To: MJG Capital Limited Partners
From: Matt Geiger
Date: August 19, 2019
Subject: 2019 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 30, 2019.

<u>6 Month Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	42.16 %
S&P 500	17.35 %
S&P/TSX Venture Composite Index	5.08 %
<u>1 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	10.77 %
S&P 500	8.22 %
S&P/TSX Venture Composite Index	(20.88) %
<u>3 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	58.99 %
S&P 500	40.16 %
S&P/TSX Venture Composite Index	(19.86) %
<u>5 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	17.13 %
S&P 500	50.09 %
S&P/TSX Venture Composite Index	(43.06) %
<u>Performance Since Inception (9/1/11)</u>	
MJG Capital Fund, LP (net of all fees and expenses)	(55.09) %
S&P 500	141.34 %
S&P/TSX Venture Composite Index	(67.66) %

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

The MJG partnership was formed roughly eight years ago, and performance numbers are detailed on the previous page. The S&P 500 represents the alternative investment of choice, while the TSXV is the closest proxy to the universe of resource equities that fits our investment mandate.

The partnership has had a strong year thus far - with a 42.16% gain (net of fees and expenses) through June 31st. This compares favorably to the S&P 500, which itself had a record-setting 17.35% advance over the period. More importantly, we continue to diverge sharply from the TSXV. Over the past 3 years, the MJG partnership is up 58.99% versus a decline of 19.86% for the TSXV. This contrast is due primarily to careful stock selection as well as participation in opportunistic private placements.

It was a strong period for our precious metal-focused investments, which now comprise 48% of our weighted portfolio. I'm comfortable with this level of exposure to gold and silver, but do not want to see it grow any further. Therefore, we will not be adding any new gold or silver investments to the portfolio for the remainder of the year. My focus instead will be on trimming our number of overall holdings and fortifying existing base and energy metal positions.

While the CEOs of our copper or uranium investments will likely disagree with this assessment, I'm now of the opinion that we entered a new mining bull market in late December 2018 during the depths of tax loss selling. It's hard to say otherwise after the MJG performance in the first half as the year, as well as the share price gains that we've seen with the major diversified miners, the royalty/streaming names, and more recently precious metal equities in general.

My sense is that this bull market will be characterized by gold leading the way and the rest of the metals complex eventually following in its footsteps. This is often how it works, though it remains to be seen whether past is prologue. The biggest risk to this bull market thesis is a 2008-like liquidity panic that causes investors to flee from risk. In this scenario, even the fund's precious metal holdings would be sold off en masse. I won't be afraid to adjust my view on this bull market thesis if/when circumstances change.

In this letter's *Market Musings*, I will reflect on what worked in the first half of 2019 and what didn't. I also share the one chart most responsible for the recent surge in precious metals interest.

In the *Overview of Partnership Holdings,* the fund's portfolio construction is reviewed by (1) commodity, (2) jurisdiction, and (3) business model. At current, the fund has twenty-five publicly traded positions in the portfolio.

We finish with the most recent *Featured Investment* (Salazar Resources) as well as updates on five current investments featured in previous letters (Adriatic, Golden Valley, Sama, Ardea, & Excelsior).

Market Musings

Gold Leads, Will The Rest Follow?

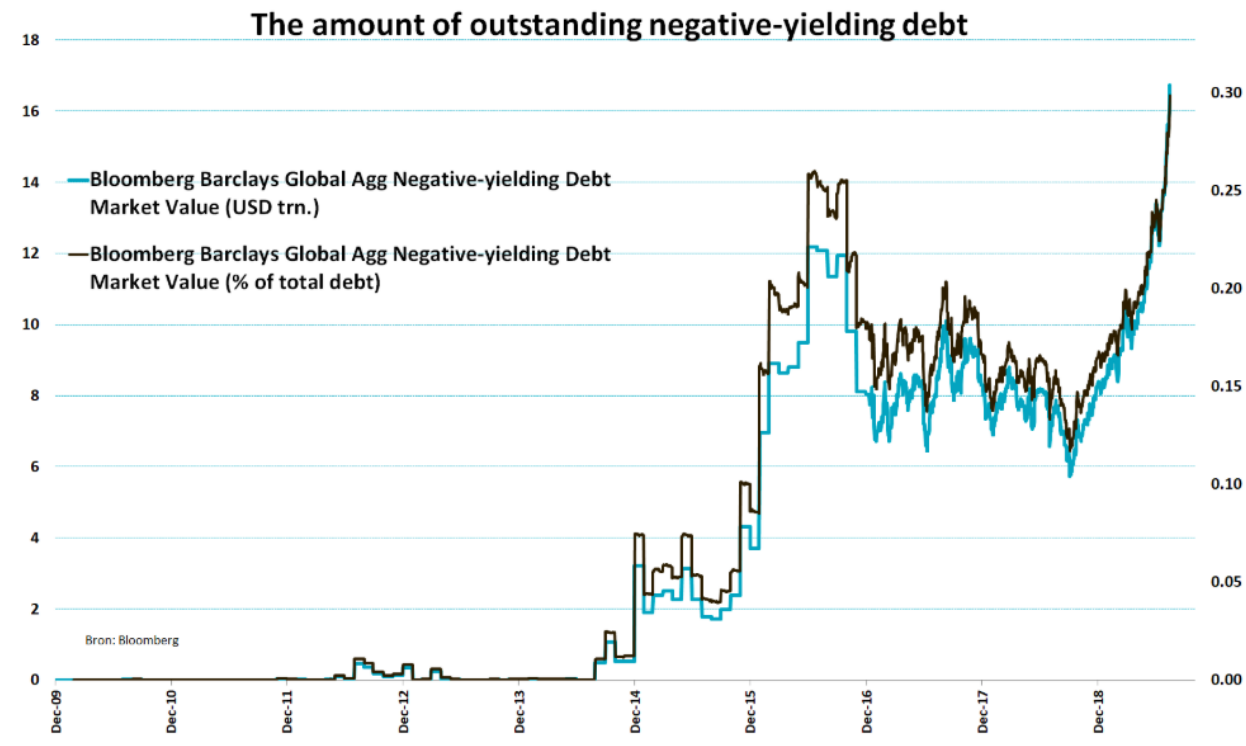
The natural resource landscape has shifted dramatically since the MJG partnership's most recent market update. At the time, we were still nursing our wounds from an unexpectedly vicious 2018 and hoping to avoid a repeat performance in 2019. I did speculate that *"we may have already exited the bear market as of late December 2018. The nickel price is up roughly 25% YTD, the gold price is up roughly 10% since early December, the TSXV is up 15% since mid-December, and the MJG partnership itself was up 20.5% in January alone."*

In hindsight, it looks like we did indeed exit the bear market as of late December 2018. The nickel price is now up 54% YTD. The price of gold is now up 25% since earlier December. The MJG partnership was up 42% in the first half of the year. The major diversified miners have hit 52-week highs within the past 60 days. The major precious metal royalty names have hit either multi-year or all-time highs within the past two weeks. The same applies to the GDX and GDXJ. These are the types of moves you'd expect to see in a mining bull market.

While other metals such as nickel and iron ore have also seen sharp price increases this year, the stars of the show have been gold and its sister metal silver. In June, the gold price rallied sharply above $1370 – breaking through a stiff technical resistance level that had existed since mid 2013. The gold price has since continued its ascent to above $1500 and currently sits comfortably at $1520 per ounce. This move has been driven primarily by generalists re-positioning into precious metals after nearly eight years of neglect, though it should be noted that the big Wall Street institutions remain largely on the sideline (as demonstrated by the GLD Inventory to Price ratio often cited in the IKN Newsletter). This lack of Wall Street participation is a positive as far as I'm concerned and indicates that this move may be more sustained that the short-lived, euphoric rally that we experienced in 2016.

The most devastating argument used *against* owning gold is that the metal sits in a safe deposit box and generates no interest. The opportunity cost of holding gold is too high, argues its critics, given that there are plenty of other safe haven instruments in which to shelter capital and still earn interest. To be fair, this anti-gold stance was the correct call for much of the past eight years.

However, this argument has been flipped on its head over the past nine months due to a global surge in negative-yielding debt. The market value of global negative-yielding debt has surpassed $16 trillion for the first time in history. A staggering 30% of investment grade bonds globally now yield below zero. (This includes government, corporate, and securitized.) As seen in the chart below from Bloomberg, there was virtually no negative-yielding debt as recently as five years ago. This is a very new phenomenon.



Source: Bloomberg. 1 August 2019. https://www.bloomberg.com/news/articles/2019-08-01/sub-zero-debt-pile-hits-record-14-trillion-as-fed-cuts-rates

This is astounding when you think about it. Why would an investor pay somebody else to hold their money? It simply doesn't pass the smell test. Suddenly, a shiny rock sitting in a safe deposit box paying 0% interest looks very attractive relative to this alternative. The strongest argument against gold has now become the chief justification for owning the metal.

As one would expect in a bull market, silver has outperformed gold over this recent period. It is possible, if not likely, that we saw a peak in the gold to silver ratio at just above 93 in early July. Assuming that this bull market continues apace, we can expect this ratio (now sitting at 88) to trend lower over the months ahead. The historical average during the 20th century was a 47:1 ratio; we have been due for some time for a significant mean reversion.

While the immediate future looks bright for precious metals, the outlook is murkier for much of the rest of the commodities complex. US farm income remains roughly 50% below its 2013 peak and, while farmland is due for a multi-year bull market, the immediate future depends more on US/China trade war dynamics than anything else. Industrial metals like zinc have struggled mightily over worries of a global slowdown, despite record low inventories and limited expected supply growth. Energy metals such as uranium, vanadium, lithium, and cobalt are particularly hated as investors have cooled for the moment on the electrification narrative.

My expectation is that the rest of the metals complex will begin to play catch up sometime within the next 12 months. This scenario hinges on the global economy holding together and not dipping into a sustained recession. If I'm wrong on this account and we do see a sustained global recession, then precious metals equities will surge from current levels – to the detriment of base metals, energy metals, and much of the rest of the natural resource arena aside from farmland. In a worst-case scenario, we see another 2008-like financial panic where all risk assets are sold off indiscriminately. Even though the price of physical gold would likely skyrocket during such a panic, this would not be to the benefit of those invested in precious metal equities – at least until the initial panic subsides.

Given the variability in potential outcomes, the best course of action is to stick to the basics. Continue to back experienced, well-incentivized management teams – irrespective of whether they are focusing on precious metals, base metals, energy metals, or any other commodity. Prioritize high quality “in the money” projects over optionality plays, even when temptation exists to bet on $2000 Au and $30 Ag. Avoid stocks with less than twelve months of working capital and mercilessly sell holdings that deviate from their stated plans. Average down when a company’s share price falls but the investment thesis remains intact. Take profits when a company’s share price doubles without a fundamentally positive development. The list goes on. None of this is particularly complex or groundbreaking, but by doing these simple things we set ourselves up for long-term success – irrespective of how the rest of 2019 unfolds.

Overview of Partnership Holdings

The partnership is exposed to different commodities, jurisdictions, and business models. We currently have twenty-five publicly traded positions in the portfolio. We also have four private investments and five sets of "in the money" warrants (priced at intrinsic value for reporting purposes).

Over the next six months, I'd like to trim down the portfolio to twenty publicly traded names. We will also look to fortify existing holdings focused on nickel, copper, zinc, and uranium. Additionally, we will look to trim our exposure to the United States – which has grown considerably due to outperformance of the Nevada-based prospect generators and explorers in the MJG portfolio.

Below is a snapshot of our investments as of July 31, 2019.

Allocation by Commodity	
Farmland*	
Canola	3%
Cotton	3%
Grapes	2%
Aquaculture*	
Salmon	2%
Energy Metals	
Copper	11%
Uranium	8%
Nickel	8%
Vanadium	4%
Rare Earths	3%
Industrial Metals	
Bauxite	3%
Zinc	2%
Precious Metals	
Gold	33%
Silver	15%
Cash (USD)*	3%

*** Signifies minimal correlation to the mining cycle.**

Allocation by Jurisdiction	
United States	34%
Canada	17%
Bosnia	10%
Australia	9%
Côte d’Ivoire	5%
Serbia	5%
Ecuador	5%
Mexico	4%
Cameroon	3%
Peru	3%
Mongolia	2%
Cash (USD)	3%

Allocation by Business Model	
Prospect Generation	22%
Exploration	26%
Development	30%
Production	7%
Royalty/Streaming	12%
Cash (USD)	3%

Featured Investment

Salazar Resources (TSXV: SRL)

Salazar Resources is a prospect generator active in Ecuador and Columbia. We first initiated a position in SRL in April of this year at C$0.16 per share. Our cost basis is now C$0.17 after subsequent purchases.

The company checks all the boxes for what you look for in a prospect generator– geological expertise in an underexplored region, outsized management ownership, a low burn rate, a healthy working capital position, and multiple partner-funded programs.

The company's most significant asset is a 25% free-carried interest to production on Adventus Mining's Curipamba Project in central Ecuador. Based on the current Adventus enterprise value of C$80m, the value of Salazar's 25% free-carried interest in Curipamba exceeds SRL's enterprise value by roughly 27%.

Meanwhile, the rest of Salazar comes for free. This includes two additional partner-funded projects, five wholly-owned projects spanning 50,000 hectares in total, three company-owned drill rigs, and the collective IP of Fredy Salazar and his team of geologists.

In this *Featured Investment* piece, I begin by providing an overview of Salazar's company history - with a focus on management, insider ownership, working capital, and financing history.

We then look at Ecuador as a mining jurisdiction. Investing in Ecuador comes with political and social risk, and it is worth noting that Salazar is the only Ecuador-focused company in the MJG portfolio.

We then discuss Salazar's 25% free-carried interest on the Curipamba Project and the recently announced PEA on the project's El Domo deposit. The value of this 25% interest alone exceeds Salazar's current valuation.

Next, we examine the rest of the Salazar project portfolio and how the company expects to drive shareholder value through both the drill bit and forthcoming partnership agreements.

We conclude with Salazar's expected milestones over the coming eighteen months, so readers can keep tabs on the company's progress alongside me.

Company Background

Salazar Resources was founded in 2007 by Fredy Salazar, an esteemed Ecuadorian geologist who has been involved with no less than six mineral discoveries. Fredy has over thirty years prospecting experience and nearly all of that time has been spent within Ecuador. As a native Ecuadorian with a vast array of in-country contacts, Fredy has a distinct edge in license procurement and local relations relative to his foreign competitors.

Fredy runs the company alongside his son Freddy, who serves as the company's Manager of Corporate Development. The company also employs fifteen in-country geologists, all of whom are Ecuadorian nationals. Despite this unusually large team, Fredy manages to limit overhead to a reasonable C$110,000 per month. This is one of the many advantages of hiring local - as wages are much lower than those demanded by expat geologists.

Between Fredy, Freddy, the Salazar family, and close associates, the Salazar family controls roughly 32% of SRL's outstanding shares. The Arlington Group, a London-based asset manager, owns another 18% of the company. A further 9% of the company is held between Guangshou Mining and Silvercorp Metals. (Both are passive stakes that have been held for years.) The remaining 40% of the company is in sticky hands and daily trading volumes are thin.

SRL has a healthy working capital position of roughly C$5m. Additionally, the company generates between US$1.1-1.6m per year between advance payments, management fees, and drilling contracts. In good years, this income more than covers the company's annual overhead.

Given the working capital cushion and consistent income, Salazar has no need to raise capital for the foreseeable future. This is one of the company's strongest selling points in a junior sector that is starved for capital.

Ecuador

Ecuador is a tiny country in both population and land mass, but it punches far above its weight in terms of its mineral endowment. The same metallogenic belts that have made Chile and Peru global mining heavyweights run straight through Ecuador and into its northern neighbor Colombia. There is no doubt amongst the geological community that Ecuador is fertile ground for world class mineral deposits.

Despite the similar geology, Ecuador has seen a fraction of the exploration spend of its neighbors. There are a couple reasons for this. The first is that Ecuador has historically proven to be a politically unstable country, even by South American standards. Ecuador has had a stunning fifty-one different presidents over the past century and many of these transitions were contentious if not violent. More recently, Ecuador saw its currency collapse in 1998 and the government upstaged in coup d'état two years later. These events are still fresh on many investors' minds.

More significantly, until very recently Ecuador embraced a mining code that was stifling for foreign investment. The two most onerous aspects were a 70% windfall tax on "excess profits" and a "sovereign adjustment" law that required at least 50% of the benefits from mining projects to go to the state. With the windfall tax and sovereign adjustment in place, even world-class mineral discoveries would be rendered unprofitable due to the realities of mining economics. For this reason, foreign mining capital stayed away from the country.

But things have recently changed. In 2005, the country began loosening up restrictions on mining and one year later Keith Barron discovered the world-class Fruta del Norte gold deposit with the help of Fredy Salazar. (Fruta del Norte is currently being built by Lundin Gold with first gold pour expected in late 2019). In 2014, the country engaged Wood Mackenzie to help reform the Ecuadorean mining code. One year later Ecuador created a standalone mining ministry and adjusted the way in which it calculated the "sovereign adjustment" to only kick in until a company has made a full recovery on investment. Just this year, the pro-mining Ecuador president Lenin Moreno formally abolished the windfall tax and lowered the minimum federal royalty from 5% to 3%.

As a result of these changes, mining investment into Ecuador has surged over the past five years. Some of the world's largest mining companies are active in country exploring for world-class deposits – including BHP, Anglo-American, First Quantum, Newcrest, Codelco, Southern Copper, and Fortescue. Two large mines, the aforementioned Fruta del Norte and the Chinese-owned Mirador, are slated to commence production later this year. I follow thirteen juniors active in the country and am sure there are more.

Despite the improved support at the federal level, it is important to emphasize that Ecuador does not have a culture of industrial mining. This means that the bureaucracy is not yet geared up to assist responsible mineral development and also that many local communities oppose mining.

At the bureaucratic level, the key stumbling block is water permits for drilling. Many companies are ready to drill, with permitted plans, complete with environmental approval, but are awaiting the award of licenses for the water to be used for drilling. In the case of Salazar, the water permits will affect the timing of drill campaigns at projects within the Exploration Alliance with Adventus, as well as the projects within the 100% held portfolio.

Perhaps the most significant risk is local opposition. Without the local and indigenous populations onside, a project is as good as dead. INV Metals' Loma Larga is an example of a very attractive asset that looks unlikely to ever be built due to fierce local opposition. This dynamic makes Fredy Salazar's three decades of in-country experience particularly valuable as he knows better than anyone which regions are tolerant/supportive of mining activity and those that should be avoided entirely regardless of prospectivity.

Curipamba

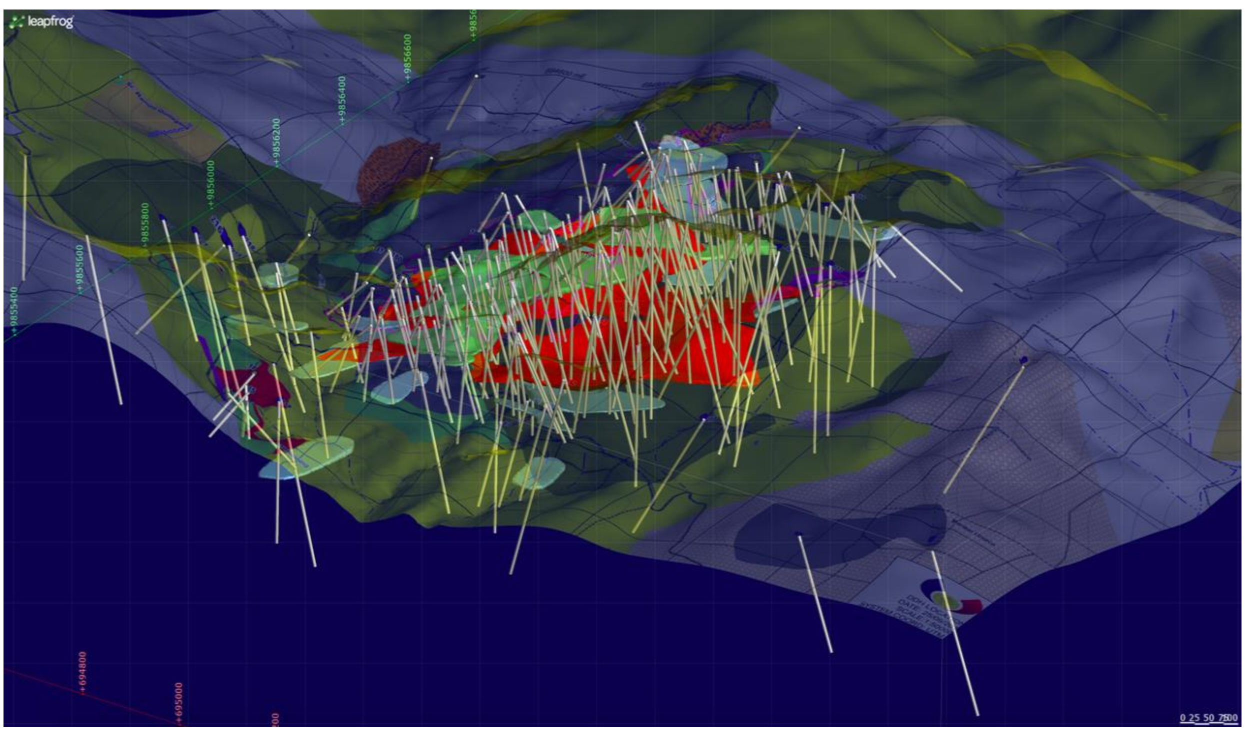
As mentioned in the introduction, Salazar's most significant asset is the 25% free-carried interest to production on the Curipamba Project in central Ecuador. Curipamba is a 22,000-hectare concession in central-west Ecuador located roughly 2.5 hours from Guayaquil. The project has been in the hands of

Adventus Mining since September 2017. Adventus is spending US$25m to earn a 75% interest in Curipamba and has spent US$12m to date according to its most recent investor presentation.

Adventus is led by Christian Kargl-Simard, a young and highly regarded CEO. Christian has invested at least C$3m of his own capital into Adventus – demonstrating his confidence in the upside presented by developing Curipamba. Christian's enthusiasm is shared by some very significant backers. These include royalty heavyweights Altus Minerals and Wheaton Precious Metals, mining private equity groups Greenstone Resources and RCF, and one of the largest private business conglomerates in Ecuador. For a C$100m junior, this is a noteworthy list of shareholders.

Adventus sports a fully-diluted market capitalization of C$105m and is well financed to advance Curipamba with roughly C$25m in working capital. The company raised C$12.1m from Nobis Group in May of this year and another C$14.2 earlier this month from Greenstone, RCF, and others. These are impressive sums in what has otherwise been an abysmal financing environment for junior miners.

While Adventus does have other projects in its portfolio, Curipamba is the company's clear flagship asset. The most advanced known deposit within the 21,500 ha Curipamba Project is the El Domo deposit - a tabular VMS lens that is 800m long by 350-500m wide, beginning 30 meters from surface. El Domo has seen over 60,000 meters of drilling since discovery and currently sits at a M+I resource of 8.9m tonnes at 2% copper, 0.28% lead, 2.93% zinc, 2.56 g/t gold, and 51 g/t silver. This equates to 5.2% copper equivalent - nearly ten times higher than the average grade of copper ore mined globally.



Source: Adventus Mining corporate presentation. http://adventusmining.com/storage/presentations/adzn---corporate-presentation---jul-2019-1562954380.pdf

In layman's terms, the El Domo deposit is high-grade but relatively small. Is it worth mining?

On paper, it absolutely is. Adventus announced the results of a Preliminary Economic Assessment at Curipamba in May 2019 and the results are compelling. To determine whether a PEA, PFS, or Feasibility stage project has a chance of being built, I start by looking at three simple metrics: (1) initial capex vs after-tax NPV, (2) after-tax IRR, and (3) after-tax payback period.

Curipamba passes the test on all three accounts using a reasonable discount rate of 8% and conservative metal prices of $2.84/lb Cu, $1,215/oz Au, $1.04/lb Zn, $16.20/oz Ag, and $0.90/lb Pb. The after-tax NPV of US$225m easily clears the initial capex hurdle of US$185m. The after-tax IRR is a stout 35%. And the payback period is two years, which is about as good as it gets for a mining project.

There are however a few points of concern. The first is that PEAs are always the rosiest of studies and carry a substantial 30% margin of error. This is something that investors should always keep in mind, though it isn't a problem unique to Curipamba. Secondly, the recovery assumptions used by Adventus in the PEA were based on small-scale "lock cycle tests". This isn't unusual for a project at this stage; however the company will soon need to do more comprehensive metallurgical testing beyond the controlled environment of composite testing. A third concern is whether the proposed 1,750 tpd mill is too big to permit. Adventus believes this is to be a non-issue, though I've heard other parties experienced with Ecuador mention this as a risk factor. Finally, as mentioned earlier, no project is built in Ecuador without strong local support. While the local communities near Curipamba are currently onside, it is up to Curimining – the partnership between Salazar and Adventus – to ensure this remains the case.

Adventus will be busy at Curipamba over at least the next 18 months. By the end of this year, the company expects to commence the El Domo Feasibility Study as well as an Environmental Impact Assessment (EIA) at Curipamba. The company also has plans for 6000 meters of exploration drilling between two drill rigs to search for additional VMS lenses on the greater Curipamba land package. Success on this front would be a major catalyst for those holding Adventus and Salazar shares.

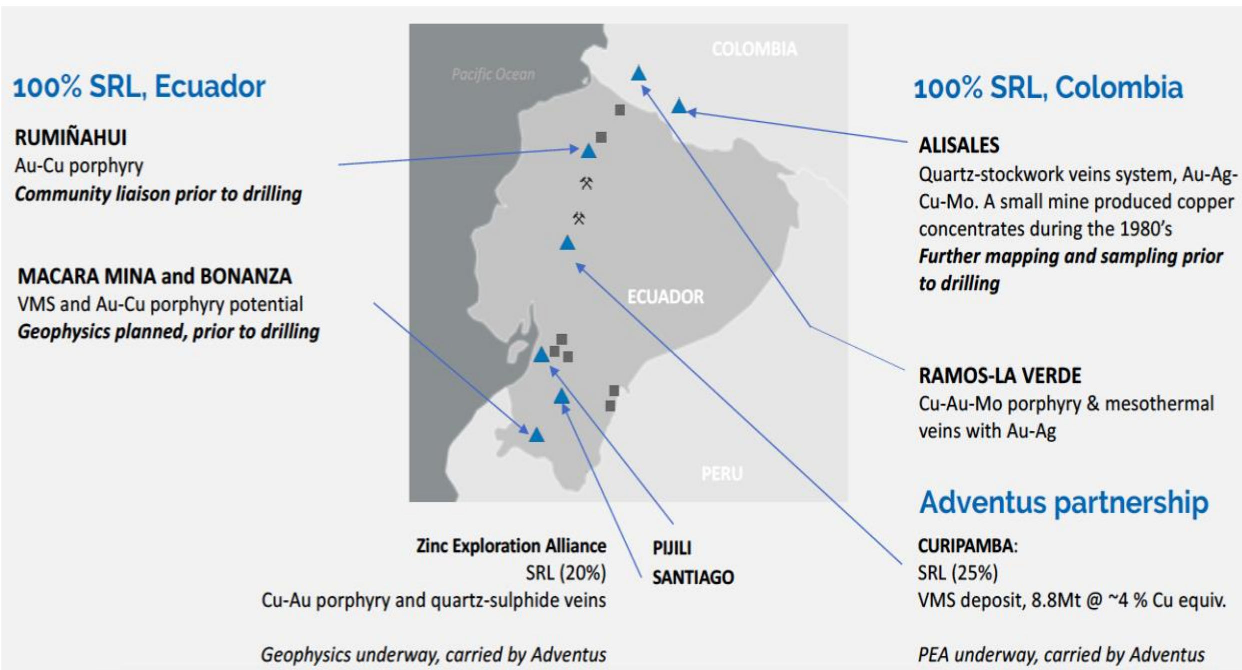
Adventus plans to announce the results of the El Domo Feasibility Study and to submit the completed EIA to Ecuadorean regulators in the first half of 2021. The company then expects to complete its investment agreement with the Ecuador federal government – which would put Curipamba on track to receive its final environmental permits and its exploitation agreement in 2021.

As mentioned previously, Adventus does have other early-stage prospects in its portfolio but its current C$80m enterprise valuation is attributable entirely to its 75% stake in Curipamba. Simple math dictates that Salazar's 25% Curipamba stake should be worth a third of that, which is approximately C$26m. This compares to a fully diluted enterprise value of C$21m at SRL's current price of C$0.185 per share. This implies that the Salazar share price would need to rise 19% to C$0.22 per share before the company is fairly valued relative to Adventus Mining.

And if anything, these numbers are unfairly conservative from a Salazar perspective. SRL's 25% piece of Curipamba is actually worth well more than one-third of Adventus's 75% stake. This is because Salazar has a free-carry all the way to initial production, while Adventus alone is responsible to spend tens of millions more dollars to advance Curipamba to a development decision and then another couple hundred million to finance mine construction. Meanwhile, SRL shareholders get to sit back and enjoy the ride without suffering any equity dilution. The advantage afforded by this free-carry to production is not factored into the simple math outlined above.

Upside Beyond Curipamba

Salazar is materially undervalued based solely on its 25% free-carried interest to production on Curipamba. This means that shareholders get the rest of the company for free. This includes two additional partner-funded projects, five wholly-owned projects spanning 50,000 hectares in total, three company-owned drill rigs, and the collective IP of Fredy Salazar and his team of geologists. We will discuss each in brief.



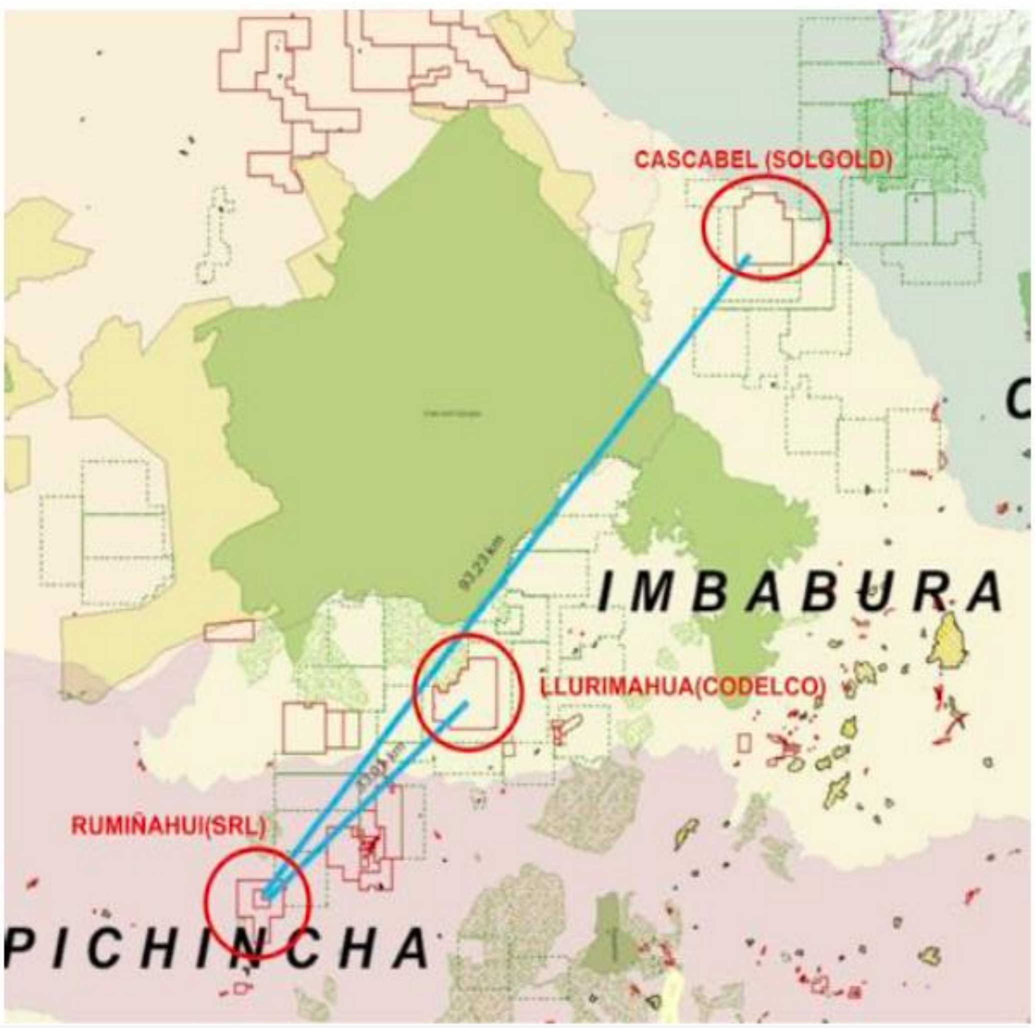
Source: Salazar Resources corporate presentation. www.salazarresources.com/investors/presentations/

We'll start with the Pijili and Santiago projects, which fall under the *Zinc Exploration Alliance* formed between Salazar and Adventus in early 2018. The deal terms are on each of these projects are identical – Adventus funds all activities for 80% ownership while Salazar retains 20% ownership free-carried through a construction decision. Both Pijili and Santiago are prospective for copper-gold porphyry and epithermal gold-silver veins.

Pijili is a 3200-hectare concession in Azuay province nearby Southern Copper's massive Chaucha porphyry project. The project has seen significant artisanal activity as locals chased precious metal-bearing structures via small adjacent open pits. Pijili has never been drilled before. Adventus has announced that it plans to fund a scout drill program as soon as the necessary water permits are issued by the Environmental Ministry.

Santiago is a 2300-hectare concession in Ecuador's Loja Province. Santiago is located adjacent to the Caña Brava and Tioloma properties where Newcrest recently announced a $100m earn-in deal with Cornerstone Capital. Unlike Pijili, Santiago has seen previous drilling from a scout program conducted by Newmont over twenty years ago. The drilling intersected potentially economic copper-gold intercepts over 100-325 meter intervals from surface. Adventus has announced that it plans to drill Santiago as soon as the necessary water permits are issued by the Environmental Ministry.

Salazar also holds a portfolio of five 100%-owned exploration properties. The most significant of these is Rumiñahui, which is situated on the Cascabel-Llurimagua trend in northern Ecuador. Fredy Salazar first recognized copper porphyry potential at Rumiñahui over two decades ago, and he has held title on the project since 1998. Rock chip and channel sampling have returned some tantalizing results – including 2.7 g/t Au over 55m, 3.4 g/t Au over 8m and 1.3 g/t over 9m.



Source: Salazar Resources corporate presentation. www.salazarresources.com/investors/presentations/

The reason that Rumiñahui hasn't already been drilled aggressively is that one of the local communities has historically been skeptical of mining, and Fredy knew better than to force the issue. Instead, he has been biding his time and investing in social programs – the most recent of which was completed in Q2 of this year. With the recent Cascabel discovery and the flurry of economic activity it has brought to the region, locals have warmed to the idea of mining development. Fredy reckons that the time is now right to drill, and the company expects to initiate a 3000m drill program at Rumiñahui early next year pending drill permits.

Salazar holds two more projects in southern Ecuador near the country's border with Peru. The first is Macara, where recent prospecting by Salazar geologists has identified large soil anomalies with up to 9 g/t gold in soils. The company has recently lodged a permit application for the construction of twenty drill pads at Macara. Upon receipt of the permit, Salazar will determine whether to drill the project themselves or bring in a joint venture partner.

Salazar has also recently acquired Los Osos, in El Oro State. Los Osos is small concession hosting a system of veins rich in gold and silver. There are also indications of hydrothermal breccias and mineralized gold-copper porphyries. A team of Salazar geologists will carry out a mapping and sampling program at Los Osos before generating conceptual drill targets.

Salazar also holds two different properties in Colombia that sit just north of the Ecuador border. Alisales is a quartz-stockwork vein system hosting gold, silver, copper, and molybdenum. A small mine produced copper on the property in the 1980's. The second property, Ramos La Verde, is a massive 17,000-hectare land package located due north of Cascabel prospective for copper-gold porphyry and mesothermal veins. Geologically speaking both Alisales and Ramos La Verde look very interesting, and Salazar is aiming to get on the ground at Alisales for prospecting, mapping, and sampling this year.

Beyond its 100%-owned project portfolio, SRL also owns a drilling services contracting subsidiary called Andes Perforaciones. Andes Perforaciones has three drill rigs capable of drilling a cumulative total of 35,000 meters per annum. The rigs generate US$0.5-1m in annual operating income and, perhaps more importantly, guarantee Adventus and Salazar drill availability when needed. The rigs will be allocated to Pijili, Curipamba, Santiago, Rumiñahui, and Macara as the necessary permits arrive. This combination of operating income and immediate access to cut-rate drilling services is a luxury not enjoyed by most prospect generators.

Finally, the market is currently assigning no value to the collective IP of Fredy and his team. Local concession holders know Fredy and appreciate that the Salazar team is based permanently in Ecuador. The same applies to local indigenous leaders, who are increasingly comfortable with SRL – thanks in large part to many years of investments into CSR initiatives. The decision makers at major mining companies know the Salazar team, and its involvement with the discoveries of Aurelian's Fruta Del Norte, the Mozo Deposit, ex-Newmont's Cangrejos Project, and International Minerals' Rio Blanco and Gaby. This track record will help in SRL's pursuit of additional deep-pocketed joint venture partners.

Upcoming Milestones

At Curipamba, the next significant milestone is the 6000m of exploration drill results on the greater land package. For the rest of the SRL project portfolio, the most important catalyst will be drill results from a 3000m exploration program at Rumiñahui. Drilling at both Curipamba and Rumiñahui will commence as soon as drill permits are received.

- Report on progress at Alisales and Los Osos **by end 2019**
- Drill results (6000m) from exploration drilling at Curipamba **by end 2020**
- Drill results at Pijili announced by Adventus **by end 2020**
- Drill results at Santiago announced by Adventus **by end 2020**
- Drill results (3000m) at Rumiñahui **by end 2020**
- Drill results or partner announced at Macara **by end 2020**
- Partner announced at Rumiñahui and/or Alisales **by end 2020**
- Feasibility Study at Curipamba announced by Adventus **by end Q2 2021**

Conclusion

The investment proposition is pretty simple here. Salazar shares should be valued at a minimum of C$0.22 based on the company's 25% stake in Curipamba. This C$0.22 number is conservative given that it does not attribute any value to the free-carry to production.

The rest of the company comes for free. This includes 20% interests in the Santiago and Pijili projects, which will both be drilled by Adventus once permits are received. This includes a 100%-owned project portfolio headlined by Rumiñahui, which Fredy has been itching to drill for years and will get to do so next year. This includes the cashflow positive Andes Perforaciones and, most importantly, the geological acumen of Fredy and his team.

Given the current SRL share price, I view this proposition as akin to trading $18.50 for $22 plus a handful of free lottery tickets. These are the types of mineral exploration bets that I like to make – with the caveat that I need to trust management. And here I do, thanks to the 32% management ownership and Fredy's multi-decade track record of ethical operations within Ecuador.

I have high hopes for Salazar Resources, though I do recognize that the two chief risk factors – a lurch to the left in the 2021 general election or unexpected local opposition to Curipamba – are out of the company's control. That said, we do have an eighteen-month window before both either the general election or Curipamba mine permitting become issues. In the meantime, Salazar shareholders can expect drill results from up to five different projects, the announcement of a new joint venture partner or two, and most importantly no share dilution.

Past Featured Investments

Over the course of previous letters, I've shared featured investment write-ups for fifteen 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 five 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.

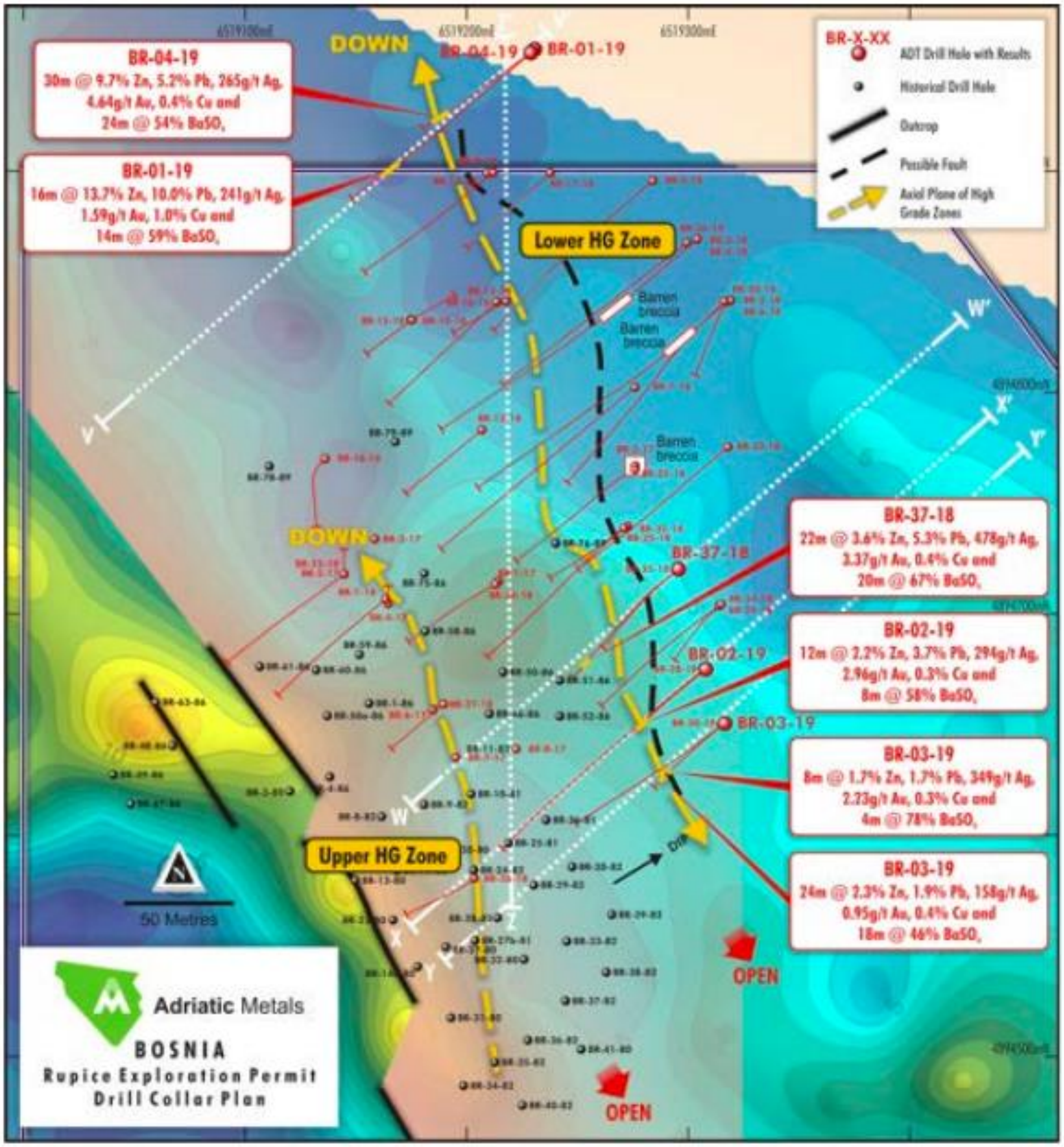
Adriatic Metals (ASX: ADT)

Featured In: **January 2019**
Average Cost per Share: **A$0.53**
Current Market Price (August 16, 2019): **A$1.15**

Adriatic Metals remains a core partnership holding. The company continues to briskly advance its world-class Rupice discovery towards production. While Adriatic has continued to deliver stellar results on the ground in Bosnia, it has been a rollercoaster ride for shareholders over the past six months – with the share price ranging between A$0.69 and A$1.23. After visiting with Adriatic's Executive Director and largest shareholder Paul Cronin at the recent Sprott conference, I came away reassured that the Adriatic story is well on track.

There have been a handful of material developments over the past six months. In March, Adriatic announced that it had received the much-anticipated Exploration Permit over the expanded concession area. This gave the company access to drill Rupice's northern extension. In late April, the company announced the arrival of Graham Hill as COO and the departure of Geraint Harris as CEO. Paul Cronin has since served as the interim CEO and a permanent replacement is expected to be announced this month. This management change does not concern me in the least as Adriatic's management ownership percentage remains north of 30%. Paul and company are plenty incentivized to make this a resounding success.

On May 7th, Adriatic announced its most important news release of the year. The company reported the results of the first two holes drilled on the new concession ground to the north of Rupice. Sure enough, the high-grade mineralization does continue down-plunge to the north. These two holes BR-01-19 and BR-04-19 can be seen on the below map as the two northern most holes. BR-01-19 hit 16m @ 13.7% Zn, 10.0% Pb, 241g/t Ag, 1.6g/t Au, 1.0% Cu, and 52% $BaSO_4$ from 240m, while BR-04-19 hit an even more impressive 30m @ 9.7% Zn, 5.2% Pb, 265g/t Ag, 4.6g/t Au, 0.4% Cu, and 43% $BaSO_4$ from 246m depth.



Source: Adriatic news release. 7 May 2019. https://www.investi.com.au/api/announcements/adt/0a635e1d-236.pdf

Two months later, Adriatic reported further high-grade intercepts from the northern extension. The highlight was hole BR-11-19, which hit two separate zones of mineralization: 10m at 3.6% Zn, 2.3% Pb, 304g/t Ag, 2.77g/t Au, 0.2% Cu and 48% BaSO4 from 256m and 18m at 8.2% Zn, 4.7% Pb, 586g/t Ag, 2.64g/t Au, 0.4% Cu and 66% BaSO4 from 274m. These continue to be world-class grades and the share price responded – with ADT peaking at A$1.23 just two days after BR-11-19 was announced to market.

The Company's most recent material development was the announcement of the Rupice Maiden Resource on July 23rd. The resource surpassed expectations on tonnage but somewhat underwhelmed on grade. Results can be seen in the chart below. I've heard complaints from fellow shareholders that the company should have used a higher cut-off grade and sacrificed tonnage for an increased grade. While this may be true, the fact remains that the company was able to outline a high-grade resource of nearly 10m tonnes just fourteen months after Rupice's discovery. This is a laudable achievement.

JORC Classification	Tonnes Mt	Zn %	Pb %	Ag g/t	Au g/t	Cu %	BaSO4 %
Indicated	7.5	5.7	3.7	207	2.0	0.6	34
Inferred	1.9	2.5	1.6	86	0.9	0.3	18
Total	**9.4**	**5.1**	**3.3**	**183**	**1.8**	**0.6**	**31**

Source: Adriatic news release. 23 July 2019. https://www.investi.com.au/api/announcements/adt/3ba680c9-787.pdf

Rupice still remains open for extension to both the north and the south. Through a recent IP survey, the company also identified previously unrecognized anomaly approximately 200 meters to the west of Rupice. This anomaly will be drill tested in short order. Later this year, we will also see drill results from the Jurasevac-Brestic target where an IP survey was recently completed. Five drill rigs are active on site with a sixth on its way. The company expects to drill a minimum of 20,000 meters this year. We can expect the next batch of drill results in early September given the company's penchant for releasing new results every eight weeks.

While the ongoing drilling will provide a steady stream of news flow, Adriatic's most significant near-term catalyst is the PEA-level scoping study expected to be announced in October. The importance of this study can't be understated as it will be the public's first glimpse at Rupice's potential economics. While a case could be made for developing Rupice as an underground mine, I expect the PEA to outline an open pit operation with an initial capex of under US$200m. Due to topography and the orientation of the mineralization, the strip ratio of such an operation will likely be north of 10. This isn't ideal but the project should be able to handle an elevated strip ratio due to Rupice's exceptional grades. Preliminary metallurgical results will be unveiled alongside the scoping study, and I expect the envisioned operation to yield three different concentrates. We'll want to see total recoveries of at least 60% across the suite of metals.

I've provided below the Adriatic milestones that can be expected over the coming eighteen months. Please note that, while the company has enough cash to last the year, I expect Adriatic to raise A$15-25m on the back of the PEA-level scoping study. Given Sandfire's increasingly evident ambitions to make a hostile run at Adriatic, it would be ideal for the company to bring in a second strategic partner in exchange for 10% of the company.

- New CEO announced **by end August 2019**
- First drill results from the Brestic-Jurasevac target **by end Q3 2019**

- PEA-level scoping study at Rupice **by end October 2019**
- Continued drill results from Rupice and Brestic-Jurasevac **by end 2019**
- Exploitation License received at Veovaca **by end 2019**
- 1-2 additional project acquisitions in Bosnia **by end 2019**
- Raise $15-25m through private placement **by end 2019**
- Feasibility Study at Rupice **by end 2020**

For the time being, I'm sticking with a A$1.45 price target for Adriatic. If we see this price ahead of the upcoming PEA-level scoping study, then I won't hesitate to take some profits. Otherwise I will reevaluate once the scoping study is made public. I do expect the headline numbers to be excellent. An after-tax IRR of well over 50% and an after-tax NPV 3-4 times higher than the initial capex are within the realm of possibility.

I will conclude with a final point. As has been suggested by PamplonaTrader, a must follow for any Adriatic shareholder on Twitter, I do believe the company would be well advised to rebrand as a silver play. This wouldn't be disingenuous – even though zinc is Rupice's highest value metal in situ, I wouldn't be surprised to ultimately see silver as the highest paying metal due to metallurgical realities. Until proven otherwise, I will continue to classify Adriatic as a silver-focused investment when modeling the MJG portfolio.

Golden Valley Mines (TSXV: GZZ)

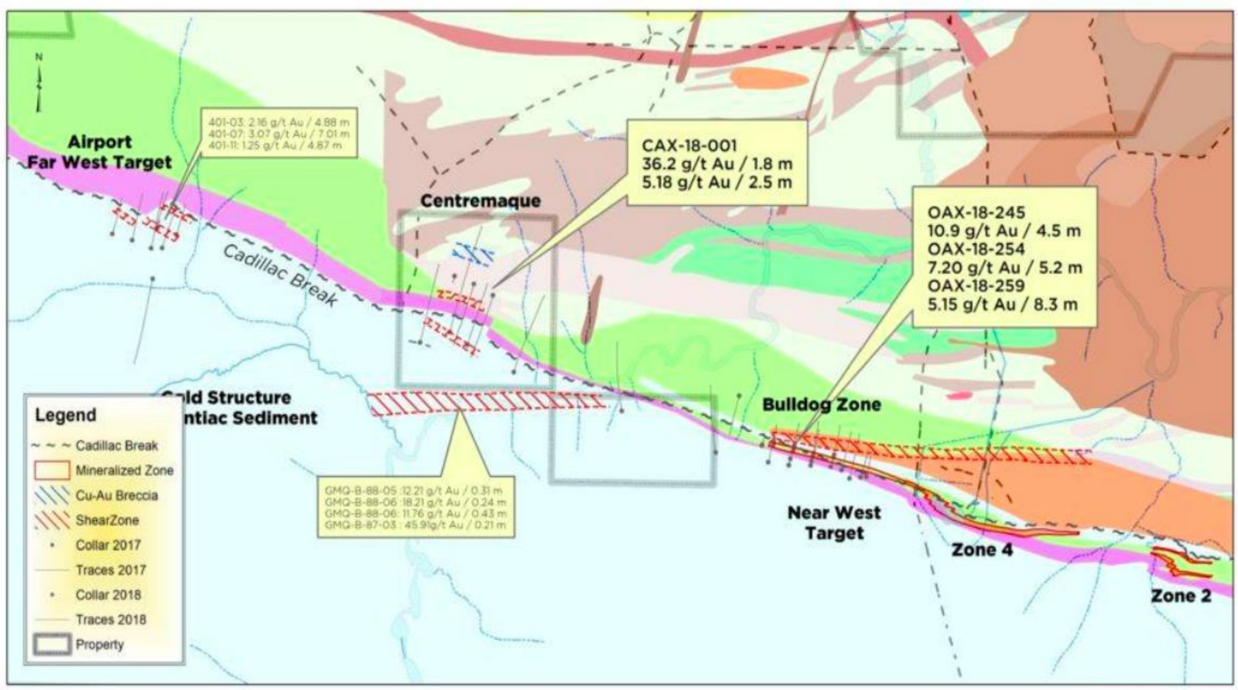
Featured In: **July 2018**
Average Cost per Share: **C$0.27**
Current Market Price (Aug 16, 2019): **C$0.335**

The MJG partnership has owned Golden Valley shares since April 2016. At the current share price, Golden Valley's fully diluted market cap sits 29% below the value of its cash and marketable securities. Shareholders get the rest of the company for free - including a potentially significant royalty, two active earn-in partners, a grassroots exploration portfolio, and the IP of proven mine-finder Glenn Mullan.

While the company's share price has risen 50% since the beginning of the year, it has so far been a disappointing from a news flow perspective. Sirios Resources has yet to announce its maiden resource estimate at Cheechoo where Golden Valley holds a 2.5-4% sliding NSR. Nor did the expected 2500m winter drill program at Centremaque materialize, due to continued dysfunction at Alexandria Minerals – Golden Valley's (now former) partner at the project. And in early May, the company received notice from Battery Minerals that it would be terminating its earn-in at Golden Valley's Island 27 Ni-Co-Ag property in Ontario. This lack of news flow from joint ventures feels like a missed opportunity given the surge in investor interest in gold over the past 90 days.

There is however a recent positive development that the market is largely unaware of. It involves GZZ's Centremaque property, which sits along the West Cadillac Break as seen in the map below. The context is that earlier this year Alexandria Minerals, the former earn-in partner at Centremaque, was struggling to meet work commitments at the property despite promising initial results. In April, Golden Valley granted Alexandria a strict one-time extension through July 31st to allow Alexandria to satisfy its work commitments through a 6-hole, 1000m drill program to be completed in Q2.

West Cadillac Break



Source: Golden Valley investor presentation. June 2019. **https://www.goldenvalleymines.com/investors/presentations/GZZJune2019**

But Alexandria management became sidetracked by the ensuing takeover battle between Osisko-backed O3 Mining and Agnico Eagle - and neglected to follow through on the program. When Alexandria shareholders voted in favor of the revised O3 Mining offer on July 26th, O3 found itself five days away from having to return Centremaque back to Golden Valley. Rather than lose the property, O3 organized a last-minute, multi-rig drill program and satisfied the work requirement at the eleventh hour.

This is a significant development for Golden Valley and its 20% free-carried interest in Centremaque. Not only does it demonstrate O3 Mining's conviction in the project's potential, but it also ensures near-term news flow in the form of drill results. I expect O3 Mining to announce assays from the Centremaque program by the end of October. It is worth noting that in addition to the 20% free-carried interest, GZZ will also hold a 1.5% NSR over Centremaque (with 0.5% subject to a $1m buyback) should all earn-in requirements be met.

Abitibi Royalties (TSXV: RZZ), owned 44.7% by Golden Valley, continues to perform well. RZZ announced in January 2019 that it had received first royalty cashflow from a newly producing area at Canadian Malartic covered by the company's 3% NSR. A month later the company reported that the Barnat Extension project was progressing on time and on budget. (Abitibi Royalties also holds a 3% NSR over the Barnat Extension where first production is expected as soon as Q1 2020.) In a further positive event, Yamana disclosed in a recent filing that its corporate exploration budget for the remainder of 2019 had been increased by US$10 million. This means that the initially stated 47,300 meters of exploration drilling at Canadian Malartic in 2019 will likely be surpassed – sending a strong positive signal to the market.

The next major catalyst at Canadian Malartic is a development decision at Odyssey and East Malartic. Agnico Eagle and Yamana are currently progressing an internal scoping study to evaluate the potential of underground mining at Odyssey and East Malartic from surface to a depth of 600 meters in 2021-2023, and then potentially deeper beyond 2023. The scoping study is slated for completion in Q1 2020. Agnico Eagle also indicated that Canadian Malartic will be moving forward with the underground ramp near Odyssey and East Malartic, which will provide access for underground drilling and the collection of a bulk sample. All of this bodes well for the underground development decision, which is expected to be announced by mid 2020.

The RZZ share price is up 30% YTD, and the company's first ever dividend payment on September 30th is likely to attract further eyes to the story. Given the flood of capital currently entering the mining royalty space, we have seen the major royalty companies setting either multi-year or all-time highs. Abitibi Royalties and other high-quality junior royalty names will likely follow suit in the coming weeks.

I've provided below the Golden Valley milestones expected over the coming year. I've also included milestones pertinent to Abitibi Royalties and its royalty exposure at Canadian Malartic. The most significant GZZ-specific catalyst is first drill assays from O3 Mining's recently completed program at Centremaque.

- Maiden resource from Sirios at Cheechoo **by end Q3 2019**
- Drill results from O3 Mining at Centremaque **by end October 2019**
- Drill results from Val-d'Or Mining at Oregon, Magoma, and/or Ducros Sill prospects **by end 2019**
- Break ground on underground ramp to access Odyssey and East Malartic **by end 2019**
- First production at Barnat Extension at Canadian Malartic **by end Q1 2020**
- Scoping study completed for underground mining at Odyssey and East Malartic **by end Q1 2020**
- Development decision for underground mining at Odyssey and East Malartic **by end Q2 2020**

Golden Valley's equity stake in Abitibi Royalties is worth roughly C$69m at RZZ's current share price of C$12.32. This alone exceeds Golden Valley's current fully diluted market capitalization of C$49m by 41%. The enterprise value grows to over C$72m when one includes the C$2.5m in additional marketable securities and C$1m treasury. This means that the GZZ share price would have to rise roughly 47% before the company achieves a positive enterprise value.

As Golden Valley shareholders wait for this discrepancy to correct, they get free exploration upside through the 2.5-4% NSR at Cheechoo and two active partner-funded deals with O3 Mining and Bonterra. And let's not forget that Osisko Gold Royalties became a 7% GZZ shareholder in early 2018 through open market purchases. Abitibi Royalties is an obvious takeover candidate for a larger royalty player given its 3% NSR over much of the Canadian Malartic. This checks all the boxes that the Francos and Osiskos of the world look for – world-class operators, material size, multi-decade mine life, and exploration upside. Any suitor for Abitibi Royalties would have to enter through the front door by buying Golden Valley first.

Sama Resources (TSXV: SME)

Featured In: **January 2018**
Average Cost per Share: **C$0.11**
Current Market Price (Aug 16, 2019): **C$0.21**

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. Sama owns a sprawling land package in the Ivory Coast highly prospective for conduit-hosted nickel deposits. In April 2018, Robert Friedland's private vehicle HPX committed to funding C$30m in exploration expenditures for 60% of the Ivory Coast project. HPX has spent over C$7m in the eighteen months since.

Unfortunately, Sama shareholders have so far missed out on what's been an unexpectedly powerful rally in the nickel price since early June. Over this period, this price of nickel is up nearly 40% due primarily to concerns that Indonesia, the world's largest nickel producer, may ban the export of nickel ore as soon as 2020. This would be bad news for end users and Indonesia-based nickel miners, while increasing the value of nickel assets located outside of Indonesia. The share prices of most nickel-focused juniors have responded in force – like Ardea Resources, another MJG fund holding, which is up 45% in the past four weeks.

The SME share price however continues to languish at a 52-week low. There are a few factors behind this underperformance. The most obvious one is that the market is still getting over the disappointment of the Phase I drill program completed earlier this year. Both the Sama and HPX technical teams will tell you that the results were extremely encouraging, but the fact remains that the market didn't get the economic-grade "discovery hole" that it was looking for. As evidenced by the SME share price move from C$0.24 in late April to C$0.44 just ten days later, there was significant speculative interest behind Sama in advance of the Phase I drill results. After the perceived negative results, these speculators have since hit the exit – and dragged down the SME share price in the process.

Another reason for Sama's underperformance is that the company is still an exploration play at heart. While the company does have a 38Mt open-pit resource at its Samapleu deposit, Sama should be thought of as an exploration bet where the elephant has yet to be found. When metal prices rally, the producers and late stage development plays generally see their share prices respond first. It can take months before the share prices of the explorers start to move. Given that this nickel rally is just a couple months in the making, it's probable that we will see Sama and other nickel explorers play catch up in the weeks ahead – assuming the nickel price continues its ascent.

A third factor is that drills aren't turning at the moment, which the market may be construing as a lack of conviction on behalf of HPX. After talking to high level HPX team members at the recent Sprott Conference, I can confirm that this is not the case. The technical team is particularly encouraged by the success of HPX's Typhoon geophysical system at identifying targets down to 1 kilometer in depth. This bodes well for further drilling at Grata, Samapleu, and Yepleu – which are the chief areas of interest on the property. An additional indicator of HPX's continued interest is its decision in early June to exercise 7,142,857 Sama warrants priced at C$0.28. Not only were these warrants priced at a premium to the SME share price on the date of exercise, but they were also exercised well in advance of their April 2020 expiry date.

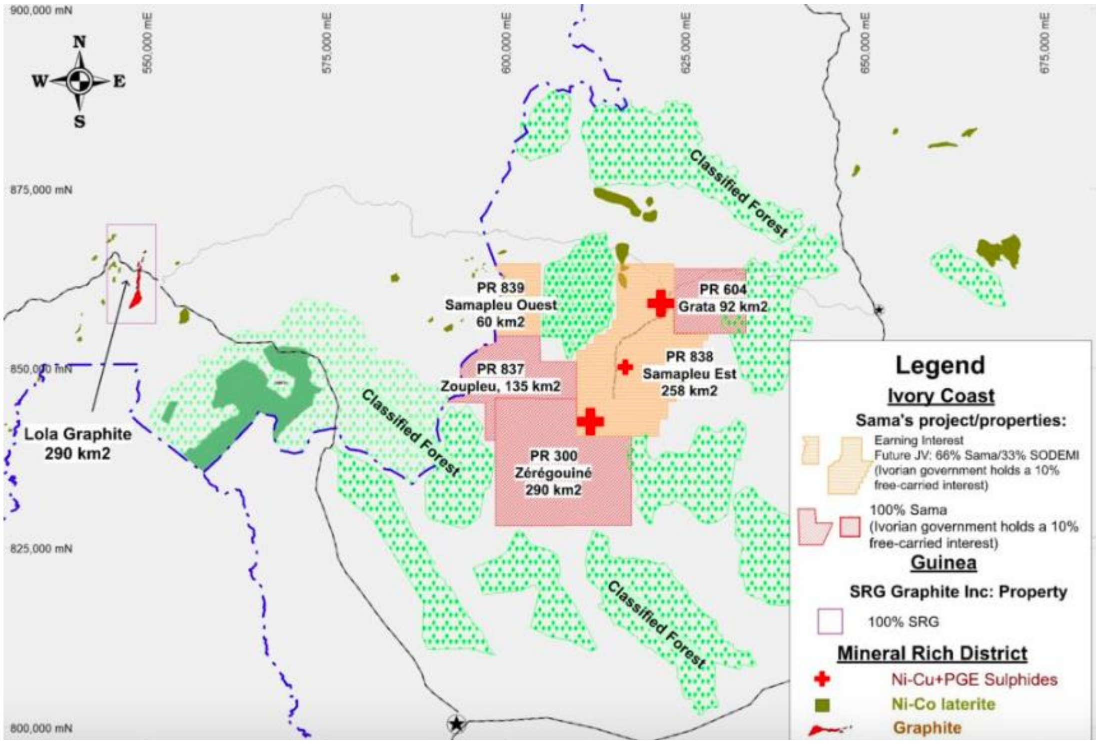
It is my expectation that the HPX and Sama technical teams will commence a Phase II drill program of up to 10,000 meters in Q4 2019. Before this occurs, two Typhoon loops will be completed at Grata. Each individual loop takes ten to fourteen days, depending on ground conditions and loop circumference. Sama CEO Marc-Antoine Audet expects the two loops will be completed by the end of October. As the technical team pours over the geophysical data from Grata, the Typhoon equipment will be transported due east to complete a loop at the Samapleu Extension.

Once the Grata geophysical data has been interpreted, one drill rig will be mobilized and at least one deep exploration hole will be drilled for each the two loops (assuming positive geophysical results). Drilling is expected to commence at Grata in November.

Once drilling is completed at Grata, the rig will be transported to the Samapleu Extension for a series of drill holes guided by the Typhoon data. Drilling at the Samapleu Extension is expected to commence in January 2020.

After the Typhoon loop is completed at the Samapleu Extension, the equipment will be transported southwest to the Yepleu target for a series of four loops. Shortly thereafter, a second drill rig will be mobilized to complete at least one deep exploration hole at each of the four loops (assuming positive geophysical results). Drilling at Yepleu is expected to commence as soon as January.

The market doesn't yet realize that there will be two drill rigs active on the property as soon as January 2020. This alone has the potential to push the Sama share price north of C$0.40 as speculators front run the initial batch of drill assays, which is exactly what happened earlier this year ahead of the Phase 1 results.



Source: Sama news release. 8 August 2019. **http://samaresources.com/news/sama-announces-zoupleu-license/**

Nor does the market appreciate last week's permitting breakthrough when the company announced receipt of the long-awaited renewal of its PR123 license, which had expired in June 2018. As seen in the map above, PR123 has now been replaced by two new PRs called Samapleu East (PR 839) and Samapleu West (PR 840). The newly acquired PRs are valid for period of 4 years with possible renewal periods totaling up to 12 years. This is a major de-risking event for the project, and the timing of the renewals just weeks after Dr. Audet hosted the Ivory Coast's Minister of Mines is not likely a coincidence.

Source: Sama news release. 4 June 2019. **http://samaresources.com/wp-content/uploads/2019/06/image1-nr-2019-06-04-e1559657525169.jpg**

Before concluding with expected milestones, it is worth discussing Sama's August 7th news release announcing the sale of one-third of its stake in SRG Mining at a price 12% below market. Total proceeds from the sale were US$5m and the buyer was described as a "US based Industrial Firm". One day later Sama announced a US$5m loan to SRG Mining - in a convertible debt arrangement bearing a 10% per annum interest rate which will be repayable in 12 months in cash or shares with a conversion price of $0.91 per SRG share at the election of Sama.

I'm encouraged by the US$5m sale to the so far nameless US based Industrial Firm. While there has been some market pushback about the discounted price, I'm operating under the assumption that this buyer will provide serious financial support beyond this initial investment - through either a pre-paid offtake or a loan to help finance Lola's construction. If this is the case, then giving this US party a foot in the door at a discount to market is well worth it. Sama remains the largest shareholder of SRG Mining at 25.39% on fully diluted basis.

I'm not however supportive of the US$5m credit facility with SRG Mining. It's never a good look for related companies with shared directors to make these types of transactions. I know the Sama team well and genuinely believe that they view this deal as in the best interest of SME shareholders. They would argue that this credit facility provides breathing room for SRG to satisfactorily conclude construction financing discussions, thereby maximizing the value of Sama's remaining C$14.6m in SRG shares. Management would also add that there's a high probability that this credit facility will never be drawn upon.

Be that as it may, in these situations it worth avoiding even the appearance of impropriety as related party transactions often attract the ire of the market - regardless of the specific circumstances. This SRG credit facility is not a deal breaker for me, though I advise the company to avoid these types of deals going forward.

I've included below the catalysts that Sama shareholders can expect over the coming months. Given the company's outsized ownership position in SRG Mining, major milestones expected at Lola have been included as well. The most significant catalyst for SME shareholders is the commencement of the Phase II drill program in November.

- Two Typhoon loops completed at Grata **by end October 2019**
- One Typhoon loop completed at Samapleu **by end November 2019**
- Commence Phase II drill program of up to 10,000 meters **by end November 2019**
- Two additional PR licenses granted **by end 2019**
- EIS approval at Samapleu **by end 2019**
- 1-2 offtakes announced at SRG's Lola Project **by end 2019**

- Receipt of Mining Permit at SRG's Lola Project **by end 2019**
- Construction financing finalized at SRG's Lola Project **by end 2019**
- Second drill rig mobilized at Yepleu **by end January 2020**
- First drill assays from Phase II program **by end Q1 2020**
- Break ground at SRG's Lola Project **by end Q2 2020**
- First production at SRG's Lola Project **by end 2021**

With 240.5m shares fully diluted, Sama has a market capitalization of roughly C$51m at the current share price of C$0.21. The company has an outsized working capital position with C$10m in cash (assuming the credit facility remains undrawn) and C$14.6m in SRG shares. Assuming that all options and warrants are exercised (which would add another C$9.7m to the treasury), this implies a paltry C$15m valuation for Sama's stake in the joint venture with HPX. This to me is excellent speculative value given the quality of technical talent involved, the financial backing by Robert Friedland, and the sheer size of the prize that HPX and Sama are chasing.

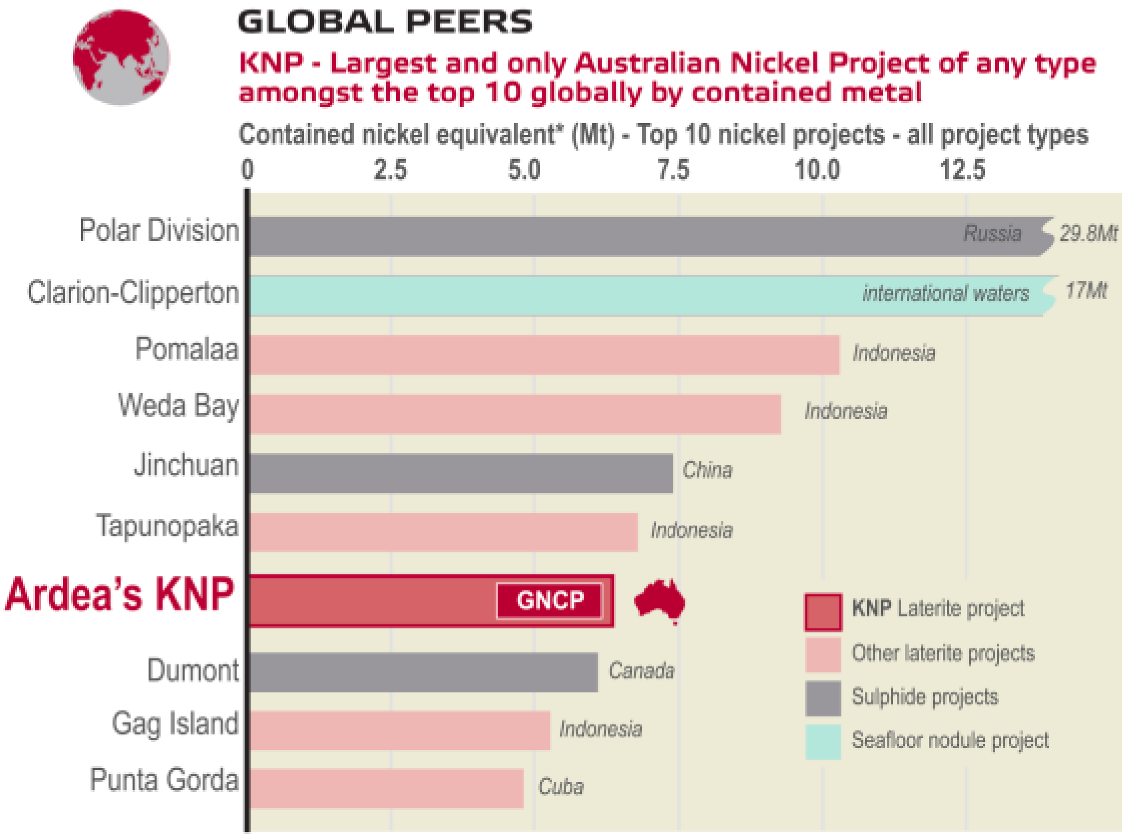
Ardea Resources (ASX: ARL)

Featured In: **July 2017**
Average Cost per Share: **A$0.58**
Current Market Price (Aug 16, 2019): **A$0.50**

The MJG partnership has owned shares of Ardea for roughly two years. We've continued to add to our position – with recent purchases in late May and early June at just above A$0.40. This has lowered our average cost per share to A$0.58, which still sits above ARL's most recent closing price of A$0.50.

An investment in Ardea remains a leveraged bet on the prices of nickel and cobalt. While I am not generally a fan of these so-called "optionality bets" (i.e. projects that are uneconomic at current metal prices but acutely leveraged to price increases), I've made an exception for Ardea due primarily to the company's outsized working capital position and my conviction that battery-grade nickel sulfate will soon undergo a speculative rush similar to what we saw with lithium in 2016 and cobalt in 2017. Given the near 40% increase in the nickel price over the past ninety days, it is possible that this speculative rush has already begun – though I would caution readers that the current surge of investor interest in nickel and nickel equities could be derailed by broader macroeconomic worries. But whether this year or in 2021, I do see this boom coming soon.

And when it does, Ardea provides more leverage to rising prices than perhaps any nickel vehicle in the world. The company's Kalgorlie Nickel Project (KNP) is the seventh largest nickel project globally by contained metal. It should be noted that the KNP is the only Australian project on this list and, along with Dumont, the only asset located in a first-class mining jurisdiction. The sheer size of the KNP, along with its relatively low grade, makes the project particularly sensitive to metal prices.

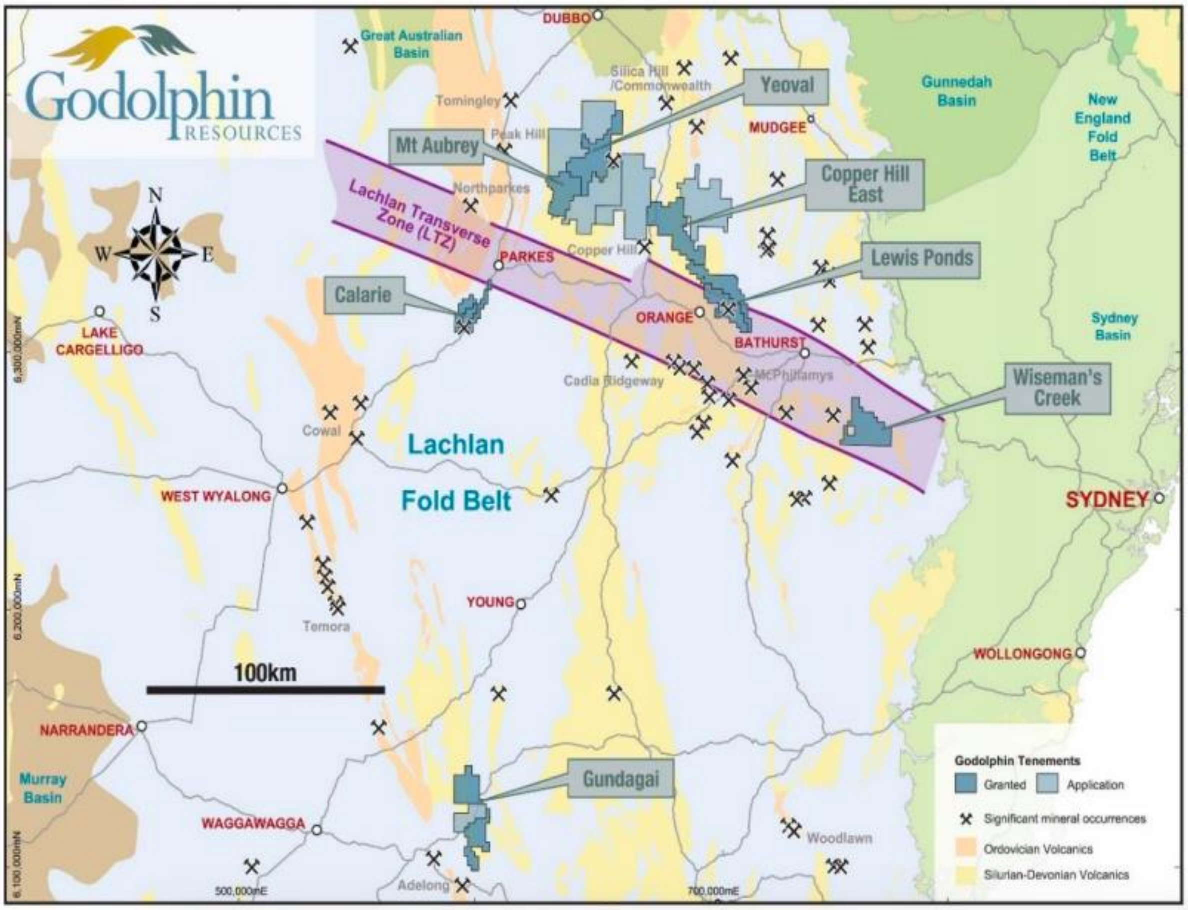


Source: Ardea investor presentation. 30 July 2019. https://ardearesources.com.au/downloads/presentations/arl_p2019073001.pdf

As we wait for the nickel narrative to gain momentum, it's up to Ardea management to minimize dilution, monetize the company's non-core assets, and cost-effectively advance strategic partner discussions at its flagship nickel-cobalt asset. There has been progress on all three fronts in recent months.

The most important of these tasks is to minimize share dilution. A skyrocketing nickel price a few years from now will do Ardea shareholders no good if they've been diluted to oblivion in the meantime. This is why the company's outsized A$11m cash position is so crucial to the success of this story. It is essential for management to slash company overhead to the absolute minimum and to resist the temptation of pursuing non-core opportunities. In light of the recently announced A$2.5m R&D refund from the Australian Tax Office, my expectation is for the Ardea treasury to last into 2021 – giving shareholders a runway of eighteen months before share dilution becomes a serious worry.

The Ardea team has also made major headway in its effort to monetize the company's non-core assets. Most significantly, a spin out of the company's extensive land package in New South Wales into a soon-to-be listed company named Godolphin Resources looks set to be completed by the end of the year. The NSW properties comprise a dominant regional land position to the north of the Lachlan Traverse Zone and cover a total of 3,216km². The chief focus for Godolphin's Orange-based management team will be epithermal and orogenic gold discovery, though there is also significant VMS potential within the tenements as evidenced by the existing resource at Lewis Ponds.



Source: Ardea investor presentation. 30 July 2019. **https://ardearesources.com.au/downloads/presentations/arl_p2019073001.pdf**

Ardea shareholders will receive an in-specie distribution of 30 million Godolphin shares at zero cost, plus a priority right to subscribe for the IPO. Given the healthy funding environment for ASX gold juniors, it is expected that Godolphin will have no problem raising A$4.5-8m in the IPO financing and then immediately drilling its Mt. Aubrey gold project. It is welcome to see this IPO coming together as it eliminates the NSW property holding costs for the mothership Ardea, while at the same time providing shareholders upside to a large, highly-prospective portfolio that was otherwise receiving no value from the market.

Additionally, I was encouraged to learn from CEO Andrew Penkethman at the recent Sprott Conference that Ardea is actively pursuing partnerships or even sales at its non-core WA gold projects – including Mt. Zephyr and Darlot East. I'm fully in favor with this plan as it would reduce carrying costs in WA and potentially add funds to the treasury. Andrew expects action on this front within the next twelve months.

Ardea continues to make measured development progress at the GNCP – which is the subset of the KNP on which the company has focused development efforts. By the end of October, the company will announce results from pilot and bench-scale metallurgical variability testing. A GNCP resource and reserve update is anticipated in the same time frame. This update will incorporate all holes drilled to date at the GNCP, including the recently completed drill program at Pamela Jean Deeps. A maiden scandium resource will be included as well.

Ardea and its advisor KPMG remain in discussions with potential international project partners interested in securing nickel and cobalt off-take from the GNCP. The company has made clear that offtake rights must include a project funding commitment from the partner. I expect a resolution on this front by the end of next year – though the recent resurgence in the nickel price has the potential to accelerate discussions.

I've provided below the milestones that Ardea shareholders should expect over the coming eighteen months. The GNCP feasibility study will remain on hold until the strategic partner process is concluded.

- Metallurgical variability testing results at GNCP **by end October 2019**
- Updated resource and reserve estimate at GNCP **by end October 2019**
- Maiden scandium resource at GNCP **by end October 2019**
- Resource estimate at Lewis Ponds ahead of Godolphin IPO **by end October 2019**
- Godolphin IPO completed **by end 2019**
- Godolphin reports first drill results at Mt. Aubrey **by end Q1 2020**
- Partner/sale at Mt Zephyr and Darlot East **by end 2020**
- Strategic partner(s) announced at GNCP with concurrent financing **by end 2020**

The Godolphin IPO is the near-term catalyst with the greatest potential to move the ARL share price. We will likely see a run up ahead of the IPO date, followed by selling weakness once the Godolphin shares are distributed. Post IPO, the Ardea share price can be expected to track with nickel and cobalt sentiment as the company moves forward with GNCP strategic partner discussions and otherwise preserves its outsized cash position.

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 (Aug 16, 2019): **C$0.92**

The MJG partnership has now owned MIN shares for over five years – at an average cost of C$0.24. From a share price perspective, it has been a sleepy six months since I last wrote about the company. This period has been characterized by low volumes and a share price largely range bound between C$0.90 and C$1.05. In light of the drop in the copper price from nearly US$3 per pound in January to the current price of US$2.60, the market's apathy towards Excelsior has proven to be a blessing in disguise. Many of Excelsior's peers in the junior copper space, such as Amerigo or Chakana, have seen their share prices hammered by between 30-50% year to date. Excelsior quietly has posted a 12% YTD share price gain.

The lack of market interest does not reflect the flurry of activity down at Excelsior's flagship Gunnison copper asset. Excelsior commenced construction at Gunnison in early December 2018 after closing a US$75m construction financing package with Triple Flag Mine Financing – a subsidiary of Paul Singer's Elliott Management. In the eight months since, Excelsior has successfully executed numerous construction milestones including:

- Installation of a new access road to the wellfield completed in January.
- Refurbishment of process ponds at Johnson Camp completed in June.
- Installation of a new 69kV transmission line connecting to wellfield completed in July.
- Construction of three new acid storage tanks and a new acid unloading facility in July.
- First acid delivery to the new storage tanks in August.

According to Excelsior's most recent news release, Gunnison remains on-schedule for first copper production in Q4 2019. There are three major milestones remaining to be completed. The first is a two-mile pipeline corridor connecting the Johnson Camp processing facilities to the production wellfield. Construction of this pipeline corridor began in January and I expect it to be finished by the end of August. The in-progress pipeline corridor can be seen in the image below.

Source: @ExcelsiorMining on Twitter. 26 July 2019. **https://twitter.com/ExcelsiorMining/status/1154751973133914114**

Secondly, the company is completing wellfield drilling of 41 production wells and 16 compliance wells totaling 73,000 feet. Excelsior has been working on this since January and currently has five drill rigs on site. The wellfield drilling should be completed either this month or in early September.

Once the pipeline corridor and wellfield drilling are completed, Excelsior will then be ready for first acid injection. But before doing so, the company must receive a final sign off from the EPA that the newly constructed wellfield is in compliance with the previously issued permits. This is more of a formality than a risk, and the company expects final sign off in September.

This puts Excelsior on pace for first copper production potentially as soon as early October. This is a major near-term catalyst, and I expect the share price will run significantly as soon as production is announced - if not in the weeks beforehand.

On paper, the Gunnison project is set to print money at US$2.60 copper. After factoring in the impact of the Triple Flag stream, Excelsior's share of the after-tax NPV is expected to be US$405m (C$535m at current exchange rates) with an after-tax IRR of 28%.

These are compelling headline numbers, but the market remains skeptical. Excelsior's fully diluted market capitalization at the current share price of C$0.94 is C$237m - only 44% of the projected after-tax NPV. This is a severe discount for a project less than 90 days from first production, especially given that the build has thus far been on time and on budget.

I do appreciate that there is skepticism surrounding the ISR mining technique that will be employed at Gunnison, as one cannot be certain of recoveries until actual production begins. However, this same criticism existed when we first bought MIN shares five years ago and so far Stephen, Roland, and the rest of the team have proven the doubters wrong every step of the way. The endorsements by Altius, Greenstone, and most recently Triple Flag should give further reassurance of Gunnison's viability.

I've included below the milestones that MIN shareholders can expect over the coming years. The most important is first copper production anticipated later this year, followed closely by whether Gunnison achieves its stated Stage 1 nameplate production rate by mid 2020.

- Completion of pipeline corridor **by end August 2019**
- Completion of wellfield drilling (41 production & 16 compliance) by end **August 2019**
- Final approval from EPA before first acid injection **by end Q3 2019**
- First copper production at Gunnison **by end Q4 2019**
- Stage 1 nameplate production achieved (25m pounds per annum) **by end Q2 2020**
- Break ground on Stage 3 expansion **by end Q2 2022**
- Stage 3 nameplate production achieved (125m pounds per annum) **by end 2024**

Given the fairly imminent copper production, a market capitalization at 70% of after-tax NPV is more appropriate for Gunnison at this stage. That equates to C$1.45 per share on a fully-diluted basis, a full 58% above the current MIN share price. The next question will be whether Excelsior achieves Stage 1 nameplate capacity of 25m pounds per annum. The company has guided that this will occur by mid 2020. If the company is able to deliver on this milestone, it would put to rest concerns surrounding the ISR mining method and also put Excelsior on the map as a takeover target. This could see Excelsior's valuation approach 100% of after-tax NPV, or roughly C$2.10 per share at the spot copper price.

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) – NO LONGER A PARTNERSHIP HOLDING

Featured In: **January 2015**
Average Cost per Share: **US$2.45**
Exit Price: **US$4.42**

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**