior share price 24% below where we started the year and 38% below the early June high.

The late June sell off was counterintuitive in that receipt of the UIC from the EPA was a massively positive fundamental development for Excelsior. This was the final permit needed by the company to commence construction at Gunnison. In hindsight, it becomes clear that the market treated this as a "buy the rumor, sell the news" event. Frankly I should have seen this coming as market excitement over imminent receipt of the permit continued to build throughout the spring and into June. This included buy recommendations from multiple newsletter writers and the aforementioned site visit which was one of the larger ones I've attended.

Another source of selling pressure over the past seven weeks has been uncertainty surrounding the appeal process for the recently received UIC permit. Upon receipt of the permit on June 25th, a 30-day window was opened for third parties to appeal the ruling. On July 13th, it was announced that an appeal had been filed by an individual. Upon review, it was clear that this appeal was not a credible threat and it was dropped shortly thereafter.

On July 25th, a second appeal was filed. This was a more sophisticated effort backed by the Dragoon Conservation Alliance, Arizona Mining Reform Coalition, Grand Canyon Chapter of the Sierra Club, Center for Biological Diversity, and Patagonia Area Resource Alliance. (For those interested, the full appeal can be read on the Environmental Appeal Board website.)

Given the friendly regulatory environment for mining in the United States, the care that Excelsior put into the permitting process, and the relatively minimal footprint of the Gunnison ISR operation, I am very confident that Excelsior will successfully fend off this appeal. As stated by CEO Stephen Tweryould in an August 6th news release:

"The remaining appeal raises no new objections that were not previously addressed as part of the comprehensive permit review process that was undertaken by the United States Environmental Protection Agency ("EPA"). Excelsior's view is that this lone appeal will not be successful, and the Company intends to use all available legal means to have this appeal dismissed as soon as possible.

Appeals are reviewed by the Environmental Appeals Board. In order to be successful, the petitioner must demonstrate either a finding of fact or conclusion of law that is clearly erroneous, or an exercise of discretion on an important policy consideration that the Environmental Appeals Board should, in its discretion, review. The petitioner also must identify where in the record the issue was raised, or explain why it was not previously raised, and explain why the EPA's response to the comment was clearly erroneous or otherwise warrants review. Given the thoroughness of the process over the past 30 months, this is a difficult hurdle to meet and prevail."

The question here is timing. The sooner this gets resolved, the sooner Excelsior can officially break ground at Gunnison. We are now in the middle of a 75-day window (ending October 12th) for the EPA to send in its response to the Appeal's Board. Upon submission of the EPA's rebuttal, the parties behind the appeal have until Nov 5th to respond to the EPA. The Appeal's Board then will have 30 days to rule on the merits of the appeal by Dec 5th.

There are a few different ways this process can play out:

1. The best-case scenario is that Excelsior and the parties behind the appeal come to an agreement between themselves and the appeal is dropped before the EPA and the Appeal's Board get involved. If this happens, it will be this month or next. A feasible settlement would be Excelsior agreeing to install an additional number of monitoring wells around Gunnison in exchange for the appeal being dropped. In this scenario, construction would commence in October 2018.

2. If no settlement is reached between Excelsior and the parties behind the appeal, the second best scenario for MIN shareholders is that the Appeal's Board rules firmly against the appeal after considering the EPA's response. The Appeal's Board will make a determination by Dec 5th at the very latest. In this scenario, construction would commence in December 2018.

3. Less ideal is the possibility that the Appeal's Board calls another public meeting to discuss the Gunnison Project. This public meeting wouldn't take place until February 2019. If no further objections are raised after the public meeting, construction can commence shortly thereafter in early Q2 2019.

4. The worst-case scenario is that the Appeal's Board calls for a February 2019 public meeting and then after the meeting requests that the EPA rewrite certain sections of the UIC permit. It usually takes the EPA a maximum of two to three months to make these fixes. Then the EPA would reissue the UIC permit, which begins another 30-day appeal period open only to the parties that appealed in the original window. This would result in construction being delayed until Q3 2019 with first production at Gunnison in mid-2020.

So in a best case scenario, Excelsior can break ground at Gunnison in the next sixty days. In a worst-case scenario, the company may have to wait another 12 months. Given this uncertainty, why would Excelsior be an attractive investment at this point in time?

The reason comes down to valuation. Remember that the Gunnison economics are extremely compelling. Excelsior released a Feasibility Study in late 2016 projecting an after-tax NPV of US$691m, an after-tax IRR of over 40%, a payback of less than three years, and an initial capex of US$46.9m. This assumes a 7.5% discount rate, $2.75 copper, and no acid plant. Importantly, it does NOT incorporate the recent cut in the US corporate tax rate. A sensitivity analysis from this study can be seen below.

Post-Tax Sensitivity Analysis*										
	Acid Plant					Non-Acid Plant				
Cu Price	$3.25	$3.00	**$2.75**	$2.50	$2.25	$3.25	$3.00	**$2.75**	$2.50	$2.25
IRR	51%	45%	**40%**	35%	29%	51%	46%	**41%**	35%	28%
NPV*	$1,086	$947	**$807**	$664	$522	$972	$831	**$691**	$548	$405
*million $ at 7.5% discount rate										

It is rare these days to find a project with an IRR north of 40%, a payback of less than 3 years, and an after-tax NPV greater than 10x the initial capex. Projects of this quality are valued at a minimum of 50% of NPV once under construction. This implies a project value of US$345m upon breaking ground at Gunnison, or C$2.03 per MIN share.

This compares favorably to Excelsior's current share price of C$0.90 and implies healthy upside of 125%.

Given the magnitude of this potential share price appreciation, it shouldn't matter to longer term investors which of the aforementioned permitting scenarios play out. Even in the worst-case scenario, it pays to stick around while the appeals process plays out over the next year.

An implied assumption I'm making is that, regardless of whether it takes sixty days or one year, the appeal process will indeed play out in Excelsior's favor. For the reasons outlined above (friendly permitting environment, the care MIN put into the permitting process, the minimal footprint of the proposed ISR operation, etc.), I view this as a "when" and not an "if" question.

I've included below the catalysts that MIN shareholders can expect over the coming months. Here I assume that permitting scenario #2 is what ultimately transpires:

- EPA sends response to Appeal's Board **by end October 12th 2018**
- Appeal's Board rejects appeal **by end December 5th 2018**
- Break ground @ Gunnison **by end December 2018**
- Debt component of initial capex (US$50-60m) raised **by end Q1 2019**
- First production @ Gunnison **by end Q3 2019**
- Production rate of 25m pounds per annum achieved **by end Q1 2020**
- Production rate of 125m pounds per annum achieved **by end 2024**

MIN's immediate future depends on how this appeal process plays out. We'll know by the end of September whether there is any chance of reconciliation between Excelsior and the parties behind the appeal. Otherwise, we'll find out definitively by Dec 5th whether (a) Excelsior gets to break ground this year or (b) the appeal process extends into 2019.

Almadex Minerals (TSXV: AMZ) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2016**
Average Cost per Share: **C$0.16**

Exit Price: **C$1.62 CAD**

Quintis Ltd (ASX: QIN) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **July 2015**
Average Cost per Share: **A$1.16**
Exit Price: **A$0.00**

Nevsun Resources (NYSE: NSU)

Featured In: **January 2015**
Average Cost per Share: **US$2.45**
Current Market Price (August 17, 2018): **US$3.68**

Nevsun has been a standout performer in what has been a disappointing year for the mining industry. This was long overdue for a company that has lagged its base metal peers for much of the past three years. So far in 2018, the company has announced three major developments at its flagship Timok Project in Serbia. Positive geopolitical developments in Eritrea bode well for the company's cash flowing Bisha Mine. And most significantly, Nevsun is now subject to a takeover battle that will likely culminate in a sale by year end.

Starting at Timok, the company has had a productive year despite whirling takeover rumors. In late March, Nevsun released the Prefeasibility Study ("PFS") for the company's 100%-owned Timok Upper Zone. While the results were sensational, they were not surprising given that NSU had released an updated Preliminary Economic Assessment ("PEA") outlining similar economics just five months before. I've provided below a side by side comparison of these two studies. The headline numbers improved somewhat in the PFS though it should be noted that a 5% higher copper price was assumed and the start of production slipped from 2021 to 2022.

Metal Price Assumptions	**PFS Life of Mine ("LOM")**	**PEA Life of Mine ("LOM")**
Copper Price $ per pound	$3.15	$3.00
Gold Price $ per ounce	$1,300	$1,300
Capital Requirements		
Initial Capital Requirement	$574 M (excluding pre-construction decision capital of $114m)	$630 M (including pre-construction decision capital)

Project Economics – After Tax		
Valuation Date	Jul-20	Dec-17
After-Tax NPV (8% Discount Rate)	$1,816 M[C]	$1,473 M
Internal Rate of Return	80%	50%
Payback (from start of processing)	0.9 years	1.4 Years
Cumulative Cash Flow	$2,740 M	$2,810 M

Nevsun followed the PFS by announcing in early June that the company had broken ground on the Timok Upper Zone exploration decline. The ribbon cutting ceremony was attended by none other than Ms. Ana Brnabić, the Prime Minister of Serbia. This development milestone is important confirmation to Nevsun shareholders (and potential buyers) that first production in 2022 is both attainable and on track.

Finally, in late June Nevsun announced an initial inferred resource at Timok's Lower Zone. As stated by Nevsun's CEO Peter Kukielski: "The Timok Lower Zone ranks high among world porphyry deposits by tonnage and by grade. With 1.1 billion tonnes grading 1.11% copper equivalent, the Timok Lower Zone benchmarks well against planned and operating block cave mines."

Remember that the Lower Zone is significantly larger than the 100%-owned Upper Zone, though deeper and lower grade. It will reach production, though likely not in the next decade. The Lower Zone will ultimately be owned 54% by Freeport-McMoRan, itself a US$22b major miner, and 46% by Nevsun.

Through the second half of 2018, the company will continue to advance the Feasibility Study for the Timok Upper Zone expected in Q2 2019. Land acquisition and permitting activities will continue to advance in parallel with a significant majority of the private land required for the Timok Project expected to be purchased by year end. Additionally, an updated PFS is expected in Q3 2018 outlining the economics of a "ramp-up scenario" (1.6m tpa initial production ramping up to 3.25m tpa over the mine's first two years). It will be interesting to compare the results to the March 2018 Prefeasibility Study.

Let's switch the focus to Bisha, which is Nevsun's Eritrea-based polymetallic asset currently producing zinc and copper. Operationally it was a mixed first half to the year. In late April, the company announced Q1 results which far exceeded anything we've seen since Bisha transitioned to zinc production in mid 2016. Recoveries of zinc improved by 8.5% to 81.1% and recoveries of copper jumped by 34.1% to 61.5%. For a mine that has been metallurgically challenged for the past couple of years, this was reassuring as was the US$23.4m in operating cash flow.

In late July, the company announced that Bisha's performance had regressed in Q2. This time metallurgy wasn't the issue with copper recoveries jumping to 69.4% and zinc recoveries dropping only slightly to 77.6%. The culprits were a lower throughput, a lower zinc grade, and "reduced operating time for maintenance activities". Operating cashflow dropped to US$2.3m. Results should improve markedly in Q3 as the company "expects to revert to processing higher grade material through the balance of 2018" according to CEO Peter Kukielski. There is no denying however that Bisha's Q2 was a disappointment.

That said, this operational inconsistency at Bisha was far overshadowed by the positive geopolitical developments we've seen in Eritrea over the past 60 days. First, it was announced on July 9th that Eritrea and its larger neighbor Ethiopia had declared an end to their two-decade war which claimed more than 80,000 lives. This was followed nine days later by reports that the first commercial flight had been completed between the two countries since the mid 1990's. Then came news that the two countries would be playing a soccer friendly against each other sometime in August. Most significantly, Ethiopia is now lobbying on Eritrea's behalf for the UN to drop sanctions which have been in place against Eritrea since December 2009.

For someone who has been closely following Eritrea's fortunes for nearly a decade, these are entirely unexpected changes that were unimaginable just earlier this year. This will positively impact Nevsun in the following ways:

1. The market perception of Bisha's value (both cashflow and exploration upside) is set to increase significantly once UN sanctions are lifted against the country.

2. This development makes it more likely that a larger miner will buy out Nevsun, Bisha and all. It is no coincidence that Lundin Mining is now willing to acquire all of Nevsun, while just in the spring they were hesitant to take Bisha onto their books even temporarily.

3. Nevsun management can now have more confidence investing in regional exploration as well as advancing the satellite deposit Harena to production within the next 4-5 years.

Spurred on by the developments in Eritrea, the takeover battle for Nevsun is just beginning with Lundin Mining at the front of the line. Lundin has made at least five separate attempts to acquire Timok over the years, starting with the 2016 takeover battle ultimately won by Nevsun. After floating the idea of an ill-structured takeover of NSU involving Euro Sun Mining in the spring of this year, Lundin has gotten serious and on July 26th formally launched a hostile C$4.75 all-cash bid for Nevsun. The offer, open until Nov. 9, requires support from more than 50 per cent of Nevsun shares and regulatory approvals.

Nevsun's Board of Directors have unanimously rejected this offer as it substantially undervalues the company. Curiously, it is at discount to the C$5 takeover offer informally proposed by Lundin/Euro Sun in the spring.

There is however always a price. My view is that Nevsun should only sell this year if they can get 1.0x NAV, or ~C$6.75 per share. This is the NAV multiple paid by South 32 in their high-profile acquisition of Arizona Mining's world class Hermosa Project that closed just last week. If anything, Nevsun should get a *higher* NAV multiple given that South 32 already had a 17% strategic foothold in Arizona Mining when the deal was announced in mid-June. (Having a pre-existing strategic position generally results in a more favorable deal for the acquirer as the bidding process is less competitive.) Lundin has no current ownership of Nevsun.

If no bidder is willing to get close to C$6.75 (a 42% premium to Lundin's most recent offer), then I'm in favor of NSU keeping the asset to themselves even if that requires bringing on a 19.9% strategic partner. Nevsun management has indicated to shareholders that at least four different parties are willing to take a strategic position in the company. The graphic below provided by Nevsun demonstrates how bringing onboard a strategic partner this year will allow the company to get to first production at Timok's Upper Zone without any further equity dilution.

Financing Plan

Current cash balance ($125m)

Bisha cash flows

- Mine life extended to mid-2022

Strategic investor in Nevsun (<20%)

- More than just capital
- Could include parties that bring blending or marketing capabilities, mining or project expertise,
- Possible decision as early as Q3 2018

Project debt (50%-60% of capital)

- Including Commercial Banks; Export Credit Agencies; Development Finance Institutions; Equipment suppliers
- Parties currently working through data room, expected to be completed in 2019

Source: Nevsun Resources

There are a few notable Nevsun shareholders who I hold in high regard that disagree with me and feel that it would be best for NSU to be acquired in next few months pretty much no matter what. These shareholders would be in favor of rejecting the current C$4.75 bid but anything above C$5 would likely be supported.

This is a legitimate opinion. One's view on the minimum acceptable bid depends on how much you value the additional exploration upside around Timok as well as the effect of recent Eritrean geopolitical developments to the perception of Bisha's value. Another consideration is whether you believe that one year from now this will be looked back upon as having been an opportune time to sell a world-class copper asset.

I personally would be devastated if any offer below C$6.00 is accepted. But my opinion matters little for a company of this size and I think NSU will be sold as long as there are 1-2 higher offers. Wellington and Blackrock (who own 26% of Nevsun collectively) are both bigger Lundin shareholders than NSU in total market value and would likely be onboard to accept if Lundin sweetens the bid last minute (like Nevsun did to acquire Timok originally when they offered an extra $75m in cash very late in the game).

It's possible that the company is using the threat of a 19.9% strategic partner to facilitate a bidding war (i.e. get Lundin to increase its bid and/or bring other parties to the table). Leading candidates to lodge their own takeover bids include Rio Tinto (strong balance sheet & current JV with Nevsun elsewhere in Serbia), Freeport (owner of 54% of the Timok Lower Zone), and Chinese entity XGC (who lost out to Nevsun in the original takeover battle in mid-2016).

If no bid materializes in the coming few months that sufficiently values the company, then I'd be in favor of Nevsun taking the strategic partner route if that's what it takes to remain in control of Timok. This asset is simply too special to give up on the cheap.

To conclude this update, I've provided below the milestones that Nevsun shareholders should expect at both Timok and Bisha over the coming months assuming that the company is not acquired:

- Updated PFS ("ramp up scenario") @ Timok Upper Zone **by end Q3 2018**
- Additional drill results (12,500m) @ highly prospective Upper Zone targets **by end Q3 2018**
- Purchase "significant majority" of private land required for Timok Project **by end 2018**
- Drill results (16,000m) @ exploration projects in Serbia & Macedonia **by end 2018**
- Drill results (15,000m) @ Bisha **by end 2018**
- 210-240m pounds of zinc + 20-30m pounds of copper produced @ Bisha **in FY 2018**
- Offtake(s) announced @ Timok Upper Zone **by end Q2 2019**
- Feasibility Study announced @ Timok Upper Zone **by end Q2 2019**
- Decision on whether to do open-pit expansion @ Bisha **by end 2019**
- Decline reaches ore body @ Timok Upper Zone **by end Q2 2020**
- Timok land acquisitions fully complete **by end Q3 2020**
- Final construction permit received @ Timok Upper Zone **by end Q3 2020**
- Commence construction @ Timok Upper Zone **by end Q3 2020**
- Initial production @ Timok Upper Zone **by end 2022**

It’s clear that the most pressing issue facing Nevsun management right now is how to handle Lundin Mining’s C$4.75 hostile bid and the takeover battle that is likely to ensue. Nevsun shareholders can expect a resolution in one form or another in the next 90 days. My hope is that management refrains from immediately announcing a 19.9% strategic equity partner and instead waits to see whether additional takeover bids emerge. If the highest bid however does not meet or exceed C$6.75, then as a shareholder I’m perfectly happy with NSU going the strategic partner route.

Tsodilo Resources (TSXV: TSD) – NO LONGER A PARTNERSHIP HOLDING

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

Lithium Americas (TSX: LAC) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2014**
Average Cost per Share: **C$1.20**
Exit Price: **C$12.70**

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

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

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

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

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

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