

## Maven Metals: January 2020

*Maven Macro: **Fear Matters**. Maven Explains: **Explorers**. Maven Doubles Down: **Kinross Gold (TSX: K, NYSE: KGC)**. Maven Highlights: **Morien Resources (TSX: MOX)**. Portfolio Table & Portfolio Updates.*

Happy January to all! Thank you for your patience as I got this issue out the door.

It's a big one. I start with a look at why coronavirus fear matters. Bottom line: fear always drives investors to safe havens so gold is benefitting, but this geopolitical push is almost icing on the cake of a very strong gold market.

In *Maven Explains* I talk explorers. Exploration companies are not part of the Maven Metals letter and that's by design: as I try to illustrate, explorers have volatile share price moves and so require constant monitoring.

Next I explain why I'm doubling down on one of the stocks in the Metals portfolio: Kinross Gold. I see Kinross as set up to outperform its gold miner peers in 2020.

After that I dive into another current portfolio holding, Morien Resources, ahead of a year full of catalysts that I think will drive the share price higher.

And as usual I end with a full portfolio table and updates from portfolio companies that issued news during the month.

Thanks always for your interest!

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### Maven Macro: Fear Matters

The coronavirus is spreading despite China's substantial efforts to contain it. Spreading even faster: news stories about the new flu strain.

And the combination of the two is having a real impact on global markets.

The two forces are related, of course, but they are also separate. Let me dive in.

Coronavirus is a new strain of the flu that can progress enough to be deadly. That alone is not unique; the flu kills 300,000 to 640,000 people a year. There are four strains and dozens upon

dozens of subtypes. The vast majority we have seen before, which means two things: we have a vaccine already in hand and some parts of the population are already protected from a previous exposure.

The coronavirus that is in focus today is a new subtype of a category of virus that we have all had before: the flus that sit in your nose, sinuses, and upper throat. But while coronaviruses are usually tolerable, they certainly have the potential to become lethal. Both SARS and MERS were coronaviruses that became new human strains of the flu when they jumped from animals to humans, in 2002 and 2012.

This coronavirus, officially known as 2019-nCoV, seems to have taken the same path. Importantly it also developed the ability to transfer between humans, which is why there are patients ill with the virus who did not visit the meat market in Wuhan where the outbreak started.

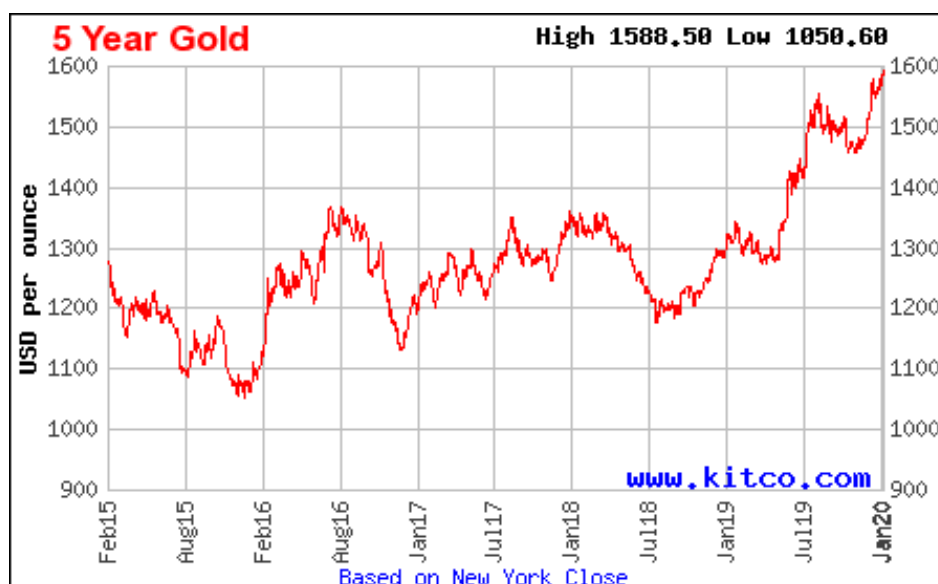
I'm not an infectious disease doc or an epidemiologist, so I have no comments on how serious this is or will become. I will say that we don't yet know how deadly this virus is because we don't have an accurate count of patients – we know how many have died but we don't know how many caught the bug but did not get ill. Data is now filling in and it seems this strain has a fatality rate around 3%, which is much lower than SARS, but that will still change as more data is gathered.

I will also say that China is doing its utmost to contain the virus. There are some 50 million people on lockdown. Think about that for a moment! And with the World Health Organization labeling it a public health emergency, countries around the world are now working together to limit the spread.

I think it's likely containment will work. As such I am not at this point worried about an epidemic.

That doesn't mean the markets are calm.

Well, the S&P 500 has lost 3% in the two weeks since the virus became a global news story. In the same timeframe gold has gained 2.2% to hit its highest price since 2013.



Base metals have been hit much harder, with copper down 6.5%, zinc down 6.4%, and nickel down 5.5% last week alone. Copper has in fact fallen for the last 12 straight sessions, which is its longest retreat in more than three decades.

So fear is having an effect.

Should fear matter? History says no, not to overall stock performance.

### Immune: world epidemics and global stock market performance



Source: [Charles Schwab](#)

Putting 'fear' aside for a moment, let me consider the reality of what's going on in China. Sixteen cities are on lockdown. Businesses are not operating, factories are suspended, travel is off limits. The city of Wuhan alone is home to 11 million people (for comparison, there are 8 million in New York City) and its streets are deserted.

That will have a real economic impact. China is responsible for more than 50% of world demand for base metals, so the near-completely suspension of almost 4% of its population will matter. And China's manufacturing PMI has been hovering near 50 for years now, which means any negative momentum will likely push it into contraction territory (below 50).



Source: [PIMCO](#)

That said, it is only 4% of China's population that's on lockdown. And the lockdown is not likely to last that long (a month?). So while it will impact economic data, the impact won't likely be dramatic. At this point, estimates are that Chinese GDP growth will be down 1.5% for the quarter – big but not huge.

The thing is – the US markets and the Chinese economy are different beasts but they are similarly susceptible to this strain because both have been advancing on unconvincing engines for some time. When investors are confident in the engine, a bump in the road doesn't matter...but when they aren't convinced in the engine, bumps can become mountains.

The chart below is one example of where this weak economy bull market has led us: corporate CEOs have very little confidence in the setup, despite consumers remaining bullish. Such disparities have predicted previous recessions.



Where does this all leave us?

- At the start of the year copper bulls had been getting excited that the red metal would soon start rising. Copper fell last year because of the trade war dampened growth expectations but its supply-demand fundamentals show that a stronger price is needed. That remains true but **China's Q1 setback has set the copper bull market back as well.**
- The coronavirus is stoking fear – of an epidemic, yes, but for this conversation it's more importantly stoking **fear that weak Chinese demand will be the camel that breaks the bull market's back.** I think this very unlikely but it is still a possibility.
- Both of the kinds of fear listed above encourage investors to buy safe havens. **Gold is benefitting.**

Gold gaining on coronavirus is just like gold gaining on the threat of war between Iran and America. They are both what we call geopolitical pushes and such price moves usually unwind.

This time, though, I think context matters. Gold is not spiking in a vacuum; it is gaining out of a rising trend, which is supported by a long list of macroeconomic factors. In fact, investors have been buying gold to hedge the risk of a stock market correction or crash for some time now, so coronavirus gold buying is simply more of the same.

If gold really spikes in the next little while, don't expect the spike to sustain. But because the macro arguments for gold are very strong, I think any spike correction will be just that, returning gold to its underlying upward trend.

If you would like a refresher on the macroeconomic fundamentals supporting gold, I went through precisely that in my presentation at the Metals Investor Forum a few weeks ago. To watch that 20-minute video click [here](#) or on the image below.



## Maven Explains: Explorers

Over the next while I am going to use the Maven Explains articles to go through the kinds of companies in the metals and mining space. The framework for the discussion is *expectations* – what should investors expect out of each kind of company?

I am motivated to go through this exercise because of the questions that arrive in my inbox. I am always happy to answer investor questions and I can almost gauge where we are in the gold cycle by the number of new-to-the-space investors sending me queries.

The count has ramped up in the last few months, believe you me. As more questions arrive, I get a clearer sense of what fundamental knowledge is commonly needed.

One such area is the lay of the land: what kinds of companies operate in the mining space and what should we expect out of each kind?

This month I'll go through the smallest fish in the mining sea: explorers. Next month I'll tackle developers and new miners. After that it will be major miners and then royalty and streaming companies.

### Explorers

Explorers are not usually part of this newsletter. *Maven Metals* is written for investors who are newer to metals investing or want low-risk metals investing ideas, or both. Both makes sense – if you haven't developed a reasonably good base of knowledge in the sector, you should stick to the low-risk part of the menu.

And it is indeed a menu. In the metals space, we start with very small companies doing early-stage exploration and run all the way up to huge miners producing millions of ounces of gold or pounds of copper.

I've talked about this spectrum before, in the context of risk. Certainly risk is inversely proportional to size: the smaller the company, the bigger the investment risk.

Today I wanted to talk about the smallest companies of the mining space in the context of what: what do they do, what are the odds of success, what kind of timeline does it take, and what funds these operators.

I'll start with my conclusion: explorers are not for you if you want to crunch cash flows (they don't have any), compare yields (they don't pay), or own a stock long-term (they are far too volatile). Even if you don't demand normal stock metrics, explorers are only suitable for those who want to pay attention to their portfolio every day and can understand geology to some degree.

I'll describe the companies in the 'explorer' space as a trajectory, from pre-discovery to having a defined deposit. If all explorers actually followed that trajectory it wouldn't be such a high-risk arena – but it is rarely a smooth path.

We start with pre-discovery explorers. These are the sector's micro-caps, worth less than \$10 million and often less than \$5 million. Explorers have a project, a reason to believe the project hosts economic mineralization, and a plan to test that theory.

To carry out the plan costs money, which brings us to the crux of investing in explorers. They don't have any money, at least not in the form of income. Explorers generally rely completely on the markets for financing – they raise capital by issuing new shares to execute each work program.

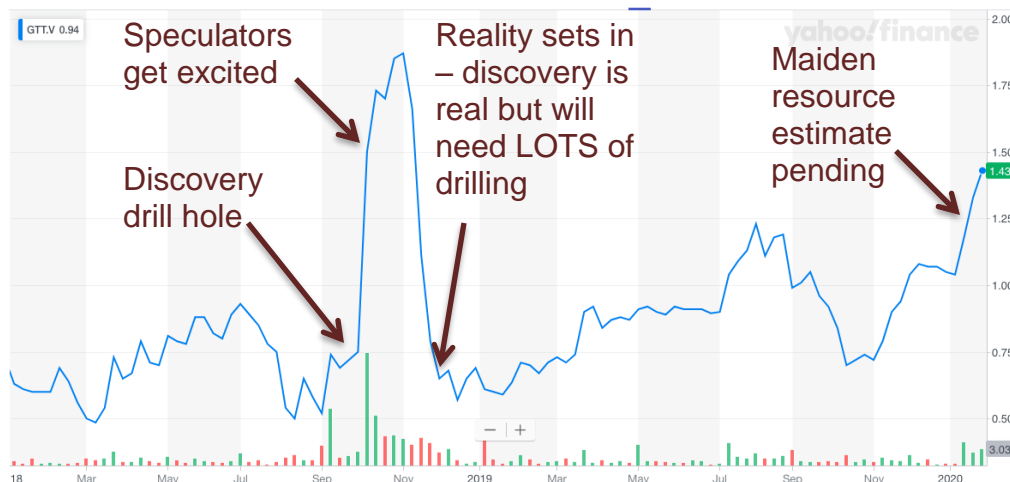
If the effort returns a discovery, it's game on. Share prices often shoot up on news of a new discovery; it's for those sudden doubles or better that investors play this high-risk game. If they don't, share prices do nothing or slide and the company is back to square one, needing a new project or geologic theory and more money.



OK, if an explorer *does* drill into a discovery – then what? The simple answer is: more drilling. It takes a lot of drilling to define a deposit. To start, geologist step out from the discovery hole; if they hit more metal they step out again. They fill in the shape they think the deposit takes with widely spaced drill holes and the data from those holes is used to estimate the amount of metal in the ground.

The first such estimate doesn't carry high confidence because the holes are so widely spaced. But it still matters – you have to start somewhere and the goal after a discovery is to get to an initial resource estimate that gives some idea of how big and rich the discovery. It's hard to do because drilling is expensive so companies are constantly balancing raising more money to do more drilling against getting an initial estimate out in the hopes that it underscores the value of the new discovery and strengthens the share price.

That's the basic pathway. Find a project, gather evidence through sampling, geophysics, and mapping, develop a theory about where a deposit might exist, sell new shares to raise money to test the theory, and drill the target. If successful, raise more money and keep drilling to try to understand the scale of the discovery.



GT Gold made a real discovery in late 2018. Excitement drove the share price up; reality pulled it back down. Now a resource is pending and value is building

How much the market cares about each step depends on several factors: the state of the metals market (bear, sideways, or bull?), the project itself (easy or hard location? Historic baggage or clean slate? Familiar geology or something brand new?), the way the discovery story is told (from just-the-numbers-ma'am to pumped up promo), and of course the discovery itself.

As soon as a discovery is made, the market starts guess-timating what is has tapped into. The bigger the guesses, the higher the explorer's valuation gets bid. If subsequent holes support those guess, great; the share price can stay elevated or go higher. If subsequent holes are not as strong or reveal things that limit the scale of the discovery, the valuation drops.

There are risks everywhere in the exploration space. There are also lots of ways to try to manage those risks, such as selling part of a position if a share price gains in anticipation of news or buying into financings and selling the shares almost immediately, retaining only the warrants as a 'ticket to ride' if the stock succeeds. But none of these tactics are guaranteed and all require two things: constant diligence and considerable geologic knowledge.

**Those two factors are the reasons why investors who want exposure to a rising gold market but (1) don't understand the world of mineral exploration and (2) don't want to pay attention to their portfolios every day should never buy exploration stocks.**

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## Maven Doubles Down: Kinross (TSX: K)

I searched high and low for a gold miner to add to the Metals portfolio that I thought would improve our odds of upside in this developing gold market, but the name that kept rising to the top...was a company we already own: Kinross Gold.

We already own two gold miner indices (the Sprott Gold Miners and Junior Gold Miners ETFs). Those should ensure our portfolios get at least the average of what gold miners gain, and a bit better than average because Sprott ETFs are managed and not simple size-based indices.

With those already in hand, I only want to own gold miners in addition that I think have real odds of outperforming the average. That requires the basics – strong balance sheet, controlled costs, managed jurisdiction risk, and scale of operations – but it also requires some standout characteristics, from production growth to rising free cash flow to undervaluation.

We own Equinox Gold because it offers all of these, in particular offering major production growth. We own SSR Mining because it also offers all, especially on the balance sheet front.

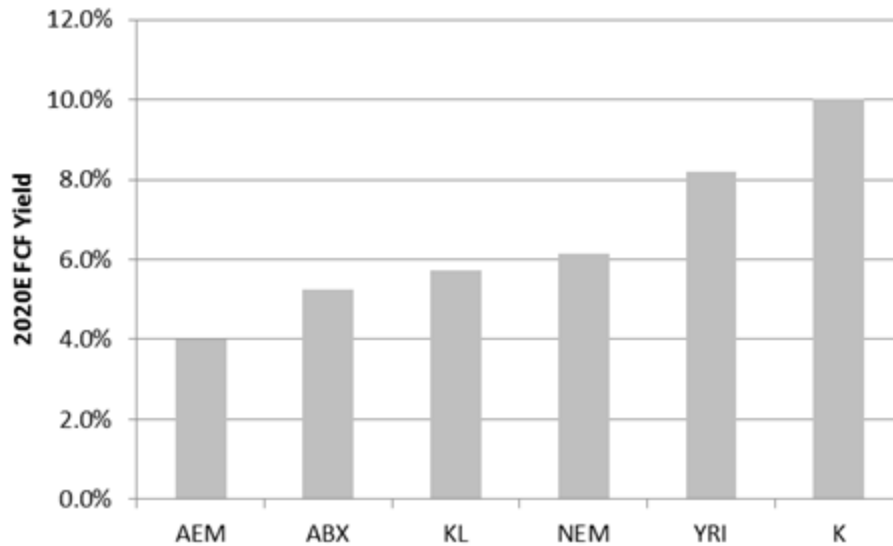
In looking for another addition, I concluded that no gold miner offers more of these characteristics than Kinross.

The company has strong fundamentals – a robust balance sheet, strong operational consistency, two world-class mines, and controlled costs. On top of that it has some production growth, but I see real outperformance possible because it has several expansions now on stream, which means spending is down and free cash flow is on its way up – like, way up. Yet despite all these strengths, Kinross is undervalued against its peers on almost every metric.

With spending down and free cash flow rising, I think generalists rotating into the gold sector will start to see Kinross as offering deep value in addition to the security of gold.

I had all of this in my head when I came across a new report from Scotiabank analyst Tanya Jakusconek, who did a deep dive into K ahead of its annual numbers and 2020 guidance. Since her report hits home on every reason why I'm invested in Kinross, I thought I'd give you a quick summary of her analysis.

- *Significant quarter-over-quarter operational improvement likely:* This will be led by K's Nevada operations, where expansions that are now ramping up should help the company achieve solid free cash flow ("FCF") during Q4 2019.
- *Strong operational consistency:* Kinross has met or exceeded production guidance for seven years running. Generalist investors rotating into the gold space will demand good balance sheets and consistent results; Kinross delivers.
- *Peer-leading FCF yield:* Jakusconek notes that, applying current spot prices for gold, K offers 10% FCF yield in 2020 and FCF yield 18.2% by 2021. That's a big leap and is even more impressive against the 0.2% FCF yield she expects when 2019 numbers are finalized. It would also put the company at the top of a list of its fellow gold producers.



**Source: Scotiabank GBM Precious Metals Research**

- *Inexpensive on a relative basis:* Using a spot price of \$1,550/oz and a long-term price of \$1,300/oz, K is cheap relative to its peers on every metric. The stock is trading at a Price-to-Cash-Flow (P/CF) multiple of 4.2x, versus average multiples of 9.5x and 5.6x for senior and mid-tier producers, respectively. The stock is similarly way undervalued against its peers using enterprise value to annual production or enterprise value to reserve ounces. And all this undervaluation even though Kinross actually has the lowest costs on a fully-loaded basis.
- *A solid growth pipeline:* This includes both the Tasiast expansion and the potential project restart at La Coipa, as well as the recent acquisition over the Chulbatkan heap-leach project in Russia.
- *World-class assets:* Between its Paracatu and Tasiast assets, K has two mines producing gold at prodigious rates. Jakusconeck is forecasting Paracatu to generate 625,000 oz in 2019 and to average 571,000 oz over the next ten years. With the addition of the expansion project underway at Tasiast, she expects the mine to produce at a 469,000-oz annualized level by 2021.

Jakusconeck concludes “for those investors that are looking for (deep) value in the senior gold space, and looking for a quality company with an impressive track record of operational consistency (recall that this is a company that has met or exceeded its annual guidance projections for 7 consecutive years!), they should look no further than Kinross.”

Thanks to Jakusconeck for taking my thesis for investing in Kinross and doing all the calculations to support it!

**Bottom line: I'm adding to my Kinross holdings in expectations that it will outperform its gold mining peers as investor interest in gold rises during 2020.**

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## **Maven Highlights: Morien Resources (TSXV: MOX)**

Morien Resources has been in the Maven Metals portfolio for some time. I've always liked its approach: own a significant royalty on a long-life coal mine being built by a company that likes to go big and pay out the majority of royalty income to shareholders as dividends.

**I'm highlighting the stock today because there are key catalysts are around the corner that I think will drive significant gains in 2020.**

Morien's royalty is on the Donkin mine in Nova Scotia, owned by Kameron Collieries. Kameron is part of the Cline Group, which until this year was headed by Chris Cline. Cline made a fortune by foreseeing the need for coal and building big mines in Illinois.

In July Cline was killed in a helicopter crash that took the lives of six others. The shocking and tragic event also put a pall over MOX stock because, without Chris at the helm, there was suddenly less certainty that Kameron would expand Donkin.

The expansion matters because of the structure of Morien's royalty. MOX gets 2% of net smelter returns on the first 2M tonnes of production each year and 4% of net smelter returns on any tonnes above 2M tonnes per annum.

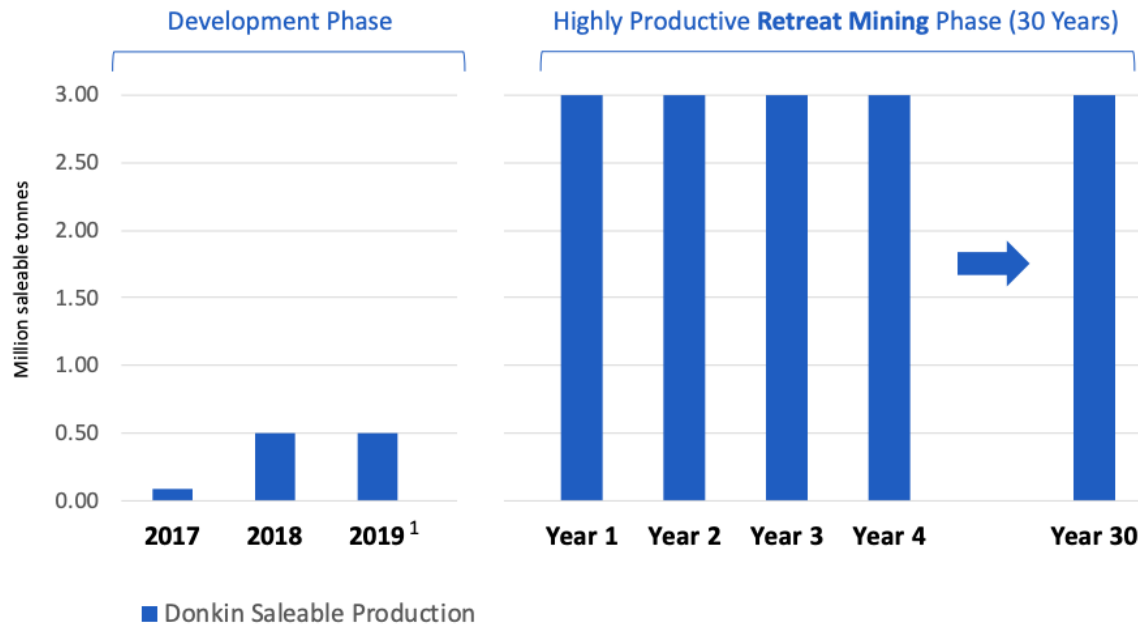
The current mine plan has Donkin churning out 3 million tonnes per year. Morien's royalty performs nicely at that level: using conservative coal price assumptions, Donkin pays Morien about \$6 million annually if it produces 3 million tonnes of coal a year.

If Donkin expands to 6 million tonnes a year, the royalty pays out more like \$20 million a year, again using conservative coal prices.

Of course, if coal prices do better than baseline, Morien's royalty income grows.

We've known all of this for some time. Why is MOX suddenly a top pick?

1. **The mine will start really producing this year.** Donkin started operating in 2017 but coal mines spend their first 2-3 years driving headings to prepare for full operations. Think of two parallel tunnels, 3.6 km apart. When they reach the edge of the resource the tunnels will turn 90 degrees and head towards each other, creating a rectangle of coal. Once that's done, it's time for retreat mining. Here's how production changes going from development mining to retreat mining:



**The key point is: expansion or not, Donkin output will ramp up dramatically in the next 12 months.** That means Morien's royalty income will ramp up.

2. **Long wall?** Under the current mine plan, retreat mining will happen with continuous mining machines that leave behind pillars. That mining method is expected to generate the 3 million tonnes of coal per year. The other option is to retreat using long wall mining. The Cline Group has used long wall at many operations; Nova Scotia is familiar with long wall. Odds are good that Kameron will decide to long wall instead. Long wall operations are more efficient and so produce more coal per year. A longwall at Donkin would produce at least 6 million tonnes a year. The amount Morien rakes in from a 6-million-tpa Donkin mine is almost silly - \$20 million a year at least, for a company with a current market cap of \$28 million – which is why I wouldn't expect Morien to last long following a long wall announcement.
3. **There are two possible outcomes for Morien and both work very well.**
  - a. Donkin sticks to a 3-million-tpa mine plan and Morien collects \$6 to \$9 million a year in royalties, depending on the coal price. Morien is committed to returning most (80%) of its royalty income to shareholders, which would translate to roughly \$0.07 per year in dividends. That represents a dividend yield of 13% against the current share price of \$0.53.
  - b. Morien gets bought. Kameron is certainly a contender, as they would like to erase the royalty, but they wouldn't be the only interested party. There are many royalty companies out there who would love to have that Donkin cash flow. Whoever makes a move will have to offer a premium, of course.

I know: a coal royalty is the last thing you'd think I would be all excited about right now. But the progression to retreat mining is happening in a few months and will re-rate the stock. Kameron will decide before that happens whether to long wall; if they do, the news will re-rate the stock.

And Morien are incredibly good stewards of shareholder capital. They have been buying back stock like mad, which has reduced the share count by 13% since 2015. Fewer shares means higher dividends. Management has been buying, boosting its stake from 5% to almost 16% since 2013. Fewer shares available to trade should amplify gains upon good news.

And the current dividend, while small, still means a dividend yield of 2.3%, which if you can believe it is higher than all gold royalty companies.

Major production growth, potential for a key expansion decision, a tight structure that keeps getting tighter, a good dividend yield now set to grow significantly in the near term, and two good potential outcomes – when a friend asked, jokingly, “Hey Gwen, where should I put all of my life savings?” My answer was Morien.

## Full Portfolio Table

Top pick current buys are in **bold**.

Company	Ticker	Bought	Price	Now	Change	If you own ...	If you do not own...	Comment
<b>Maverix Metals</b>	<b>TSX, NYSE: MMX</b>	<b>31-Dec-19</b>	<b>\$6.61</b>	<b>\$6.77</b>	<b>2%</b>	<b>Hold</b>	<b>Buy</b>	<b>Premier emerging gold royalty company, with small dividend. Aggressive growth focus gives potential for scale-related re-rating during this bull market</b>
Pan American Silver	TSX, NYSE: PAAS	30-Sep-19	\$20.75	\$30.42	47%	Hold	Buy	Largest pubco silver miner. 10 mines, 25M oz silver/yr plus 550,000 oz gold. Low risk exposure to silver slingshot
<b>Probe Metals</b>	<b>TSXV: PRB</b>	<b>31-Aug-19</b>	<b>\$1.33</b>	<b>\$1.22</b>	<b>-8%</b>	<b>Hold</b>	<b>Buy</b>	<b>Large gold resource in Quebec. Positioned as developer or takeout target</b>
Western Copper & Gold	TSX, NYSE: WRN	29-Jun-19	\$0.85	\$0.89	5%	Hold	Buy	Massive resource means leverage to gold. Advanced project, good jurisdiction

Cameco	TSX: CCO, NYSE: CCJ	26- Mar- 19	\$15.97	\$10.67	-33%	Hold	Buy	Straightforward bet on uranium ahead of an inevitable U bull market.
Sand storm Gold	TSX: SSL, NYSE: SAND	22- Jan- 19	\$6.04	\$9.08	50%	Hold	Buy	Focus on near-term production means portfolio is ramping up significantly in next few years. Great leverage to gold
Premier Gold Mines	TSX: PG	16- Dec- 18	\$1.49	\$1.59	7%	Hold		One of the strongest growth profiles in the gold sector (100,000 to 300,000 in 4 years) with low costs. Legal battle at development asset hurting share price in the moment
SSR Mining	TSX, NASDAQ: SSRM	18- Nov- 18	\$14.72	\$24.24	65%	Hold	Buy	Reliable producer lots of cash, options for organic growth, controlled costs, and safe jurisdictions.
Equinox Gold	TSX, NYSE: EQX	13- Oct- 18	\$5.00	\$11.15	123 %	Hold	Buy	One of the strongest growth profiles in the gold sector; latest deal means 1M oz/yr now in sight
Sprott Junior Gold Miners ETF	NYSE: SGDJ	08- Sep- 18	\$23.53	\$33.04	40%	Hold	Buy	Great option for investors wanting exposure to small/midtier gold miners without having to select stocks
Sprott Gold Miners ETF	NYSE: SGDM	08- Sep- 18	\$15.23	\$24.94	64%	Hold	Buy	Great option for investors wanting exposure to large gold miners without having to select stocks.

<b>Kinross Gold</b>	<b>TSX: K, NYSE: KGC</b>	<b>14-Jul-18</b>	<b>\$4.94</b>	<b>\$6.71</b>	<b>36%</b>	<b>Hold</b>	<b>Buy</b>	<b>Strong balance sheet, controlled costs, undervalued relative to peers yet will generate best-in-class free cash flow 2020 and 2021</b>
MAG Silver	TSX, NYSE: MAG	21-Jun-17	\$16.83	\$14.42	-14%	Hold		Mine under construction with partner Fresnillo. Stock will perform as production draws near (plus silver slingshot)
Morien Resources	TSXV: MOX	01-Feb-17	\$0.45	\$0.56	24%	Hold	Buy	Dividend-paying bet on seaborne coal. Mine moving to full production in 2020 - will re-rate MOX. Expansion decision would amplify that.
<b>Roxgold</b>	<b>TSX: ROXG, OTCQX: ROGFF</b>	<b>16-Mar-16</b>	<b>\$0.88</b>	<b>\$1.04</b>	<b>18%</b>	<b>Hold</b>	<b>Buy</b>	<b>Takeout target for its robust, growing gold mine in Burkina.</b>
NexGen Energy	TSX, NYSE: NXE	02-Dec-15	\$0.64	\$1.37	114 %	Hold		Pushing the best uranium discovery in decades towards production

## Portfolio Updates

### Equinox Gold (TSX: EQX)

EQX provided the market with a year-end update — and it has certainly been quite a year for the company, capped off by its now shareholder-approved merger with Leagold.

Thanks to achieving commercial production at its Aurizona mine in Brazil this past July, the company was able to produce 201,000 ounces of gold in 2019. Now, with the Leagold merger approved, EQX is on its way to 700,000 ounces of production in 2020 and 1 million ounces of annualized production by 2021.

With another US\$670 million in financing coming as part of the merger package and six operating mines, the merged company will be well equipped to achieve those production numbers.

Simply put, EQX is pushing hard to grow in time for this gold bull market. And I love to see the push, because it is a big part of the reason I bought the stock 18 month ago. The rationale then was (1) rapidly growing gold new gold producer with funded growth projects, (2) keen/aggressive view on deals for additional growth, (3) extremely competent and connected management.

A share price up 137% since we entered shows that we are cashing in on all three.

Is it a buy at current levels, after the recent price run? I would say it is, but not for immediate upside. I think the price move following the Leagold merger established a new base for the new EQX. From here, upside will have to come from good results that reinforce the company's impressive growth outlook, all within a rising gold market.

### Pan American Silver (TSX: PAAS)

2019 was a big year for PAAS, with a strong share price performance that is a function of both silver leverage and foundation growth.

By management's preliminary estimates, PAAS's mining operations generated 25.9M oz of silver and 599K ounces of gold in 2019. It also produced 67.6K tonnes of zinc, 27.3K tonnes of lead and 8.7K tonnes of copper. Those production totals were led by its La Colorada mine, which achieved record annual silver, zinc and lead production. Indeed, several of the company's mines achieved record operating performance in 2019, which underscores PAAS's habit of underpromising and overdelivering.

Overall, PAAS's full-year production numbers are in line with guidance (we want companies to do what they say they're going to do) and that 25.9M oz of silver production makes the company one of the world's largest silver producers – that is one of the key reasons we own the stock.

	Silver Production (million ounces)	Gold Production (thousand ounces)
<b>Silver Segment</b>		
La Colorada	8.2	4.6
Dolores	5.1	117.6
Huaron	3.8	1.0
Morococha (92.3%)(3)	2.5	1.4
San Vicente (95.0%)(4)	3.5	0.5
Manantial Espejo/COSE/Joaquin	2.6	22.4
<b>Gold Segment</b>		
Shahuindo(5)	0.1	145.4
La Arena(5)	—	122.5
Timmins(5)	—	143.8
<b>Total(6)</b>	<b>25.9</b>	<b>559.2</b>

The company also has a stronger balance sheet to end the year, even after closing its deal for Tahoe Resources. PAAS repaid US\$60 million in debt during 2019, with \$40 million of it repaid in Q4 2019.

For 2020, management guidance is for between 27M and 28.8M oz of silver and 625,000 and 675,000 oz of gold production. That would be up about 7% from 2019 – not dramatic, but up is good. Plus, as I've mentioned, the skarn discovery at La Colorado is turning into a significant value add for PAAS for its scale and grade. PAAS plans to spend \$7.5M on 44,000 metres of drilling on that discovery alone in 2020.

PAAS remains the best low-risk stock in the mining space for exposure to silver in this bull market.

### **Premier Gold Mines (TSX: PG)**

I've received many questions about PG of late and understandably so, given that the price is down 25% in a month.

The price drop is because PG and its partner on its ready-to-develop Hardrock project in Ontario got into a fight. Premier thinks that the work done to date satisfies the description of a 'feasibility study' in the partnership deal; if that's the case then either party could now trigger a build decision at any point. Centerra is arguing that the work does not represent a feasibility study, which means they have to keep spending (they are still earning in on the project) to generate a feasibility study, but they cannot be forced into a build decision at this point.

At this point the fight means (1) any decision on what to do with Hardrock – build, sell, do more work – is delayed until they sort out the fight and (2) PG is having to spend on legal bills, which is annoying.

Funding its half of a Hardrock mine build would have been a tough ask for Premier. In fact, I thought some of the stock's underperformance in late 2019 was because investors were nervous the company was about to come up against a huge capex bill, which is now not the case.

Capex concerns aside, the market obviously did not take the Hardrock delay as a good thing. The scale of the slide continues to surprise me. If you'd asked me a month ago how much value I thought the market gave PG for Hardrock, I would have said something like 10%. The price being off 25% in a month means I was underestimating that level.

As a stock that many, including myself, were buying for its rebound potential as all the improvement work at its Mercedes mine in Mexico came to fruition and output at the South Arturo mine in Nevada started to ramp up, PG got hit hard by this negative news. I think the takeaway is that investors betting on a turnaround don't stick around when new bumps in the road appear.

I am very surprised as how much this news has impacted the stock. Shocked, really. I thought Hardrock was considered either a M&A benefit (i.e. they might sell their 50% stake for a nice amount) or a short-term liability because a decision to build would require PG to raise a lot of capital. I had no idea the market would turn so on this development. I am sorry for my misjudgment.

With all that said, I think the turnaround story is still in play. South Arturo started commercial production at the end of the third quarter, which was more than three months ahead of

schedule. Having South Arturo back on line is important for PG, as is the exploration success they're having in the area. The partners will deliver an updated mine and exploration plan shortly.

A key, though, will be getting the Mercedes operation to turn around. The mine produced just under 60,000 oz of gold during the year, a lower-than-guided level that management attributed to excessive ore dilution and, thus, lower grades than expected. I think fixes implemented over the year have the mine set up to do better in 2020, which is key to the turnaround story here.

### **Probe Metals (TSXV: PRB)**

Probe provided a recap of its 2019 results and a look ahead to 2020 for its Val d'Or East project in Quebec.

It's 2019 accomplishments are basically a list of the reasons we entered the stock: a drilling effort that resulted in a doubling of Val d'Or's gold resources to 866,000 measured and indicated oz and 2.3M inferred oz; discovery of a new gold trend (Courvan) that is parallel to the resource-hosting Pascalis trend; a new resource south of the past-producing Monique pit; an ongoing drilling program on the Pascalis, Courvan and Monique trends; and a wealth of new targets identified on the district-scale property.

What's more, the company managed to raise \$17M raise after our initial entry into the stock. That's money PRB will use to fund a huge drill program in 2020, with the majority of 90,000 metres of drilling focused on resource expansion and exploration – the kind of drilling that creates market excitement (versus infill, which bores investors to death despite being essential).

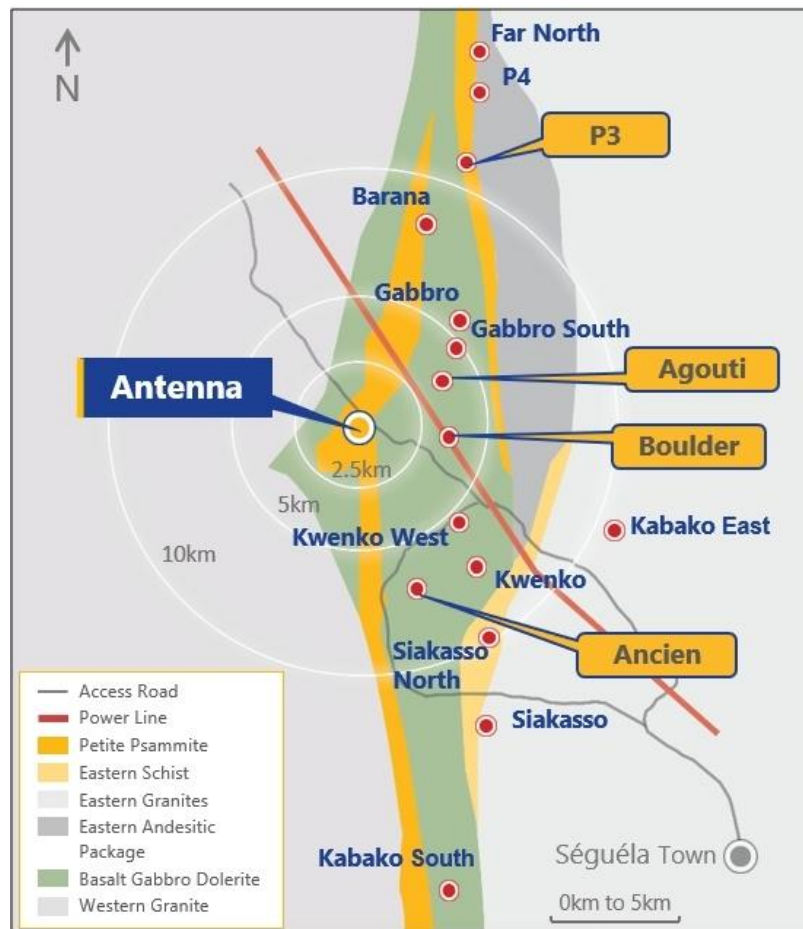
We got first results from this renewed drilling effort this month, results that outlined new discoveries (plural) close to current resources. This early success suggests Probe's understanding of the system at Pascalis project is getting pretty darn good and allowing the company to replicate success on other trends. That only reinforces that this year's big drill effort has the potential to generate exciting, meaningful results.

### **Roxgold (TSX: ROXG)**

We got 2019 production results from Roxgold as well this month. Simply put, its Yaramoko mine is kicking butt – with record production every quarter. The mine generated 41,000 oz of gold during the quarter with a plant that operated at 30% above nameplate capacity. Free cash flow, before its spend on growth, exceeded US\$47 million in H2 2019 and the company finished the year net cash-on-hand of US\$16 million.

For 2020, ROXG expected Yaramoko to generate between 120,000 and 130,000 oz at all-in-sustaining costs ("AISC") of between US\$930 and US\$990/oz. That latter figure would be an increase over its 2019 AISC, an increase that the company attributes to the substantial capex it's devoting to bringing Yaramoko's Bagassi South deposit online and the costs of extra security (this is Burkina Faso...).

Meanwhile, we also got an updated resource estimate for Seguela, ROXG's pipeline project in Cote d'Ivoire. The estimate included maiden inferred resource estimates from the Ancien (224K), Agouti (110K oz) and Boulder (72K oz) deposits.



When added to the resource upgrade on the main Antenna target, Seguela's indicated resource increased 7% to 529,000 oz (little change) but its inferred resource increased by 1,286% to 417,000 oz. This estimate includes recent results from Ancien and Boulder, which boasted assays that would shoot a junior explorer's share price to the moon (the headline interval was 42 metres of 17 g/t gold!). Unfortunately, as an operating miner, they had almost but no impact on ROXG's share price.

As the map above indicates, Ancien, Boulder, and Agouti are the most advanced among numerous targets that collectively offer lots of potential for significant further resource growth at Seguela. Currently, drilling is focused on extending Ancien at depth and extending the strike of mineralization at Boulder and Agouti.

With a PEA due on Seguela by the middle of the year, this project provides ROXG with some definite blue-sky upside to go with the compelling production story at Yaramoko.

**SSR Mining (TSX: SSRM)**

SSRM is the poster boy for outperformance among miners, always doing more than they said they would. 2019 was no different.

At 422,000 gold-equivalent ounces, the company posted another record year of production. All three operations exceeded full year production guidance, with Marigold producing 220,000 oz of gold, Seabee producing 112,000 oz of gold, and the Puna Operations assets in Argentina producing 7.7M ounces of silver.

The performance SSRM is getting out of Marigold is a great example of a team getting the most out of its assets. Most would have seen Marigold as a tired old mine. SSRM saw an opportunity to invest in and improve a neglected operation...and now the mine is producing more gold per year than it has ever before in its 30 years of continuous operations.

Between the Trenton Canyon target near Marigold and the Santoy Gap and Hanging Wall targets near Seabee, it has some interesting, near-mine exploration targets in its portfolio. It would take a very significant discovery to move the needle for a miner as big as SSRM, but some of these targets have that potential.

Guidance for 2020 is up just slightly from 2019, with management anticipating that Marigold will produce between 225,000 and 240,000 oz of gold, Seabee will produce between 110,000 and 120,000 oz of gold, and Puna Operations will generate between 6M and 7M oz of silver. While that's not huge growth SSRM remains a great bet for 2020, as companies with producing assets will benefit most readily from the increase in profitability that comes with higher prices.

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