



To: MJG Capital Limited Partners
From: Matt Geiger
Date: July 24, 2020
Subject: 2020 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 30, 2020.

6 Month Performance

MJG Capital Fund, LP (net of all fees and expenses)	5.10 %
S&P 500	(4.04) %
S&P/TSX Venture Composite Index	7.37 %

1 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	30.00 %
S&P 500	5.39 %
S&P/TSX Venture Composite Index	5.92 %

3 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	61.11 %
S&P 500	27.92 %
S&P/TSX Venture Composite Index	(19.13) %

5 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	138.08 %
S&P 500	50.28 %
S&P/TSX Venture Composite Index	(7.64) %

Performance Since Inception (9/1/11)

MJG Capital Fund, LP (net of all fees and expenses)	(41.60) %
S&P 500	154.35 %
S&P/TSX Venture Composite Index	(65.75) %

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 nine 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.

What a year so far. Between the COVID-19 pandemic, geopolitical tensions, racial strife, political uncertainty, and the unprecedented balance sheet expansion from central banks globally, this is a wild time to be an investor - whether natural resource focused or otherwise. The greed we've seen return to the market over the past 8-12 weeks juxtaposed to the sheer panic of early March is truly jarring. The March sell-off was only eighteen weeks ago but feels like a world away.

With these challenges as a backdrop, the MJG partnership had a solid yet unspectacular first half of the year – with a return of 5.10% net of fees and expenses. Our outperformance of both the S&P 500 and TSXV continues over one year, three year, and five year time horizons.

If someone predicted in the midst of the March drawdown that the MJG fund would be positive YTD and beating the S&P by 9% at the midyear mark, I would have taken that in a heartbeat. But in light of the dramatic change in market sentiment since then, some investors (particularly those with substantial weightings to gold & silver) may be underwhelmed by our first half numbers. That is ok. This a marathon and not a sprint, and the MJG fund is positioned as such.

With 20% of our AUM positioned in private investments (the value of which do not re-rate in live time) and our large collection of share purchase warrants within shouting distance of their respective strike prices (each valued at zero for reporting purposes), we will be richly rewarded over the coming months and years as generalist inflows continue to flood into the mining space after a full decade of neglect. There will be sharp ups and downs along the way, but the fund remains well-positioned for this cycle.

In the January 2020 investor letter, I wrote that *“We are clearly in the early stages of a precious metals bull market and are set to profit as it continues. A key question for the MJG portfolio is whether this is a precious metals-only bull market, or whether base metals, energy metals, agriculture, and the rest of the commodity complex follows suit in the months ahead. We are reasonably well positioned for either scenario, but would benefit most from a broader commodity bull market driven by inflation.”*

To me at least, this is still the big question. Nothing has changed on the precious metals front; it is still full speed ahead for at least the next 18 months. The fund is well-placed in this regard with 66% of the weighted MJG portfolio exposed to either gold or silver equities as of June 30th. This is by far the largest weighting we've had to precious metals since inception, and we've gotten to this point through a combination of share price outperformance from our PM names as well as a concerted strategy to boost our exposure to gold/silver in this negative interest rate world.

As much as I like metals such as copper, nickel, and uranium over the medium to long term, I'm still not fully convinced that we are off to the races just yet with broad based inflation - though I'd be happy to be proven wrong. However, this will not stop me from backing smart, honest, and well-incentivized management teams focused on non-precious metal assets as the best investments are made when the market is distracted and looking elsewhere.

In this letter's *Market Musings*, I discuss the relationship between gold and copper as well as my bullishness on Dr. Copper over the medium to long term. I also emphasize that, despite the rosy long-term picture, there is an acute risk of a painful retracement if/when we see a repeat of the March panic.

In the *Overview of Partnership Holdings*, the fund's portfolio construction is reviewed by (1) commodity, (2) jurisdiction, and (3) business model. As of June 30th, the fund had twenty publicly traded positions, five private investments, and five sets of "in the money" warrants in the portfolio.

This letter's *Featured Investment* is Tonogold Resources. Updates on five current investments featured in previous letters (Lara, Salazar, Adriatic, Golden Valley, & Sama) are also included.

Market Musings

Copper, Gold, and a False Choice

It's safe to say that copper and gold are the two most widely followed metals by today's investor. It's probably not a coincidence that these were also the first two metals to be discovered by humans some 6,000 years ago – helped by the fact that copper and gold are two of only a handful of metallic elements that can be found in nature in their native form. Each metal has been used both industrially and monetarily through human history, however nowadays Dr. Copper is indisputably the highest profile industrial metal while the barbaric relic remains firmly a store of value (and to some its own currency).

While the prices of gold and copper have been inversely correlated since the Trump-China trade battle began in spring 2018, a look at the longer term trajectory of the their prices suggests that (a) they are positively correlated more often than not and (b) copper generally displays more volatility than gold due to its unique sensitivity to the economic cycle. This has certainly been true over much of the past three decades as seen in the chart below.

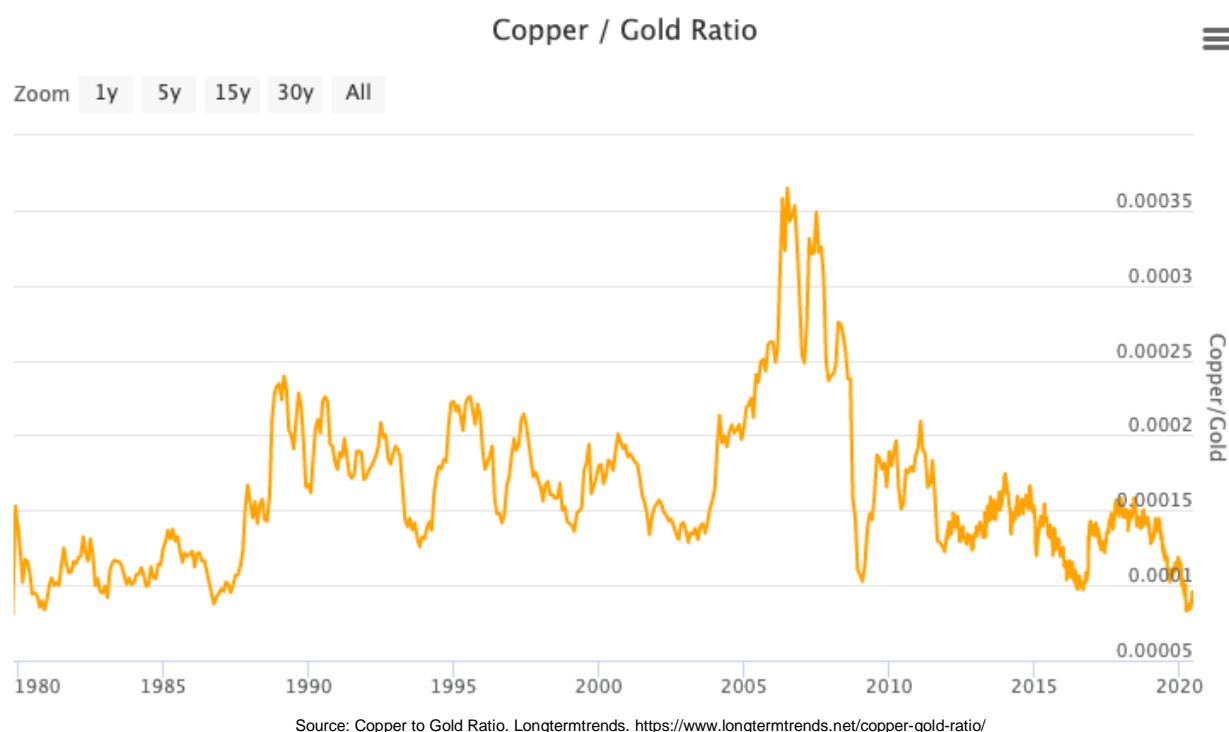
Gold vs. Copper



The copper-to-gold ratio has gained prominence in recent years and is followed closely by investors. This is thanks in large part to investor Jeffrey Gundlach of DoubleLine Capital, who considers the ratio to be a “remarkable” short-term predictor of interest rates. Based on recent history Gundlach does seem to be onto something - but I will admit that as a bottom up investor with a long-term time horizon, short term T-bill fluctuations are not usually top of mind.

But the ratio does intrigue me for a more fundamental reason. As seen in the below chart, the copper-to-gold ratio has only dropped this low two times in the past forty years – in Q4 1980 and Q3 1986. In other words, gold is more expensive relative to copper than at any time in the last 40 years.

Copper to Gold Ratio



This seems counterintuitive as we power forward into the 21st century. We're in the early stages of what many describe as the Fourth Industrial Revolution – the digitization, automation, and electrification of anything and everything. Copper serves an irreplaceable role in this multi decade transformation, which will likely be the most important commodity trend of our lifetime. It is estimated that electricity's share of final energy consumption will double from 19% today to 40% by 2050 – with 80% of this electricity generated by renewables. To meet this demand, Richard Schodde from MinEx Consulting estimates that "over the next twenty-six years, the world is going to mine more copper than what has been mined in all of history".

Meanwhile gold's role has diminished in terms of its importance to society. To be clear - from an investment perspective, I remain bullish on the near-term future of gold and gold equities. After all, 65% of our weighted portfolio is exposed to precious metal equities which should serve us well over the coming few years.

However, the point remains that gold is simply less consequential within the global financial system and in most of our lives than it was in 1971 when Nixon delinked the US dollar from gold or in 1933 when FDR ordered the confiscation physical gold from US citizens. And it certainly does not hold the same societal significance as it did during the first eighty-five years of American history when gold and silver coins were the only recognized form of legal tender. It is possible that gold regains a more prominent role within the global

financial system whenever the US dollar cedes its enviable role as global reserve currency (it may not be in this lifetime but nothing lasts forever); however the rise of cryptocurrencies in recent years further diminishes the chance that gold will back any of our fiat currencies any time soon.

Clearly over the longer term (decades not years), I do favor copper over gold. Some will agree, others will dissent vehemently. But the key takeaway is that in whichever camp you belong, why not position yourself intelligently as investor in both metals by backing competent, ethical management teams working on quality assets?

Because those bullish on gold should rationally also be bullish on copper, at least over the medium term. Going back to the aforementioned copper-gold ratio, the mean price relationship between the two metals was approximately 0.000160 over the past forty years. This compares to today's ratio of 0.000098. Put simply, this means that if gold stood still at \$1900 an ounce for the next five years while the copper-to-gold ratio reverts to its 40-year mean, we are looking at roughly \$4.75 copper once the process has run its course. This doesn't take into account the possibility that the mean reversion pendulum overshoots as is often the case, nor does it consider the possibility that gold prices also rise as the copper-to-gold ratio normalizes.

We've seen the copper and gold prices diverge noticeably over the past two years but that doesn't have to continue. In fact, historically it doesn't. And you can easily see a world where a positive correlation between the two metals returns – think a few years of anemic private sector growth coupled with massive government infrastructure programs funded by deficit spending and money printing. This would be the sweet spot, at least from an investment perspective.

I'll conclude with a caveat because no thesis would be complete without one. It's of course unrealistic to expect the copper-to-gold ratio to revert to its mean overnight. The process will take conviction and years of patience. And there's also the very real possibility that we see the ratio take a final plunge in the coming 6-9 months before the mean reversion process begins in earnest. If the irrational exuberance evident in the broader market right now results in another March 2020-like panic, copper and copper equities will certainly not be spared. If this does occur, don't get shaken out – you will regret it.

Overview of Partnership Holdings

The partnership is exposed to different commodities, jurisdictions, and business models. As of June 30th, we held twenty publicly traded positions, five private investments, and five sets of “in the money” warrants (priced at intrinsic value for reporting purposes).

Ultimately our investment philosophy has very little to do with betting on a specific commodity or jurisdiction, and everything to do with management expertise, management incentivization, asset quality, financial structure, upcoming catalysts, and price to value metrics. In essence, bottom up investing based on company-specific fundamentals.

That said, I will continue to monitor our exposure to specific commodities and jurisdictions in order to manage risk. I should note that the fund’s exposure to precious metals is higher than it has been at any point since inception. This is a result of a combination of share price outperformance from our precious metals names as well as a concerted strategy to boost our exposure to gold/silver in this negative interest rate world.

While we likely will initiate another 1-2 precious metal focused investments by year end, the bar for investing is that much higher when compared to an equally well-managed company at a decent valuation focused on a high-quality non-precious metal asset. The MJG partnership will never become a precious metals-only fund – though admittedly this would make it much easier to market the fund to prospective investors in this current market environment. But the commodity complex at large is volatile enough as is. Going all in on a single metal or two is both foolhardy and limits investment opportunities.

In the January 2020 investor letter, I stated that I’d like to whittle down our number of publicly traded positions and further concentrate the portfolio. We achieved this objective over the past six months. This exercise forces an investor to sell positions that perhaps should have been liquidated previously. It also ensures that, when a given investment hits it out of the park, the weighting is large enough to move the needle for the entire portfolio.

Over the next six months, I’d like to get our uranium and nickel exposure into the double digits. This may be achieved by initiating new positions, adding to existing holdings, or a combination thereof.

Finally, I’ll note that our cash position is too low at 3%. Fortunately, the market is working in our favor – with July in particular having been an exceptionally profitable month thus far. However, these periods of euphoria never last. I’m expecting inflows this month and look forward to beefing up our cash position into the high single digits or low double digits as a simple hedge to a portfolio heavily levered towards a continued rotation into precious metals and the commodity complex generally.

Included below is a snapshot of our investments as of June 30, 2020.

Allocation by Commodity	
Precious Metals	
Gold	56%
Silver	10%
Energy Metals	
Copper	10%
Nickel	6%
Uranium	5%
Industrial Metals	
Bauxite	2%
Iron Ore	1%
Zinc	1%
Ag Minerals	
Potash	1%
Farmland*	
Canola	3%
Cotton	1%
Grapes	1%
Cash (USD)*	3%

* Signifies minimal correlation to the mining cycle.

Allocation by Jurisdiction	
United States	39%
Canada	25%
Bosnia	8%
Australia	4%
Serbia	4%
Niger	4%
Ecuador	3%
Brazil	3%
Côte d'Ivoire	2%
Cameroon	2%
Mexico	1%
Peru	1%
Mongolia	1%
Cash (USD)	3%

Allocation by Business Model	
Prospect Generation	20%
Exploration	35%
Development	24%
Production	4%
Royalty/Streaming	14%
Cash (USD)	3%

Featured Investment

Tonogold Resources (OTC: TNGL)

Tonogold is one of our longer held positions, with the MJG fund first taking a small position in August 2016. Including a subsequent financing and warrant exercises, our average cost sits between US\$0.05 and US\$0.06 per share.

Tonogold is focused exclusively on the historic Comstock Mining District located roughly 40 minutes outside of Reno, Nevada. To this day, the Comstock Lode remains one of the most significant mineral discoveries in North American history. In fact, the vast quantities of silver produced from the Comstock mines between 1859 and 1890 led to Nevada's nickname as the "Silver State". Over this period, the Comstock produced over 8 million ounces of gold and nearly 200 million ounces of silver. As author Gregory Crouch notes in his 2018 book *The Bonanza King*, during the Civil War, President Abraham Lincoln considered the silver and gold produced by the Comstock Lode to be one of the lifebloods of the Union's war effort.

While the Comstock's history is rich - among its many other contributions is Mark Twain's pen, for Sam Clemens got his professional start writing for the leading Comstock newspaper - this of course doesn't equate to an enticing investment proposition. Conventional opinion amongst the Nevada geological community is that the "old-timers" have extracted everything worth mining with only dead gouge and old workings left behind. Additionally, nearly a century has passed since the Comstock Lode's last underground production. Skepticism is warranted.

However, this conventional opinion is also an opportunity. Mark Ashely and his team are keen to demonstrate that, due to improvements in mining and processing methods, the old timers left behind significant quantities of gold and silver that would be very much economic in today's environment. This thesis will be either validated or not in the coming months as Tonogold initiates the first drill program at the Comstock Lode in decades.

Tonogold has two other arrows in its quiver should drilling near the historic Comstock workings fail to yield the results the company expects. The company owns the Lucerne open pit deposit on the Silver City spur of the Comstock Lode, located just south of the historic workings at Gold Hill. From 2012 to 2016, the previous owner of Lucerne (Comstock Mining) producing 59,515 ounces of gold and 735,252 ounces of silver before putting the mine on care and maintenance. There are roughly 750k AuEq remaining at Lucerne, which provides a decent backstop to Tonogold's current valuation.

The company is also quite excited about the Occidental/Brunswick Lode, located about 1.5 kilometers east of the historic Comstock workings. The old-timers extensively prospected the Occidental/Brunswick lode, but never found any of the immense bonanzas that drove 19th century production. In 2018, a third-

party prospector drilled a 32m intercept at 7.2g/t AuEq (from 8 meters depth) along one of the Occidental/Brunswick's southern extensions. Tonogold has since acquired this claim and the company plans to test the Occidental trend in the upcoming drill program.

In this *Featured Investment* piece, I begin by providing an overview of Tonogold - with a focus on management, insider ownership, share structure, and the company's working capital position.

We then look at Tonogold's three potential drivers of value in further detail: the historic Comstock Lode (also referred to as "Gold Hill"), the Occidental/Brunswick trend, and the existing Lucerne deposit.

Next, we review the company's expected milestones over the next couple of years, so readers can keep tabs on the company's progress alongside me. Most significant is the 8,700 meter Phase 1 drill program, expected to commence in the coming weeks.

We conclude with a discussion on why Tonogold offers attractive speculative value at its current stage and also touch on the risks of investing in the company.

Company Background

The Tonogold story began in the spring of 2013 when Mark Ashley was appointed as the company's CEO. Mark is an Australian by birth with over 30 years of experience in the mining industry. Prior to joining Tonogold, Mark had served as CEO for two different mining companies – LionOre Mining International and Apex Minerals.

At TSX-listed LionOre, Mark served in the roles of CEO, CFO, and Executive Director over an eight-year period. Mark and his colleagues knocked it out of the park with LionOre by pursuing a roll up strategy of distressed and/or neglected nickel assets. As the nickel market rebounded during the China-driven commodity boom of 2002-2007, LionOre grew into the eighth largest nickel producer in the world in relatively short order. LionOre was sold to global mining giant Norilsk Nickel (who beat out Xstrata in a bidding war) in June 2007 for the impressive sum of C\$6.8 billion. This was no doubt a rousing success for LionOre shareholders.

Between leaving LionOre and joining Tonogold, Mark also served as Managing Director of ASX-listed Apex Minerals. In 2007, Apex purchased the now notorious Wiluna Gold Mine for \$29.5m. Wiluna is a bio-leach refractory gold asset that has been plagued for years by operational issues. Coming off of his LionOre success, Mark successfully raised over A\$200 million over a period of four years and pumped the proceeds into Wiluna. Due to persistent production shortfalls and high production costs, Mark was unable to right the ship and left Apex in early 2012. Wiluna is now in the hands of ASX-listed Wiluna Mining and, nearly a decade later, operational issues continue to challenge the current operators.

Mining is no doubt an incredibly difficult business and, by the time he joined Tonogold, Mark had experienced both major wins and losses. After getting to know him for close to a year before deciding to

invest in Tonogold, I'm convinced that Mark is that much wiser from his past experiences and hungry for a repeat of the LionOre success.

Travis Miller, another key figure in the Tonogold story, came into the picture less than a year after Mark joined the company. In 2014, Tonogold purchased the Nevmet Iron Ore project near Hermosillo, Mexico in an all share deal. Travis, who has since become one of Tonogold's largest individual shareholder at 7% of the company, originally consolidated the Nevmet project in 2008. Over the ensuing years, Travis and his team expanded the asset through drilling and took it to the cusp of production.

Unfortunately, as can happen in this industry, the iron ore price collapsed from over \$140 per tonne in early 2014 to a low of \$40 in late 2015. As such, the Tonogold share price plummeted from a high of US\$1.40 in spring 2014 to below US\$0.05 in late 2015. By this point, Tonogold in effect had become a shell in search of a cornerstone asset. (While Tonogold still owns Nevmet to this day, the project has been put on ice for the foreseeable future and is no longer a relevant part of the Tonogold story.)

This is where the Comstock Lode and its prior owner Comstock Mining (NYSE: LODE) enter the picture. Comstock Mining began the ambitious project of consolidating the Comstock District back in 2003. During its 19th century heyday, the ownership of the Comstock was extremely fractured – with more than twenty different companies mining their own small portions of the Lode. Even after underground mining ceased in the 1920's, fractured ownership plagued the lode for nearly a century until Comstock Mining began its consolidation strategy.

Over a period of seven years, Comstock Mining painstakingly consolidated the district claim by claim and by 2010 controlled the vast majority of the district (roughly 10,000 acres in total). The company deserves plaudits for this difficult task, which they were able to achieve by earning the trust of the local community and excelling on environmental issues (Comstock Mining has received at least three national awards from the BLM for its reclamation work). In this respect, the company did an excellent job.

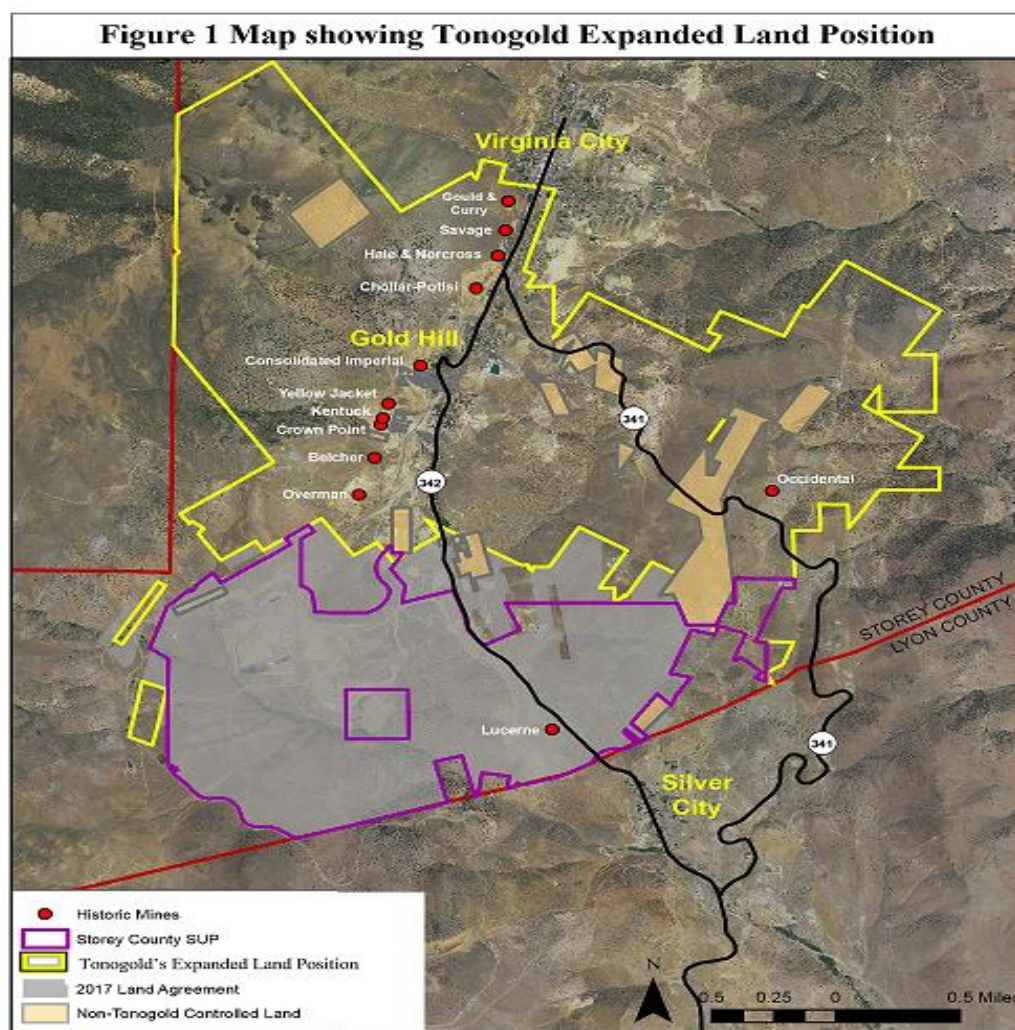
However, Comstock Mining made the ill-fated decision in 2010 to take the Lucerne open pit deposit into production. After drilling out the Lucerne deposit and constructing a Merrill Crowe processing facility at nearby American Flats, the company announced first production in mid-2012. Due to a declining gold price and some significant operational missteps (too low of cut-off grade, grade smearing, and a non-optimized pit shell), the mining operation severely underperformed and by 2016 had been fully shut down. In the process, the Comstock Mining share price was decimated. This opened the door for Tonogold to get involved.

When I first met Mark in late 2015, Tonogold had been eyeing the Comstock Lode for at least 18 months. Mark at that point had already taken multiple site visits to the operation and was well acquainted with Comstock Mining management and key shareholders. Over the months before we decided to invest, Mark convinced me that (a) the Comstock Lode remained a world-class opportunity despite the failure of the Lucerne operation and (b) Tonogold was in pole position to gain control of the asset by structuring a deal with the ailing Comstock Mining. In late 2016, we wrote a small check despite

the fact that no deal had been agreed upon. This was a bet on Mark, Travis, and the rest of the team – plain and simple.

In October 2017, Tonogold delivered on its initial deal with Comstock Mining. The deal was structured as an option agreement where Tonogold could gain 51% ownership in Lucerne for US\$20m in expenditures and 51% ownership in the American Flats processing facility for another US\$25m payment. It's important to note that this initial deal did not include either the historic Comstock Lode or the Occidental/Brunswick Lode. But it was a transformational deal for Tonogold as they now had their foot in the door.

At this point, Tonogold brought in Steve Ristorcelli and his team from MDA to work on a revised NI 43-101 compliant resource for Lucerne. As a shareholder, I was thrilled to learn of Steve's involvement as he is considered perhaps the top consulting geologist for Nevada based projects. Over his decades at MDA, Steve has a well-earned reputation as a man of integrity with immense technical talent. He and his team at MDA have now been working alongside Tonogold management for nearly three years and have been an instrumental part of the strides the company has made.



Source: Tonogold January 28, 2019 News Release.

In January 2019, Tonogold announced a restructured—and much improved—deal with Comstock Mining. Under the new agreement, Tonogold agreed to pay Comstock US\$15m in a mix of cash and shares for 100% control of Lucerne. More significantly, this new agreement also gave Tonogold the right to acquire a 100% control over Comstock Mining's remaining mining claims in Storey County. As seen in the above map, this more than doubled Tonogold's land position from 1,200 acres to over 2,800 acres. The revised agreement also gave Tonogold a twenty-year lease to use, operate, and manage the American Flats processing facility for a set charge per tonne upon commencement of production (starting at \$1 and declining from there).

For the first time, this gave Tonogold access to the historic Comstock Lode ("Gold Hill" in the above map) as well as the underexplored Occidental/Brunswick Lode to the east. At this point, Tonogold's focus shifted from restarting production at Lucerne to aggressive exploration of both Gold Hill and the Occidental/Brunswick. The game plan for each of these three assets will be discussed in greater depth later in this write up.

To conclude this section, I'd like to touch on the company's insider ownership, share structure, and working capital position. Between the two of them, Mark and Travis own 10% of the company on a fully diluted basis. Non-executive directors Gustavo Mazon and Jordan Moelis both joined Tonogold in association with the 2014 Nevmet Iron Ore transaction. Gustavo, who owns 7% of the company himself, belongs to one of Mexico's most successful business families and has been a key part of the Tonogold story for years now. Jordan and his father Ken (founder of investment bank Moelis & Company) own another 7% between the two of them. Interestingly, the Moelis family were previously significant shareholders in Comstock Mining but have since placed their chips on Tonogold. Same with non-executive director Bob Kopple (6% ownership in Tonogold), who for years was the largest individual shareholder in Comstock Mining.

The remaining two board members, Alan Edwards and Dr. Thomas Vehrs, both joined Tonogold in April of this year. Alan is a mining engineer by training who has held major operational roles in the industry, including Senior Vice President of Operations for Freeport Indonesia and VP of Operations for Kinross. Dr. Vehrs is a highly regarded exploration geologist with over 40 years of experience, as is most well-known for the multiple discoveries he made under the Fortuna Silver banner. These two own another 2% of the company.

While he does not serve on the Tonogold board, it's also worth mentioning Fernando Berdegúe and his contributions to the company as a strategic advisor. Fernando also belongs to one of Mexico's premier business families and became involved in Tonogold alongside Travis in 2014. All told, Tonogold's management, board, and strategic advisors own a healthy ~35% of the company and are well incentivized to make this a success.

Tonogold's share structure is admittedly less impressive. The company has 527 million shares on a fully diluted basis. This is comprised of 270m issued shares, 90m warrants, 155m shares from convertible notes, and another 12m shares recently issued to Drill Rite in a "drill for equity" deal. Tonogold plans to

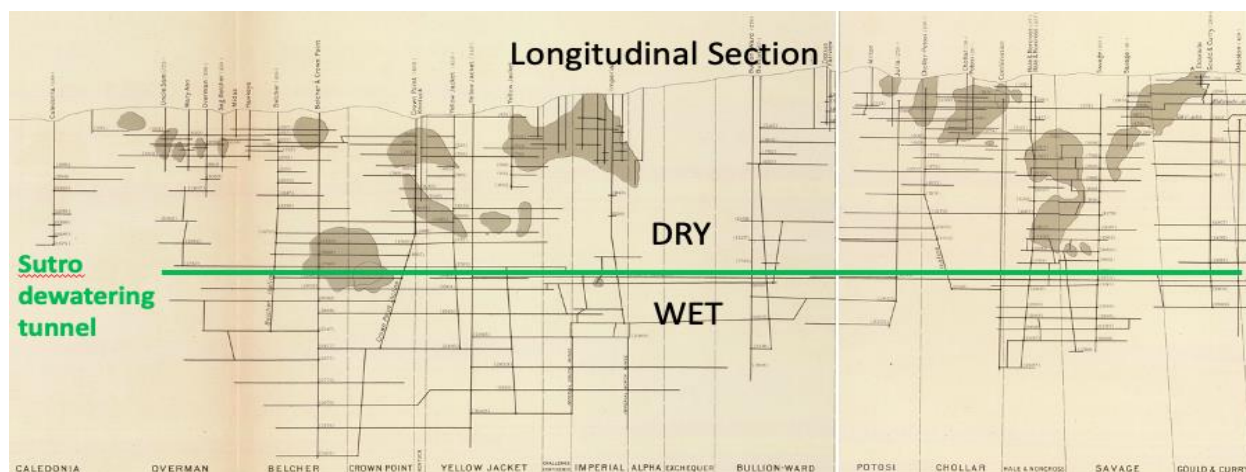
list on the NYSE MKT this fall and potentially on the TSXV in early 2021. (In association with the NYSE MKT listing, the company plans a reverse split to bring its fully diluted share count below 200 million.)

At TNGl's current share price of US\$0.34, this results in a fully diluted market capitalization of ~US\$180 million. Taking into account the company's US\$3m working capital position and the US\$19m that would come in should all warrants be exercised, we are looking at a US\$158m fully diluted enterprise value.

Given the company's US\$3m working capital position and recent US\$3.5m "drill for equity" deal with Drill Rite, Tonogold is now fully financed for the planned 8,700 meter Phase I drill program set to commence by the end of July. It is likely that the company will come back to market for another US\$3-5 million on the back of Phase I drill results.

Gold Hill

The historic Comstock Lode remains the richest precious metals discovery in American history. The Comstock mines both helped finance the Union's war effort and develop San Francisco into the innovative financial powerhouse it still is today. A staggering 8 million ounces of gold and 190 million ounces of silver have been extracted from the underground workings – with 80% of this production occurring between 1859-1882. As previously mentioned, the ownership of Gold Hill was extremely fractured. The longitudinal section pictured below shows three kilometers of strike. In just these three kilometers, there were sixteen distinct mining operations. (The names of each of these mines can be seen at the bottom of the image.) Tonogold controls the full 3 kilometers shown below.



Source: Tonogold Investor Presentation. July 2020.

The Comstock is unique in that there are excellent historical production records and underground maps. This data collection and mapping wasn't only done by the old-timers mining underground, but also by paid US government surveyors—another proof of the importance the United States government placed on this operation. This backward-looking data and mapping were largely irrelevant to the old-timers, who used intuition and experience to hunt for economic ore. However, one hundred and fifty years later, this data is a figurative gold mine for Tonogold and has played a significant role in the design of the

Phase I drill program. (I should note that Gregory Crouch, the author of *The Bonanza King*, is a Tonogold shareholder/adviser and has been instrumental in the data collection process.)

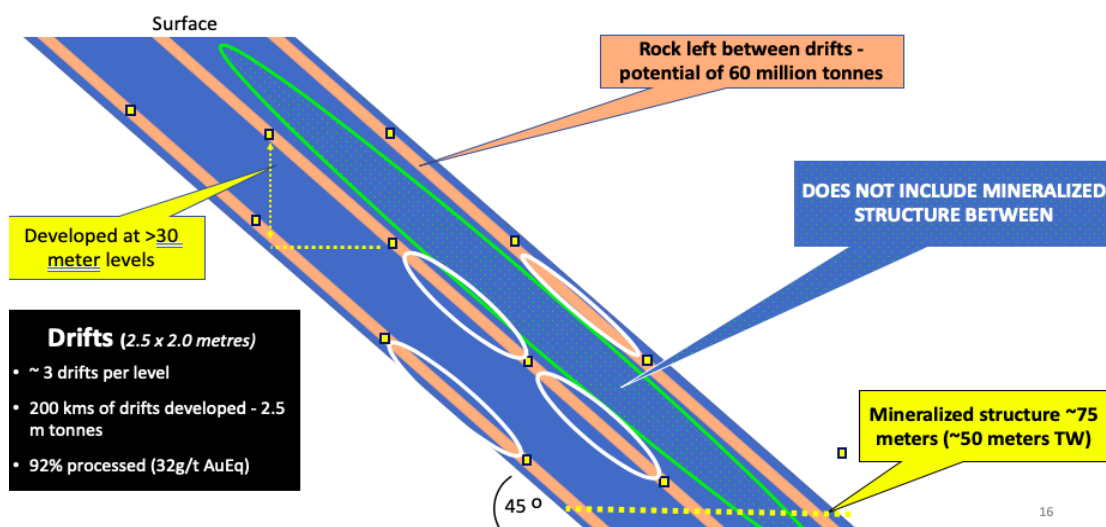
The below chart demonstrates the extremely rich grades that characterized Gold Hill. Past production can be classified as coming from either “bonanza stopes” or “exploration drifts”. While there may be additional undiscovered bonanza mineralization at depth, the last known bonanza stope was mined out in the 1880s. In total, the bonanza stopes yielded nearly four million tonnes at the obscene head grade of 94 g/t AuEq.

	Total 1859-1941			1859-1882			1883-1940		
	Tonnes	Head grade	Ounces won AuEq	Tonnes	Head grade	Ounces won AuEq	Tonnes	Head grade	Ounces won AuEq
Bonanza Stopes	3,939,589	94	7,733,346	3,939,589	94	7,733,346	-	-	-
Exploration Drifts	2,253,086	32	1,529,576	586,546	45	545,873	1,666,540	28	983,703
	6,192,675	72	9,262,922	4,526,135	88	8,279,219	1,666,540	28	983,703

Source: Tonogold Investor Presentation. July 2020.

Over the life of the Comstock mines, another ~2.3m tonnes of ore was extracted through the exploration drifts - with an average head grade of 32 g/t AuEq. (For some context, high quality underground mines in present times generally grade 8-10 g/t gold.) These exploration drifts were an absolute prospecting necessity in those days—drill rigs hadn’t yet been invented.

In total, roughly two hundred kilometers of exploration drifts were constructed over the roughly eighty years of underground production. The drifts were developed at thirty-meter levels with an average of three drifts per level. From historical records, Tonogold estimates that the old-timers used a ~24 g/t AuEq marginal cut-off grade to determine whether mineralization was worthy of extraction and processing. These same records indicate that a full 90% of the tonnes from drifts averaged 18 g/t Au and 319 g/t Ag (i.e. 22 g/t AuEq). While 22 g/t AuEq was not enough to cut a profit in the late 1800’s, in today’s terms this is highly economic ore assuming decent enough tonnage.



Source: Tonogold Investor Presentation. July 2020.

The above graphic illustrates Tonogold's strategy at Gold Hill. While it would be an added bonus were Tonogold to discover another Bonanza zone or two below the historic workings, that is not the company's focus nor expectation. Instead, Mark and team plan to demonstrate that there is up to 60 million tonnes of rock left between the historic drifts with grades that warrant extraction. Given that 90% of the tonnes from the drifts averaged 22 g/t AuEq, does this mean that the mineralized structure in between the drifts also averages 22 g/t AuEq or something similar? That is what Tonogold hopes to prove in this upcoming drill program.

Before providing more details on Tonogold's imminent Phase I drill program, I want to address a few potential points of skepticism on why the strategy at Gold Hill may not work. The first potential rebuttal is that the old-timers knew what they were doing and wouldn't have left behind significant quantities of economic rock. The Tonogold team doesn't dispute that the old-timers knew what they were doing. After all, in its time the Comstock was the most sophisticated underground mining operation in the world. But that was nearly one hundred and fifty years ago and much has changed.

	Actual 1882	Real Terms (Plus CPI)	Actual today	Benefit today
Gold Price (Per ounce)	\$ 20	\$ 600	\$ 1,250	108%
Costs (Per tonne)	\$ 21	\$ 630	\$ 200	215%
Breakeven recovered grade (g/t)	32.7		5.0	
Met recoveries	65%		90%	38%
Breakeven Head grade (g/t)	50.2		5.5	809%

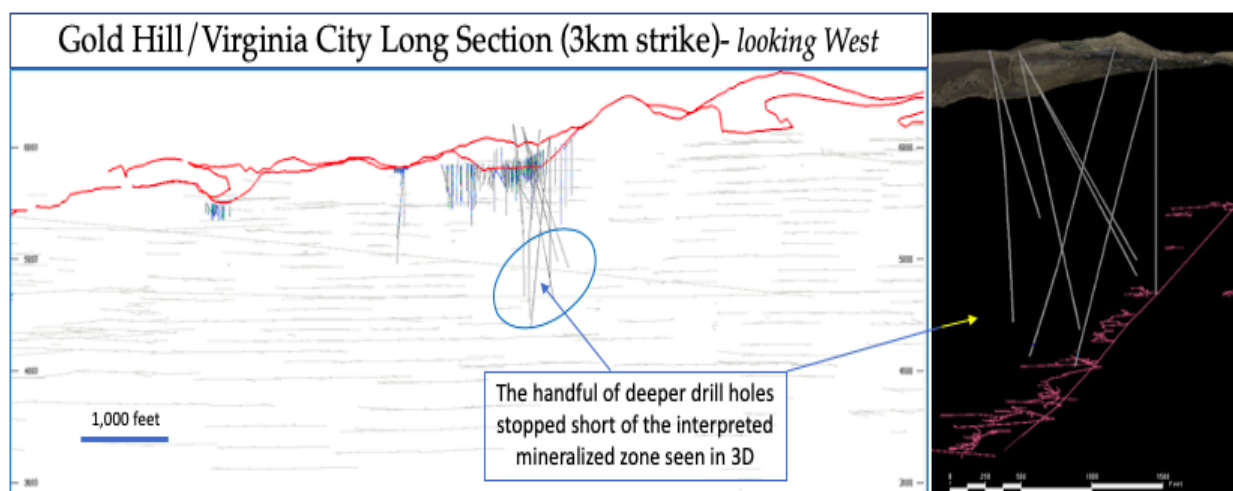
Source: Tonogold Investor Presentation. July 2020.

For starters, today's gold price of ~\$1800 per ounce has more than tripled in real terms since 1882. Second, the cost of extraction has fallen by roughly 70% in real terms due to significant technological advancements in underground mining. And third, metallurgical recovery techniques have also improved markedly since the 1800's. Historical recoveries at the Comstock averaged 80% for gold and 45% for silver. Mark estimates that met improvements would yield ~90% recoveries for gold and ~60% recoveries for silver. (Due to the gold/silver ratio sitting near historic highs, the silver component of this deposit is less significant than it has ever been – with silver likely representing only 15% of revenue at current prices.) In summary, Tonogold's counterargument is that what was clearly waste for the old-timers may be quite profitable in today's terms thanks to modern changes in these three factors.

A second point of pushback is that Gold Hill must have been drilled extensively in the decades before Comstock Mining began its consolidation strategy in 2003 and, if Tonogold's geological theory were true, it would have been validated by previous owners. It is true that there have been multiple drill campaigns at Gold Hill within the past fifty years. In the late 1970's, a drill hole intercepted 6 meters of 20 g/t Au and 250 g/t Ag from 15 meters. In 1984, another drill program intercepted 11 meters of 25 g/t

Au and 617 g/t Ag from 54 meters. If these previous operators weren't able to make it work, why would it be any different for Tonogold?

The company's rebuttal on this point is that past exploration drilling was mostly ineffective and quite shallow. The image below shows historic drill results at Gold Hill in the context of the underground workings. Much of the three kilometers of strike length has been untouched by modern exploration drilling. And of the drilling that has been done, Tonogold and MDA believe that the deeper holes inexplicably stopped short of the interpreted mineralized zone shown in 3D below. If Tonogold's geological thesis is indeed validated, it would be appropriate to say that the previous owners snatched defeat from the jaws of victory due to rushed and poorly constructed drill programs.



Source: Tonogold Investor Presentation. July 2020.

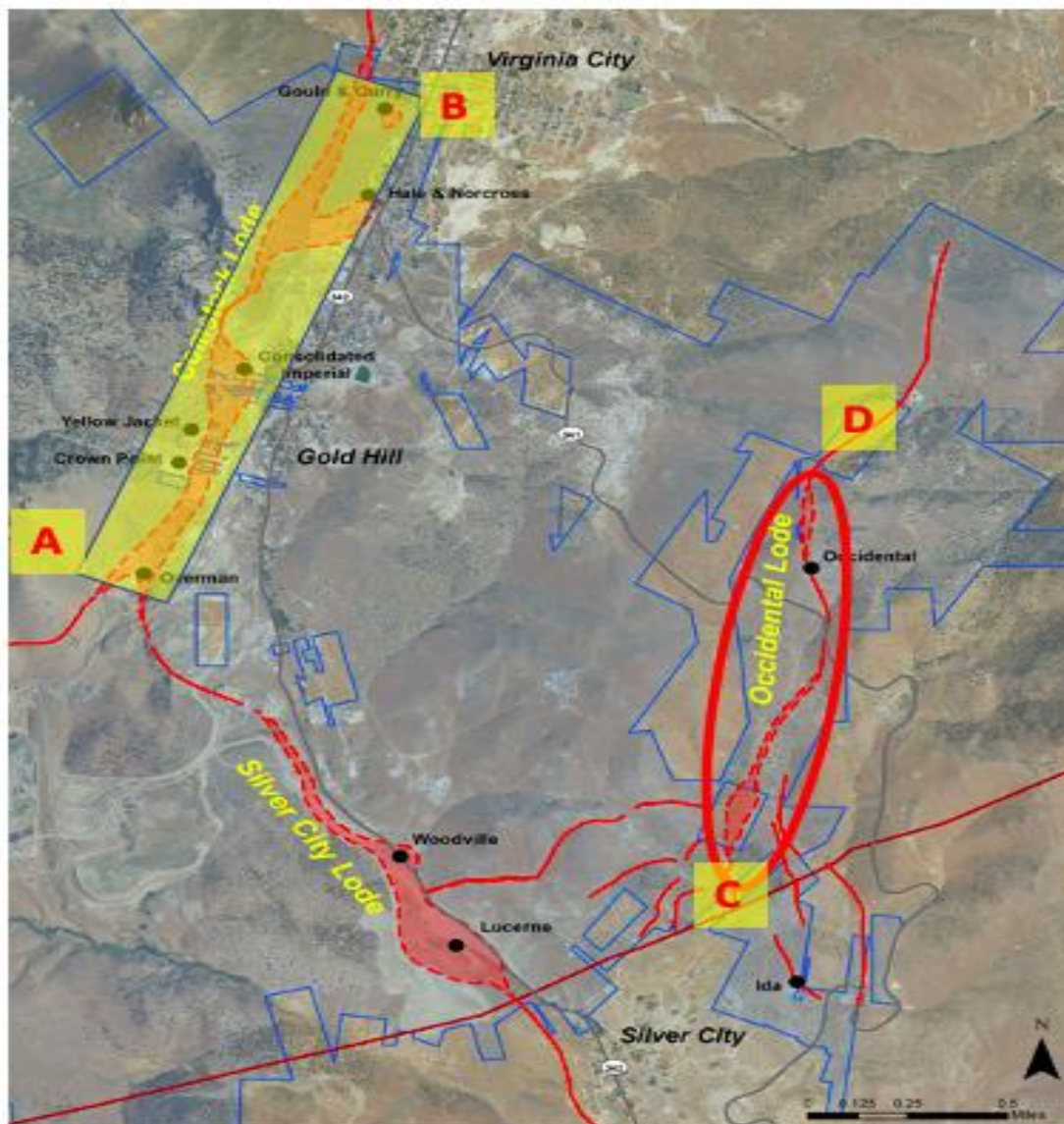
A third point of skepticism is that, even if Tonogold's geological thesis holds true, the historical workings will pose insurmountable technical challenges that render the recommencement of underground mining impossible. This is perhaps the most valid point of skepticism. Tongold's pushback is that less than 5% of the area shown in the above longitudinal section (3 kilometer length x 1 kilometer depth) has been mined to date. While true, the fact remains that these past workings will present technical difficulties should Tonogold or an acquirer look to recommence underground production. The best way for Tonogold to negate this concern is to find sufficient economic tonnage so that recommencing production becomes a no brainer, even in light of the technical difficulties.

The Phase I drill program set to commence this month will make or break Tonogold's geological thesis at Gold Hill. In the case that the thesis is validated, the company already has a multi-year program drawn up that could get Gold Hill to a production decision by late 2023. This includes defining an inferred resource above the Sutro Tunnel (500 meter level) by the end of 2021, defining an inferred resource below the Sutro Tunnel by the end of 2022, upgrading the resource above the Sutro Tunnel to indicated by the end of 2022, converting the indicated resource above the Sutro Tunnel to a measured resource equal to at least two years of planned production by the end of 2023, and finally upgrading the inferred resource below Sutro to indicated by the end of 2023. This would entire program would cost between

US\$70-80 million cumulatively. But first things first, Tonogold must prove resoundingly with its upcoming drill program that Gold Hill warrants these kinds of expenditures.

Occidental/Brunswick Lode

While Gold Hill remains Tonogold's primary focus at the moment, management is increasingly excited about the mineral potential at the Occidental/Brunswick Lode. As seen in the below map, the structure is located 1.5 kilometers east of the main Comstock structure and parallel to it with a mapped strike length of roughly 4.5 kilometers.



Source: Tonogold Investor Presentation. July 2020.

The Occidental was largely untouched by the old-timers - with a meager ~34,000 tonnes extracted between 1866 and 1894. According to the historic records, the average head grade over this period was

28 g/t Au and 335 g/t Ag. While this may sound like bonanza-style grades in today's terms, remember that over at Gold Hill the old-timers were pulling out 94 g/t AuEq rock from their bonanzas. The mines on the Occidental/Brunswick Lode simply did not meet the grade hurdle required to merit underground stoping. As such, they went almost entirely untouched despite the immense amount of activity just to the west.

Unlike Gold Hill, the Occidental/Brunswick Lode has seen some drilling in the very recent past. In 2018, local prospector Art Wilson conducted a small RC drill program on what are called the Ida Area Claims. The Ida Area Claims are located on the southern tail of the Occidental/Brunswick trend (near the "C" in the above map). Mr. Wilson's modest drill program yielded some impressive assays, including an intercept of over 230 gram-meters. (While there is some grade smearing evident in this particular 32-meter intercept, we are left with a decent 26 meters at 1.48 g/t AuEq after accounting for a sub intercept of 6 meters at 32 g/t AuEq. Not bad considering that the entire 32-meter intercept is within 40 meters of surface.)

- 1.5 metres at 16.5g/t Au plus 17g/t Ag (17g/t AuEq) from 50 metres
- 32 metres at 6.9g/t Au plus 27g/t Ag (7.2g/t AuEq) from 8 metres including:
 - ❖ 13 metres at 15g/t Au plus 55g/t Ag (16g/t AuEq) from 9 metres
 - ❖ 6 metres at 31g/t Au plus 94g/t Ag (32g/t AuEq)
- 2 metres at 21g/t Au plus 16g/t Ag (from 53 metres)

Source: Tonogold Investor Presentation. July 2020.

In the spring of 2019, Tonogold inked an option deal with Mr. Wilson to acquire the Ida Area Claims (210 acres in total). This deal in effect gives Tonogold full control of the Occidental/Brunswick trend that sits within Storey County.

While the potential upside at Occidental/Brunswick likely pales in comparison to that of the Comstock Lode at Gold Hill, Occidental/Brunswick does enjoy a couple key advantages over its better-known neighbor. Due to the near surface nature of the known mineralization and its relative distance from Virginia City, the Occidental/Brunswick Lode has open pit mining potential. As such, if Tonogold has success with the drill bit, it should be cheaper and much quicker to build a sizable resource on the Occidental/Brunswick Lode.

Tonogold plans to test the southern portion of Occidental/Brunswick as part of its Phase I drill program. The company plans to dedicate roughly 10% of its Phase I drilling budget to Occidental/Brunswick. Tonogold will determine next steps once their technical team receives and interprets the assays.

Lucerne

It's easy to forget that Tonogold also now owns the Lucerne deposit previously mined by Comstock Mining. While Lucerne is on the backburner for now, it does provide a healthy backstop to the Tonogold valuation. At its peak, Comstock Mining itself was valued at a US\$300 million market capitalization while it focused exclusively on bringing Lucerne online and into commercial production.

The Lucerne resource area is approximately one mile along strike, with explored widths from 600 to 1,800 feet, representing approximately 845 acres. Between 2012 and 2016, Comstock Mining processed approximately 2.6 million tons of Lucerne mineralized material at the American Flat processing facility – yielding 59,515 ounces of gold and 735,252 ounces of silver. The Lucerne open pit can be seen in the image below.



Source: Site Visit Photo. June 2019.

The official Lucerne Resource as reported by Comstock Mining stands at 79.8 million tonnes of material grading 0.92 g/t Au. This results in 2.14 million ounces of contained gold using a 0.24 g/t cut off. However, Tonogold management has been clear from the beginning that this official resource is likely grossly overstated for the following reasons.

First, the assumed cut-off grade of 0.24 g/t Au is likely far too low given the prior operating conditions. Tonogold management, with the assistance of Steve Ristorcelli and his team at MDA, believes that a

mining cut-off grade of closer to 0.70 g/t Au is more appropriate. This adjustment to cut-off grade alone would reduce the official resource to closer to 1.5 million ounces.

Second, the official Lucerne resource includes mineralization down to 463 meters depth. After a thorough review, Tonogold's technical team believes that all mineralization below 250 meters depth would not, at this time, meet the "reasonable prospects for economic extraction" as required by NI 43-101 reporting. This shaves another ~500k ounces off the official resource and brings us closer to one million ounces contained gold.

Third, after reconciling the official resource with the actual production data from between 2012 and 2016, there is evidence that grade smearing may have overestimated the official resource estimate by up to 30%. With this in mind, investors can assume for now that the actual Lucerne resource is closer to 750,000 ounces of gold. Tonogold plans to release its first NI 43-101 compliant resource for Lucerne by the end of this year.

While in some respects this is disappointing (after all, who in their right mind would prefer 750k ounces of gold vs 2.1 million), this exercise goes a long way in demonstrating the no nonsense approach of Tonogold and its technical consultants. It's clear to me at least that this company is attempting to build real value versus executing the classic Vancouver six-month promote. If your goal is to inflate a gold resource to drive up your company's share price, MDA is the last group you'd want to work with.

Given that the American Flat processing facility is built and in good shape, Tonogold in theory could get Lucerne operation up and running within 12 months. The initial capex would likely be in the ballpark of US\$20m, and the operation would support annual production of ~70k ounces of AuEq for 5-10 years. At \$1800 gold and assuming an AISC of \$1000 per ounce, such an operation has the potential to throw off US\$56m in cashflow per year.

It is worth repeating that if all goes to plan at Gold Hill and Occidental/Brunswick, Lucerne will be an after-thought for TNGI investors. That said, Lucerne and its potential for near term production provides a solid backbone to Tonogold's current valuation.

The next catalyst expected at Lucerne is a maiden NI 43-101 resource prepared by MDA. This is expected to be released by year end. In the event that Tonogold has quick success at Occidental/Brunswick in outlining a resource amenable to open pit mining, there is the potential of a joint Lucerne-Occidental PEA - with all ore processed at the already built American Flat processing facility. The earliest we could expect to see such a PEA is in late 2021.

Upcoming Milestones

I've provided below the Tonogold milestones that can be expected by the end of this year. The most significant catalyst by far is the upcoming Phase I drill program. At the moment, ~7000 meters of the drilling budget is allocated to Gold Hill with the remaining ~2000m meters to be drilled at Occidental.

First assays can be expected in early Q4 2020. Also expected by the end this year is a maiden NI 43-101 compliant resource at Lucerne.

- Phase I drill program (8700m) commences **by end July 2020**
- Upgrade listing to OTCQX **by end September 2020**
- First drill assays released from Phase 1 program **by end October 2020**
- NYSE MKT listing **by end October 2020**
- Maiden NI 43-101 compliant resource at Lucerne deposit **by end 2020**

Conclusion

The Tonogold story has come a long way from its days as a US\$5m shell in search of a cornerstone asset. While it's taken four years of patience, the company has now executed on its goal of assuming control of the historic Comstock mining district. Remember that even the initial deal signed with Comstock Mining in October 2017 only covered 51% of the Lucerne deposit and nothing else. Now the company controls 100% of Gold Hill and the Occidental/Brunswick Lode in addition to 100% of Lucerne. All for US\$15 million in cash and share payments to Comstock Mining. A tidy piece of business indeed.

I will concede that the company is no longer cheap with its ~US\$158m fully diluted enterprise value at the current share price. But that comes with the territory when one controls a prolific mining district in a world-class jurisdiction in the intermediate stages of a precious metals bull market. Remember that in the last bull market Comstock Mining reached a peak US\$300 million market cap with Lucerne as its sole focus. If the Tonogold team were inclined to, they could pretty quickly pull together a PEA for Lucerne demonstrating an NPV in the US\$300 million range with a payback period of less than six months from first production. Lucerne after all is fully permitted for production with a processing facility already built and ready to go.

But Tonogold will not be pursuing this strategy as management believes it sells the company's potential well short. This is not a near-term production play. Instead, the company will keep Lucerne on the backburner while aggressively adding value through the drill bit. If the company finds the open pitable ounces that it expects at Occidental/Brunswick, this alone has the potential to double the NPV (versus a "Lucerne-only" operation) when integrated with the existing Lucerne resource and American Flat processing facility. This would not be a bad outcome for current Tonogold shareholders, particularly in a rising gold price environment.

However, at the risk of sounding hyperbolic, success at Gold Hill would render both Lucerne and Occidental/Brunswick irrelevant while turning Tonogold into a household name. After two years of examining historical production records alongside the MDA technical team, Mark believes that there is

the potential that up to 60 million tonnes of mineralized material was left behind - grading below the 24 g/t marginal cut-off used by the old-timers but well above a conservative cut-off for modern day underground mining. At this point, I refuse to entertain Mark's 60 million tonnes number; however, even assuming that he is off by an order of magnitude, we are still talking about enough tonnage to potentially support up to 4 million contained gold equivalent ounces. This is not a small opportunity.

Tonogold checks a lot of boxes. The scale of the opportunity, at least at Gold Hill, is truly world-class. The company has significant near-term news flow with Phase I drill results and a maiden Lucerne resource due by the end of the year. Board and management own roughly 35% of the company. The CEO already has one multi-billion dollar exit under his belt. The company has a supportive shareholder base with proven access to capital. And zero promotion is built into the current valuation, as Tonogold management had zero incentive to market the story's potential while sensitive negotiations with Comstock Mining were ongoing. That has now changed.

The story has its drawbacks as well – a low quality OTC listing with limited liquidity, a large number of shares outstanding, and early shareholders up multiples on their investment. Not to mention that the bar for success at Gold Hill is very high. One to two million ounces of gold simply won't cut it.

Even with these risks in mind, Tonogold is one of the more exciting speculative bets in the MJG portfolio. Aside from a few brief mentions by newsletter writer Thom Calandra, I believe this is the first time that the company has been comprehensively written up by a fund manager, analyst, or newsletter writer. My expectation is that this relative anonymity will be short-lived, especially with Phase I drill results and an NYSE MKT listing both expected in the coming 90 days.

Past Featured Investments

Over the course of previous MJG letters, I've shared featured investment write-ups for seventeen different companies. These write-ups give current and prospective investors a glimpse into our portfolio, and also provide insight into the methodology I use to identify undervalued securities. We remain shareholders in five of these companies, with updates provided for each of these below.

At the end of this section, I also provide the *average cost per share* and *exit price* of legacy holdings written about previously.

Lara Exploration (TSXV: LRA)

Featured In: **January 2020**

Average Cost per Share: **C\$0.49**

Current Market Price (July 23, 2020): **C\$0.76**

Lara Exploration was highlighted as the featured investment in the MJG partnership's January 2020 letter. Lara is one of the fund's more recent investments, with the original position initiated at C\$0.44 in November 2019. Subsequent purchases have raised our average cost per share to C\$0.49. While I tried to add to our position during the March panic, unfortunately the LRA share price didn't get close to our healthy limit order sitting in the mid C\$0.30 range. Impressively, even during the depths of the March selling, Lara refused to budge below its 52-week low of C\$0.44 reached in November 2019.

In the roughly four months since the March panic, the LRA share price has appreciated markedly despite very limited news flow. In fact, there have only been two Lara news releases since January 2020 – neither of which were particularly significant. The share price seems to have been buoyed instead by a surprisingly resilient copper price that has increased over 45% from its mid-March low of roughly \$2 per pound. It's also a testament to Lara's shareholder base, which is comprised of investors loyal to both the prospect generation business model as well as CEO Miles Thompson and his team.

Lara continues to have four significant "irons in the fire", all of which have the potential to unlock significant value for the company in the coming months and years. The first is the company's 2% NSR and 5% project-level interest in the soon-to-be producing Celesta Copper Project located in Brazil's Carajás Mineral Province. The company has guided that initial production can be expected at Celesta later on in Q3 2020 – with no indications from the company to expect otherwise.

The Celesta 2% NSR is set to become the company's first cash flowing royalty. This is a significant achievement for the company, as well as proof of Lara's unique ability to organically generate quality royalties from what were once grassroots prospects. While the expected annual cashflow from Celesta

isn't massive (estimated at between US\$750k and US\$1m per year), it's important to remember that Miles runs a very lean ship – with corporate overhead of roughly C\$1m per year. These royalty checks coupled with Lara's respectable C\$2m working capital position indicate that Miles and team can go years without having to raise additional capital.

Lara's second significant asset is its JV with C\$400m copper producer Capstone Mining at the Planalto Copper Project, also in the Carajás region in northern Brazil. (Lara in essence has a 30% free-carry to production at Planalto.) Since signing the initial joint venture agreement in late 2018, Capstone has completed two drill programs on the property. The first program, drilled in spring 2019, comprised of eighteen diamond holes for 3100 meters total. A second drill program of roughly 2600 meters was completed earlier this year, with assays released in late April. While the program didn't yield any headline results, the company's April 20th news release notes that *"A number of IP chargeability anomalies are identified with the most significant anomalies located in mafic volcanics at the southeast part of Homestead target trend, close to the granite contact. A further strong anomaly is interpreted at depth... and is tentatively interpreted as a possible down-dip western extension of the Homestead mineralization. Diamond drilling is planned to test both of these chargeability anomalies once Covid-19 related lockdowns and travel restrictions are lifted, along with additional geophysical surveys."* Lara management has assured me that Capstone remains very interested in Planalto, though the timing of the next diamond drill program remains uncertain due to Brazil's disastrous mishandling of the coronavirus pandemic.

Lara also has a third advanced copper asset in the Carajás region named the Liberdade Project. Liberdade was originally staked by Lara in 2007 and then optioned to Chilean copper giant Codelco in 2011. In the following two and a half years, Codelco earned a 51% stake in the project by spending US\$3m on exploration and drilling. At this point, Brazil's own mining giant Vale came out of the woodwork and protested to the Brazilian Department of Mines that it had a license covering the Liberdade Project dating back to 1986 that was still valid. A lawsuit ensued and the case has been held up in the Brazilian federal court system ever since.

The good news is that Vale would not be engaging in what has now been seven years of litigation if it did not feel strongly that Liberdade would be a mine and a big one at that. Lara is also fortunate in that Codelco is bearing the full costs of the Liberdade litigation, not to mention that success in court is no longer baked into the LRA valuation after years of legal wrangling. The bad news of course is that the project has been stalled for years now, with no clearly defined end date. For now, Lara shareholders must be patient – though I remain optimistic that we could see some sort of a resolution in the coming 18 months as the copper price continues to strengthen.

Finally, there is the Corina Gold Project in the Antabamba region of Southern Peru. In mid 2014, Lara sold this asset to a subsidiary of Hochschild Mining for staged cash payments of US\$4.15m and a 2% NSR over the property (with no buyback provision). Importantly, Lara has yet to receive the vast majority of the cash payments - as only US\$650k of the total purchase price has been paid to date. Given the impact of Peru's strict coronavirus lockdown, I anticipate that the next round of drilling at Corina will be pushed into 2021. This remains a significant LRA catalyst.

Due to its share price performance, Lara's fully diluted enterprise value has grown to approximately C\$30m. While the value proposition at these levels is admittedly less attractive than buying LRA at say C\$0.45 or C\$0.50 per share, the company still offers good value relative to its peers. This can be illustrated by comparing Lara to the newly formed Orogen Royalties.

Orogen will be the name of the combined entity once the merger of Evrim Resources and Renaissance Gold is complete. Orogen is an excellent comp because, just like Lara, the company has the ability to organically generate royalties through prospect generation. Additionally, while neither Orogen nor Lara receive royalty cashflow at the moment, both companies are expecting their first organically generated royalty cashflow in the coming months (at Ermitaño West and Celesta, respectively). Both companies also have well respected management teams, strong partners, and supportive shareholder bases.

At current share prices, Orogen will have an approximately C\$80m market capitalization upon closing of the merger – or a C\$62m enterprise value taking into account the pro forma cash position of roughly C\$18m. This is roughly double the current fully diluted enterprise value of Lara. Is the disconnect justified? I would argue not.

Orogen's most significant assets include a 2% net smelter royalty (NSR) on First Majestic Silver's Ermitaño West gold deposit (first production in 2021) and a 1% NSR on the Silicon gold project in Nevada optioned to AngloGold Ashanti. In Q1 of this year, First Majestic announced a roughly 805,000 AuEq ounce maiden resource estimate at Ermitaño West. Assuming US\$1800 Au and production costs of roughly US\$650 per AuEq ounce (a reasonable assumption for this type of underground mining in Sonora State), Orogen's 2% NSR at Ermitaño West is worth roughly US\$18.5m undiscounted assuming no further ounces are added. First royalty cashflow at Ermitaño West is expected by Orogen sometime next year.

With its 1% NSR at Silicon, Orogen owns a royalty that will almost certainly generate cashflow within this decade. However, at this stage it is both too early to know when this will occur and how much cashflow this could generate. However, it is clear that AngloGold Ashanti (who bought Silicon in May 2020 from Renaissance for US\$3m in cash and the 1% NSR) has big plans for the project. Rumors are that Anglo is aggressively drilling as we speak with multiple rigs. This royalty does have value but at this point we are at the guessing stage.

Lara's top two assets match up well with Orogen. With its 2% NSR at Celesta, Lara also holds a royalty with near term cashflow potential. Because Celesta is privately owned, it has no NI 43-101 Feasibility Study and not much information is publicly available on the project. However, we do know that the Osmar deposit contains 2.14m tonnes of 4.2% Cu and will be mined first. (In a January 2017 news release, Lara defined commercial production at Celesta as 500 tpd which would indicate a roughly twelve year mine life for the Osmar deposit.) Assuming US\$2.90 Cu and production costs of roughly US\$1.25 per pound (a reasonable assumption for a high grade, open pit copper operation in Brazil), Lara's 2% NSR at Celesta is worth roughly US\$6.5m undiscounted assuming no further pounds are added. Don't forget that Lara is owed a US\$800k penalty payment and also owns a 5% project-level stake at Celesta, but we will put this to the side to keep our comparison apples to apples.

With its 2% NSR covering the Corina Project in Peru, Lara also owns a royalty that will almost certainly generate cashflow within this decade. Similar to Silicon, the timing of first cashflow is unclear as is the absolute scale of the project, but the fact that the Corina discovery is within trucking distance of Hochschild's mill at Selene means it could be put into production quite quickly. It's also worth noting that Lara got a better deal from Hochschild than Renaissance did from AngloGold Ashanti – as Lara gets paid US\$4.15m versus US\$3m and also gets to keep a 2% royalty instead of 1%. I know there is significant excitement surrounding the Silicon Project, but for these reasons I think investors should be as excited (if not more so) with what Lara has going at Corina.

In summary, I estimate that the Ermitaño West NSR is worth roughly US\$12m (or C\$16m) more than Lara's 2% NSR at Celesta. For the sake of argument, we will say that Lara's 2% NSR is roughly equal in value to the 1% NSR at Silicon and that both companies have equally deep benches capable of generating additional value. With this in mind, Lara's enterprise value of C\$31m seems cheap relative to Orogen's EV of roughly C\$62m. While there is a discrepancy in value between the Ermitaño West and Celesta royalties, the current discount is too large. Given Orogen's current valuation, I believe that today Lara could support an enterprise value of C\$46m which equates to a C\$1.09 share price. This implies 45% upside for Lara shareholders before it is reasonably valued against one of its key peers.

- First royalty check from Celesta 2% NSR **by end Q3 2020**
- Phase III drill results at Planalto (5000m) **by end Q2 2021**
- ~C\$1.3m in cumulative partner payments received **by end Q2 2021**
- Drill results from Hochschild at Corina (33 drill pads) **by end 2021**
- Resolution to Codelco/Vale lawsuit at Liberdade **by end 2021**
- New partner announced at Lara Copper Project in Peru **by end 2021**
- New partner announced at Puituco Zinc Project in Peru **by end 2021**
- First cashflow from Bifox Phosphate Royalty **by end 2021**

Included above are the milestones that LRA shareholders can expect over the coming 18 months or so. Most significant in the near term is the announcement expected this quarter that Celesta has achieved commercial production and royalty payments to Lara have commenced. I'm also hopeful that we see Capstone fire up a new drill program at Planalto by year end, though that will hinge on whether Brazil is able to get its act together when it comes to coronavirus.

Fortunately for Lara shareholders, the company has a healthy margin of error given its current C\$2m working capital position and the C\$1.3m in additional partner payments expected over the coming 12 months. Lara remains an easy hold for us, and we won't hesitate to aggressively add to our position should the share price approach our cost basis of C\$0.49.

Salazar Resources (TSXV: SRL)

Featured In: **July 2019**

Average Cost per Share: **C\$0.17**

Current Market Price (July 23, 2020): **C\$0.26**

Salazar Resources was highlighted as the featured investment in the MJG partnership's mid 2019 investor letter. We first initiated our position in SRL in April 2019 and today have a cost basis of roughly C\$0.17 per share. The past six months have again been light on substantial news flow, which is largely a function of a nationwide backlog on water permits for exploration drilling and a three-month Covid-19 lockdown. Even in light of these challenges, the Salazar share price has continued to re-rate higher due to the significant number of catalysts expected by year end.

The first of these catalysts pertains to the development stage Curipamba Project where Salazar has a 25% free carry to production. Salazar's partner Adventus Mining is a credible group backed by shareholders such as Altius Minerals, Greenstone Resources, Wheaton Precious Metals, RCF, and the Nobis Group of Ecuador. In late June, Salazar announced that a regional exploration drilling program is set to begin shortly at the project – with drill mobilization expected in September or October. The size of the drill program will be results driven, but it's safe to say that the program will consist of a minimum of 3000 meters with the potential to go up to 10,000 meters if the Curipamba technical team likes the results. The focus of the program will be the Sesmo Sur and La Vaquera targets. With this program, Adventus is looking for additional upside beyond the PEA-stage El Domo deposit (which on its own boasts excellent economics).

At its current share price, Adventus carries a market capitalization of roughly C\$150m. Most if not all of this value stems from its 75% stake in Curipamba. Were the market rational, it would seem that Salazar deserves at least a ~C\$50m valuation for its 25% ownership of the project. Salazar currently sports a ~C\$35m fully diluted market cap which indicates that the company is undervalued for its stake in Curipamba alone. Adventus plans to announce a Feasibility Study for Curipamba's El Domo deposit in late 2021. If the upcoming drill program encounters excellent results elsewhere on the Curipamba property, it is possible that this study will be delayed. That would be a good problem to have for shareholders of both companies.

In early June, Adventus and Salazar announced that they would also be drilling Pijili and Santiago – two earlier stage projects distinct from Curipamba. In the case of these two projects, the ownership split is 80% Adventus and 20% Salazar - with Salazar free carried through a production decision.

Pijili is a mineralized porphyry directly in line with the Rio Blanco porphyry (owned by the Chinese, ready for production, struggling with social license to operate) and the Chaucha porphyry (undergoing late-stage evaluation by Southern Copper). Over the past two and a half years, Adventus has spent US\$2.7 million defining drill targets at Pijili. Results to date have been promising, including a channel sample of 42 meters grading 0.44% copper, 0.14 g/t gold, 0.012% molybdenum and a chip sample of 26.7 meters grading 0.77% copper, 0.32 g/t gold, and 0.020% molybdenum. Two drill rigs are currently turning at Pijili, and the partners expect that a minimum of 5000 meters will be drilled by year end.

Drilling will start at the Santiago Project in southcentral Ecuador in Q4 2020. Santiago is primarily a porphyry target, though there is also epithermal potential at the project. This project has seen drilling in the past, and the historical results are quite impressive in today's terms – with hole FUD-01 intersecting 323 meters of 0.65% CuEq and hole FUD-02 intersecting 268 meters of 0.70% CuEq. The partners anticipate that a minimum of 3,000 meters will be drilled at the property by year end.

Salazar also has a stable full of 100%-owned properties, which I view as free upside at the company's current valuation. The primary asset is the 2,200 hectare Ruminahui property in the north of the country on the Cascabel (Solgold) and Llurimagua (Codelco) trend. Fredy Salazar recognized the potential of the area 20 years ago, impressed by high grade samples and intense alteration. After 15 years of community liaison Salazar Resources has only just managed to gain a written agreement with the locals to enable systematic work to be carried out. The project has the potential to be a major new discovery.

The company plans to drill two of its other 100%-owned properties by year end. At Los Osos, which has never before been drilled, preparations are underway with a 3000 meter program set to commence in August. In this program, company plans to test the depth-extent of gold-copper mineralization that is visible at surface in porphyries and hydrothermal breccias. Assays from this program can be expected by year end.

In parallel with the drill program at Los Osos, the company plans to advance the Macara license area in southern Ecuador. Macara hosts the potential for buried volcanogenic massive sulphide (VMS) deposits with gold caps at surface. The project has undergone mapping, soil geochemistry, and rock-chip sampling in previous field seasons. The next step is gravity geophysics (a proven tool for VMS discovery) prior to drilling. The program at Macara is expected to be roughly 3000 meters – with drill assays due in Q1 2021.

An additional catalyst is the expected reopening of the Ecuador Mining Cadastre, which has been closed for the past two and a half years. Salazar has a number of applications for new mining concessions sitting at the mining cadastre ready for review, some of which are for areas uncontested by other bidders and are known to host promising geology. The company is confident that, once the cadastre is reopened for business, Salazar will be granted these uncontested, and possibly other, new concessions to add to its land position in Ecuador.

I've provided below the Salazar milestones that can be expected over the coming eighteen months. We can expect to see drill results from no less than four different properties (Pijili, Santiago, Los Osos, Curipamba) by year end.

- Reopening of Ecuador Mining Cadastre **by end Q3 2020**
- Drill results (5000m) at Pijili **by end Q3 2020**
- Drill results (3000m) at Santiago **by end 2020**
- Drill results (3000m) at Los Osos **by end 2020**

- Drill results (3000m minimum) from exploration drilling at Curipamba **by end 2020**
- Drill results (3000m) at Macara **by end Q1 2021**
- Drill results at Rumiñahui **by end 2021**
- Feasibility Study at Curipamba announced by Adventus **by end 2021**

Salazar remains well-financed with a working capital position of ~US\$2.5m. The company also expects roughly ~US\$1m in net income for 2020 from advanced payments, management fees, and drill rig rental income. This puts Salazar in the enviable position of theoretically being able to finance its two drill programs on 100%-owned properties without having to raise a cent. After a frustrating twelve months of permitting and COVID-related delays, these next six months are set up to be the most consequential period in the company's thirteen-year history.

Adriatic Metals (ASX: ADT)

Featured In: **January 2019**

Average Cost per Share: **A\$0.67**

Current Market Price (July 23, 2020): **A\$1.87**

Adriatic Metals remains a core MJG partnership holding. We first initiated the position in September 2018 at A\$0.39 on the heels of the discovery hole at Rupice and continued buying into late 2018. On July 8th, we added to our ADT position for the first time in 18 months at C\$1.58 per share. Our average cost per share now sits at A\$0.67.

While the ADT share price sits 16% higher since I last wrote about the company earlier this year, the past six months have been disappointing in a few respects. On the permitting front, the Urban Planning Permit, Veovaca Exploitation Permit, and Rupice Exploitation License have all been delayed into the second half of the year. These three permits were originally anticipated in either Q1 or Q2. The emergence of the COVID-19 pandemic no doubt has played a role, so these delays are not yet a red alert concern. However, the company can go a long way in assuring both investors and potential acquirers by showing some movement on this front. It is expected that both the Urban Planning Permit and Veovaca Exploitation Permit will be finalized in the coming 60 days.

Adriatic has also yet to be granted additional regional land concessions within Bosnia. The granting of these new concessions was expected to occur in Q2, but this has now been pushed into the second half of the year. Adriatic management is confident that the new land concessions will also be finalized in the coming 60 days. This would be a significant catalyst for the company – as it would allow ADT to utilize its extensive in country knowledge to hunt for new deposits while also increasing its attractiveness to potential acquirers.

Third, the pace of drilling at both Rupice and nearby targets has been significantly slower than expected. This is also largely related to the emergence of COVID-19 and the impact this has had on securing skilled labor to man the five drill rigs currently on site at Vares. The company is utilizing drillers from Bosnia, Serbia, and Macedonia and, as one can imagine, this has been logistically difficult to manage due to travel and visa restrictions. The company is due for a drilling update in the very near future, and it is likely that the first results from the undrilled Borovica target will be included in the next drill-related press release.

While progress on the ground in Bosnia has been slower than ADT shareholders will have hoped, there have been numerous developments on the corporate front. Most significantly, Adriatic announced the acquisition of Richard Warke-backed Tethyan Resources in early May. This opportunistic all-share deal, set to close in August, will result in ~7% dilution for ADT shareholders. Under the leadership of CEO Fabian Baker, Tethyan was able to successfully consolidate the historic Raska District in southwestern Serbia – located just two hundred kilometers from Adriatic’s Bosnia operations.



Source: Adriatic News Release. May 10, 2020.

The two most promising licenses within the Raska District are Kizevac and Sastavci. Both of these licenses host historic open-pit operations last mined in the late 20th century. As stated by Adriatic CEO Paul Cronin: “These are past producing mines, and the historical data we have reviewed provides ample confidence that we are adding significant value to our portfolio with minimal outlay and dilution to our existing shareholders.” In this respect, the Raska District is quite similar to Adriatic’s Vares Concession in Bosnia. The existing Kizevac and Sastavci deposits, both of which are polymetallic, offer low hanging fruit for Adriatic to quickly build tonnage. Additionally, the company now has the opportunity to employ

modern exploration techniques to hunt for new deposits nearby that went undiscovered by the Soviet-era operators.

As an aside, the Raska District has a long mining history. In 1332, an anonymous author wrote that the Kingdom of Rascia hosts “five gold mines and an equal number of silver mines in which expert miners toil without interruption. There are also mixed deposits of silver and gold, which have recently been discovered at various and sundry sites, and huge dense forests. Whoever owns this kingdom will have a veritable jewel in his possession, select and precious for all times.” For the sake of Adriatic shareholders, let’s hope this author’s words prove prescient here in the 21st century.

There were a few other non-Tethyan corporate developments in recent months. In early May, the share escrow window lifted for Adriatic founders and seed stage investors. While there was some light selling volume from insiders such as former board member Eric de Mori, the market easily absorbed any loose shares. CEO Paul Cronin, Adriatic’s largest individual shareholder, has assured shareholders that he continues to hold his full position.

In early June, Adriatic announced that Milos Bosnjakovic was leaving the company after having been involved with the company since its acquisition of the Vares Project in 2017. Milos deserves substantial credit for helping the company get to this stage, however it’s unlikely that his departure will negatively impact the company. In the same news release, Adriatic announced that Dominic Roberts has come onboard as the company’s Head of Corporate Affairs. Dominic is perhaps the single most qualified person in the world for this position given his previous position as Group Operations Director at Mineco, which is one of the largest base metal miners in the Balkans. At Mineco, Dominic most oversaw the permitting and development of the Olovo Mine that is located in the same Bosnian Canton as Adriatic’s Vares Project. As such, Dominic has strong preexisting relationships within the local community and government.

Also of note is the very recent resignation of John Richards from the board of Adriatic. Mr. Richard was the board nominee designated by Sandfire Resources (16% ownership in ADT), which has the right to nominate one board member under the terms of its original investment agreement. Interestingly, Sandfire has chosen not to nominate somebody in Mr. Richard’s place. This signals to me that Sandfire may be very close to making a run at Adriatic. Upon seeing this news, we immediately added to our ADT position. While an acquisition offer has yet to materialize, this news saw Adriatic hit all-time highs within two days of the announcement. Those following the story closely understand that Adriatic is very much in play and that there is a reasonable chance that the company is no longer around come 2021.

I’ve provided below the Adriatic milestones that can be expected over the coming six months. As can be seen, the company has no less than six major catalysts that can be reasonably expected in the coming sixty days. From a news flow perspective, it doesn’t get any better than this.

- Tethyan Resources acquisition officially closes **by end August 2020**
- Urban Planning Permit in hand **by end Q3 2020**

- Exploitation Permit granted at Veovaca **by end Q3 2020**
- First drill results at Borovica Prospect **by end Q3 2020**
- First drill results at Kizevac License in Serbia **by end Q3 2020**
- New regional land concessions granted **by end Q3 2020**
- Prefeasibility Study at Rupice **by end Q3 2020**
- Exploitation Permit granted at Rupice **by end 2020**
- Resource Update (10-14 million tonnes) at Kizevak **by end 2020**

Due to Rupice's sterling economics, I continue to believe that Adriatic deserves to be valued at 0.5x of the after-tax NPV outlined in the November 2020 scoping study. This equates to ~A\$3.00 per fully diluted share – a healthy 60% premium to the company's share price. I'm aware that metal prices have increased since the scoping study and that it's also likely the Rupice deposit has added tonnage in the meantime. Additionally, this A\$3.00 target doesn't include any value for the company's newly acquired Serbian assets or regional targets within the Vares Concession such as Borovica. However, out of an abundance of caution, we will keep this number as is and reevaluate when the Rupice Prefeasibility Study is announced in the coming months.

Golden Valley Mines (TSXV: GZZ)

Featured In: **July 2018**

Average Cost per Share: **C\$0.31**

Current Market Price (July 23, 2020): **C\$0.68**

Golden Valley Mines remains a core holding of the MJG partnership. We purchased our first GZZ shares in April 2016 and most recently added to our position in mid-May. Despite the surge of interest in gold and gold-related equities, GZZ still remains a classic deep value investment that Ben Graham would be proud of. The company continues to trade a healthy discount to the value of its 44.8% stake in junior royalty company Abitibi Royalties (TSXV: RZZ). The rest of Golden Valley's assets and equity interests come for free at the current valuation.

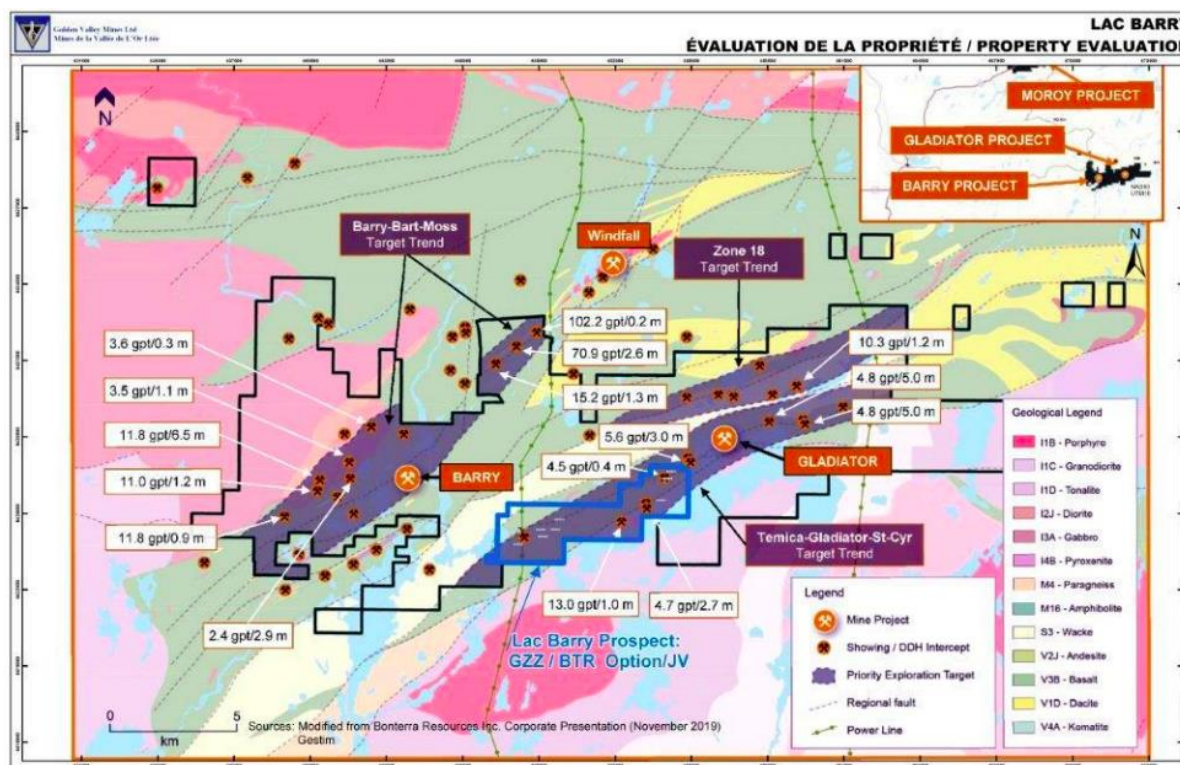
Golden Valley's 5,605,246 share position in Abitibi Royalties is worth ~C\$123m at RZZ's current share price of C\$22.00. Golden Valley itself has a fully diluted market capitalization of ~C\$102m. This equates to a 17% discount. Some would argue that a discount to the value of the RZZ position is warranted due to tax implications. This assumes that the remainder of Golden Valley's assets are worth zero, which is far from the case. But even under this assumption, the current discount to the RZZ position is too

extreme based on taxes alone. Were Golden Valley to liquidate its entire position in RZZ tomorrow in the least tax efficient manner possible, the maximum tax rate the company would pay is 13.25%.

Of course, the remainder of Golden Valley's assets and equity interests are worth far from zero. Golden Valley owns 4,470,910 shares of International Prospect Ventures (TSXV: IZZ) worth ~C\$760k at current share prices. The company also owns 21,520,777 shares of Val-d'Or Mining (TSXV: VZZ) – with another 4,166,667 VZZ shares set to be received on or before December 31, 2020. In total, the VZZ shares are worth ~C\$4.6m at current share prices. Finally, Golden Valley owns 2,100,000 shares of Sirios Resources (TSXV: SOI) worth ~C\$320k. Cumulatively, these three equity stakes are worth ~C\$6m at current share prices.

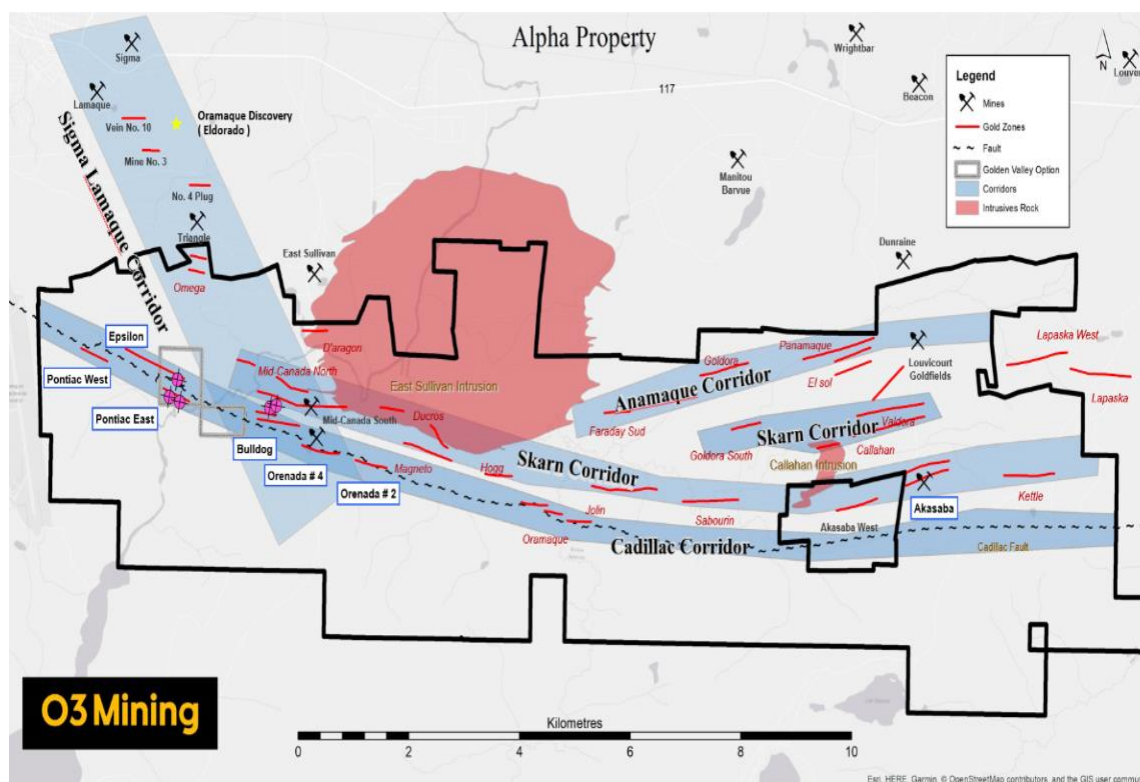
In addition to the equity positions, Golden Valley holds a sliding 2.5-4% NSR over Sirios's Cheechoo Gold Project in James Bay, Quebec. This project has already seen 69,500 meters of drilling over 295 holes. Assays from a recent 5200 meter drill program are pending. Sirios, which is 17% owned by mining giant Newmont, expects that it will be in a position to announce a PEA for Cheechoo in the latter half of 2021.

Golden Valley also holds a 15% free carried interest and 3% NSR (with 1% of the NSR subject to a C\$1m buyback) at Bonterra's Lac Barry Property. Bonterra has spent well over C\$2m at Lac Barry over the past thirty-six months, including the completion of 19,000 meters of drilling over 55 holes. The Lac Barry Property, outlined in blue in the map below, is located just to the southwest of Bonterra's ~1.1 million ounce Gladiator deposit. Bonterra is currently waiting on decline permits at Gladiator and, pending timely receipt of the permits, plan to begin construction on an exploration decline in spring 2021.



Source: Golden Valley Investor Presentation. July 2020.

At the moment, Golden Valley's most significant non-RZZ asset is the Centremaque option agreement with Osisko-backed O3 Mining. At Centremaque, O3 has the option to acquire an 80% interest in the project by incurring C\$4m in exploration expenditures over a four-year period and issuing Golden Valley C\$250k in O3 shares. Upon exercise of the option, Golden Valley will retain a 20% free carried interest and 1.5% NSR (with 0.5% of the NSR subject to a C\$1m buyback). Centremaque (outlined in grey below) comprises a core portion of O3's Alpha Property.



Source: O3 Mining news release. 20 January 2020.

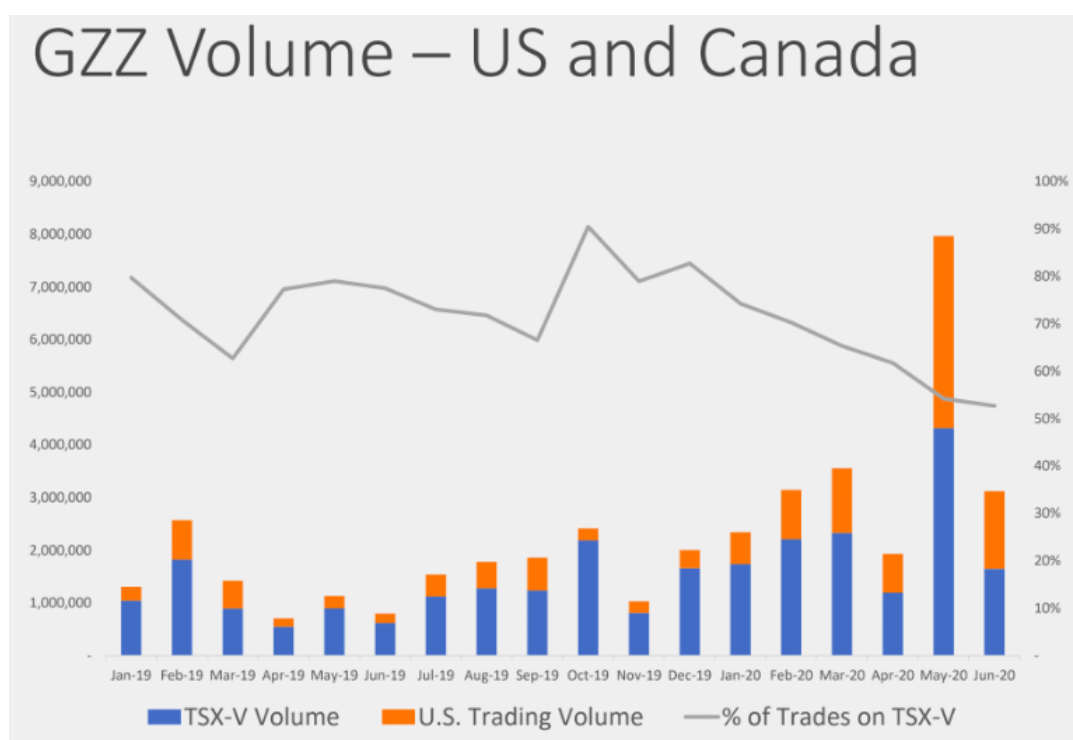
When O3 Mining talks about Epsilon and Pontiac at the Alpha Property, the company is referring to zones that fall almost entirely within Golden Valley's Centremaque claims. It's worth noting that from a gram-meter perspective, the Epsilon zone has seen the best hit thus far on the whole of the Alpha property - with an intercept of 6m of 9.3 g/t Au from 137 meters depth announced in December 2019.

While Alpha remains years away from production, O3 Mining demonstrated their conviction in the project in mid-May when it signed a purchase agreement for the Aurbel Mill "strategically located 10 kilometres from the Corporation's flagship Alpha property housing the Bulldog, Pontiac East and Epsilon zones". Just a few weeks later, O3 announced that it had closed an impressive C\$40.2m financing to expand its 2020 drill budget by a full 100k meters (to 150k meters total). There is currently one drill rig on site at Alpha but it's likely that another 1-2 rigs will be added in the coming months to help O3 achieve its ambitious meterage target. While it's unclear at this point how much of the 150k meter drill budget will fall within the Centremaque claim, I think it's fair to expect that Centremaque will see between 10-30k meters of drilling over the next six months. This is serious work, and Golden Valley does not have to put up a dime.

Below I've provided the GZZ catalysts expected over the coming eighteen months. I've also included milestones pertinent to Abitibi Royalties and Val-d'Or Mining, given Golden Valley's large equity stakes in both companies.

- Development decision on underground mining at Odyssey & East Malartic **by end July 2020**
- Break ground on underground ramp to access Odyssey and East Malartic **by end July 2020**
- Golden Valley completes share consolidation (with no financing in conjunction) **by end Aug 2020**
- Additional drill results from O3 Mining at Centremaque **by end Q3 2020**
- Val-d'Or Mining announces JV/option partner at Oregon Prospect **by end 2020**
- Malartic Underground PEA announced **by end 2021**
- Golden Valley lists on the NYSE MKT or NASDAQ to broaden exposure **by end 2021**

To conclude, I've been pleasantly surprised to see a surge of interest in Golden Valley from US-based investors. As seen in the chart below, in June nearly 50% of the company's trading volume came from the United States. This is despite Golden Valley only having an OTC listing, which is off limits to many investors even within the United States. To me, it's a no brainer for the company to uplist to either the NYSE MKT or NASDAQ as soon as possible. The share consolidation expected in the coming weeks is one step closer to this goal.



Source: Golden Valley Investor Presentation. July 2020

While the RZZ discount has narrowed from 27% to 17% since I last wrote about the company, the Golden Valley story remains very much the same – even with GZZ sitting near its 52-week high. The company remains undervalued for its 5,605,246 share position in RZZ alone, with the rest of the company's equity interests and assets coming for free. This remains an excellent risk/reward proposition that will appeal in particular to deep value investors. We will continue to hold our full Golden Valley position and have no plans to take any profits until we see a positive enterprise value.

Sama Resources (TSXV: SME)

Featured In: **January 2018**

Average Cost per Share: **C\$0.14**

Current Market Price (July 23, 2020): **C\$0.15**

The MJG partnership first initiated a position in Sama Resources through a private placement in late 2016. We added to our SME position during the panic selling in March, and our cost basis remains C\$0.14 per share. While we remain above water on our position, I'll be the first to admit that it's been a disappointing year for the company thus far. It looks as if we've gone through another drill program (the third such program since we invested in the company) without the blockbuster discovery hole that SME shareholders have been waiting for. Our patience is being tested, but I remain firmly committed to this position – due to the quality of people involved, the absolute scale of the opportunity, the company's reasonable valuation, and the fact that Sama shareholders are at no risk of dilution for years to come.

So far this year, there have been two primary company developments. The first is the recently completed exploration drill program at Sama's sprawling land package in western Côte-d'Ivoire. In mid-March, the company announced that at long last the newly purchased high-powered C3000 drilling rig had arrived on site. The C3000, which was manufactured in China, was supposed to arrive in early January but this was delayed by a couple months due to COVID-related disruptions. Sama now has three drill rigs on site – with two of these able to drill to depths of 500-600 meters while the C3000 can reach 1500 meters or more below surface.

In late June, Sama announced that it had completed 4,064 meters of drilling between Samapleu, Bounta, and Yepleu. Half of this core has already been shipped to Canada for assays, with the rest expected to leave the Ivory Coast by the end of July. Shareholders can expect assays to be announced in a few separate batches starting in late August. However, reading between the lines, it is unlikely that the results will yield a thick, high-grade intercept of nickel sulphide mineralization as SME shareholders hope. The rigs have been idled at site and it's not expected that any further drilling will occur until the conclusion of the Ivory Coast's rainy season in September.

The second major development was the release of a PEA in late May for the company's Samapleu deposit. The Samapleu deposit boasts a ~51m tonne resource grading ~0.26% NiEq at a 0.10% NiEq cut-off grade and has seen just under 30,000 meters of drilling since 2010. On paper, the PEA results are quite impressive despite the subdued market reaction. The study, conducted by DRA Global, anticipates

average annual production of 3,900 tonnes of carbonyl nickel powder, 8,400 tonnes of carbonyl iron powder, and 14,100 tonnes of copper concentrate over a 20-year mine life. The initial capex is relatively modest at US\$282m, including a US\$37m contingency. At spot prices of the three envisioned products, the project's after-tax NPV₈ is projected at US\$391m with a 27.2% after-tax IRR and 2.6 year after-tax payback.

To be clear, neither HPX nor the vast majority of SME shareholders are in this story for the existing Samapleu deposit. Sama remains firmly an exploration play where the big prize is discovering the rich nickel sulphide reservoir(s) that are the source of this near surface mineralization. That said, this PEA provides a solid backbone to Sama's current ~C\$38m fully diluted market cap and ~C\$20m fully diluted enterprise value (including SME's C\$2.5m working capital position and 24.8 million SRG Mining shares).

Given the 60% HPX earn-in agreement and the 10% free carry for the Ivorian government, Sama Resources would own 36% of the envisioned Samapleu operation were it to be put into production. Even if one were to discount Sama's 36% share of the US\$391m NPV (C\$523m at today's exchange rate) by an aggressive 90%, we are still looking at ~C\$19m in implied value for Sama shareholders. When looked at this way, one could argue that Sama is being assigned only ~C\$1m in speculative value for the project's immense exploration potential. This to me offers an excellent risk/reward proposition given the size of the prize if CEO Marc Antoine-Audet and the HPX technical team find what they are after.

I've included below the milestones that Sama shareholders can expect over the coming eighteen months. Given the company's outsized ownership position in SRG Mining, major catalysts expected at Lola have been included as well.

- Updated Resource announced at Samapleu Main + Extension **by end Q3 2020**
- Offtake announced for remaining 10% of production at SRG's Lola Project **by end Q3 2020**
- Construction financing finalized at SRG's Lola Project **by end 2020**
- Break ground at SRG's Lola Project **by end 2020**
- Sama/HPX commence new exploration drill program **by end 2020**
- EIS approval at Samapleu **by end Q2 2021**
- First production at SRG's Lola Project **by end 2021**

To conclude, I want to discuss Sama's relationship with earn-in partner HPX. It's easy to forget that, just seven months ago, HPX exercised roughly 18m SME warrants priced at C\$0.28 for total proceeds of ~C\$5m. This warrant exercise occurred at a whopping 87% premium to the current SME share price. HPX now owns 23% of Sama in addition to the earn-in agreement allowing HPX to earn a 60% interest in the Ivory Coast land package by funding exploration expenses and completing the feasibility study through

total investments of C\$30,000,000. To date, HPX has accumulated C\$12.25m in expenditures at the project.

There is palpable frustration from some long-time Sama shareholders about the pace at which HPX is moving in the Ivory Coast. It must be stated that, whenever the Robert Friedland-led HPX takes a project level stake in a junior's asset, it is truly a double-edged sword. On the one hand, Mr. Friedland to his credit has a phenomenal nose for world-class assets – whether exploration stage, development stage, or otherwise. This has served him very well over his long career. After all, mining exploration is an incredibly risky business and, even for the best of us, most of these bets will be losers. That's why it is incredibly important to focus only on large scale opportunities so that, in the case of success, the payout is large enough to amortize losses from losing exploration bets. Mr. Friedland and his technical team at HPX understand this intuitively, and I don't think anybody in our space would disagree with this point.

That said, HPX does have a history of preying on its junior partners - particularly if they show weakness. I won't name names, but there are at least four juniors out there in which HPX firmly has its talons. In these cases, it's only a matter of time until minority shareholders are put out of their misery and HPX takes over entirely. I call this "HPX sandbagging" – the concept being that HPX takes a project-level and equity stake in a junior, starves them of news flow, wears out minority shareholders, and then acquires the whole thing after a year or two or three of bloodletting. This was a risk for Sama the moment it put pen to paper with HPX, and it remains a risk.

The good news for Sama shareholders is that the company is in a much better position to counter the HPX sandbag than the juniors that HPX has successfully done this to in the past. There are three reasons for this: (1) Sama has no need to raise money anytime soon with ~C\$2.5m in working capital and no additional funding obligations, (2) the 24.8m shares SRG Mining share position provides additional working capital buffer in necessary, and (3) perhaps most importantly, the potential for significant developments at SRG Mining's Lola Project in the coming months ensure that Sama is not entirely dependent on its Ivory Coast nickel asset for legitimate share price catalysts.

To expand on the third point, Sama is not a one trick pony. HPX can drag its feet in the Ivory Coast if they choose to, but SRG Mining is moving full speed ahead regardless. Remember this is no small equity stake for Sama, as it covers over 40% of Sama's fully diluted mkt cap at current prices. Positive developments on the SRG front do indeed have the potential to drive the Sama share price, especially at the company's current valuation.

Past Featured Investments – SOLD

Ardea Resources (ASX: ARL)

Featured In: **July 2017**

Average Cost per Share: **C\$0.58**

Exit Price: **C\$0.30**

Viscount Mining (TSXV: VML)

Featured In: **January 2017**

Average Cost per Share: **C\$0.33**

Exit Price: **C\$0.29**

Excelsior Mining (TSXV: MIN)

Featured In: **July 2016**

Average Cost per Share: **C\$0.24**

Exit Price: **C\$0.66**

Golden Arrow Resources (TSXV: GRG)

Featured In: **July 2016**

Average Cost per Share: **C\$0.24**

Exit Price: **C\$0.76**

Almadex Minerals (TSXV: AMZ)

Featured In: **January 2016**

Average Cost per Share: **C\$0.16**

Exit Price: **C\$1.62 CAD**

Quintis Ltd (ASX: QIN)

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**

Exit Price: **US\$4.42**

Tsodilo Resources (TSXV: TSD)

Featured In: **July 2014**

Average Cost per Share: **C\$0.86**

Exit Price: **C\$0.71**

Lithium Americas (TSX: LAC)

Featured In: **January 2014**

Average Cost per Share: **C\$1.20**

Exit Price: **C\$12.70**

Phoscan Chemical Corp (TSX: FOS)

Featured In: **July 2013**

Average Cost per Share: **C\$0.29**

Exit Price: **C\$0.32**

South Boulder Mines (ASX: STB)

Featured In: **July 2012**

Average Cost per Share: **A\$0.48**

Exit Price: **A\$0.28**

Northern Graphite (TSXV: NGC)

Featured In: **January 2012**

Average Cost per Share: **C\$0.97**

Exit Price: **C\$0.80**