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**To:** MJG Capital Limited Partners  
**From:** Matt Geiger  
**Date:** January 26, 2021  
**Subject:** 2020 Second Half Review

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Below is set forth MJG Capital Fund, LP's performance through December 31, 2020.

6 Month Performance

MJG Capital Fund, LP (net of all fees and expenses)	102.86 %
S&P 500	21.15 %
S&P/TSX Venture Composite Index	41.16 %

1 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	113.20 %
S&P 500	16.26 %
S&P/TSX Venture Composite Index	51.57 %

3 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	132.17 %
S&P 500	40.49 %
S&P/TSX Venture Composite Index	2.90 %

5 Year Performance

MJG Capital Fund, LP (net of all fees and expenses)	602.73 %
S&P 500	83.78 %
S&P/TSX Venture Composite Index	66.51 %

Performance Since Inception (9/1/11)

MJG Capital Fund, LP (net of all fees and expenses)	18.47 %
S&P 500	208.15 %
S&P/TSX Venture Composite Index	(51.65) %

**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.

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# Introduction

The MJG partnership was formed just over 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 natural resource equities that fits our investment mandate.

I'm pleased to report that the partnership has just had its best six month and one year performance numbers since inception. Additionally, we've failed to register a down month since March – our longest consecutive streak of monthly gains by a healthy margin. The momentum has so far carried into the new year.

But these results paper over what was a very challenging year from an investment standpoint – and of course well beyond that. During the depths of the panic selling in March 2020, there was the temptation to liquidate portions of the portfolio and “buy back lower” as the value of our long-only partnership fell by roughly 40% in a matter of weeks. Fortunately, we held our nerve and, aside from the sales of a few non-core holdings, emerged from the carnage with the portfolio still intact.

The three to four months following the March panic were also difficult. While the partnership did bounce back sharply and ended the first half of 2020 up slightly on the year, the MJG portfolio – weighted roughly 75% to prospect generation, exploration, and development at the time – lagged well behind producing miners, as well as some well-promoted juniors. This didn't deter us however and, rather than shaking things up and chasing performance, we were actually less active in Q2 2020 than in any other quarter of the year.

Our patience began to pay off towards the end of July – with the MJG investment portfolio rising over 100% in the second half of the year. But this period too has been challenging in its own way. It has become readily apparent in recent months that we are in the late stages of a “fully-fledged epic bubble” in the broader equity markets – in the words of Jeremy Grantham from a recent GMO missive. Rather than enumerate the data, historical precedents, and anecdotal evidence that support this conclusion, I will simply say that I very much agree. And when this bubble pops, investors will experience portfolio declines similar to March 2020 likely lasting longer than just a couple of months.

That said, there's no way reliable way to forecast when exactly “the music stops” – it could be this week, it could be six months from now, it could be in two and half years. But it is coming, and this presents a dilemma for natural resource-focused investors. How do you reconcile with the notion that your holdings are likely due for a 40-50% haircut in the relatively near future, while also holding the conviction that natural resources remain very well positioned for a substantial run of outperformance in the coming years – as the market sentiment pendulum swings back towards hard assets after nearly a decade of neglect?

The partnership's investment strategy has always focused on individual security analysis and not market timing. Judging by recent performance, this has served us well in the post-COVID era. However, I have reached the point of acute discomfort in recent weeks as the speculative euphoria exhibited across financial markets appears to be approaching a dramatic crescendo. We will not be taking any dramatic action but will heed the advice of Carveth Read that it is "better to be approximately right than exactly wrong." As such, the partnership's cash position will be increased via inflows and profit taking between now and June. By mid-year and perhaps sooner, the MJG partnership will be sitting at or above 20% cash – a position that will be maintained as long as the portfolio keeps marching up month after month.

If 2021 turns out to be a repeat of 2020, then excellent – we will catch it largely flush. However, if a sell-off in the broader markets transpires this year as seems increasingly likely (which undoubtedly would batter resource equities just as it did this spring), at least we will have taken some profits near the top – while also holding some dry powder to sift through the wreckage on the other side.

In this letter's *Market Musings*, I provide commentary on the importance of nickel laterite deposits and the operational, capex and ESG challenges of supplying the Class 1 nickel necessary for the trends in EV adoption and grid-scale renewable storage to continue apace.

In the *Overview of Partnership Holdings*, the MJG portfolio construction is reviewed by (1) commodity, (2) jurisdiction, and (3) business model. As of December 31, 2020, the partnership held twenty-one publicly traded positions, four private investments, and nine sets of "in the money" warrants in the portfolio.

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

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# Market Musings

## The Great Laterite Challenge

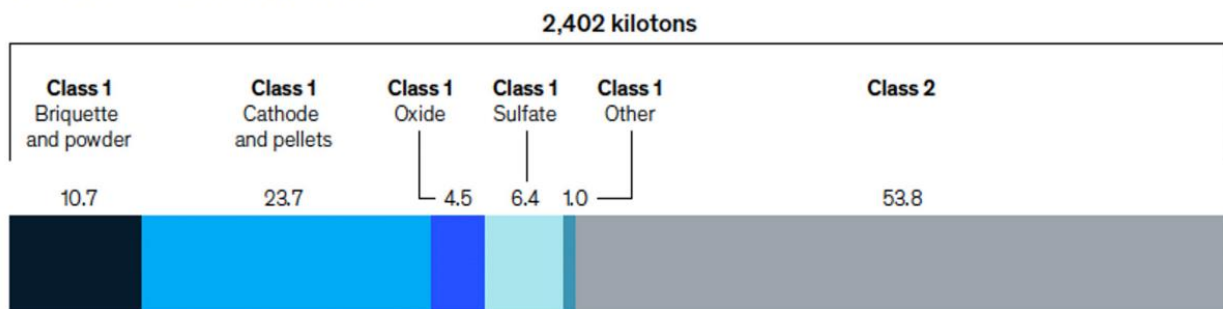
Within the mining community, there is much discussion about the bright future for nickel demand -- driven by electric vehicle adoption and the grid-scale storage necessary for renewable power generation. Thanks to Elon Musk, nickel's newest and now highest profile cheerleader, this topic is now transcending mining circles and becoming common knowledge among investors. I share this enthusiasm for nickel's long-term prospects and expect global nickel demand to increase roughly two-fold from 2.2 to 4 million metric tonnes by 2030 as EV and renewable trends accelerate.

### Class 1 Nickel

There is however a marked underappreciation for the challenges in supplying enough metal to satiate this anticipated battery-driven nickel demand -- even assuming significant increases in the nickel price over the coming years. The facts are relatively straightforward. As estimated by MineSpans, only 46% of global nickel production is of sufficient quality and purity to be used in battery cathodes. We refer to this as Class 1 nickel.

### The majority of finished nickel production is Class 2 nickel.

Finished nickel subsegments, %<sup>1</sup>



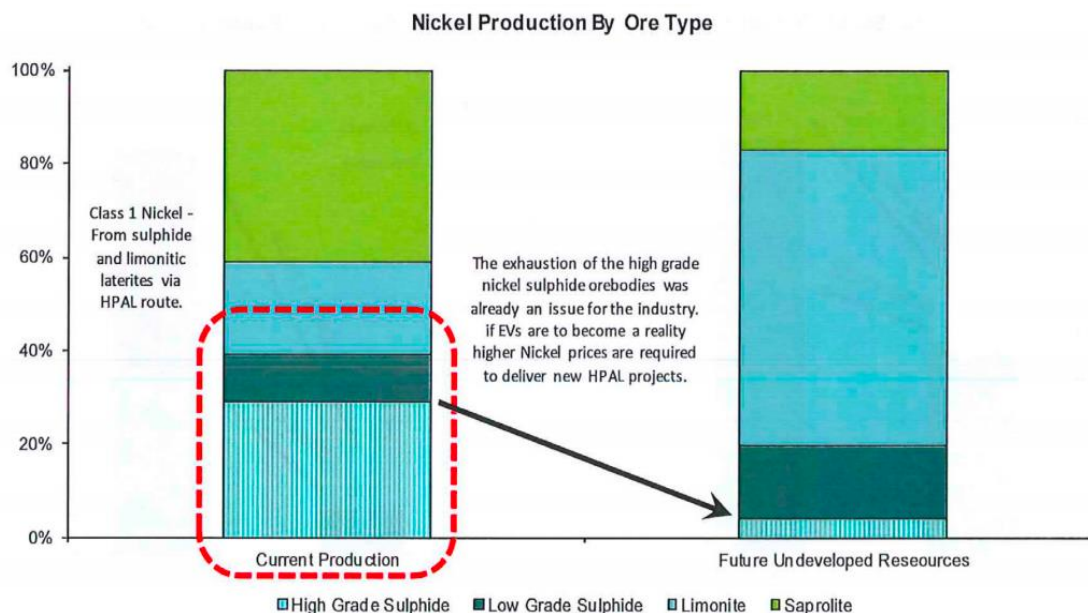
<sup>1</sup>Figures may not sum to 100%, because of rounding.  
Source: MineSpans by McKinsey

Roughly 70% of current Class 1 nickel production is derived from sulfide ores -- with the remainder originating from limonitic laterite deposits. Sulfide deposits are relatively easy to exploit through conventional underground or open pit mining, smelting, and refining. Laterites, on the other hand, require intensive hydrometallurgical processing methods and are referred to as “glorified chemistry experiments” by industry cynics.

While current Class 1 nickel production is dominated by sulfides, the basic issue facing the industry is that large, high quality sulfide deposits are becoming increasingly difficult to find as the low hanging fruit has already been plucked in previous mining cycles. As such, roughly 73% of undeveloped nickel resources globally are now hosted within laterite deposits. New sulfide deposits will continue to be discovered in the

years ahead, but not nearly at the pace necessary to keep up with battery-driven demand. For better or for worse, the future of Class 1 nickel supply is very much dependent on these known yet undeveloped limonitic laterite deposits being successfully commercialized.

**Exhibit 2: The basic issue facing the nickel industry is the exhaustion of the high grade sulphide nickel deposits (i.e. the easiest form of nickel to process) and the requirement to move to more complex lateritic orebodies.**



Source: Vale, Bernstein Analysis & Estimates

### Nickel Laterite Overview

Before delving into the challenges this presents, we'll start with the laterite basics. These deposits are formed near or at the surface following the extensive weathering of ultramafic rocks. Laterites are found primarily in tropical climates near the equator in Indonesia, the Philippines, Brazil, New Calendonia, and Cuba. (There are also "dry laterite" deposits found in arid climates such as Western Australia and Southern Africa.) There are two main classifications of laterite ore: limonite or saprolite. As mentioned previously, some (but not all) limonitic laterites are suitable for Class 1 nickel production. This is not the case for saprolitic laterites; nickel produced from this style of deposit feeds into the stainless steel industry as Class 2 nickel.

Laterite deposits are typically large, low-grade, and extracted through shallow mining. The typical flowsheet is complex and varies from mine to mine. However, one common processing step in laterite operations producing Class 1 nickel is high pressure acid leaching (HPAL). HPAL entails laterite ore being fed into an autoclave along with sulfuric acid at temperatures up to 270°C and pressures up to 725 psi to separate the nickel and other byproducts (e.g. cobalt) from the ore. At this stage, some operations have an integrated refinery to produce nickel briquettes, powder and pellets, while others produce an intermediate nickel hydroxide or nickel sulfide product for export to a downstream partner. (It should be noted that a few of the laterite projects under development, such as Clean Teq's Sunrise Project and Ardea's GNCP, propose a nickel sulphate end product.)

Today there are a handful of major laterite mining operations successfully producing Class 1 nickel via HPAL processing. Examples include Coral Bay and Taganito in the Philippines, Moa in Cuba, and Ramu in Papua New Guinea. But in recent decades we've seen nearly as many high-profile HPAL failures, where billions were sunk into projects that are now either on care and maintenance (Goro), operating at production levels well below anticipated nameplate capacity (Murrin Murrin), or have failed outright (Cawse and Bulong). The construction and commissioning of any mine is a high risk and oftentimes painful endeavor, but it must be said that HPAL operations have a particularly poor track record.

### **Laterite Production Challenges – Operational, Capex, & ESG**

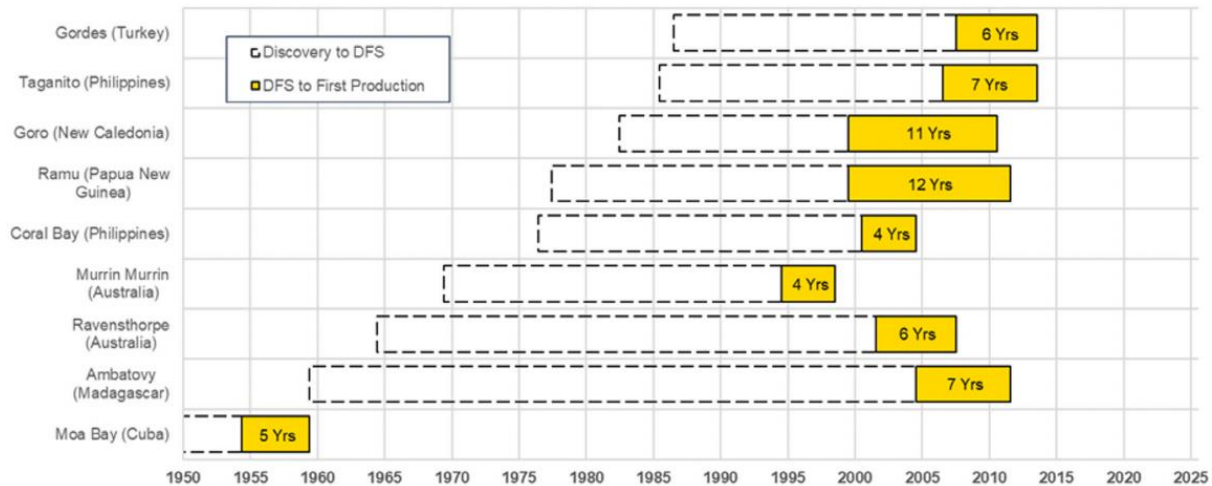
There are three main factors that future developers of limonitic laterites via HPAL will have to contend with. The first is that the chemistry required to successfully process laterite ore into a saleable product *at scale* is incredibly complex. Notoriously, results obtained from lab-scale and even demonstration-scale HPAL testing do not often hold up in a commercial setting. Just look at Murrin Murrin, which first went into production in 1999. While operating for the past two decades, nickel production has not once met the originally expected nameplate capacity of 45,000 tonnes of nickel per annum. (Peak production of 40,000 tonnes was achieved at Murrin Murrin in 2013, while the annual average for the past decade has been roughly 35,000 tonnes.) The oft-maligned Ravensthorpe is another example. Production has never achieved the initial expectation of 50,000 tpa and current owners First Quantum seem content with 25,000-28,000 tpa going forward.

Interestingly, the HPAL projects that have been most problematic are those that targeted annual production levels north of 40,000 tpa. Projects in the 20,000-30,000 tpa range (such as Moa, Coral Bay, Taganito, and Ramu) have executed relatively well in comparison. While it is tempting to build these projects as large as possible to maximize economies of scale, history tells us this may be a mistake that risks operational underperformance.

Another clear challenge is that laterite HPAL operations are expensive to build with a penchant for construction delays and capex overruns. A good industry rule of thumb is that anyone who tells you they can build an HPAL operation for less than US\$1 billion is either delusional, misinformed, or a liar. In low metal price environments, projects of this scale simply don't get built. This however can change in the mid to late stages of metal bull markets, which is why we saw a series of HPAL projects get the green light between 2004-2007.

This late cycle enthusiasm leads to an associated problem surrounding this type of mining operation – a history of major capex blowouts. BHP for instance projected an initial capex of US\$1.05 billion at Ravensthorpe when construction commenced in 2004. When the project finally reached first production in 2008, that number had more than doubled to US\$2.2 billion. It was a similar story at Murrin Murrin in the late 1990's -- where we saw the original cost estimate of US\$1 billion blow out to US\$1.6 billion before initial production was achieved. But these overruns look tame when compared to Ambatovy in Madagascar where the actual capex was roughly triple original estimates or Goro in New Caledonia where the final cost was more than quadruple expectations. These horror stories won't soon be forgotten by snake-bitten investors and industry participants.

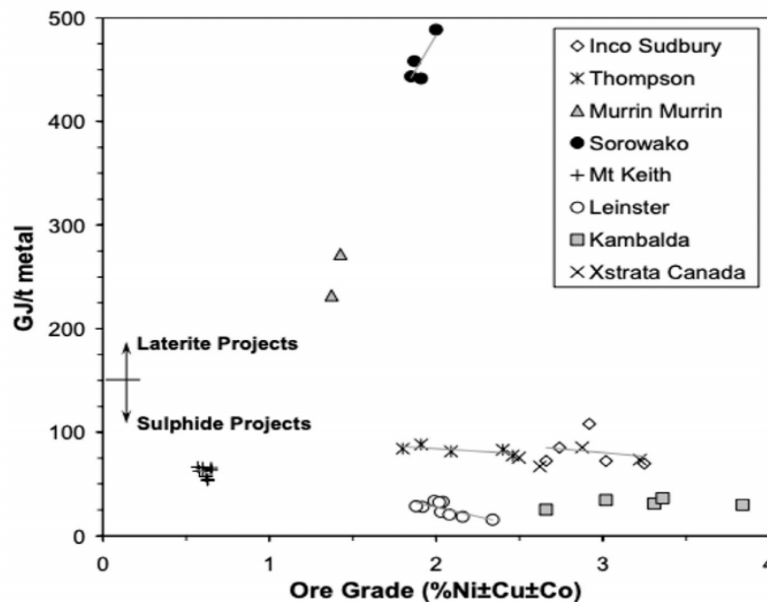
### PAL Development Timelines<sup>1</sup>



<sup>1</sup> S&P Global Market Intelligence and publicly available data.

Why the pattern of delays and capex overruns? The complexity of these operations surely plays a part, resulting in design flaws and engineering issues. Additionally, the selection of shoddy construction materials and equipment unable to withstand the corrosive, high-temperature, and high-pressure environment has proven to be a repeated mistake. And perhaps most importantly, the timing of construction decisions towards the top of mining cycles leaves these projects particularly prone to cost inflation and procurement delays.

And finally, there are the ESG concerns. In a general sense, nickel laterite operations are more energy and CO2 intensive when compared to sulfide projects. In a 2009 study, Dr. Gavin Mudd determined that major laterite operations require 2.5 to 6 times more energy per tonne of nickel produced when compared to sulfides.



Source: Mudd, G.M., 2009, Nickel Sulfide Versus Laterite: The Hard Sustainability Challenge Remains. Proc. "48th Annual Conference of Metallurgists", Canadian Metallurgical Society, Sudbury, Ontario, Canada, August 2009.

The Mudd data set however included ferronickel and NPI laterite operations, which are particularly energy intensive. HPAL operations, especially those with an acid plant on site, would be on the lower end of Dr. Mudd's range.

From a greenhouse gas perspective, a recently completed study by Energetics found that HPAL operations produce 24-27 kg CO<sub>2</sub>e / kg Ni. This compares unfavorably to sulfide operations, which range from 8.8-18.8 kg CO<sub>2</sub>e / kg Ni. For HPAL, roughly one-third of the carbon emissions can be attributed to imported electricity, one-third to acid neutralization using limestone, and one-third to logistics and other reagents.

There are also the more immediate environmental and social concerns posed by the large mining footprints and the use of sulfuric acid. Goro for instance faced years of opposition, sabotage, and legal wrangling by members of the indigenous Kanak population opposed to a large mining operation near their ancestral fishing grounds. The two sides finally reached an accord in 2008. However, a sulfuric acid spill at the Goro operation in 2010 followed by effluent spills in 2012 and 2014 proceeded to attract the ire of environmental NGOs.

Similarly, the large volume of tailings inherent with laterite operations has proven to an acute point of contention. The Ramu HPAL operation in Papua New Guinea has faced opposition for years now over its practice of deep-sea tailings disposal and is currently the subject of a \$5 billion class action lawsuit. As the spotlight on ESG intensifies, there is no evidence to suggest that navigating through these environmental and social challenges will be any easier for the next generation of laterite mining operations.

### **In Summary**

This wasn't intended to be a full-throated indictment of nickel laterites, but rather a realistic look at just how difficult this type of mining operation is to pull off. Despite the aforementioned hurdles, I do in fact expect that a handful of currently undeveloped limonitic laterite deposits capable of Class 1 nickel production will receive positive construction decisions this decade. This is simply the only way that the mining industry will be able to meet anticipated Class 1 demand in the coming years given the trajectory of battery cathode chemistries and the dearth of new nickel sulfide discoveries. However, history tells us that these upstart HPAL operations will face similar issues to their predecessors -- operational underperformance, capex overruns, construction delays, and environmental / social opposition. When this occurs, nickel end users, investors, and mining industry participants have no excuse to be caught by surprise.

*This piece was originally published in The Assay's Tech Metals Edition in December 2020.*  
<https://view.publitas.com/the-assay/the-assay-tech-metals-edition-2020/page/66-67>



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# Overview of Partnership Holdings

The MJG partnership is exposed to different commodities, jurisdictions, and business models. As of December 31<sup>st</sup>, we held twenty-one publicly traded positions, four private investments, and nine sets of “in the money” warrants (priced at intrinsic value for valuation 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 incentives, asset quality, financial structure, upcoming catalysts, and price to value metrics. In essence, bottom-up investing based on company-specific fundamentals and the people involved.

That said, I continue to monitor our exposure to specific commodities and jurisdictions in order to manage risk. I’m pleased that we now have a roughly even split in the portfolio between the weightings of precious metals (50%) and energy metals (41%). The partnership reached a peak of ~75% precious metal exposure in August, which was right on the cusp of my comfort level. Profit taking, significant outperformance by our energy metal names in Q4, and restraint from initiating new gold/silver positions in the second half of the year (a September private placement with the soon-to-be public Star Royalties was the sole exception) has reduced our precious metals exposure to a more reasonable level.

Over the next six months, I’d like to get our nickel exposure closer to a 10% weighting. This can be accomplished by simply adding to our two existing Ni-focused holdings (Sama Resources and Western Areas), though there is room for a third nickel position within the MJG portfolio should an exceptional opportunity present itself.

I should highlight that our 19% exposure to Argentina (as seen in the *Allocation by Jurisdiction* table) is somewhat misleading. The full 19% comes from our investment in Nova Royalty, which has grown into the partnership’s single largest position. Nova’s flagship royalty is indeed a 0.42% NSR on First Quantum’s Taca Taca mega-project in Argentina, which is why it’s classified as an Argentina-focused investment. However, Nova holds sixteen additional royalties attached to projects located in more hospitable mining jurisdictions such as Chile, Canada, and the United States. As a 20% weighting for a single investment is the absolute maximum that I am comfortable with, the partnership will take profits in Nova as necessary to ensure that the position doesn’t exceed that level. Given its importance within the MJG portfolio, Nova is highlighted in the next section as this letter’s *Featured Investment*.

Finally, I’ll note that the cash position is uncomfortably low at 5% as of year-end. (Though to be fair, we were at ~9% cash entering December but have since used close to half of this dry powder to exercise two sets of in the money warrants ahead of expiration.) In light of the euphoria exhibited both within junior mining and across the broader market, it is prudent to boost the partnership’s cash position ahead of the next major “risk off” episode – whenever that may occur. Don’t be surprised to see us at 20% cash or higher by mid-year, which can be achieved via profit taking and new fund inflows.

Included below is a snapshot of our investments as of December 31, 2020.

<b>Allocation by Commodity</b>	
<b>Precious Metals</b>	
Gold	38%
Silver	12%
<b>Energy Metals</b>	
Copper	25%
Uranium	10%
Nickel	3%
Vanadium	2%
Rare Earths	1%
<b>Industrial Metals</b>	
Zinc	1%
<b>Ag Minerals</b>	
Potash	3%
<b>Cash (USD)*</b>	5%

<b>Allocation by Jurisdiction</b>	
Canada	26%
Argentina	19%
United States	18%
Niger	8%
Mexico	5%
Bosnia	3%
Brazil	2%
Côte d'Ivoire	2%
Ecuador	2%
Finland	2%
Mali	2%
Serbia	2%
Sweden	2%
Australia	1%
Mongolia	1%
<b>Cash (USD)</b>	5%

<b>Allocation by Business Model</b>	
Prospect Generation	13%
Exploration	27%
Development	15%
Production	9%
Royalty/Streaming	31%
<b>Cash (USD)</b>	5%

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# Featured Investment

## Nova Royalty (TSXV: NOVR)

Nova Royalty has been a MJG partnership holding since October 2018 – when we participated in a C\$0.25 placement, which included a C\$0.40 half-warrant, while Nova was a private company. The partnership’s average cost per share sits at C\$0.30 after accounting for the warrants, which have since been exercised. We’ve taken light profits (less than 5% of total position) in recent weeks and will continue to sell as needed to ensure that the Nova position does not exceed our 20% maximum allowable size for a single position.

Over the past two years, Nova has grown from a modestly sized speculative bet on a strong management team at an attractive valuation into what is now our single largest holding. While I feel somewhat sheepish writing about the company given that we are already up many multiples on our original investment, I thought it was important to feature Nova in this letter because (a) it goes a long way towards explaining the MJG partnership’s outperformance in the second half of 2020, (b) Nova is set to remain a core holding as long as the company’s management stays disciplined and lean, and (c) this will hopefully demonstrate how the partnership adheres to position sizing limits to responsibly take profits – even in positions where a further increase in value is anticipated.

Nova is now a publicly traded royalty company focused exclusively on copper and nickel royalties. The company aims to become the marquee investment vehicle for passive investors seeking royalty exposure to two of the key metals driving the ongoing transition from hydrocarbons to renewables. The business model is incredibly focused and simple, which is perhaps why the company has garnered so much investor attention (and a hefty valuation) in its early days.

This *Featured Investment* piece provides an overview of Nova Royalty’s relatively recent company history – with a focus on management, insider ownership, share structure, and the company’s working capital position.

We then review the mining royalty space in further detail, which has been dominated by precious metal-focused companies up to this point. There is clearly a window here for a handful of mineral royalty companies focused beyond gold and silver to achieve US\$1 billion plus market capitalizations as this mining cycle matures in the years ahead.

The company’s four key royalty assets are then discussed in further detail – a 0.42% NSR at First Quantum’s Taca Taca Project in Argentina, a 2% NSR covering the Cañitarito claim at Teck/Newmont’s NuevaUnion Project in Chile, a 1% NSR covering parts of Waterton’s Dumont Project in Quebec, and a 2.4% GOR (payable at 1/3 of the gross value on contained copper and nickel) covering portions of Antofagasta’s Twin Metals Project in Minnesota.

Next, the expected milestones are outlined for Nova and its counterparties over the coming few years, so readers can keep tabs on the company's progress alongside me.

Finally, this write up concludes with a discussion on why Nova is set to remain a significant partnership holding, despite a valuation that is well ahead of the company's current royalty portfolio. From the day the MJG partnership invested, Nova has never been a traditional value investment like some of our other holdings – but rather a speculation that a pure play energy metal royalty vehicle with the right people involved would prove irresistibly seductive to today's narrative-driven investment audience. (And from there, the company utilizes this lower cost of capital to acquire additional high-quality copper/nickel royalties which in turn lowers their cost of capital further – creating a virtuous cycle if executed properly.) Even in light of the company's meteoric rise in share price since the IPO, we're still willing to make this bet.

## Company Background

The Nova story begins in July 2018 when Alex Tsukernik, Parviz Farsangi, and Brett Heath teamed up to form a royalty vehicle focused exclusively on copper and nickel. At that time, Brett was two years into building Metalla Royalty & Streaming into the C\$600m business that it is today. Metalla was an early mover in the now crowded junior precious metal royalty space by a couple of years and successfully leveraged that head start into accumulate a critical mass of gold and silver royalties from strong partners such as Agnico Eagle, Couer Mining, Alamos Gold, Pan American Silver, St Barbara, Newmont, and others. Metalla shareholders have been richly rewarded along the way – including the MJG partnership, which held a Metalla position between July 2017 and October 2020.

Brett remains CEO of Metalla to this day and it's no doubt his primary focus. However, as a founder of Nova Royalty (which in its early days was named "BatteryOne Royalty"), Brett has been instrumental in getting the company to where it is today. Once it became clear that Nova was gaining momentum, Brett officially became the company's chairman on October 1<sup>st</sup>, 2020 – on the same day that Nova shares began trading on the TSXV. Brett brings firsthand experience on how to build a royalty company from scratch, a strong network of financial backers, as well as a retail following given his success with Metalla.

CEO Alex Tsukernik has been steering the ship since the company's inception. Alex has over fifteen years of experience in the metals and mining space – including co-founding the mining group at Rodman & Renshaw and more recently serving as an independent advisor with Syntella Partners. While Alex is previously untested as the CEO of a royalty company, he has a clear vision. First, he's thinking long term and fully intends for Nova Royalty to be executing the same mandate ten years from now. Second, he's all-in on Nova – with no unrelated business distractions and nearly his entire net worth invested in the company. (When you ask Alex if he plans to take profits anytime soon, he scoffs at the concept of selling any of his shares.) And third, he makes a point of not overpromising. Alex is straightforward about the fact that Nova's current valuation has less to do with the existing portfolio and more to do with the market recognizing that Nova has a clear lane to serve as a future consolidator in this niche of the mining royalty space.

The company's third founder, Parviz Farsangi, stepped aside as chairman when Brett Heath officially came onboard. Parviz has over three decades of experience in the mining industry and was previously the COO of Vale Inco. He currently serves as the company's Chief Technical Advisor and is intimately involved with evaluating new royalty opportunities.

While he only joined recently, it's also worth mentioning the addition of Andrew Greville to the company's board. Andrew was responsible for all M&A activity and strategic planning for Xstrata Copper between 2005 and 2013. As such, he has unique insight into the global copper development pipeline and will assist with sourcing additional royalty deals.

Management, directors, and advisors own roughly 20% of the company in total – with Brett and Alex holding roughly 10% between them. According to insider reports and verified by Alex, none of the key players have sold shares. In addition, Paul Stephens (via *Stephens Investment Management*) and Adrian Day (via *Adrian Day Asset Management*) are both cornerstone Nova shareholders from the company's early stages. Paul and Adrian have a long track record of successful investments in mineral royalty companies – I believe both were shareholders of the original Franco Nevada, which was the first big mining royalty win. Their involvement is a strong vote of confidence in what the Nova team has set out to achieve.

The company's share structure remains tight. The company has 78 million shares on a fully diluted basis. This includes 58.3m basic shares outstanding, 7.8m warrants, 4m RSUs, 3.5m shares from a convertible note set to be converted by midyear, and 4.5m shares still to be issued from the most recent Taca Taca royalty transaction. At its current share price of C\$5.25, Nova sports a ~C\$410m fully diluted market capitalization.

Nova is listed on the TSXV and has recently upgraded to the OTCQB. Both listings have seen significant volume in recent months. Given the success that Brett Heath's Metalla has had with its dual TSXV/NYSE American listing, it's safe to assume that at some point Nova will step up to the NYSE American or NASDAQ. Alex acknowledges this possibility but is coy on the timeline. My sense is that we could see this as soon as mid to late 2021 – but only assuming that the general markets remain buoyant, which is far from a sure bet.

From a working capital perspective, Nova has roughly C\$5m in cash as well as up to C\$6.3m coming in shortly from recently accelerated warrants. The company also has C\$9.5m undrawn in a financing facility with Beedie Capital (convertible at a 20% premium to VWAP and subject to an 8% interest rate), which can be tapped if and when needed. Given the company's all-in burn rate of no more than C\$1.5m per year, Nova in theory could go half a decade without raising additional working capital should the markets turn sour. However, given the company's current trajectory, it's safe to assume that there will be additional share dilution (either through a drawdown on the credit facility, a capital raise, or a new royalty purchase paid in shares) in the coming quarter or two.

## Mineral Royalties: Precious vs. Non-Precious

In the MJG partnership's [January 2020 investor letter](#), the section entitled *The Reign of the Royalty* explains this business model's rise to prominence within the mining sector over the past couple of decades. In short, a mineral royalty is the right to receive a percentage of production from a given mining operation – most often in the form of a Net Smelter Royalty (NSR). Royalty companies build a portfolio of these assets and then (a) leverage their portfolio for access to additional deals and/or (b) return royalty cashflow to shareholders through buybacks or dividends.

From an investment standpoint, this is attractive business model for a whole host of reasons. The first is diversification, as the largest royalty companies have dozens of cash-flowing royalties on mines operated by different mining companies and in different jurisdictions. The second is that the business has proven to be extremely high margin – with the world's largest royalty companies generating as much as \$3.5m in annual net profit per employee. A third attractive aspect is the scalability of the business because, as royalty companies grow in size, their cost of capital drops and larger opportunities become available. Another benefit is that royalty companies don't share nearly as much operating risk as their partners, as they bear no responsibility for funding mine development and sustaining capex requirements. Finally, royalty companies get to participate in exploration upside entirely for free, which provides "a free perpetual option on discoveries" in the words of Franco-Nevada's cofounder Pierre Lassonde.

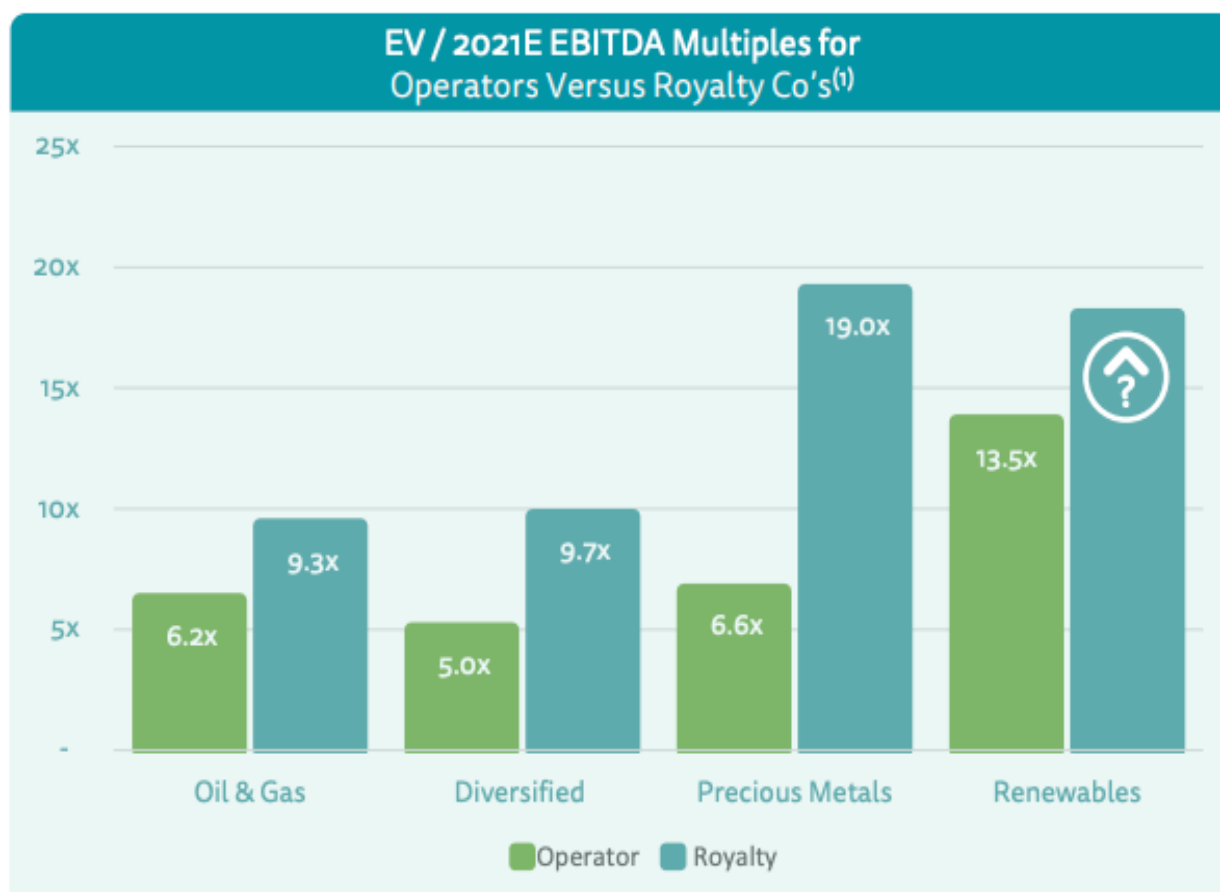
I could write for pages about the virtues of this business model when executed with discipline. However, for the purpose of this write up on Nova, I want to focus on this paragraph towards the end of *The Reign of the Royalty*:

*It's also worth considering whether the dynamics discussed above present any opportunities to the enterprising investor. There are a couple apparent to me. The first is that the best royalty opportunities going forward lie with base and energy metals. It's astounding to me that there isn't a single base/energy metal royalty company valued north of US\$500m, especially given that gold only accounts for 15-20% of the total value of global mineral production. The playing field is wide open, and I think it's only a matter of time before investors warm to royalty companies focused on metals other than gold and silver.*

I would argue that the broader point still very much stands – though Altius Minerals, another MJG partnership holding, recently breached this US\$500m milestone ahead of the spin out of its renewable energy royalty subsidiary. (It should be noted that Labrador Iron Ore Royalty technically does have a market capitalization well above this level; however, that company is a unique case given that it only has royalty exposure to a single iron ore project.) But the fact remains that the precious metals royalty sector has a combined market capitalization of roughly US\$50 billion at present, while the publicly traded universe of mineral royalty companies focused outside of gold and silver has a combined market capitalization of somewhere between US\$3-4 billion – and this total includes Labrador Iron Ore Royalty.

In addition, the limited number of non-precious metal royalty companies that are in existence today receive steep discounts on their multiples when compared to their precious metal counterparts. The

below graphic, taken from a recent presentation of the aforementioned Altius Minerals, illustrates this nicely. Also note that the multiple premium received by precious metal operators when compared to “diversified” mining operators is ~32% (6.6x vs 5.0x). Meanwhile, we’re looking at a ~96% multiple premium when comparing the precious metal royalty companies to the “diversified” royalty outfits.



Source: Altius Minerals Presentation. December 7, 2020.

On its face, this disconnect – both in terms of total market size as well as the multiple discount – does not make sense. In fact, one could credibly make an argument that the cashflow generated from non-precious metal royalties deserves a *premium* to royalty cashflow derived from a gold/silver operation. The first reason is that in general gold mines have shorter mine lives than base metal mines. There of course are exceptions, but a highly profitable gold mine may only produce for say ten, fifteen, maybe twenty-five years. High quality base metal mines, on the other hand, often operate for thirty years, fifty years, and in some cases well over a century (Bingham Canyon, Morenci, Kiruna, El Teniente, Chuqui, etc). If your average copper royalty will be churning out cashflow for longer than your average gold royalty, wouldn't that deserve a premium – especially given the extra low discount rates that many investors use when evaluating royalty companies?

The second reason comes down to supply – given that global precious metal production is more diffusely spread across more mining operations when compared to most other metals. Let's just compare copper and gold for the sake of argument. According to data provided by [Statista](#), the ten



largest copper mines globally produced ~25.3% of the world's copper supply in 2018. The ten largest gold mines, on the other hand, produced just ~12.7% of the world's gold supply in 2018. From this data, it can be inferred the total supply of royalties covering what are considered "large" copper deposits is less than the total supply of royalties covering what are considered "large" gold deposits. If this is the case, shouldn't the cashflow from a substantive copper royalty receive a higher multiple than that of a substantive gold royalty – all else equal?

Whether or not this argument is valid, the reality is that the disconnect between precious and non-precious royalty companies is there for all to see. The best explanation for this phenomenon is that the allure of precious metals coupled with the relative simplicity of the precious metals narrative – that the global monetary system is on an unsustainable trajectory, big change is coming one way or another, and that precious metals will come out on the other side with their value intact as they have for over 5000 years. For those who sympathize with this relatively simple-to-grasp narrative, it makes sense to own precious metals and by extension precious metal royalty companies.

In contrast, there hasn't been a similarly cohesive narrative for base metals and bulk materials for many years. It's not easy to get people fired up about coal, zinc, potash, or iron ore. Additionally, up until very recently, the non-precious metals royalty players have all had their royalty portfolios diversified across a handful of seemingly disparate metals and minerals. Whether it is fair or not, today's narrative-driven investor class has not latched on to these "diversified" companies – as made clear by the discrepancies discussed previously. (I'm not complaining, mind you, because this presents opportunities for those looking for value. This is why we own companies like Altius Minerals and EMX Royalty, among others.)

But very recently there has emerged a small group of publicly traded entities focused exclusively on accumulating energy metal royalties including Conic Metals, Electric Royalties, Uranium Royalty, and of course Nova Royalty – which, for a variety of reasons, is the horse we've chosen to back in this race. (While Nova is the most recent of these four companies to go public, its ~US\$320m market capitalization is roughly US\$125m larger than the other three combined – giving it distinct advantage over its immediate peers in terms of cost of capital for additional deals.) The decarbonization narrative has at least as much sex appeal as the precious metal narrative, while also fitting neatly within an ESG investment framework. This is a niche of the mining royalty market that I suspect will see healthy investor inflows and, by default, plenty of new entrants in the years ahead.

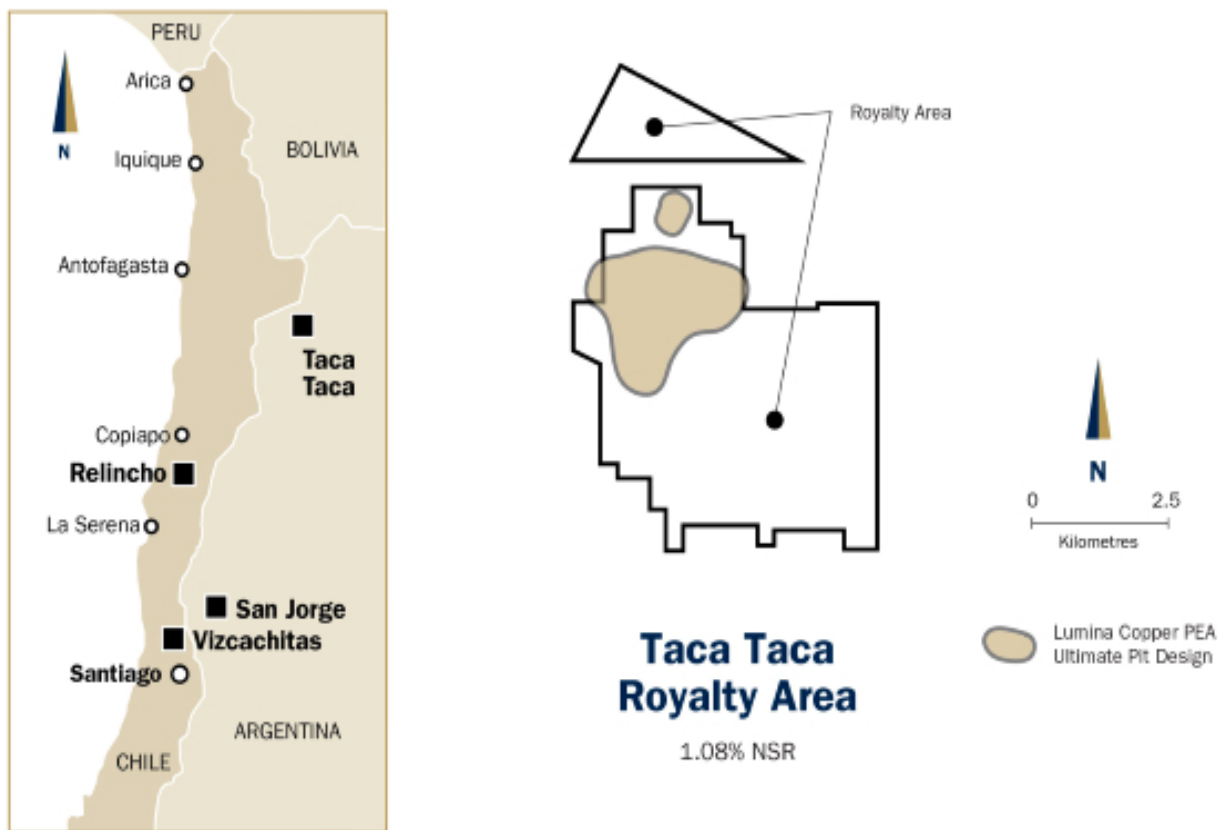
## Nova's Royalty Portfolio

The company's expanding portfolio of copper and nickel royalty interests currently sits at seventeen in total. The royalty portfolio has exposure to projects located in four different jurisdictions (Argentina, Chile, Canada, and the United States) operated by ten different counterparties. None of these royalties are currently cashflowing. The bulk of the portfolio's value sits with four of these royalties: a 0.42% NSR at Taca Taca, a 2% NSR covering the Cañtarito claim at NuevaUnion, a 1% NSR covering parts of Dumont, and a 2.4% GOR (payable at 1/3 of gross value on contained copper and nickel) covering portions of Twin Metals. Each of these will be discussed in further detail below.

# Taca Taca

Nova's most valuable royalty asset is a 0.42% NSR at First Quantum's Taca Taca Project in Argentina, which was acquired in the past four months through two separate cash and share transactions totaling US\$34.75m (including US\$6m in future payments). Taca Taca is a massive copper-gold-molybdenum porphyry deposit located in Salta Province in northwest Argentina. First Quantum originally acquired the asset in 2014 for US\$470m from Ross Beaty's Lumina Copper. From its discovery, Taca Taca has seen over US\$500m "put into the ground" between Lumina and First Quantum.

The proposed mining method is a bulk-tonnage, open-pit operation supported by Proven & Probable Reserves of nearly 1.8 billion tonnes grading 0.44% Cu, 0.012% Mo, and 0.09 g/t Au. With an initial mine life expected at 32 years, this is the type of mining asset that will produce metal for over half a century should it be put into production. Substantially the entire proposed mine plan is contained within two mining concessions subject to a 1.5% NSR – of which 0.42% is now owned by Nova, 1.08% by Franco Nevada, and 0.18% by private parties.



Source: Franco Nevada Company Website. January 15, 2021. [www.franco-nevada.com](http://www.franco-nevada.com)

Up until very recently, it was unclear to many whether First Quantum was intent on pushing this mega-project – which invariably will come with a US\$3-6 billion price tag – forward towards a production decision. However, this perception began to change when First Quantum highlighted Taca Taca (alongside Haquira in Peru) as the company's highest priority development project in its Q3 2020 MD&A

released on October 28th. In this update, First Quantum states it is “continuing with the project pre-development and feasibility activities” and that “preparations are underway for a full summer drill program for projects near Taca Taca”.

Just over one month later, First Quantum rather unexpectedly announced the project’s Maiden Mineral Reserve and also provided previously unstated parameters for what a future First Quantum operation at Taca Taca may look like – including the detail that “throughput of up to 60 million tonnes per annum through a conventional flotation circuit with a mine life of approximately 32 years” is supported by the current mineral reserve. Perhaps most significantly for Nova shareholders, First Quantum also states in this November 30<sup>th</sup> release that a decision to proceed with construction at Taca Taca may come as soon as “sometime in 2023 or 2024”.

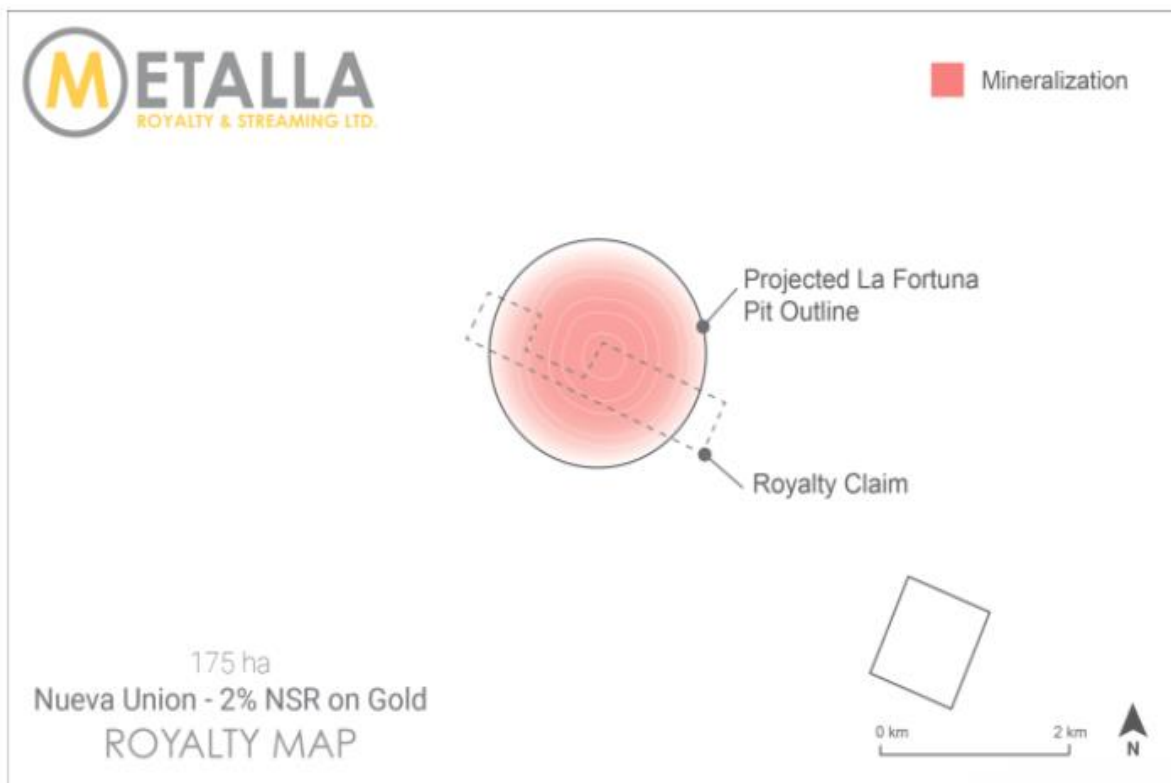
With this in mind, Nova’s acquisition of this royalty was astutely timed – particularly the first of the two transactions, which was announced on October 8<sup>th</sup> ahead of either of First Quantum’s recent Taca Taca-related announcements. Nova CEO Alex Tsukernik credits this to dumb luck and, while this may be true, I suspect he’s being modest. Whatever the case, the recent rumblings from First Quantum bode well for Nova shareholders – though it should be cautioned that for projects of this size nothing happens quickly. As such, even in the most optimistic scenario, Nova will not see royalty cashflow from Taca Taca until the latter half of this decade.

## NuevaUnion

Nova’s second most valuable royalty asset is likely to be its 2% NSR covering the Cañtarito claim at NuevaUnion in northern Chile. NuevaUnion is a 50/50 joint venture between mining heavyweights Teck and Newmont – after the two parties came to an agreement in 2015 to combine their respective Relincho and El Morro projects. Total historical expenditures exceed US\$1 billion between the two assets.

The combined NuevaUnion Project is “one of the largest undeveloped copper-gold-molybdenum assets in the world” according to Teck’s website – with Proven & Probable Reserves of 682m tonnes grading 0.51% Cu and 0.47 g/t Au. This mineral reserve supports an estimated mine life of 38 years and is comprised of two distinct deposits – Relincho and La Fortuna – located roughly 40 kilometers apart. The Cañtarito claim, on which Nova holds its 2% NSR, comprises a core portion of the La Fortuna deposit.

Nova acquired this royalty in an innovative transaction announced in mid-February 2020. The company teamed up with Metalla Royalty & Streaming for the purchase – with Nova paying US\$6m to acquire to the rights to future copper revenue from the royalty and Metalla paying US\$2m to secure the same for gold. This of course was made possible due to Brett Heath’s involvement in both companies and, to my knowledge, is the first time that we’ve seen two different royalty companies collaborate on a deal in this manner.



Source: Metalla Royalty & Streaming Corp Company Website. January 15, 2021. [www.metallaroyalty.com](http://www.metallaroyalty.com)

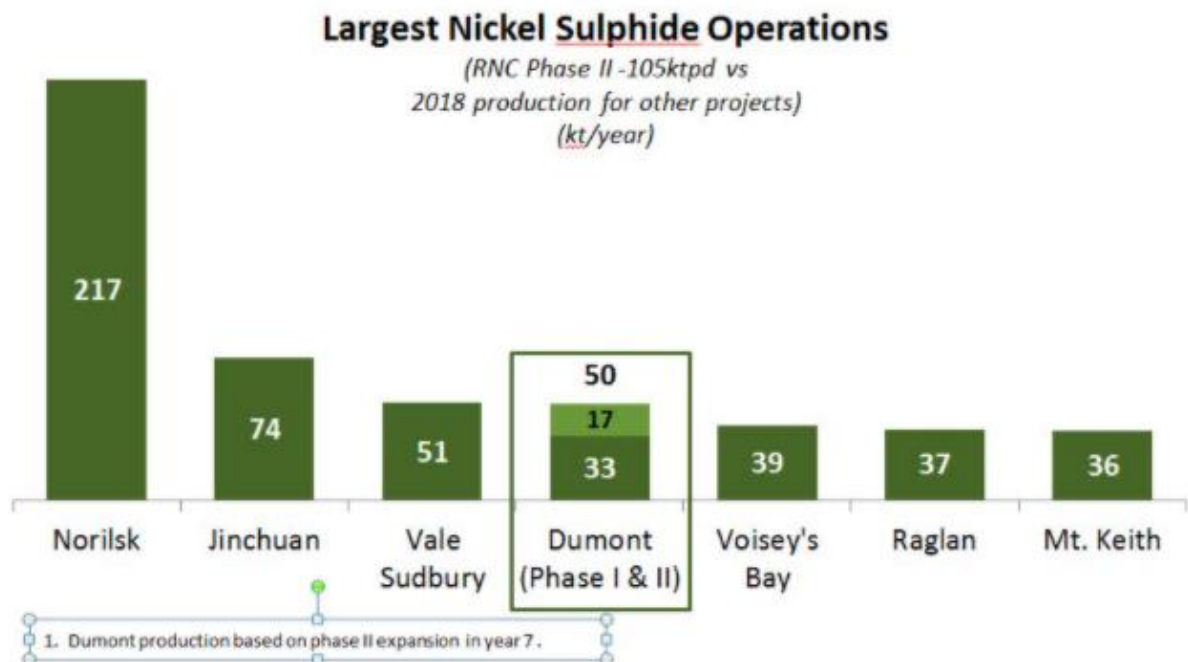
While the timing of the NuevaUnion royalty acquisition looks unfortunate given its consummation just before the March 2020 panic, it's worth noting that the copper price last February was sitting at levels below \$2.75 per pound – or roughly 25% below its current price. More significantly, just two days after the Nova transaction was made public on February 18<sup>th</sup>, Teck and Newmont jointly announced (via an “evaluation request” filed with Chilean regulators) that they’d be pumping US\$152m into two separate drill campaigns at the La Fortuna deposit specifically. This was not an expected development as the two partners had largely been quiet on the project for a number of years – with Alex claiming that this too was another lucky break for his company.

Like Taca Taca, NuevaUnion cannot be reasonably expected to reach production until the latter half of this decade due to the size and cost of the project. One key variable to watch is how seamlessly Teck is able to bring its QB2 Project (Quebrada Blanca Phase 2) into production. QB2 is unquestionably the company’s number one development focus at the moment – with construction financing raised and first production slated for 2023. We certainly can’t expect Teck to come anywhere close to a production decision at NuevaUnion until QB2 is up and running smoothly.

Additionally, we do not yet definitively know when production from the La Fortuna deposit will be scheduled in the overall NuevaUnion mine plan. Given the Teck/Newmont’s acute focus on La Fortuna at the moment, the initial signs are positive. However, it may be up to a couple of years before the market gets confirmation on whether La Fortuna will be mined first.

## Dumont

Nova's 1% NSR at the Dumont Nickel-Cobalt Project in Quebec can be considered the company's founding royalty. (In fact, the financing round in which the MJG partnership participated funded the acquisition of this royalty in January 2019.) Dumont has the second largest mineral reserve of any undeveloped nickel project globally – with just over 1 billion tonnes of Proven & Probable Reserves grading 0.27% nickel. This supports a thirty-year mine life according to a Feasibility Study announced in spring 2019. This however is another asset likely to cashflow for half a century or more should it be put into production – given the resource base not included in the initial mine plan. The scale of the proposed operation would make Dumont a top five nickel sulphide operation globally.

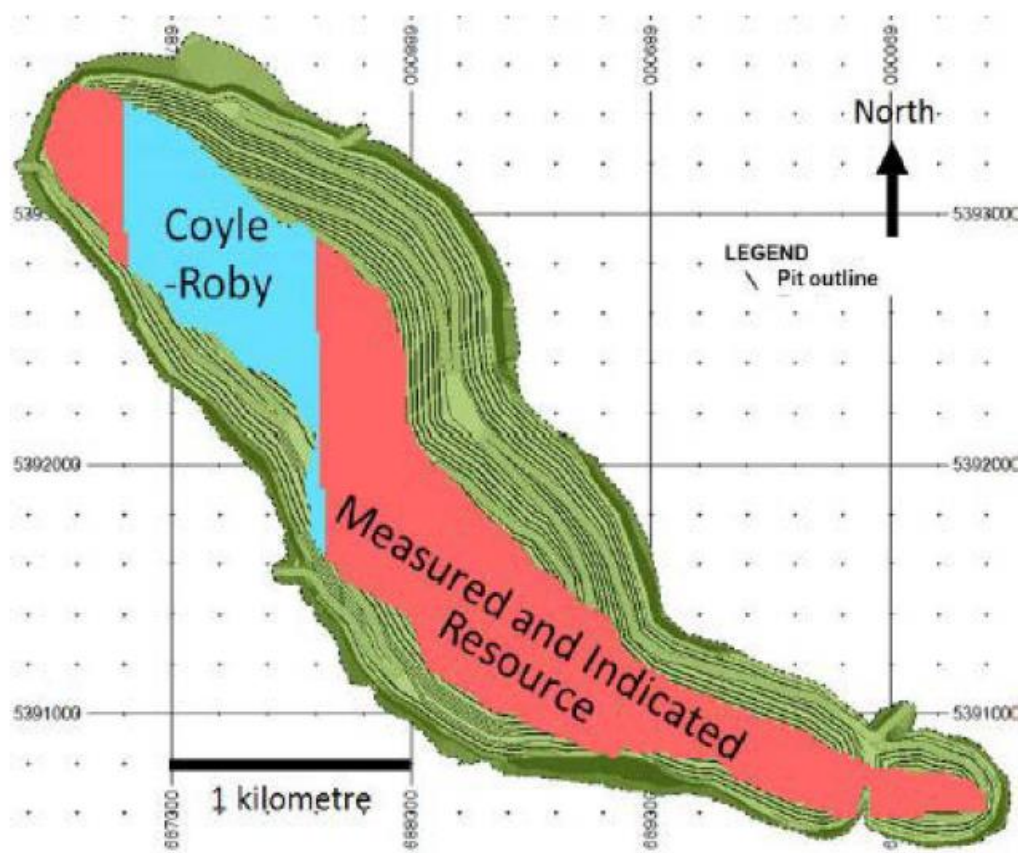


Source: Dumont Nickel Company Website. January 15, 2021. [www.dumontnickel.com](http://www.dumontnickel.com)

Uniquely, the Dumont Project is fully permitted and shovel ready. The project is owned by mining private equity firm Waterton Global Resource Management, which consolidated 100% control of the project mid last year by purchasing the remaining 28% stake from Karora Resources (formerly RNC Minerals) for a total price tag of approximately C\$48m. The good news is that Waterton is a well-respected group – with a reputation for purchasing large development stage assets that have seen significant investment, advancing the assets forward towards production through serious work, and monetizing the investment to an operating miner when the timing is right.

The bad news, at least in the near term, is that Waterton is famously tight lipped and does not keep its partners well informed of progress. That said, this is less of an issue for Nova at Dumont given the stage of the project. At this point, the only serious remaining catalyst is an announcement from Waterton that it has either (a) sold the project to a party ready to take it forward or (b) identified a strategic partner to co-fund

development. The timing on this remains uncertain but – should equity markets remain buoyant – it's not out of the question to expect movement on this front in 2021.



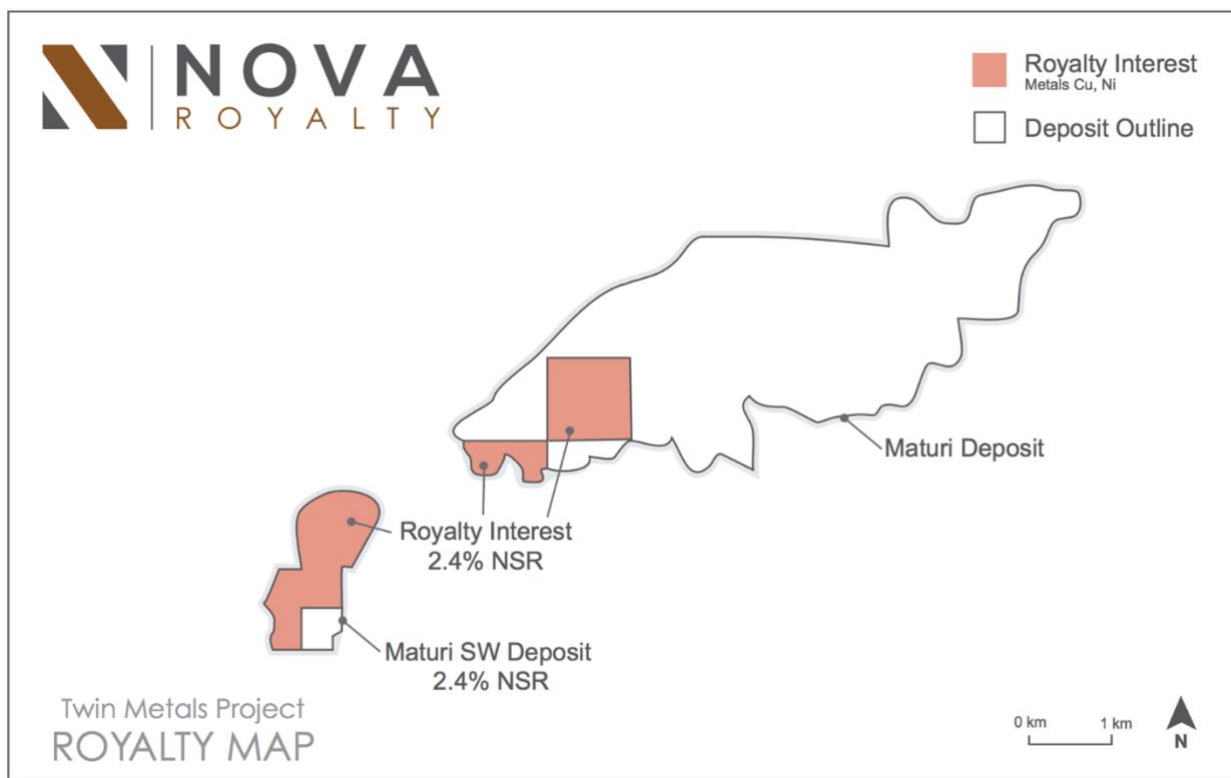
Source: Nova Royalty Corporate Presentation. January 2021.

As seen in the image above, Nova's 1% NSR covers the Coyle-Roby claim – or roughly 21% of the overall Dumont mine plan. The January 2019 acquisition price was C\$2m in cash and 3.7m shares in Nova Royalty – for a combined total of ~C\$3m at Nova's then share price. It is worth noting that while Nova technically purchased a 2% NSR in this transaction, the deal includes a 1% buyback clause for only C\$1m. This buyback will certainly be exercised should Dumont reach production; therefore, this should be thought of as a 1% NSR for all intents and purposes.

## Twin Metals

The fourth Nova royalty worthy of discussion at this juncture is a 2.4% GOR (payable at 1/3 of gross value on contained Cu and Ni) covering portions of Antofagasta's Twin Metals Project. The asset is located in northeastern Minnesota within the Duluth Complex mining camp. The Duluth Complex is also home to two other major Cu-Ni sulphide development projects – Glencore's Polymet and Teck's Mesaba. As a whole, the district accounts for 34% of all copper reserves and a staggering 95% of all nickel reserves in the United States.

Twin Metals itself boasts a hefty Measured & Indicated Resource of just under 1.3 billion tonnes grading 0.57% Cu and 0.18% Ni. Antofagasta has been involved with the project since 2010 – when it signed an agreement with Duluth Metals allowing Antofagasta to earn a 40% interest for US\$130m in direct funding to the project. After completing this expenditure requirement, Antofagasta opportunistically bought out Duluth’s remaining 60% interest in January 2015 for just under C\$100m. This project has seen a lot of work – with US\$200m “put into the ground” over the past two decades.



Source: Nova Royalty Press Release. November 11, 2020.

Nova secured its royalty exposure to Twin Metals relatively recently – with the deal first announced on November 11, 2020. Nova paid US\$1.8m in cash and 161,572 shares for a combined total of ~US\$3m at the then NOVR share price. The company also agreed to make additional payments of up to US\$4m in cash and shares pending state/federal permitting and commercial production milestones.

Of Nova’s key assets, the Twin Metals royalty carries the most permitting risk. While the project is not located in a protected area, the Boundary Waters Canoe Area Wilderness Reserve is relatively nearby and the Duluth Complex as a whole has faced significant NGO opposition in recent years. To increase its chances of permitting success, Antofagasta is proposing an underground mining operation where tailings can be stored underground using drystack.

There has, however, been some positive permitting momentum in recent months. In late 2019, Twin Metals formally submitted its mine plan “following more than a decade of engineering, environmental, and engagement work”. Six months later, the Bureau of Land Management provided a Notice of Intent – which formally initiates the scoping and environmental review process at the federal level. Most recently, the CEO

of Antofagasta stated during the Financial Times Commodities Global Summit in October 2020 that the permitting process at Twin Metals “will take a few years”. Taking him at his word, this means that Antofagasta could be in a position to break ground at Twin Metals by mid-decade should all go to plan. While this would be welcome from a Nova perspective, this timeline is difficult to envision given the permitting and political realities. More realistic would be the latter half of the decade, which would still be a win for both Antofagasta and Nova.

## Upcoming Milestones

While keeping in mind that Nova is less of a catalyst-driven investment than most of our holdings, I’ve provided below potential company milestones for the coming few years. It should be noted that only the timing of the Taca Taca construction decision can be anticipated with any level of confidence – given First Quantum’s public statements that a decision will be made “sometime in 2023 or 2024”. The other three listed milestones are informed estimates and not official guidance from the company.

- Nova Royalty upgrades US listing to NYSE American or NASDAQ **by end 2021**
- Nova Royalty announces acquisition of first cashflowing NSR **by end 2021**
- Waterton announces sale or strategic funding partner at Dumont **by end 2022**
- First Quantum makes construction decision at Taca Taca **by end 2023**

## Conclusion

In just two and a half years, Nova has positioned itself nicely as the world’s largest publicly traded pure play energy metal royalty vehicle. The company is currently being valued at a lofty ~C\$410m fully diluted market capitalization, which sits well in excess of the ~C\$65m spent by Nova on its royalty acquisitions since inception. It is true that the prices of both copper and nickel are at five-year highs, and it’s also true that there have been unexpected positive developments at both Taca Taca and NuevaUnion in the months after Nova’s transactions were announced. However, this discrepancy in valuation between the combined acquisition cost of Nova’s royalty portfolio and its current valuation cannot be explained by these two factors alone.

Instead, what we are seeing is certain market participants coming to the conclusion that (a) the energy metals narrative rivals that of precious metals and, as such, pure play energy metal royalty exposure may prove attractive to passive investors in the coming years and (b) should this transpire, Nova has a good chance to be the future consolidator of this sector given its head start over potential competition.

Maybe this supposition will prove prescient. If so, shareholders of Nova will be rewarded – even in light of the share price run up we have seen to date. Judging by the size of the overall precious metal royalty sector, there is no lack of blue sky should this niche of the royalty market capture investor imaginations.



Or perhaps it won't. In this case, Nova receives no preferential treatment from the market when compared to its diversified royalty peers – in which case Nova at its current valuation is set for a severe period of underperformance relative to groups like Altius, Anglo Pacific, and EMX.

The catch is that it is going to take at least a couple years for the answer to become clear. We still need to see how well Nova holds its value – relative to its diversified peers -- the next time the market turns seriously sour. And we also need to see the multiples that Nova receives from the market once it acquires its first cashflowing royalty. Both of these data points will give investors a better sense of whether Nova's laser focus on energy metal royalties is paying off.

The MJG partnership will continue to hold the bulk of its Nova shares for the foreseeable future – though we will adhere strictly to a 20% position sizing maximum to ensure that the position doesn't get too out of whack relative to the rest of the portfolio. I believe that with the progress made so far and the precedent set by Brett Heath's Metalla, Nova management has earned the right to execute on its strategy for another couple of years before I get too cranky about the valuation. This is after all a speculation on continued growth via acquisition – which makes it distinct from much everything else in the partnership's portfolio.

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# Past Featured Investments

Over the course of previous MJG letters, I've shared featured investment write-ups for eighteen different companies. These write-ups give current and prospective investors a glimpse into our portfolio, and also provide insight into the methodology utilized to identify undervalued securities. The MJG partnership remains a shareholder in six of these companies, with updates provided for each of these below.

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

## **Tonogold Resources (OTC: TNGL)**

Featured In: **July 2020**

Average Cost per Share: **US\$0.05**

Current Market Price (January 22, 2021): **US\$0.32**

Tonogold was highlighted as the featured investment in the July 2020 letter. The partnership has been a shareholder since an August 2016 financing and participated in a subsequent financing in October 2017. The MJG partnership's cost basis sits at roughly US\$0.05 per share. While we continue to hold our full position, the company has woefully underperformed on multiple fronts over the past half year. The Tonogold share price has suffered on the back of these largely unforced errors.

The company's progress has been hampered by two overarching issues. The first is that Tonogold's management has overpromised and underdelivered on a host of expected milestones. The MJG July 2020 letter stated that Tonogold would achieve the following by the end of the year. Each of these potential catalysts was confirmed as realistic by TNGL management and communicated to the market.

- *Phase I drill program 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***

I'm disappointed to note that not a single one of the above expectations were met. While the Phase I drilling program is indeed underway, it commenced in early September – over a month behind schedule. No drill

results have been press released, despite first results being promised in October and then again in late November. And we've yet to see an uplisting to either the OTCQX or NYSE MKT, nor a maiden resource at Lucerne.

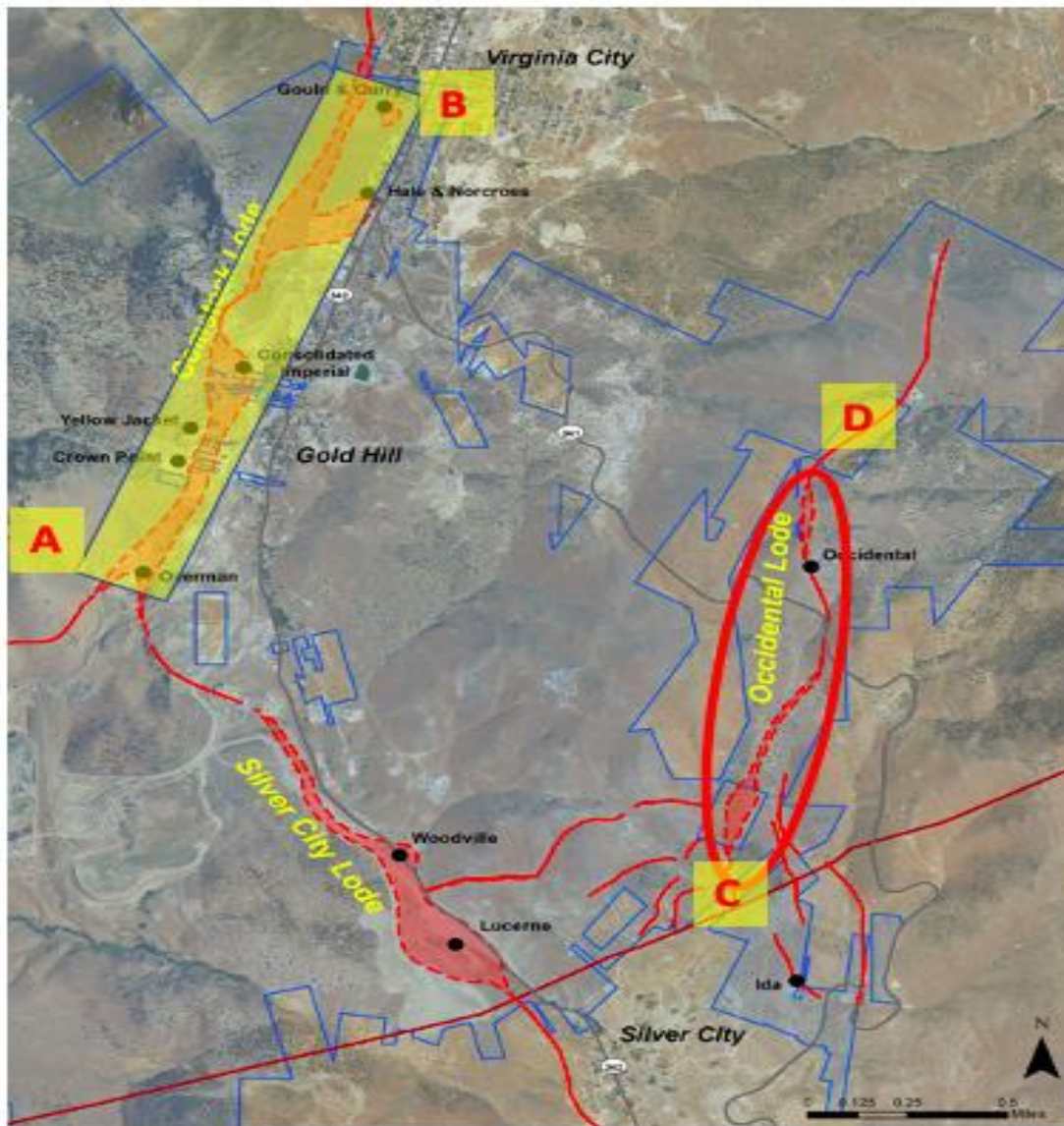
Sure, there are some variables outside of the company's control that have contributed to this lack of follow through. Drill mobilization took longer than anticipated and assay labs are massively backlogged across the state of Nevada due to the increased drilling activity we've seen this year. Additionally, the drilling conditions at the Comstock Lode have proven challenging. However, all of these issues were foreseeable to at least some extent and should have been reflected in the guidance that was given to the market.

To compound matters, there hasn't been a news release from the company since mid-November. This is despite a November 17th press release stating that the company had "been advised by ALS that assays [for the first drill hole] are expected to be available toward the end of November". The absence of a subsequent news release implies that the first hole did not yield a significant mineralized interval and that the company is sitting on the results. This lack of transparency erodes trust amongst shareholders far more than simply admitting that the first hole missed.

The second overarching issue is that drilling conditions at the Comstock have proven particularly difficult. This was expected to some degree given the ~200 kilometers of historic workings at the Main Comstock Lode that need to be ducked and dodged while drilling. Additionally, the ground conditions are "known to be highly broken and fractured, making drilling conditions challenging" as stated in Tonogold's most recent news release.

Difficult drilling conditions can result in a whole host of problems aside from simply slowing progress. Drill holes can deviate from and miss their intended target or become lost entirely if the hole encounters an unexpected fault or historic working. Core recoveries can suffer, which gives the company an incomplete view of the geology being encountered and may also result in difficulties obtaining assay results. Drill rigs expected to reach certain depths can begin stalling out well short of design capacity. Given the limited disclosure from Tonogold thus far, it can be assumed that at least some of these difficulties are being encountered in the drilling at the Main Comstock Lode.

On this point, there is an argument to be made that Tonogold would have been better served by commencing its drill program at the Occidental Lode to iron out any kinks with the drilling equipment and personnel. As seen in the map below, the Occidental structure is located 1.5 kilometers east of the main Comstock structure with a mapped strike length of three kilometers. Occidental is distinct in that there are minimal historic workings (only 34,000 tonnes were extracted by the old timers between 1866-1894) and the ground conditions are less fractured. The drill targets at Occidental are also shallow relative to deep, high-risk targets at the Comstock Lode. In 2018, prospector Art Wilson drilled 32 meters of 7.2 g/t AuEq at the Occidental's Ida Area Claims. This intercept began at only 8 meters below surface and has yet to be followed up. (The Ida Area Claims, located near the "C" in the below map, have since been optioned to Tonogold.) Tonogold has moved its diamond rig to Occidental within the past month. One has to wonder why the company didn't begin the campaign there.



Source: Tonogold Investor Presentation. Dec 2020.

So where does this leave frustrated Tonogold shareholders? On the management front, the company would be well-served to bring 1-2 experienced, market-facing mining executives onboard to assist with capital markets and/or on-the-ground operations. The current team has done a commendable job securing the Comstock asset while also funding the company up to this point through some incredibly difficult times. However, the developments over the past six months dictate that some new blood would be beneficial as the company transitions into this new phase. There would be no shortage of credible candidates given the scale of the opportunity, Comstock's illustrious history, and the project's close proximity to Reno.

In terms of drilling, the challenging ground conditions at the Main Comstock Lode can be overcome through equipment/personnel optimizations and patience. It's worth noting that the drilling contractor, Luke Horschel's Drill Rite, is taking half of the US\$7m planned budget in Tonogold shares at US\$0.30. This aligns the two parties nicely, while limiting Tonogold's cash outlay to US\$3.5m for the current program.

The 26,000-meter drill program remains in its early stages – with one core rig and one RC rig on site. According to those close with the company, the core rig has been moved to the aforementioned Occidental structure within the past few weeks and will be testing targets there for the foreseeable future. Meanwhile, the RC rig remains at the Main Comstock Lode where it has completed four to five holes to date. While the company has not been forthcoming with the results to date, either an operational update or a batch of assay results should be forthcoming in the near term. It's been long enough.

The potential Tonogold milestones over the coming twelve months are outlined below. The story will live or die with the drill bit for the foreseeable future. An economic intercept at either the Main Comstock or Occidental has the potential to boost the share price in the near term – though I must caution that it will take multiple drill campaigns before it becomes apparent whether or not the company has a new mine on its hands at either the Main Comstock or Occidental.

- First drill results from Phase I drill program **by end February 2021**
- Upgrade listing to OTCQX **by end Q2 2021**
- Upgrade listing to NYSE American or TSXV **by end 2021**
- Drill results announced from full Phase I program (26,000m) **by end 2021**

While the performance over the past six months has left a sour taste in mouths of TNGL shareholders, the good news is that the company has it within its means to correct course. Tonogold sits on ~US\$5m in cash at the moment and also has a significant number of currently in the money warrants expiring by year end – which could bring in another US\$15m or so if fully exercised. Also remember that half of the US\$7m budget for the Phase I drilling is being paid in shares to the drill contractor, which further eases strain on the company's treasury.

As one of our longest-held positions, we have patience with Tonogold – but not of the unlimited variety. While the MJG partnership plans to hold the bulk of our shares through at least the duration of this Phase I drill program, this will require the company markedly improving disclosure to the market while also better setting and meeting realistic milestones. The project has been secured, the story has been told, and the money has been raised – the company's fate in 2021 will simply come down to execution.

## **Lara Exploration (TSXV: LRA)**

Featured In: **January 2020**

Average Cost per Share: **C\$0.62**

Current Market Price (January 22, 2021): **C\$0.69**

Lara Exploration was the featured investment in the MJG partnership's January 2020 letter. We first initiated a position at C\$0.44 in November 2019 and subsequent purchases as recently as early December 2020 have raised the partnership's cost basis to C\$0.62 per share. While it's a bit disappointing that the copper-focused Lara has failed to catch a bid as the copper price has moved from \$2.80 to \$3.60 per pound over the past six months, our original investment thesis remains intact and as such we've been adding to the position. After all, the investment in Lara was never meant to be a call option on the copper price, but rather a bet on an honest, previously successful management team utilizing a high-quality business model (organic royalty generation) at a reasonable valuation.

Despite the share price underperformance, Lara as a company has actually had a decent six months. Just four days after the most recent MJG investor letter was published, the company rather unexpectedly announced an option deal with Peruvian gold and tin miner Minsur at the Lara Project on the southern coast of Peru (owned 45% by Lara and 55% by TSXV listed Global Battery Metals). Minsur is an ideal partner given that it's in the late stages of building a US\$1.6 billion open-pit copper mine (Mina Justa) in the same district as the Lara Project. This was far from a blockbuster deal – with Lara set to receive just over US\$2.5m in staged option payments as well as a retained 0.75% NSR (subject to a 0.25% buyback for US\$2.5m). Nonetheless, the transaction with Minsur provides some free upside for LRA shareholders not previously baked into the company's valuation.

On September 1<sup>st</sup>, Lara announced a positive update regarding its interest in the Bifox Phosphate Project in northern Chile. The project's operator Bifox Ltd received the necessary operating permits in early August to restart phosphate production of up to 4900 tonnes per month. Lara owns roughly 14% of Bifox Ltd and also holds a 2% NSR that kicks in once production exceeds 50,000 tonnes per annum. Lara is also set to receive a US\$570,000 payment upon a Bifox listing on the ASX. It is reasonable to expect an ASX-listing sometime in 2021, as well as the first royalty checks paid to Lara. The initial royalty income will be negligible, but pending permitting success there is in theory room to grow production over the coming years given the project's 78 million tonne resource. Similar to the Lara Project discussed above, this interest in the Bifox Project via equity and a royalty is not make or break for Lara shareholders but is still worthy of mention.

In a much more substantive development, the CEO of Hochschild Mining revealed in an interview with Global Business Reports in late September that the Corina Gold Project is considered a high priority exploration target for the US\$1.4 billion miner. Lara originally sold Corina to Hochschild in mid-2014 for staged cash payments of US\$4.15m and a 2% NSR with no buyback provision. The full quote from Hochschild CEO Ignacio Bustamante can be seen below.

**Looking ahead, what are Hochschild’s priorities and what is the company’s growth strategy?**

Exploration is the top pillar in Hochschild’s growth strategy, which also includes brownfield, greenfield, early stage projects and M&As or JVs. In the case of brownfield exploration, it is where we believe we can generate the most value, by increasing LOM, improving grades, and allowing us to put certain assets back into production, such as Arcata. We now have all of our permits to drill a wide range of targets including Crespo, Arcata, Corina, Cochaloma, Pablo Sur and Palca, and I do not recall having a more loaded second half of the year with so many meters to drill.

Hochschild also plans to be active in M&A across the Americas, in jurisdictions that have the right mix of geological potential plus solid economic and political environment. This could be through a JV, like in the case of Snip, Pallancata and San Jose, but also through outright acquisition, if the conditions allow a good return for our shareholders.

**Source: Global Business Reports. Sept 29, 2020. [https://www.gbreports.com/interview/ignacio-bustamante\\_1](https://www.gbreports.com/interview/ignacio-bustamante_1)**

Corina is located just 15 kilometers away from Hochschild’s Selene Mill, which is currently being fed by the nearby Pallancata and Immaculada mines. Pallancata, however, is expected to run out of ore within the next few years. A soon-to-be hungry Selene Mill is good news for Lara shareholders, and it seems that Hochschild is well-aware of the importance of advancing Corina expeditiously. As mentioned in previous Lara updates, Hochschild applied for permits for up to thirty-three different drill pads. The statement by Mr. Bustamante seems to indicate that permits are in hand for some or all of the proposed drill pads.

Sure enough, Hochschild announced in a January 20<sup>th</sup> Production Report that 2,318m of resource drilling was completed at Corina in Q4 2020. The initial assay results are included in the table below. Drill hole DHCOR-20020 delivered the best gram-meter intercept on the property to date – hitting 23.3m of 4.9 g/t Au and 43 g/t Ag. The news release goes on to state that drilling at Corina is ongoing. Additional results from Hochschild are likely later this quarter or next.

Vein	Results (potential drilling)
Corina	DHCOR-20015: 25.7m @ 2.5g/t Au & 23g/t Ag including 2.5m @ 10.1g/t Au & 62g/t Ag DHCOR-20018: 1.3m @ 1.2g/t Au & 14g/t Ag DHCOR-20019: 4.8m @ 1.4g/t Au & 23g/t Ag DHCOR-20020: 23.3m @ 4.9g/t Au & 43g/t Ag DHCOR-20021: 9.3m @ 3.9g/t Au & 47g/t Ag including 2.3m @ 8.4g/t Au & 88g/t Ag DHCOR-20022: 1.2m @ 1.4g/t Au & 3g/t Ag DHCOR-20025: 4.8m @ 3.6g/t Au & 19g/t Ag

**Source: Hochschild Production Report. Jan 20, 2021.**

Of equal importance to the developments at Corina, Lara announced on January 11<sup>th</sup> that it had expanded the land package of the Planalto Project in the Carajás region in northern Brazil. Lara is partnered with C\$1.1 billion copper producer Capstone Mining at Planalto – with Lara holding what is in essence a 30% free-carry to production at the project. Capstone has already funded roughly 6000 meters of drilling at Planalto in two separate drill campaigns since the initial joint venture agreement was signed in late 2018. The results have thus far yielded healthy widths of IOCG-type copper-gold mineralization, though the grades have yet to wow.

Nonetheless, this land expansion indicates that Capstone remains keenly interested in the asset – with Lara stating in its January news release that it “plans to complete additional sampling, mapping and

geophysical surveys in Q1-2021, with a view to mobilising diamond drilling in Q2 to complement the already approved follow-up drilling on other potential extensions of the Homestead target.” This suggests that we may see an announcement in the relatively near future announcing rig mobilization for the “approved follow-up drilling on other potential extensions of the Homestead target” to be followed by drilling of the newly acquired ground in the late spring or summer.

The one big disappointment for Lara shareholders is that the company has yet to confirm first royalty payments from its 2% NSR at the Celesta Copper Mine in the Carajás region in northern Brazil. At current copper prices, the Celesta NSR should generate at least US\$1m in royalty income per annum. This is significant, particularly when one considers Lara’s lean corporate overhead of roughly C\$1m per year. Celesta would also become Lara’s first organically generated cash flowing royalty, a key milestone for the company.

At this point, it’s safe to assume that Celesta’s operator Tessarema has encountered ramp up issues at the mine which have delayed commercial production. It is also in theory possible that the project’s operator Tessarema is negotiating a sale of the asset requiring Lara to keep quiet for the time being. Either way, an operational update on Celesta should be forthcoming in the near future.

The Lara milestones that can be expected over the coming twelve months are included below. Most significant in the near term is additional drill results from Corina, as well as confirmation (hopefully this quarter) that Celesta has achieved commercial production and royalty payments to Lara have commenced. We should also see Capstone fire up the drill rigs at Planalto this spring, which could serve as another significant catalyst.

- First royalty income announced from Celesta 2% NSR **by end Q1 2021**
- Phase III drill results at Planalto (5000m) **by end Q2 2021**
- Additional results from Hochschild at Corina **by end Q2 2021**
- Resolution to Codelco/Vale lawsuit at Liberdade **by end 2021**
- Partner announced at Puituco Zinc Project in Peru **by end 2021**
- First royalty income from Bifox Phosphate Project **by end 2021**

An investment in Lara remains an exercise in patience. The company’s CEO Miles Thompson has spent decades in South America building a portfolio of highly prospective mineral properties with a pronounced focus on copper. Many of these properties have since been optioned to third parties in well-structured deals, with Lara retaining a royalty along with other goodies in each case. At this point, management’s job is relatively simple – minimize dilution while bringing in new partners at Lara’s 100%-owned properties such as Puituco, Buenos Aires, and Itaituba. Meanwhile, the value embedded in Lara’s existing portfolio will become readily apparent as this mining bull market matures.



To conclude, it's worth noting that Lara's downside seems to be somewhat limited at the current share price. The company does zero marketing or promotion, so nearly the entire share registry is comprised of strong hands. Additionally, the current LRA share price of C\$0.69 isn't too far above the C\$0.45 level – the lowest price at which Lara traded during the depths of the March 2020 panic. As investors in this space know, many mining names are up multiples from their March 2020 lows. (Just look at Lara's partner at Planalto, Capstone Mining, which is up nearly tenfold in the past ten months.) Lara has yet to see that surge of speculative interest, but I suspect that its time will come.

## Salazar Resources (TSXV: SRL)

Featured In: **July 2019**

Average Cost per Share: **C\$0.23**

Current Market Price (January 22, 2021): **C\$0.355**

Salazar Resources was highlighted as the featured investment in the MJG partnership's July 2019 investor letter. We first initiated a position in SRL in April 2019 and have purchased shares as recently as late November 2020. While an investment in Salazar does come with some healthy jurisdictional risk, the risk/reward profile is quite favorable at the current valuation and as such the partnership's SRL position in absolute terms is larger than it's ever been before – despite the relatively modest weighting within the MJG portfolio as a whole.

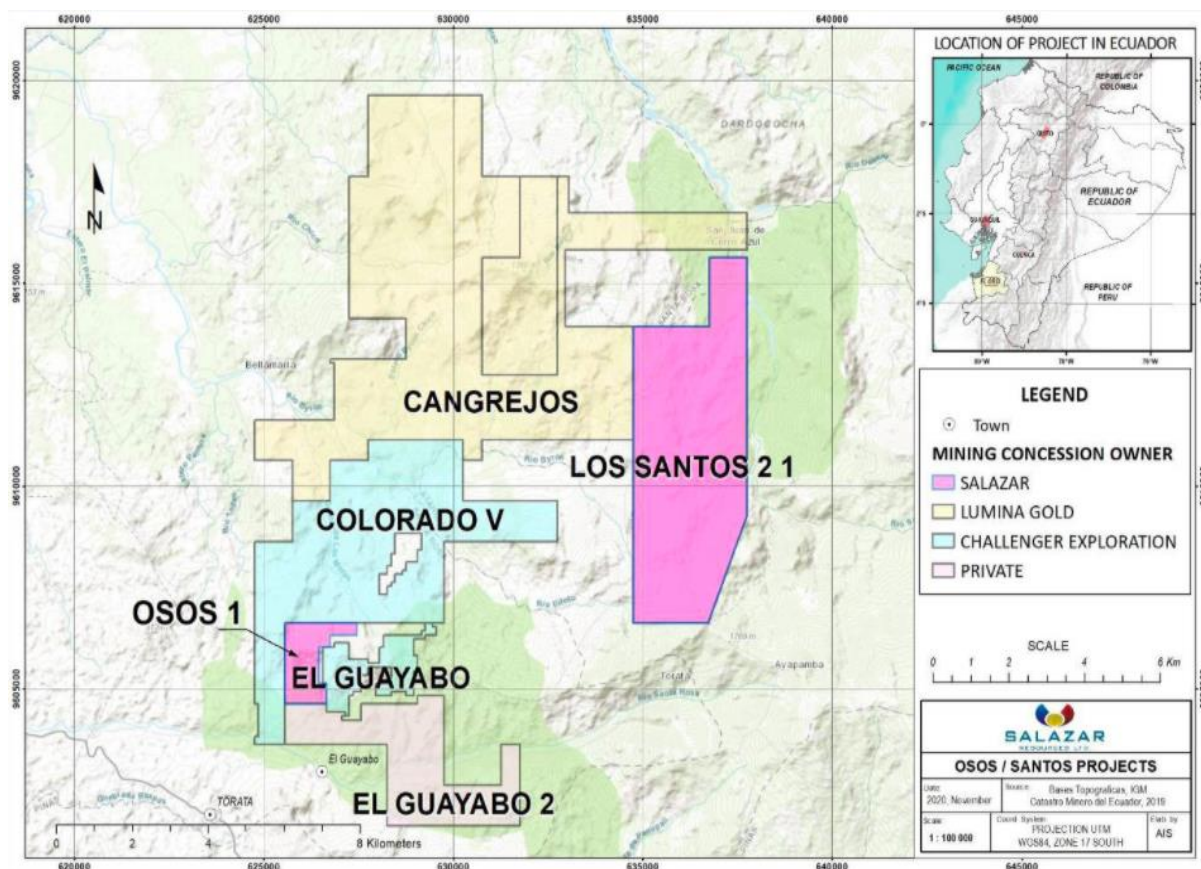
The investment proposition for Salazar is simple. After accounting for the company's 25% free-carry to production at the PFS stage Curipamba Project, Salazar's 100%-owned property portfolio is valued at a meager C\$10m – offering attractive speculative value given that three of these 100%-owned properties are set to be drilled this year. This C\$10m number can be inferred by looking at the valuation Adventus Mining – Salazar's 75% partner at Curipamba (and 80% partner at the much earlier stage Pijili and Santiago properties). After adjusting for cash and marketable securities, Adventus sports a ~C\$112m fully diluted enterprise value at its current share price. Practically all of this value can be attributed to Adventus's 75% earn-in stake at Curipamba.

For those who believe loosely in the efficient market hypothesis, it follows that the value of Salazar's 25% share of Curipamba should be worth approximately one-third that amount, or ~C\$37m. Salazar's current enterprise value sits at ~C\$47m – even with the share price near eight-year highs. One could make a convincing argument that I'm vastly underselling the significance of the free-carry to production when compared to a standard participating 25% joint venture interest, but for the sake of argument let's just say that Salazar's remaining portfolio is being assigned C\$10m in additional value after factoring in its 25% project-level ownership at Curipamba (and 20% interests at Pijili and Santiago – to account for any value that Adventus is receiving from the market for these two exploration projects).

Turning to Salazar's 100%-owned project portfolio, there are four assets of particular interest – with one undergoing drilling currently and at least two more to be drill tested this year. Of most significance in the near-term, assay results from the first ever hole drilled at the Los Osos Project are expected in the coming few weeks. The company announced in a December 1<sup>st</sup> news release that the first hole had been completed to “a depth of 647 m with 0.5-5.0% mixed sulphide mineralization visible from 63 meters” and that it had bottomed in sulphide mineralization. Salazar is in the midst of an ongoing drill program at Los Osos, so we can expect additional assay results from more holes over the coming months.

Then there is Salazar's Los Santos Project, which was acquired by the company just last month. Los Santos is directly adjacent to Lumina Gold's 17m ounce Cangrejos Project and located just 10 kilometers to the east of the aforementioned Los Osos Project. As seen in the map below, the Los Santos land package is an order of magnitude larger than Los Osos at 2,215 hectares. Of particular note is that Salazar's Exploration Manager

Francisco Soria knows this district (Cerro Pelado) intimately – having served previously as the Cangrejos project manager in the 1990’s.



Source: Salazar News Release. Dec 10, 2020.

Salazar already has geologists on site at Los Santos and will aggressively push forward with geochemical testing, mapping, and target generation over the next six months. Despite the project having never seen a drill hole, Salazar may be in a position as soon as Q3 2021 to launch a maiden ~3000m drill campaign at the property. This could serve as another major catalyst in the back half of the year.

Third is the Rumiñahui Project in northern Ecuador, which probably has the greatest blue-sky potential of the bunch. The project is located on trend with the high-profile Cascabel and Llurimagua copper porphyry deposits. CEO Fredy Salazar recognized the potential of the area twenty years ago, having been impressed by high grade samples and intense alteration. After fifteen years of community liaison, Salazar just last year managed to gain a written agreement with the locals to enable systematic work to be carried out. Like Los Osos and Los Santos, Rumiñahui has yet to be drilled. That is set to change however in Q2 2021 – according to a January 14<sup>th</sup> news release from the company. In the planned 3000m drill program, the company will “test historic adits, old workings, near surface veins and stockworks that Salazar believes may be linked to an underlying porphyry.” First assays from this program can be reasonably expected in early Q3 2021.

And finally, there is the company’s 288-hectare Macara Mina license in southern Ecuador. Macara Mina hosts the potential for buried volcanogenic massive sulphide (VMS) deposits with gold caps at surface. The project

has undergone mapping, soil geochemistry, rock-chip sampling, and most recently gravity geophysics. The plan is to drill 3000 meters at Macara Mina once the complicated water permitting process is completed, hopefully by late 2021. The company anticipates that drilling will commence at Macara Mina in late 2021 or early 2022, with assay results to follow thereafter.

Provided below are the expected Salazar catalysts over the next twelve months. Also included are Adventus milestones pertinent to Curipamba, Pijili, and Santiago – given Salazar’s free-carried interest in each of these three projects. We can expect to see drill results at no less than six different properties (Los Osos, Rumiñahui, Los Santos, Curipamba, Pijili, & Santiago) by year end 2021. Salazar is certainly not lacking in the news flow department.

- Adventus announces additional drill results (Holes #6 and #7) at Pijili **by end Q1 2020**
- Drill results (5000m) at Los Osos **by end Q1 2021**
- Drill results (3000m) at Rumiñahui **by end Q3 2021**
- Drill results (3000m) at Los Santos **by end 2021**
- Adventus submits draft EA to regulators at Curipamba **by end 2021**
- Adventus announces Curipamba investment agreement w/ government of Ecuador **by end 2021**
- Adventus announces Feasibility Study at Curipamba **by end 2021**
- Adventus announces drill results (2500m) at Santiago **by end 2021**
- Drill results (3000m) at Macara Mina **by end Q1 2022**

To conclude, it’s worth touching on the most significant near-term risk faced by Salazar shareholders – the rapidly approaching presidential elections in Ecuador. The country’s general election is set for February 7<sup>th</sup>, with a run-off vote likely to follow in early April. This will result in a few months of uncertainty for both the people of Ecuador and those invested in the country. The good news, at least from an investment perspective, is that based on recent polling it is looking increasingly unlikely that the populist, anti-mining candidate Yaku Perez will get anywhere close to the votes necessary to secure one of the two run-off spots.

The bigger drama at the moment is whether conservative firebrand Alvaro Noboa will be allowed on the presidential ballot at the last minute. In November 2020, Ecuador’s National Electoral Council did not accept Noboa’s candidacy registration paperwork when he tried to register on the last day of the deadline. Noboa charges that this rejection was politically motivated, while the National Electoral Council says that he did not properly comply with the registration procedures. It remains an open question whether Noboa will be listed on the ballot come February 7<sup>th</sup>.

If Noboa is ultimately allowed to run, the most likely outcome is that he and left-wing candidate Andres Arauz (backed by ex-president Rafael Correa) advance to the run-off. If Noboa is unable to find a way onto the ballot, then Arauz would likely face off against a former investment banker named Guillermo Lasso in the run-off. (While not guaranteed, a run-off seems very likely at this point given that 20-30% of Ecuador voters have indicated that they won't vote. This makes the 40% threshold necessary to avoid a run-off tough to reach.)

The reality is that any of these three candidates would be fine from an investment perspective. While Arauz will sometimes employ anti-mining rhetoric (especially during the campaign season), he recognizes that responsible mining development is necessary to fund his ambitious social program proposals while keeping the country solvent. Noboa or Lasso would in theory be somewhat more mining friendly given their right-wing bent. However, even with one of these two as the next president, the challenges of operating in Ecuador – such as the glacially slow permitting track and complex social/environmental sensitivities – will remain very much the same. Fortunately, from a SRL perspective, the company has the perfect “homegrown” Ecuadorean team – with the experience, connections, and empathy necessary to successfully navigate these challenges.

## Adriatic Metals (ASX: ADT)

Featured In: **January 2019**

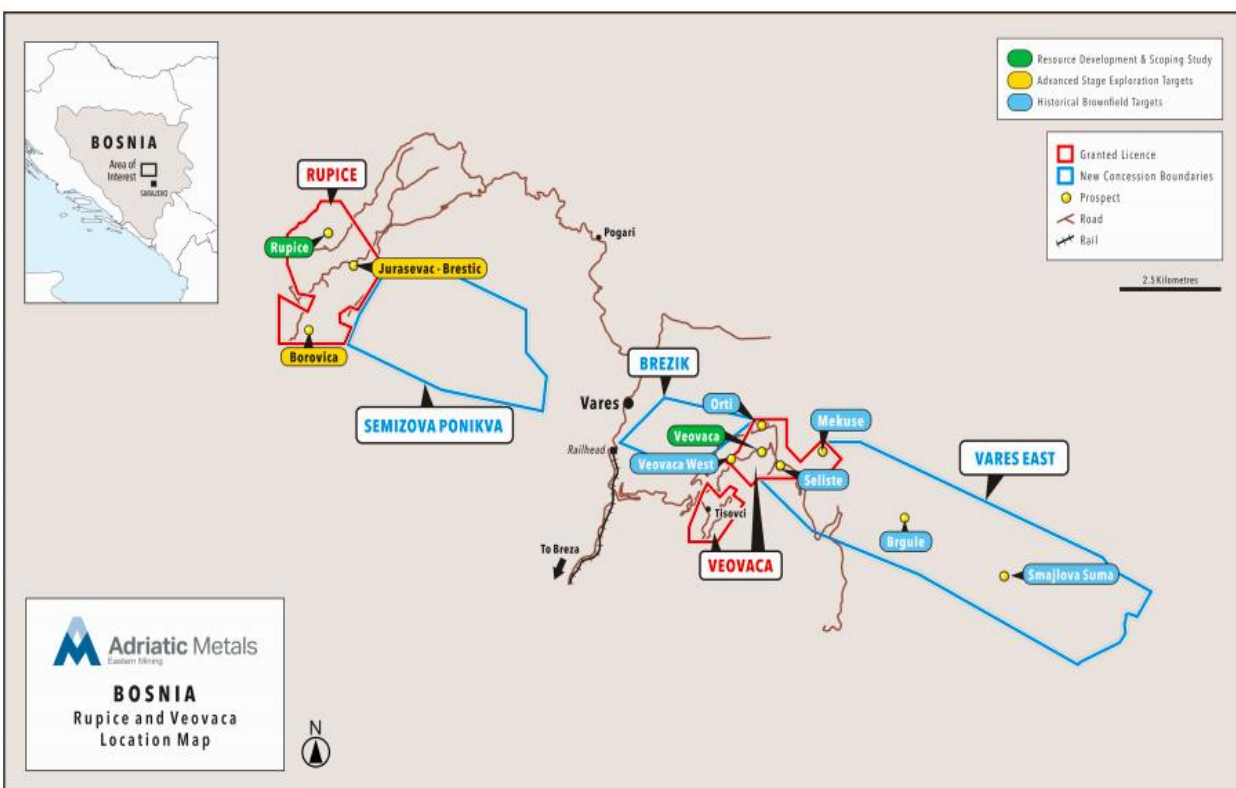
Average Cost per Share: **A\$0.67**

Current Market Price (January 22, 2021): **A\$2.14**

Adriatic Metals was the partnership's featured investment in the January 2019 letter. We first initiated the position in September 2018 at A\$0.39 on the heels of the Rupice discovery hole and continued buying into late 2018. While we've done no buying or selling of Adriatic in the past six months, the company's weighting within the MJG fund has fallen due to inflows and ADT's underperformance relative to the rest of the portfolio. That said, Adriatic continues to offer compelling value at its current valuation and remains one of the more likely takeover candidates within the MJG portfolio.

The fortunes of Adriatic shareholders will live or die with the company's Vares Silver Project in Bosnia. Even in light of the coronavirus pandemic and sometimes stifling government bureaucracy, the company made decent progress at Vares in the back half of 2020. Three milestones stand out in particular – the first of which was approval on September 2<sup>nd</sup> of a significant expansion of landholdings within Bosnia. This approval from the Premier of the Zenica-Doboj Canton nearly quintupled the size of Adriatic's Bosnian concessions from 8.7 square kilometers to 40.8 square kilometers. The new concession boundaries can be seen in blue on the map below.

**Figure 1 – New Semizova Ponikva, Brezik and Vares East Concessions**



Source: Adriatic News Release. Sept 2, 2020.

While the market's reaction to this concession expansion was relatively muted, this was one of the company's most significant developments of the past two years. Adriatic now has a district scale land package to complement the exceptional economics of the Vares Project. This greatly increases the attractiveness of Adriatic as an M&A candidate, while widening the playing field of potential acquirers to the world's largest diversified mining companies. It's worth noting that the expansion was far from a formality in light of the attention that the Rupice discovery has brought to the region. It's almost certain that Sandfire Resources and additional parties were vying to secure the land themselves.

The second Bosnia-specific milestone of particular importance was the Vares Prefeasibility Study announced in mid-October. The study outlined a fourteen-year operation producing roughly 15 million silver equivalent ounces per year. The economics were exceptional as expected – with headline numbers including a US\$1.04 billion after-tax NPV<sub>8</sub>, 113% after-tax IRR, and 1.2-year payback period. The expected pre-production capital is a very manageable US\$173m, or less than half of Adriatic's current market capitalization.

Even in light of these results, there are some reasonable concerns with the study. The first is that the company assumed spot prices for gold and silver (\$1900 and \$24 respectively), which is well above the \$1440 gold and \$17.20 silver used in the PEA. It seems pretty clear that the company assumed these more aggressive gold and silver prices to boost the after-tax NPV north of US\$1 billion.

Additionally, it's looking less likely that barite will be produced as a byproduct when Vares is ultimately put into production. It's telling that the company made a distinction between barite and the rest of the metals when breaking down "Refining & Transport Costs" in the PFS news release. Fortunately, barite only accounts for 4-5% of the project's NPV so this is far from a dealbreaker for Vares.

Other potential concerns include the difficulty/hassle of trucking material back and forth between Rupice & Veovaca, as well as worries about whether there will be enough waste material to be used as backfill in the mine's early years. Adriatic has an opportunity to address all of these items in the upcoming Feasibility Study expected in late Q2 2021.

Adriatic announced a key permitting update on November 19th when the company received its Urban Planning Permit for Veovaca. This allows for Adriatic to immediately apply to Bosnia's Federal Ministry of Energy, Mines, and Infrastructure for the Veovaca Exploitation Permit – which the company hopes to have in hand in Q1 of this year. In the same news release, ADT also announced that the Environmental Permit for Rupice is under final review. Assuming that the Environmental Permit is granted in the coming couple of weeks, Adriatic is guiding for the Rupice Urban Planning Permit to be received in Q1 and for the Rupice Exploitation Permit to follow in Q2. This is likely overly optimistic, and I'd be happy to see the Rupice Exploitation Permit sometime this summer.

While I currently don't assign much value to Adriatic's assets in neighboring Serbia, that is subject to change in the future. The company has undoubtedly been busy in the country over the past six months. On October 8<sup>th</sup>, Adriatic announced that the transaction with Tethyan Resources had been finalized. Shortly thereafter, the company disclosed assay results on October 30<sup>th</sup> from the first three diamond

drill holes drilled at the Kizevak Project – highlighted by drill hole KZDD-014 which intercepted 13m at 5.8% zinc, 2.8% lead, 46 g/t silver, and 0.2 g/t gold from 60 meters. This qualifies as an excellent result and surpasses the 10m at 10% Pb + Zn yardstick used by some in the industry.

On December 3<sup>rd</sup>, the company announced another set of results from Kizevak. This batch included the best intercept drilled to date – with hole KZDD-020 hitting 18m at 9.0% zinc, 4.1% lead, 42.5 g/t silver, and 0.6 g/t gold from 102 meters. Significantly, this hole was drilled down dip and outside of the historically known mineralization.

**Table 1: Head grade, metal recoveries and concentrate grades**

	Lead Circuit						Zinc Circuit		
	Head Grade			Concentrate Grade		Recovery to Concentrate		Concentrate Grade	Recovery to Concentrate
Composite	Pb (%)	Zn (%)	Ag (g/t)	Pb (%)	Ag (g/t)	Pb (%)	Ag (%)	Zn (%)	Zn (%)
01 - Massive Sulphide	20.7	30.6	212.2	70.6	569.0	82.7	75.3	59.2	81.2
02 - Crackle Breccia	2.9	7.1	30.3	60.8	410.0	89.1	72.0	58.9	92.7

Source: Adriatic News Release. Oct 30, 2020.

Also included in the October 30<sup>th</sup> news release was preliminary metallurgical results from Kizevak. As seen in the above table, the initial results were actually quite impressive and yielded potentially saleable lead-silver and zinc concentrates. Importantly, the company states that “analysis of the zinc and lead concentrates for deleterious elements show that no significant impurities report to either of the concentrates and that iron, antimony, arsenic, bismuth, cadmium, copper and mercury are generally below concentrations that would typically incur a penalty charge.” If these results hold with further testing and the company is ultimately able to define 10m or more tonnes of 10% Pb + Zn material, Adriatic Metals may just have a second future mine on its hands.

Remember that the all-share Tethyan deal was announced unexpectedly in early May 2020. The result was dilution of 6.9% for existing ADT shareholders. At the time, the deal was viewed with ambivalence by some and concern by others. It was far from clear that we’d experience this V-shaped recovery in the financial markets in the aftermath of the coronavirus crash, and there were also concerns that this acquisition signaled that something had gone awry in Bosnia. However, with the benefit of eight months of hindsight, this deal is looking more and more like an opportunistic piece of business by Adriatic CEO Paul Cronin.

Adriatic remains in great shape when it comes to working capital. In an October 27<sup>th</sup> news release, the company announced that it had entered into binding agreements for US\$28m in financing split between Queen’s Road Capital (a well-respected resource investment company led by Warren Gilman and Alex



Granger) and the European Bank for Reconstruction & Development (EBRD). Queen's Road Capital took down US\$20m of the financing in the form of 8.5% unsecured convertible notes. The notes have a four-year term with a conversion price of A\$2.7976, which sits well above ADT's current share price. EBRD, meanwhile, invested approximately US\$8m in equity at £1.175 per share (or ~A\$2.05).

This was followed by news on November 3<sup>rd</sup> that Adriatic had reached a settlement agreement with Sandfire Resources regarding a dispute over whether ADT had honored Sandfire's anti-dilution rights as an early shareholder. Adriatic agreed to issue Sandfire an additional 4,830,156 shares in return for ~A\$8.6m in cash proceeds. The effective price was ~A\$1.79 per ADT share, which increases Sandfire's stake in Adriatic to 16.2%.

ADT's working cap position was A\$13.9m as of September 30<sup>th</sup>. Proceeds from the QRC/EBRD deal and Sandfire settlement bring this total to approximately A\$59m. Assuming that Adriatic's quarterly burn in Q4 2020 matched that of Q3 2020, we can estimate that the company has roughly A\$54m in working capital at the moment. This total is well higher than at any point in Adriatic's history and should easily get the company to a construction decision at Vares without having to raise additional capital.

In terms of valuation, Adriatic sports a fully diluted market capitalization of roughly A\$486m given the company's fully diluted share count of ~227m post Sandfire settlement. The enterprise value sits closer to A\$458m after adjusting for the company's cash and convertible debt.

In my previous Adriatic write up, I argued that Adriatic deserves to be valued at 0.5x the after-tax NPV at Vares. (Remember that a similarly spectacular deposit, Mariana's Hod Maden, was acquired at 0.425x multiple in mid 2017 in a less favorable metals price environment.) After discounting the post-tax NPV<sub>8</sub> outlined in the PFS by 5% to account for the likelihood of barite being ignored in a future mining scenario, a 0.5x multiple yields an implied value of roughly US\$494m (or ~A\$642m) for Vares. This is equivalent to ~A\$2.83 per fully diluted share.

Given the results to date, it's also fair to attribute some value to the company's Serbian assets such as the Kizevak Project. Given that Adriatic acquired the Serbia portfolio from Tethyan for approximately US\$11m and have put roughly US\$3m into the ground in the months since, I'm comfortable assigning a US\$14m value to the Serbia assets at this time. This adds another A\$0.08 per share of value, bringing the total to ~A\$2.91 per share when considered alongside Vares.

Provided below are the Adriatic milestones that can be expected over the coming twelve months. Most important by far are the permitting items at Rupice and Veovaca. For all intents and purposes, Adriatic can be considered a permitting bet until the Exploitation License is received at Rupice later this year. Also of potential significance is the expected scoping study at Kizevak due in Q3 2021. This will be the market's first glimpse at the project's potential economics.

- Environmental Permit granted for Rupice **by end January 2021**
- Exploitation Permit granted for Veovaca **by end Q1 2021**

- Feasibility Study announced for Rupice + Veovaca operation **by end Q2 2021**
- Resource Update announced at Kizevak **by end Q1 2021**
- Urban Planning Permit granted for Rupice **by end Q2 2021**
- Exploitation Permit granted for Rupice **by end Q3 2021**
- Construction financing secured for Rupice + Veovaca operation **by end Q3 2021**
- Scoping Study announced at Kizevak **by end Q3 2021**

Adriatic continues to exhibit many of the characteristics we look for in a development stage investment: a high-quality project surrounded by a district scale land package, a competent and well-incentivized management team, a healthy working capital position with no near-term financing risk, a pipeline of catalysts that can drive further value, and an attractive valuation relative to the company's underlying assets.

Ultimately, I believe we'll see the company acquired at an attractive premium in the coming months before Paul Cronin and his team are in a position to secure construction financing for Vares. However, Adriatic will have no problem securing financing for Vares on attractive terms should they decide to build the mine themselves. Assuming that the permitting process continues to move forward at a reasonable clip, the MJG partnership will not be taking any profits on our position below A\$3.00 per share.

## **Golden Valley Mines (TSXV: GZZ)**

Featured In: **July 2018**

Average Cost per Share: **C\$3.10**

Current Market Price (January 22, 2021): **C\$6.51**

Golden Valley Mines has been a holding for nearly five years. The MJG partnership first purchased GZZ shares in April 2016 and most recently added to its position in May of last year. The company remains a core holding because the original investment thesis still very much stands. Golden Valley continues to trade at a substantial discount (~31% currently) to its equity position in Abitibi Royalties (TSXV: RZZ). The rest of the company's equity interests, royalty interests, and project-level stakes come for free at the current valuation.

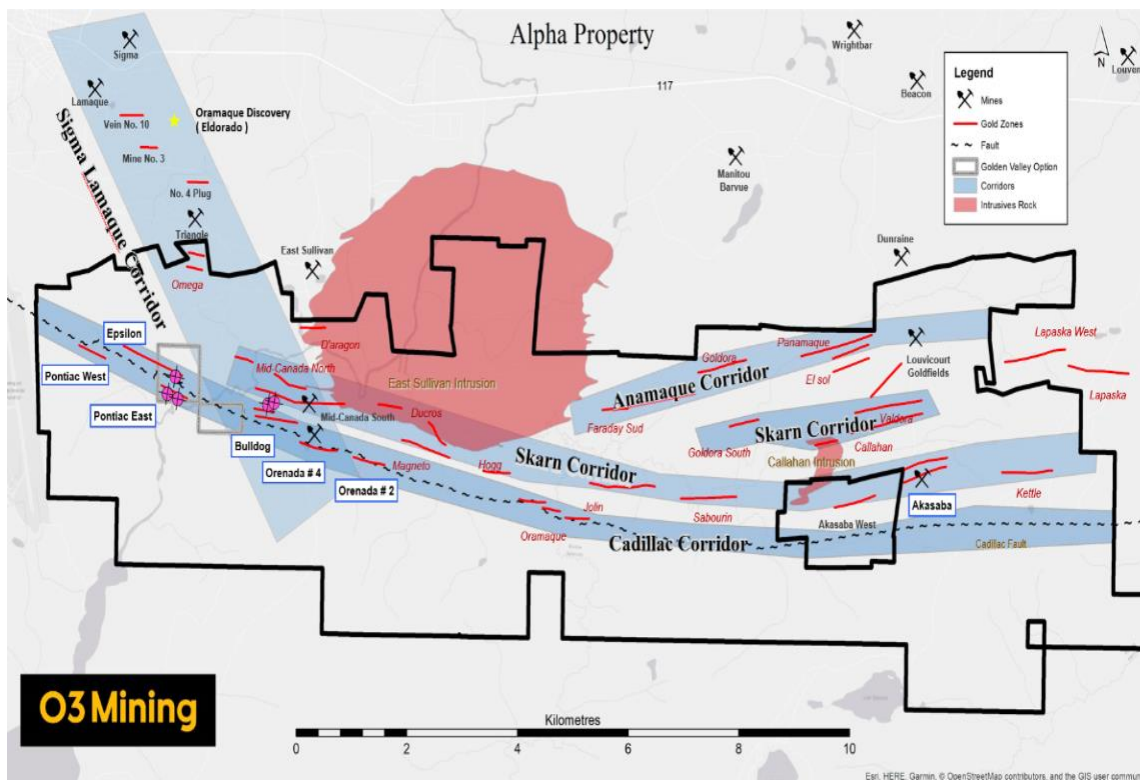
Golden Valley's 5,605,246 share position in Abitibi Royalties is worth ~C\$140m at RZZ's current share price of C\$25.02, while Golden Valley itself has a fully diluted market capitalization of ~C\$97m. Some would reason that this discount to the value of the RZZ position is warranted due to the tax implications of ultimately monetizing these shares. (Though this assumes that the remainder of the Golden Valley's portfolio is worth exactly zero, which is far from the case.) But even under this assumption, the current discount to the RZZ position is too extreme to be explained by taxes alone. Were Golden Valley to liquidate its entire position in RZZ tomorrow in the least tax efficient manner possible, the maximum effective tax rate the company would pay is 13.25% – or less than half of the current discount.

Beyond the Abitibi Royalties position, Golden Valley owns 4,470,910 shares of International Prospect Ventures (TSXV: IZZ) worth ~C\$490k at the current share price. Golden Valley also owns 25,687,444 shares of Val-d'Or Mining (TSXV: VZZ) – after receiving an additional payment of 4,166,667 VZZ shares on November 30<sup>th</sup>. The VZZ position is worth ~C\$4.5m at current share prices. Finally, Golden Valley owns 2,100,000 shares of Sirios Resources (TSXV: SOI) worth ~C\$290k. Cumulatively, these three equity stakes are worth ~C\$5.3m at current share prices.

Golden Valley also holds a sliding 2.5-4% NSR over Sirios's two-million-ounce Cheechoo Gold Project in James Bay. The project has already seen roughly 70,000 meters of drilling over nearly 300 holes. Assays announced in mid-August from the most recent drill program included intercepts of 12.1m at 10.3 g/t Au and 7.5m at 19.5 g/t Au. On November 17<sup>th</sup>, Sirios announced a resource update at Cheechoo outlining two million ounces of open pittable gold grading 0.65 g/t Au. Sirios, which is 17% owned by mining giant Newmont, indicates in its latest deck that it plans to release a PEA for Cheechoo in the latter half of 2021.

Additionally, Golden Valley 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 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.

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 consideration (shares or equity). Upon exercise of the option, Golden Valley retains 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 in the below map) comprises a core portion of O3’s Alpha Property, including portions of the Epsilon and Pontiac East zones.



Source: O3 Mining news release. 20 January 2020.

According to a news release from O3 Mining on January 6<sup>th</sup>, there are now eight rigs active on the Alpha Property – with 100,000 meters across the project in the current program. The news release goes on to state that the eight rigs at Alpha “will continue to expand the Bulldog deposit at depth and laterally, explore depth extensions of Orenada #2, Orenada #4 down to 800m vertically. Additionally, it will follow-up on the promising intercepts at Simkar, explore extensions of the Epsilon zone (Golden Valley option), and the Akasaba deposit.” Based on this disclosure, it’s fair to expect that the Epsilon zone will see 10-20k meters of drilling in the coming few months entirely on O3 Mining’s dime. Assay results from Epsilon should be expected sometime in Q2, which has the potential to serve as a catalyst for GZZ shares.

Provided below are the potential Golden Valley catalysts expected over the coming twelve months. I’ve also included milestones pertinent to Abitibi Royalties and Sirius Resources – given GZZ’s vested interest in both companies. Most significant is probably the Malartic Underground PEA expected in late 2021. This document should provide increased visibility into the future royalty cashflows that can be expected

from Abitibi Royalties' 3% NSR covering portions of the Odyssey, East Malartic, and newly discovered East Gouldie zones.

- Additional drill results from O3 Mining at Epsilon Zone (Centremaque Option) **by end Q2 2021**
- Malartic Underground PEA announced by Agnico Eagle/Yamana **by end 2021**
- Sirios Resources announces PEA at Cheechoo Gold Project **by end 2021**

While not listed as a catalyst above, there also remains the possibility that Golden Valley will boost its US-listing from the OTCQX to either the NASDAQ or NYSE American – though no decision has been made on this front and the timing is uncertain even if the company ultimately goes down this path.

In the six months since the MJG partnership's last investor letter, Golden Valley's discount to the RZZ position has only increased – from 17% then to 31% currently. This suggests that the Golden Valley investment proposition is that much more convincing today than it was then. The partnership will continue to hold our full GZZ position – with no plans to take profits until we see a positive enterprise value or a liquidation event.

## **Sama Resources (TSXV: SME)**

Featured In: **January 2018**

Average Cost per Share: **C\$0.13**

Current Market Price (January 22, 2021): **C\$0.14**

The MJG partnership first initiated a position in Sama Resources via a private placement in late 2016. The partnership added to its position in recent months, which lowers our cost basis to roughly C\$0.13 per share. While we remain above water on our position, Sama was undoubtedly the worst performer in the MJG portfolio in 2020 – falling roughly 45% over the course of the year. Despite this stark underperformance, we remain committed to this position due to the quality of people involved, the scale of the opportunity, the company's attractive valuation, and the fact that Sama shareholders are at minimal risk of share dilution in the coming years.

Sama's underperformance this year can be traced to three developments. The first is that the HPX-funded 4000-meter drill program completed in the spring of 2020 did not result in an economic nickel sulphide discovery at the company's sprawling Ivory Coast project. The program tested targets at the project's Samapleu, Bounta, and Yepleu zones – with one hole completed at Samapleu, one hole completed at Bounta, and three holes completed at Yepleu. While Sama does have a PEA-stage deposit at Samapleu (51m tonnes at 0.26% NiEq) amenable to open pit mining, the company remains firmly an exploration play where the big prize is discovering the rich nickel sulphide reservoir(s) that are the source of the near surface mineralization exhibited across the property. The market was clearly disappointed that this most recent drill program, which was the second round of drilling funded by HPX, did not yield a bonafide discovery.

The second disappointment is that Sama did not commence a new drilling campaign in the latter half of the year upon the conclusion of the Ivory Coast's rainy season. The reason is that Sama's partner HPX – which has the right to earn a 60% interest in the project by spending C\$30m and has thus far spent ~C\$12.5m – did not inject the cash into Sama necessary for additional drilling. This is despite Sama CEO Marc-Antoine Audet having identified plenty of additional targets to test. This reluctance by HPX to fund an additional 2020 program robbed Sama of expected near-term news flow and for some called into question HPX's commitment to the project.

While it is possible that HPX has either lost interest in the project or is nefariously "sandbagging" SME shareholders ahead of a lowball takeover offer, my read is that it comes down to temporary budget constraints stemming from HPX's opportunistic acquisition of the Mount Nimba iron ore deposit in neighboring Guinea. The terms of the deal were not disclosed publicly, however a document obtained by Reuters estimated that the investment by HPX would amount US\$1 billion. This is a serious commitment that has likely diverted funds that otherwise would have gone to Sama and the rest of HPX's project portfolio.

It is rumored that HPX is considering spinning out Nimba into a standalone vehicle in 2021, not to mention that Robert Friedland has very recently formed Ivanhoe Capital Acquisition Corp – a US\$200m

SPAC targeting “companies exploring for, mining, processing or refining the metals necessary for electrification (in particular, copper, nickel, cobalt, and the platinum group metals...), the manufacturers of battery and battery components, electric grid component manufacturers, and producers of electric vehicles, component parts, and battery storage.” It remains to be seen whether any of HPX’s energy metal investments, Sama included, find their way into the SPAC – which just began publicly trading on January 7<sup>th</sup>. Given this activity and the general buoyancy across equity markets, it’s reasonable to expect that HPX will get recapitalized in one form or another in the very near future. This would presumably be good news for Sama and HPX’s other portfolio companies.

The third development of note is the recent political instability within the Ivory Coast. After initially agreeing to stand down after serving two terms as president, Alassane Ouattara announced last July that he’d be seeking a third term in the Ivory Coast’s November 2020 elections. Opposition parties denounced this move and eventually boycotted the election – as the Ivory Coast’s constitution has a two-term presidential limit. (Mr. Ouattara’s flimsy justification was that a constitutional change in 2016 reset the clock when it comes to term limits.) Sure enough, Ouattara won 94% of votes as opposition voters stayed home. Tragically, at least eighty-five people died as a result of pre- and post-election violence. In the days after the election, there was legitimate concern that the situation would spiral out of control.

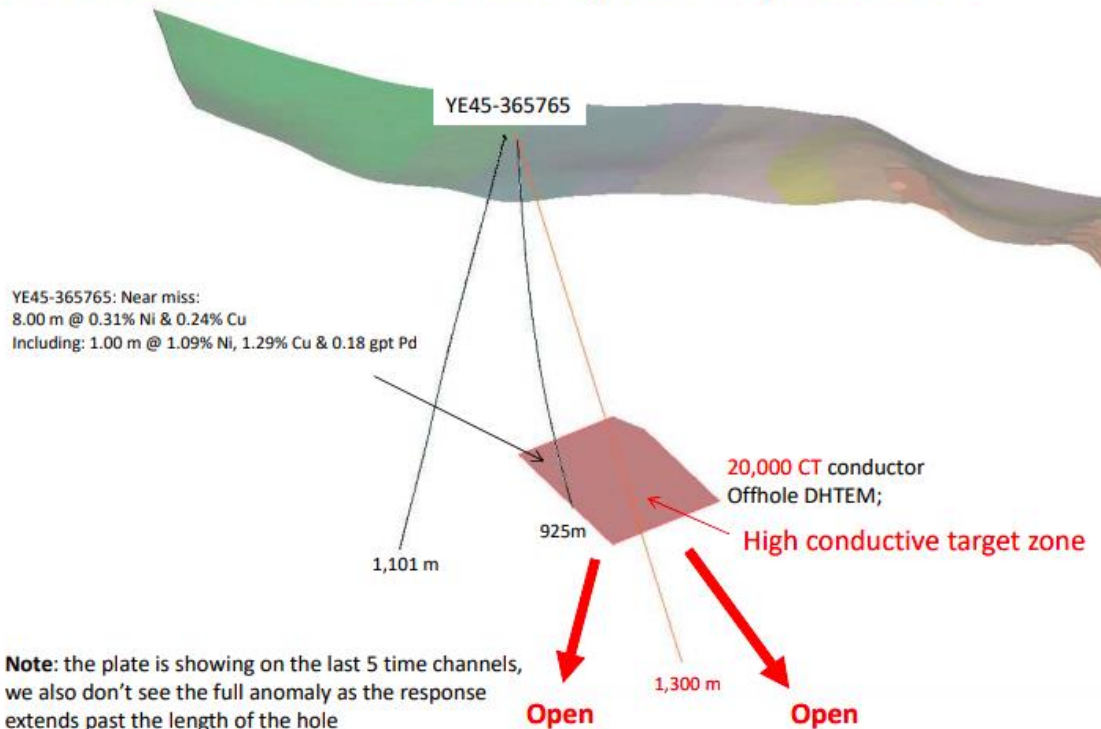
Fortunately, cooler heads have prevailed in recent weeks and it seems a crisis has been averted. In mid-December, Ouattara was sworn in as president with thirteen African heads of state present as well as former French President Nicolas Sarkozy. Just over a week later, a key opposition party (the Ivorian Popular Front) announced that it was ending a ten-year boycott of elections and would take part in legislative elections beginning in Q1 2021. It also seems likely that ex-president Laurent Gbagbo will return to the country after years in exile. Ouattara has publicly stated that he welcomes the return of his long-time political rival. This bodes well for the stability of the country, at least until the next presidential election in late 2025.

So where does this leave Sama and its shareholders as we head into 2021? After recently completing downhole electromagnetic surveys (“DHEM”) in a deep drill hole at Yepleu and second drill hole at Bounta, Dr. Audet and the technical committee have identified one high-priority drill target at each of the project’s three main zones.

The most enticing of the three is an untested 20,000 CT conductor detected via DHEM at Yepleu. This is the strongest conductor measured to date across the whole of the property. The target is deep and will require a 1300-meter drill hole to be properly tested. Dr. Audet seems particularly excited about the potential here and suggests that the next round of drilling will start with this target at Yepleu.

Separately, the target identified at Samapleu is a 15,000 CT conductor well below the existing deposit that will require a 1500-meter drill hole to be properly tested, while the target at Bounta is a 11,000 CT conductor requiring a 750-meter drill hole. Both of these are also expected to be tested in the next round of drilling.

## Nov 2020 DHTM and 2021 Yepleu Proposed DDH



Source: Sama Investor Presentation. January 2021.

There are three company-owned drill rigs on site (though only the C3000 rig can reach depths of 1000 meters plus), and drilling can commence as soon as funding is received from HPX. Sama management expects that 5000-8000 meters will be drilled across the property in 2021. A program of this size would require C\$3.5-4m worth of funding and the green light from HPX. If things fall into place, it is feasible that drilling could begin as soon as April.

Provided below are the milestones that Sama shareholders can expect over the coming months. This timeline assumes that HPX is recapitalized in some form in the near future and then doesn't play games with Sama by withholding additional funding. Given the company's outsized ownership position in SRG Mining and its Lola Graphite Project, major catalysts expected at Lola have been included as well.

- Drill program commences w/ first hole drilled at Yepleu target **by end Q2 2021**
- Typhoon loops completed at Samapleu North and Mossikro zones **by end Q2 2021**
- EIS approval at Samapleu **by end Q2 2021**
- Offtake announced for remaining 10% of production at SRG's Lola Project **by end Q2 2021**
- Drill results for high-priority targets at Yepleu, Samapleu, Bounta **by end Q3 2021**
- Construction financing secured & break ground at SRG's Lola Project **by end 2021**



- Mining license received at Samapleu **by end 2021**
- First production at SRG's Lola Project **by end 2022**

While Sama did indeed have a brutal 2020, this is well reflected in the company's valuation. SME has roughly 242m shares on a fully diluted basis, which results in a ~C\$34m fully diluted market cap at the current share price of C\$0.14. The company has roughly C\$2.6m in cash and receivables, not to mention the 24.8m SRG Mining shares worth approximately C\$16m at market prices. The company also has 8,150,500 warrants exercisable at C\$0.15 that expire between May and December of this year. Assuming that these warrants are indeed exercised, we're looking at a fully diluted enterprise value of roughly C\$14m.

This is cheap. To put it into context, roughly C\$30m has been invested into the Ivory Coast land package when you include the pre-HPX expenditures incurred by Sama. Or thought of another way, this is equivalent to a 0.08x multiple on the after-tax NPV<sub>8</sub> outlined in the Samapleu PEA released last year (adjusting for the fact that Sama would own 36% of Samapleu should it reach production).

Also remember that just thirteen months ago, HPX exercised 18m Sama warrants priced at C\$0.28 for a total of roughly C\$5m. This C\$0.28 strike price sits 100% above the current SME share price. HPX owns ~23% of Sama in addition to the project-level 60% earn-in agreement and has never sold a share. Once HPX is refinanced, we will learn in short order how aggressively they plan to move forward in the Ivory Coast. This will be a key decision point for Sama shareholders.

## 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**