MJG Capital

To:	MJG Capital Limited Partners
From:	Matt Geiger
Date:	July 20, 2021
Subject:	2021 First Half Review

Below is set forth MJG Capital Fund, LP's performance through June 30, 2021.

<u>6 Month Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	3.27 %
S&P 500	14.41 %
S&P/TSX Venture Composite Index	9.75 %
<u>1 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	109.50 %
S&P 500	38.62 %
S&P/TSX Venture Composite Index	54.92 %
<u>3 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	201.81 %
S&P 500	58.09 %
S&P/TSX Venture Composite Index	29.83 %
<u>5 Year Performance</u>	
MJG Capital Fund, LP (net of all fees and expenses)	333.18 %
S&P 500	104.76 %
S&P/TSX Venture Composite Index	31.50 %
<u>Performance Since Inception (9/1/11)</u>	
MJG Capital Fund, LP (net of all fees and expenses)	22.35 %
S&P 500	252.57 %
S&P/TSX Venture Composite Index	(46.94) %

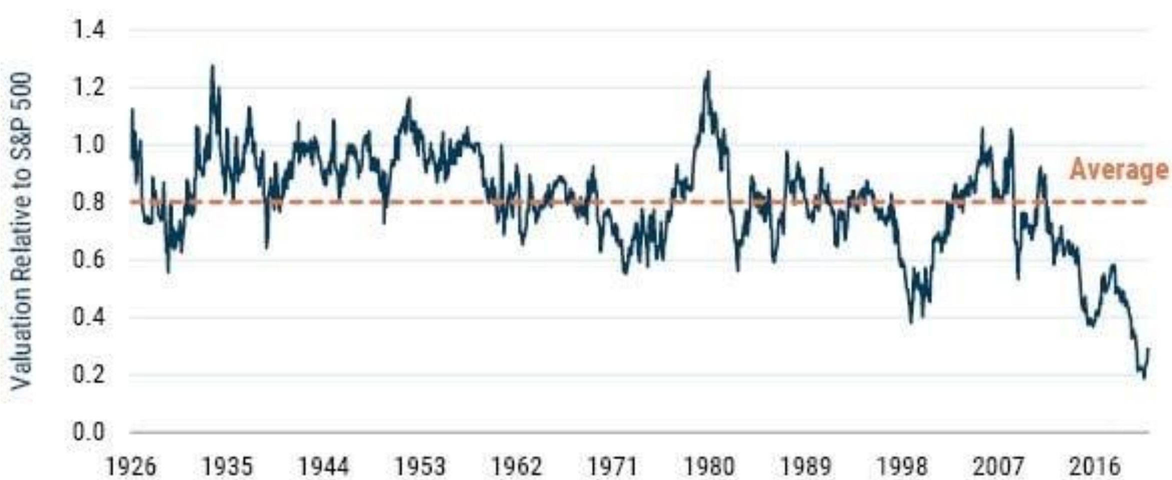
Note: All returns for MJG Capital partners are estimated and subject to the completion of an audit at a future date. The returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

Introduction

The MJG partnership was formed nearly ten years ago. Performance numbers through June 30, 2021 are provided on the previous page.

After recording its strongest six-month performance since inception in the second half of 2020, the MJG partnership has had a comparably tame start to 2021 – with a 3.27% year-to-date return net of fees and expenses. The run of consecutive monthly gains was snapped at eleven after a down month in March. The partnership looked set to return double digits over this period until a sharp correction in June erased much of our gains on the year. If there was a silver lining, it was that three of the partnership's four private investments went public over this period.

Current market dynamics present a dilemma to natural resource investors. On the one hand, resource equities and commodity prices have only been this inexpensive relative to U.S. equities on a couple occasions since the 1920's. This is true even after the strong period of performance since last spring. The below data published by GMO in early June compares energy/metal companies to the S&P 500 using a blended valuation metric (Normalized Historical P/E, Price to Book, and Dividend Yield). This same phenomenon is exhibited across other data sets as well – including the GSCI to S&P 500 ratio and the Relative CAPE of mining companies when compared to the S&P 500 (Bernstein). By historical standards, the outlook for this niche of the market remains excellent.



Source: Source: S&P, MSCI, Moodys, GMO. https://www.gmo.com/americas/research-library/resource-equities/

That said, there is plenty of reason to be cautious in the near term. Historically high valuations across most other asset classes, the emphatic return of retail investors to the market, the SPAC craze, Reddit-driven share prices, and rampant cryptocurrency speculation are all distinct signs of euphoria that point to a broad market correction sooner rather than later. And whenever the next major risk-off episode occurs, the commodity complex will experience stomach-churning drawdowns in the immediate aftermath. There's no getting around it – even the most powerful multi-year commodity bull markets are inevitably interrupted by one or two "gut checks" along the way.

With this top of mind, the MJG partnership has boosted its cash position from 5% to 12% since early 2021 through profit taking, new fund inflows, and particular restraint from initiating new positions. This cash weighting can be expected to steadily inch closer towards 20% as the year progresses. If this approach proves overly conservative, then that should be considered a good problem to have.

This letter's *Market Musings* revisits "Copper, Gold, and a False Choice" from the July 2020 investor letter and examines the dramatic shift in price and sentiment since this point last year.

In the *Overview of Partnership Holdings*, the fund's portfolio construction is reviewed by commodity, jurisdiction, and business model. As of June 30th, the partnership held twenty-three publicly traded positions, one private investment, and four sets of "in the money" warrants in the portfolio.

This letter's *Featured Investment* is Strategic Resources (TSXV: SR). Updates on the following seven MJG investments featured in previous letters are also included: Nova Royalty, Tonogold Resources, Lara Exploration, Salazar Resources, Adriatic Metals, Golden Valley Mines, and Sama Resources.

Market Musings

Copper, Gold, and a False Choice – Part 2

It's been exactly one year since "Copper, Gold, and a False Choice" was included in the July 2020 investor letter. At the time, precious metals were screaming higher in the wake of the coronavirus sell off – with gold reaching an all-time high near US$2100 per ounce just over a month later. Meanwhile, the price of copper was treading water near US$2.75 per pound and seemed to be going nowhere fast, with much of the world still in lockdown.

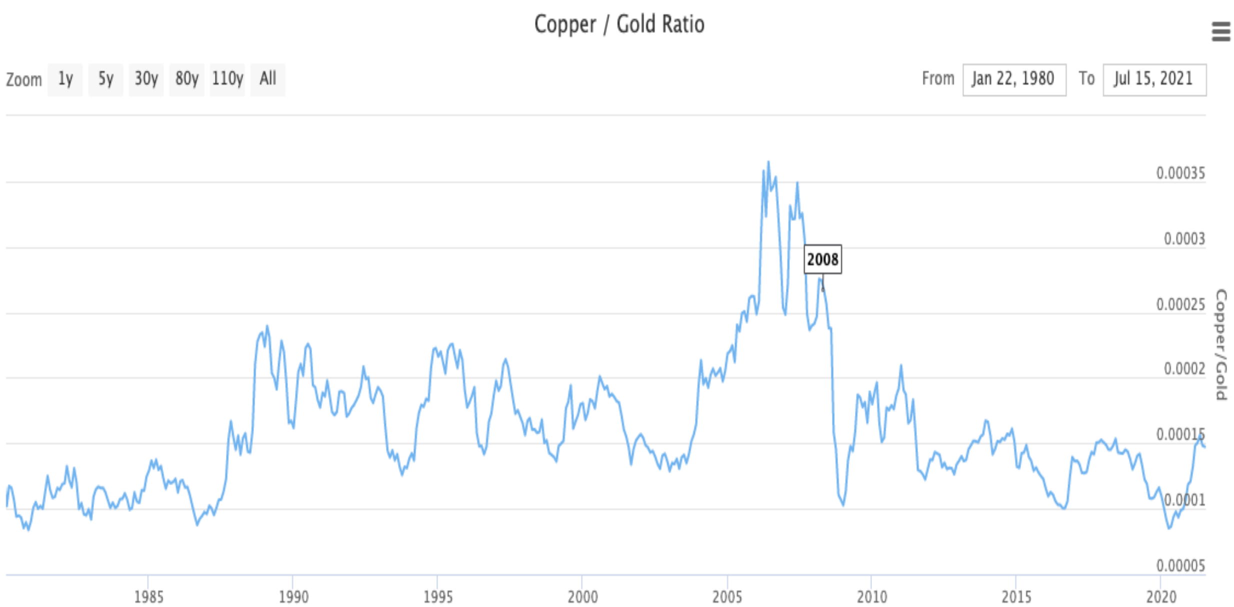
While the prevailing narratives at the time suggested otherwise, the piece argued that "those bullish on gold should rationally also be bullish on copper, at least over the medium term". This conviction stemmed from the fact that, at that time, gold was more expensive relative to copper than at any point in the last 40 years – with the copper-to-gold ratio sitting at 0.000094, well below the 40-year mean of 0.000160. This disparity in value between the two metals – especially when one considered copper's irreplaceable role in the ongoing decarbonization of the global economy – didn't appear sustainable. As noted in the July 2020 letter:

Put simply, this means that if gold stood still at $1900 an ounce for the next five years while the copper-to-gold ratio reverts to its 40-year mean, we are looking at roughly $4.75 copper once the process has run its course. This doesn't take into account the possibility that the mean reversion pendulum overshoots as is often the case, nor does it consider the possibility that gold prices also rise as the copper-to-gold ratio normalizes.

As many readers will be aware, the tables have turned dramatically in the months since. Due in part to a weakening US Dollar, COVID-related mine disruptions, and the anticipation of significant infrastructure spending across the developed world, the copper price has rallied by over 50% since last summer – reaching an all-time high of US$4.79 per pound in early May. Copper-focused equities, from the explorers to the major producers, have in many cases significantly outperformed the metal during this move.

Precious metals, on the other hand, have spent this period consolidating last year's gains – with the gold price sitting roughly 13% below its level in August of last year. This has resulted in a sharp spike in the copper to gold ratio from 0.000094 last July to 0.000145 today. (In other words, the value of copper relative to gold has increased by over 50% during this period.) In the wake of this move, the ratio between the two metals now sits just below the 40-year mean of 0.000160.

I will readily admit to having been surprised at how quickly this process of mean reversion has played out – noting in last July's investor letter that "it's unrealistic to expect the copper-to-gold ratio to revert to its mean overnight" and that "the process will take conviction and years of patience". This clearly did not end up being the case.



Source: Copper to Gold Ratio. Longtermtrends. https://www.longtermtrends.net/copper-gold-ratio/

What insights can be gleaned, if any, from this sudden reversal? To start, it's accurate to say that copper is now fairly valued relative to gold – at least by historical standards. This does not however preclude the mean reversion pendulum from overshooting, as so often happens in practice. In an extreme scenario where the copper-to-gold ratio overshoots to levels last seen at the height of the last commodity super cycle, copper could in theory be priced north of $10 per pound even if gold were to not budge an inch from the $1900 level. While this scenario does not seem particularly likely, history tells us that it is within the realm of possibility.

It is also safe to say that copper can no longer be considered a contrarian investment like it was last year. Generalist and ESG-focused investors have descended into the copper arena in recent months, spurred in part by a Goldman Sachs report published in April declaring that "Copper Is The New Oil". Vancouver and Perth have caught onto this surge of interest, and we're now seeing newly spawned copper-focused juniors spring into life with unsettling regularity. This "flavor of the month" status should serve to temper the expectations of even the most ardent copper bulls, at least in the short term.

It is notable that the copper price is more correlated to the broader stock market than at any point in the past five years – with a correlation of roughly 0.50 to the S&P 500. Similarly, the 0.65 correlation between the commodity complex (as measured by the Bloomberg Commodity Spot Index) and the S&P 500 is near its highest level since 1960, according to Bloomberg Intelligence. The implication is that when the stock market next rolls over, the price of copper will be particularly susceptible to a sharp retracement. This will have no bearing on the metal's long-term prospects, but many investors – especially those who have only recently entered the mining space – will throw in the towel regardless.

Source: "The Commodity Bull Needs $10,000-Plus-Copper". Bloomberg Intelligence. 5/14/21.

With these near-term considerations in mind, the red metal's prospects in the medium- to long-term remain exceptional. Given its prevalence of uses and limited substitution risk, there is no more obvious beneficiary in the ongoing decarbonization of the global economy. Glencore projects that a 1Mtpa copper supply growth rate will be required to satiate global demand over the next thirty years, which would be double the industry's growth rate between 2010-2019.

It's difficult to see where the supply will come from, at least over this coming decade. Freeport-McMoRan CEO Richard Adkerson is on record saying that copper prices could double again from current levels and that it would still take his company five years to bring online any substantiative additional supply. While there have indeed been discoveries made in the recent past at projects like Filo del Sol, Warintza, Boda, and Stavely, it's unlikely that we'll see any of these assets reach production until the end of this decade. And that's optimistically.

From an investment perspective, the mantra remains very much the same. This business is about backing exceptional people working on quality assets with enough scale to make a difference. Despite some bias towards copper over gold in the longer term, the MJG partnership is more than comfortable investing in companies focused on either metal assuming the right company-specific boxes are checked. Copper and gold are the two highest weighted metals within the MJG partnership by a healthy margin – together comprising just under 50% of the overall portfolio – and it's likely to remain this way for the foreseeable future.

Overview of Partnership Holdings

The partnership is exposed to different commodities, jurisdictions, and business models. As of June 30th, we held twenty-three publicly traded positions, one private investment, and four sets of "in the money" warrants (priced at intrinsic value for reporting purposes).

This was a quiet period in terms of new investments – with only two new names added to the portfolio so far in 2021 (both via private placements). Six positions were liquidated over this timeframe. We also had three of our four private investments go public, which was expected but nonetheless encouraging to see. For a handful of reasons, the MJG partnership does not plan to make further private investments for the foreseeable future.

Ultimately our investment philosophy has very little to do with commodity price speculation, and everything to do with management expertise, insider incentivization, 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 will continue to monitor our exposure to specific commodities and jurisdictions to manage risk. I'm comfortable with our commodity split currently. Remember that the partnership reached an uncomfortably high 75% precious metals weighting last August. Profit taking, significant outperformance from our energy metal names, and restraint from initiating additional gold or silver-focused positions in the months since has reduced our PM exposure to roughly 33% of the overall portfolio at present.

The partnership's weighting to energy metals sits at roughly 36%. This is currently comprised of copper, uranium, nickel, and vanadium focused investments. Our exposure to these metals jumped to above 50% of the portfolio earlier this spring, but profit taking in our core uranium position coupled with a healthy pullback in share prices since late May has pulled this weighting lower. I'd like to see this segment of the MJG portfolio closer to a 45% weighting by year end 2021, which can be accomplished by adding modestly to existing positions and perhaps bringing an additional energy metal position into the fold.

The MJG partnership now sits at a roughly 12% cash weighting. The mantra hasn't changed from the January 2021 investor letter, where I stated that "it is prudent to boost our cash position ahead of the next major 'risk-off' episode – whenever that may be" in light of the plainly evident euphoria exhibited across the broader market. The animal spirits certainly haven't disappeared in the six months since, nor has there been that major risk-off episode. As such, the partnership will continue to gradually increase its cash weighting, which should be north of 15% by the end of this quarter. This can be reasonably achieved through additional profit taking and new fund inflows.

Included below is a snapshot of our investments as of June 30, 2021.

Allocation by Commodity	
Energy Metals	
Copper	22%
Uranium	6%
Nickel	5%
Vanadium	3%
Precious Metals	
Gold	25%
Silver	8%
Ag Minerals	
Phosphate	14%
Potash	3%
Industrial Metals	
Zinc	2%
Cash (USD)	12%

Allocation by Jurisdiction	
Canada	37%
Argentina	10%
Niger	6%
United States	6%
Bosnia	3%
Brazil	3%
Côte d'Ivoire	3%
Finland	3%
Mali	3%
Serbia	3%
Sweden	3%
Australia	2%
Ecuador	2%
Mexico	2%
Mongolia	2%
Cash (USD)	12%

Allocation by Business Model	
Prospect Generation	14%
Exploration	25%
Development	28%
Production	2%
Royalty/Streaming	19%
Cash (USD)	12%

Featured Investment

Strategic Resources (TSXV: SR)

Strategic Resources is the third most recently added position to the MJG portfolio. The initial investment was made in an October 2020 private placement at C$0.35, which included a C$0.55 half warrant good for eighteen months. After subsequent open market purchases as recently as early June, our average cost now sits at C$0.30 per share. SR carries the distinction as the MJG holding with the smallest market capitalization. It is also the partnership's only vanadium-focused position.

This is not a complex story and can be simply described as a vanadium optionality play backed by Ross Beaty and the Lumina Group. For those unfamiliar, "optionality" refers to a style of mining speculation where investors back large, low-grade development projects with significant historic expenditures that are uneconomic at current metal prices but have the potential to be worth large figures (at least on paper) should metal prices rise significantly. Put another way, an optionality play is a highly levered out-of-the-money call option on a given metal price.

At this point, let me stress that this style of speculation is very rarely employed in the MJG partnership. (There is only one other MJG holding alongside SR that falls into the optionality bucket.) Ultimately our investment philosophy has very little to do with speculating on the price moves of specific metals, and everything to do with management expertise, insider incentivization, 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.

However, on very rare occasions, an optionality opportunity will present itself where all the above boxes are checked (minus, by definition, attractive project economics at spot metal prices) and an investment can be justified even within this framework. Strategic Resources is one of those opportunities. This conviction stems primarily from the people involved – though the company also checks the boxes in terms of valuation, financial structure, expected news flow, scale of opportunity, jurisdictional risk, and portfolio fit. Key insiders such as Ross Beaty (largest individual shareholder), Marshall Koval (Senior Advisor), and Leo Hathaway (VP Exploration) created over C$1.5 billion in value with Lumina Copper between 2002-2014 by employing what was in essence a copper optionality strategy. They are now looking to repeat this trick a second time – this time with a focus on vanadium (and potentially 1-2 other energy metals should SR management come across sufficiently attractive acquisition opportunities).

At its current stage and size, there is no question that SR should be considered a high-risk speculation. Current shareholders are waiting for one of two outcomes: (1) a significant run in the vanadium price or (2) the company acquiring a new energy metal-focused asset should the right opportunity present itself. These events may take years to transpire, or not transpire at all. That said, with patience and luck, there is at least the potential for an asymmetric outcome at the current valuation. The people backing this company have certainly done it before.

This *Featured Investment* piece begins with an overview of SR's relatively recent history – with a focus on the company's management, insider ownership, financing history, share structure, and working capital position.

The next section examines the outlook for vanadium – with a look at the current supply/demand dynamic as well as future demand potential stemming from vanadium-redox battery adoption for grid scale energy storage. This is a metal that is currently off the radar for most mining investors, but that can change quickly. History shows that vanadium is characterized by surges in speculative interest once or twice per decade going back to the 1980's.

We then look at SR's two most significant assets in further detail. The company's flagship is the PEA-stage Mustavaara Project in Finland, which produced roughly 10% of the world's vanadium supply between 1976-1985. The earlier stage Silasselkä Project, also in Finland, has a historic resource and is set to be drill tested by SR later this year.

The ensuing sections provide a valuation framework for Mustavaara and the expected milestones from Strategic over the coming the months, so readers can keep tabs on the company's progress.

This *Featured Investment* concludes with a discussion on why Strategic Resources offers attractive speculative value at its current share price, while also touching on the associated risks.

Company Background

Strategic Resources is backed by the Lumina Group, which has a long history investing in and operating junior mining companies alongside mining financier Ross Beaty. The group's track record over the past two decades speaks for itself. The Lumina Group is currently active with three different companies – gold developer Lumina Gold valued at C$260m, Ecuador-focused prospect generator Luminex Resources valued at C$69m, and the lesser-known Strategic Resources with its C$11m market capitalization.

For well over a year, it has been public knowledge that Lumina Gold and its Cangrejos Project in southern Ecuador is up for sale. With Guillermo Lasso's win in the recently concluded Ecuador presidential election, potential acquirers of Cangrejos now have a line of sight on the country's political outlook for the coming few years. As such, a sale of Lumina Gold seems likely to be announced later this year or early next. Should this occur, the Lumina stable of companies will shrink to two – Luminex and Strategic.

Source: Lumina Gold Presentation. July 2021.

The Lumina Group's involvement with Strategic Resources is relatively recent. In April 2019, it was announced that Scott Hicks, Leo Hathaway, Martin Rip, and Lyle Braaten would be stepping in as management for what was in effect a shell company. Concurrently, the company announced the signing of two separate earn-in agreements to acquire 100% of two vanadium projects in northern Finland – the aforementioned Silasselkä and the since-dropped Akanvaara Project – as well as a C$3.7m financing at C$0.23 per share with no warrant attached.

Scott Hicks, the youngest member of the Lumina Group with background in capital markets, assumed the role of CEO. Exploration geologist Leo Hathaway, who has been working alongside Ross Beaty at the Lumina Group since 2004, became the company's VP Exploration. Martin Rip and Lyle Braaten, both involved with the Lumina Group for over a decade, assumed the roles of CFO and VP Legal/Corporate Secretary, respectively. And Marshall Koval, SR's second largest individual shareholder and a member of the Lumina Group from its early days, became a senior advisor to the company. In total, Strategic management is well-incentivized at roughly 11% ownership. And there has been insider buying of late – with Scott and Lyle purchasing a combined ~230,000 shares in the open market since mid-April.

Ross Beaty owns another 8.7% of SR as the largest individual shareholder. He has spoken positively about the company publicly, most recently in a SmithWeekly interview from March of this year that also featured Marshall Koval, Leo Hathaway, and Scott Hicks. My understanding is that Mr. Beaty originally entered the story via the C$0.23 financing closed in mid 2019. With the Strategic share price currently at

C$0.23, investors are presented with the opportunity to invest alongside Mr. Beaty at very same cost basis.

Additional shareholders of note include Aurion Resources (16%), Magnus Minerals (5.9%), and Medalist Capital (3.7%). Aurion and Magnus both obtained their share positions after vending assets into SR in the original Lumina Group transaction (Silasselkä and Akanvaara, respectively). Medalist entered the story at the same time as the Lumina Group and helped facilitate the Aurion transaction. These parties, in combination with Ross Beaty and SR management, own just over 45% of the company.

Key Shareholders	% Owned
Aurion Resources	16.0%
Lumina Group Management	11.0%
Ross Beaty	8.7%
Magnus Minerals	5.9%
Medalist Capital	3.7%
Total	**45.3%**

Source: Strategic Resources Presentation. July 2021.

The financing history since first Lumina Group involvement consists of two placements – the C$3.7m financing at C$0.23 which closed in June 2019 and the C$2.5m financing at C$0.35 (including an 18-month, half warrant at C$0.50) which closed in October 2020. The most recent placement, in which the MJG partnership participated, was upsized to C$2.5m from an initial target of C$1.5m due to additional investor demand.

From a working capital perspective, the company has no debt and a cash position of C$1.9m as of March 31, 2021. (Given recent quarterly burns of between C$250k and C$300k, Strategic likely sits near C$1.6m in cash at current.) This affords Strategic twelve to eighteen months of runway before needing to finance again, though I suspect the company will raise additional capital sooner rather than later. Until then, there is the distinct risk that the anticipation of an additional capital raise will keep a lid on the share price. This is otherwise known as a financing overhang.

Strategic Resources has an acceptable capital structure for a company of this stage – with 42.6m shares outstanding and 49.3m shares on a fully-diluted basis. The warrant overhang is small when compared to a typical junior mining company, while the 3.6m warrants that are outstanding have a strike price that is more than double the current share price. Strategic Resources is valued at a meager C$11m on a fully diluted basis.

Vanadium

The element vanadium was discovered in 1801, though thereafter it would languish as a scientific curiosity for nearly a century. This changed when British metallurgist John Oliver Arnold found that adding trace amounts of the element to steel significantly strengthened the resulting alloy. The first widespread industrial use of vanadium can be attributed to Henry Ford, who used vanadium steel in the chassis, crankshafts, axles, gears, and springs of the original Ford Model T. The bulk of this nascent demand was supplied by Minas Ragra in Peru – the world's first major vanadium mining operation, which started production in 1907 and at one point produced 75% of global vanadium supply.

In the present day, the steel industry continues to dominate the vanadium market at 93% of total demand and will continue to constitute the lion's share of vanadium demand for the foreseeable future. Vanadium steel alloys are used as rebar for the construction of buildings and bridges, as well as by automakers to reduce the weight of vehicles without sacrificing performance and safety. The implementation of new steel rebar standards in China in 2018 – which set out specifications for three high-strength grades, each requiring increasing amounts of vanadium – catalyzed a 6x move in the price of vanadium pentoxide over a two-year period. Though this surge in the vanadium price proved to be temporary, ever increasing building material standards across the developing world will continue as a long-term trend.

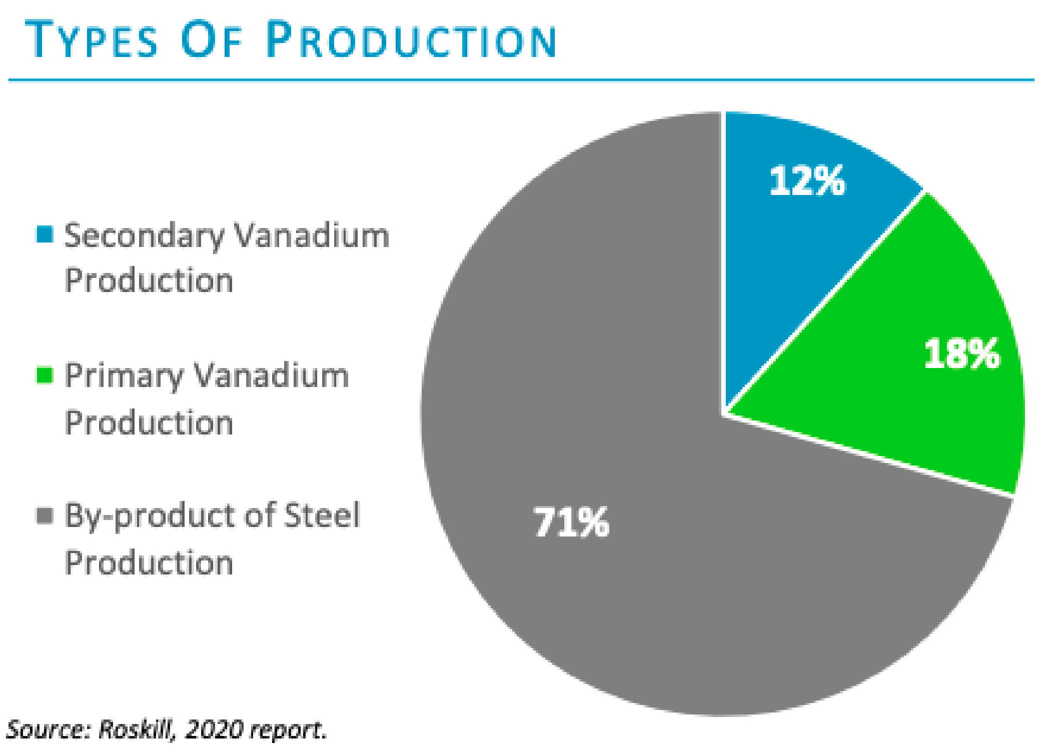
But vanadium also has additional sources of demand primed for significant growth in the years ahead. The aerospace industry consumes a non-trivial amount of vanadium to strengthen and promote thermal stability in titanium alloys used in the production of jet engines, airframes, and space crafts. (Vanadium-titanium alloys have the greatest strength-to-weight ratio of any engineered material, according to the U.S. Geological Survey.) Vanadium-titanium alloys are also used in high-performance wind turbines and nuclear reactors – both of which will play an increasingly important roles in the global energy mix as the decarbonization push continues. Vanadium is utilized as a reducing agent in chemical production processes (dye, glass, ceramics, sulfuric acid, etc.) as well as in pollution control. All told, these sources account for roughly 6% of global vanadium demand.

The newest and perhaps most promising source of demand comes from Vanadium Redox Flow Batteries ("VRFBs") in grid-scale storage applications. VRFBs offer some key advantages over competing grid-scale battery technologies, including long discharge times, no capacity degradation over long lifecycles, non-flammability, and easy recyclability. The downsides to VRFB technology include a higher upfront cost and a limitation to stationary applications (as VRFBs are heavy and bulky).

While VRFBs only account for 1% of vanadium demand at present, there is potential for this to increase dramatically in the years ahead. VRFB-related demand is estimated to grow at a CAGR of roughly 15%

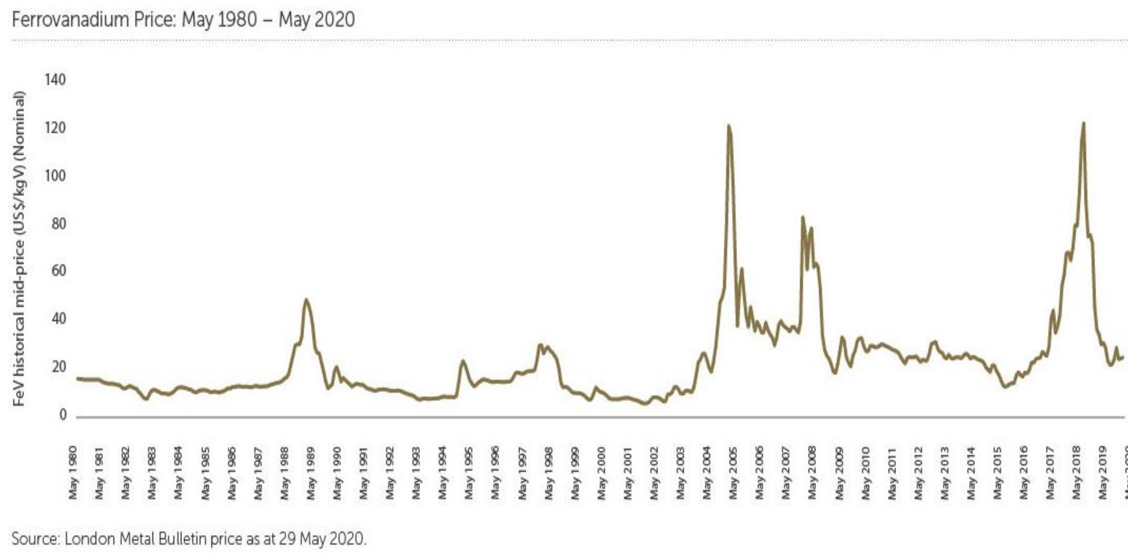
over the coming five years. The World Bank Group forecasts that by 2050 vanadium demand from energy storage alone could consume nearly twice the current global vanadium production. Given rapidly advancing battery technologies across the board, it is impossible to know with any certainty whether this World Bank estimate will prove prescient, overly aggressive, or overly conservative. The two key variables over the coming years will be (1) the overall growth seen in the battery storage market and (2) the percentage of this market share that VRFB technology captures. But there is at least the potential for VRFB-related demand to transform the vanadium market in the decades ahead.

On the supply front, 90% of vanadium production comes from just three countries – China, Russia, and South Africa. As seen in the graphic below, the bulk of global supply is derived as a byproduct of steel production (via vanadium-bearing steel slags). Secondary production refers to the recovery of vanadium from fly ash, petroleum residues, alumina slag, and spent catalysts. Secondary production, according to Roskill, is the highest cost form of vanadium production. And then there's primary vanadium production, which accounts for 18% of total supply. Largo Resources and Bushveld Minerals are the only two publicly traded primary vanadium producers – with operations in Brazil and South Africa, respectively.



Source: Strategic Resources Presentation. July 2021.

The two most widely traded vanadium products are vanadium pentoxide (V205) and ferrovanadium (FeV80). Vanadium pentoxide is the product used in VRFBs, chemical applications, and other non-metallurgical applications. Ferrovanadium is the product used by the steel industry to manufacture high-strength steel. For context, SR's proposed operation at Mustavaara will produce ferrovanadium, along with pig iron and other minor byproducts.



Source: Bushveld Minerals. https://www.bushveldminerals.com/about-vanadium/

Vanadium pricing historically has been characterized by long periods spent near the marginal cost of production, punctuated by short but explosive speculative frenzies once or twice per decade. As discussed previously, the most recent of these price spikes occurred between 2017-2018 – spurred on by anticipation of increased rebar standards in China. Should history repeat itself in the coming decade, the prevailing investor narrative will likely be driven by excitement surrounding VRFB adoption and the implications for vanadium demand.

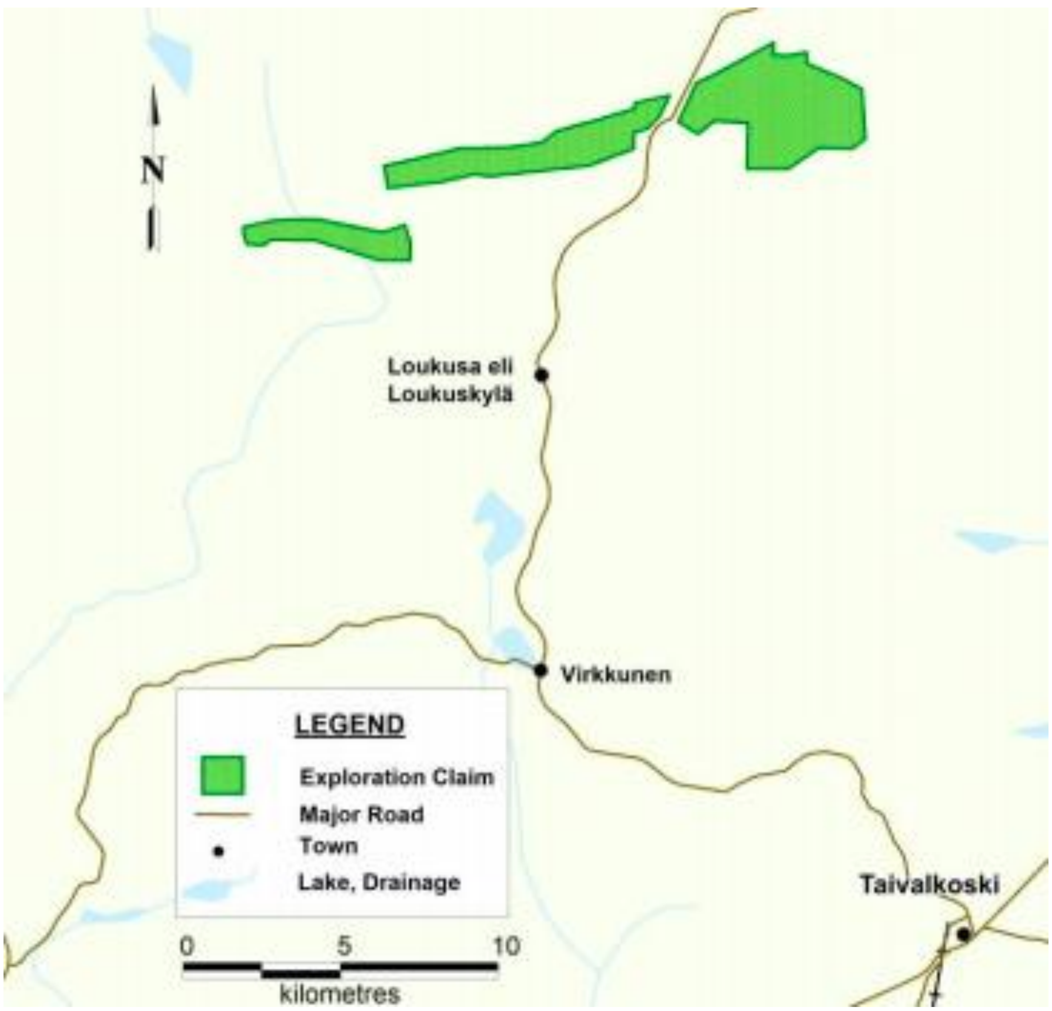
It is also worth noting that both iron ore and steel prices have reached all-time highs in recent weeks. Could the prices of commonly used alloying agents – such as vanadium, nickel, cobalt, molybdenum, niobium, and titanium – follow suit sooner rather than later? The answer to this is well beyond my paygrade, though it does seem to be within the realm of possibility should the current bout of inflation prove to be more than transitory. Vanadium pentoxide and ferrovanadium prices are quietly up 63% and 48%, respectively, so far in 2021. But both of these vanadium products would need to see their prices more than triple from current levels before matching the all-time highs of late 2018.

Mustavaara

Strategic's flagship is the PEA-level Mustavaara Project in northern Finland. Mustavaara was previously mined by Finnish state company Rautaruukki Oy between 1976 and 1985. The operation in its heyday produced roughly 10% of global vanadium production at that time. The mine was shut down due to persistently low vanadium prices in the 1980's and hasn't seen production since. Mustavaara's most recent owners (Ferrovan Oy) produced a Prefeasibility Study in 2012 outlining a project with a concentrator near site and a smelter located close to the coast in the city of Raahe. Progress stalled and, in July 2020, SR closed the acquisition of Mustavaara and "associated intellectual property, core samples and storage facilities" from the bankruptcy estate of Ferrovan Oy.

The project has its strengths. Perhaps most significantly, Mustavaara is fully permitted for mining and concentrate production. In other words, SR could start construction at Mustavaara tomorrow if the company wanted to produce a concentrate on site and then send to a third party for smelting. Were the company to go this route at some point, it doesn't hurt that senior advisor Marshall Koval has direct experience with DSO operations from earlier in his career. Strategic plans to transfer the existing permits from Ferrovan Oy's name to their own later this year, as well as applying for a twenty-five year extension.

The project is also endowed with a NI 43-101 compliant 104 Mt M&I Resource grading 15.4% magnetite and 0.90% vanadium in concentrate. This resource is supported by roughly 10,000 meters of drilling over seventy-three holes. This explains how Strategic was able to produce a PEA quickly and inexpensively at Mustavaara without drilling a single hole. The company estimates that it would cost a meager €1.4M euros for the "additional hydrological, comminution, metallurgical and engineering work" necessary to complete a Prefeasibility Study.



Source: Strategic Resources Presentation. July 2021.

Mustavaara also benefits from a stable mining jurisdiction, excellent infrastructure, and cheap power. As seen in the above image, a paved highway runs right through the 2,650 ha property and grid power is readily accessible nearby. The cost of electricity in this part of Finland is a very reasonable 5 cents per KwH. This could be particularly relevant if SR or a future developer goes down the "smelter route" – which is highly energy intensive – as outlined in the May 2021 Mustavaara PEA.

The project has clear challenges as well – starting with a daunting initial capex, which came in at €597m euros in the recent Mustavaara PEA. As mentioned, the PEA envisions SR going the "smelter route". This entails mining magnetite ore at Mustavaara, performing five stages of magnetic separation on site to produce a concentrate, and then shipping this concentrate ~250 kilometers to the proposed smelter site at Raahe. The cost of the smelter alone is estimated at €321m euros in the PEA – roughly 55% of the total initial capex. While Mustavaara is permitted through mining and concentrate production on site, the proposed smelter at Raahe is not yet permitted.

At this point, it's worth mentioning that SR is examining two alternatives in addition to the "smelter route" outlined in the PEA. DSO is an option as alluded to previously – where Strategic would mine at Mustavaara, concentrate the material on site, and ship it to a third party in Europe to be smelted. This is the most appealing option in terms of timeline to first production and initial capex, but it also entails SR losing significant value to its downstream partner.

The second alternative is to rethink the flowsheet to avoid dependence on the conventional smelting route. In early May, Strategic announced that it had commenced joint hydro-metallurgical testing on a new leaching technology with partner VanadiumCorp. The program will test whether VanadiumCorp's VEPT technology is viable on Mustavaara's material and could provide a more economic alternative to extract vanadium and iron versus the conventional smelting methods evaluated in the PEA. An interesting twist is that VanadiumCorp's leaching technology would produce vanadium pentoxide – which could be sold directly into the Vanadium Redox Flow Battery market – as well as an iron and titanium product. First results from this joint hydro-metallurgical program with VanadiumCorp are expected in Q3.

Initial capex aside, another potential concern – especially for investors seeking a pure play vanadium vehicle – is that a substantial percentage of the Mustavaara revenue mix in the recent PEA is derived from pig iron. In fact, at the base case pricing used in the PEA, pig iron accounts for 50.8% of revenue – compared to 46.7% for ferrovanadium and 2.6% for other byproducts (sodium sulphate, TiO2 slag, and Ca-Al slag). The revenue mix would likely be more skewed towards vanadium should the company go the "leaching route" (with VanadiumCorp's VEPT process or otherwise), but it's far too early to know whether Mustavaara will be steered in this direction.

The biggest concern, from my perspective, is that the economics outlined in the PEA are underwhelming at price inputs reasonable for the present day. (This is, after all, what makes Mustavaara a quintessential optionality play.) FeV80 is currently priced at US$40 per kg within Europe, while pig iron has seen transactions in the range of US$565-585 per tonne in recent months. As seen in the below sensitivity analysis from the May 2021 PEA, the after-tax IRR sits at 17.9% assuming US$38.40 ferrovanadium and US$540 pig iron – or roughly spot prices. This is not an IRR that will impress the market or potential buyers of Mustavaara. The after-tax NPV_8 of €491m euros won't either – at least relative to the proposed initial capex of €597m euros. This makes clear that Mustavaara needs sustainably higher vanadium prices or a dramatic rethink to have a chance of making it back into production.

Percentage of Base Case Prices	80%	100%	120%
FeV80 (US$ per kg)	US$25.60	**US$32.00**	US$38.40
Pig Iron (US$ per tonne)	US$360	**US$450**	US$540
Pre-Tax NPV (8%) (€M)	€ (88)	**€286**	€661
Pre-Tax IRR	5.8%	**13.9%**	20.2%
Post-Tax NPV (8%) (€M)	€ (115)	**€190**	€491
Post-Tax IRR	5.0%	**12.2%**	17.9%

Source: Strategic Resources News Release. May 4, 2021.

The next milestone at Mustavaara is the completion of the initial hydro-metallurgical testing using VanadiumCorp's VEPT process. Results should be announced to the market in Q3. If initial results are promising, Strategic would likely announce an expanded metallurgical program and then seriously consider releasing an updated PEA once sufficient data is in hand. Remember that a smelter would not be needed in this scenario, so initial capex in the updated PEA would be dramatically lower. The impact on operating costs is still unclear, but there is the possibility for improvement here as well.

In the scenario that the VanadiumCorp testing underwhelms but the vanadium price continues to march higher, Strategic would likely press forward with the "smelter route" and initiate a Prefeasibility Study at Mustavaara – which can be completed for a reasonable €1.4M euros. And if the VanadiumCorp testing doesn't pan out in conjunction with the vanadium price weakening from current levels, Strategic would most certainly batten down the hatches and hold off on advancing Mustavaara further until conditions improve.

Silasselkä

Strategic also owns the Silasselkä Project, which it acquired in the company's foundational transaction with Aurion Resources in early 2019 for C$500,000 and what will ultimately be eight million shares. Silasselkä is located 300 kilometers to the northwest of Mustavaara and is endowed with similarly attractive infrastructure – including nearby paved highways and a network of gravel forestry roads providing access across the project.

Unlike Mustavaara, this asset has not seen production previously – though it does have a historical resource (non NI 43-101 compliant) of 15.1 Mt at 0.61% V205. Historical drilling totaled 7,400 meters over seventy-two drill holes and defined four vanadium-rich magnetite deposits along a 16 km magnetic anomaly. It's anticipated that the mineralization will be amenable to a simple magnetic separation upgrade, but metallurgical data is scant despite the decent amount of historical drilling.

Silasselkä has a higher in-situ vanadium grade than Mustavaara; in theory, should future met testing demonstrate concentration ratios equal to or better than those seen at Mustavaara, Silasselkä may end up the superior project – at least in terms of economics. That said, Silasselkä doesn't have the distinct advantage of being fully permitted for mining and concentration. But the two projects need not compete. Should Strategic go the "smelter route" outlined in the recently released Mustavaara PEA, concentrate from Silasselkä could be trucked to the proposed smelter in Raahe in addition to the feed from Mustavaara in a hub and spoke fashion or, at the very least, provide a project life extension well after Mustavaara is depleted.

However, we are probably getting ahead of ourselves as it is still early days at the project. The next tangible milestone is additional drill testing – with SR set to complete a modest 1000m program at Silasselkä before the end of the year. This restrained program will help guide future exploration efforts as well providing samples for additional metallurgical testing (crucial in these VTM-style deposits).

Valuation

Given the recently announced PEA at Mustavaara, Strategic Resources can be quite readily valued on a risk-adjusted NPV basis. Typically, I find a 0.1x after-tax NPV multiple appropriate for a decent but non-exceptional development stage project at the PEA level. These types of projects are characterized by a reasonably manageable initial capex, an after-tax NPV roughly equal to initial capex, an after-tax IRR between 20-30%, a payback period of five or so years, moderate exploration upside, and no apparent critical flaws. This of course is a very rough yardstick – but when there are large divergences from this 0.1x multiple in one direction or the other, it indicates that either you are missing something critical as an investor or that the opportunity may just be mispriced.

This 0.1x multiple, however, is clearly not appropriate in valuing Mustavaara. At prices just below spot for both ferrovanadium and pig iron, the project supports an after-tax NPV_8 of €491m – nearly 20% below the proposed initial capex of €597m euros – while the after-tax IRR falls short of the 20% hurdle set out above. As such, on a risk-adjusted basis Mustavaara should be judged harshly until a time that ferrovanadium and/or pig iron prices settle at a sustainably higher level.

Harshly, for our purposes, is a 0.025x after-tax NPV multiple for its current stage. Strategic management will certainly wince at this multiple and likely protest that it is unduly punitive for a handful of reasons – not the least of which is that very few PEA stage projects are permitted to production as is the case with Mustavaara. Be that as it may, even at this lowly multiple, Strategic appears to offer speculative value at its current share price of C$0.23. Applying a 0.025x multiple to the after-tax NPV_8 of €491m yields an implied project value of C$18m for Mustavaara at current exchange rates, which is equivalent to a C$0.37 share price on a fully diluted basis. This of course assigns no value to Silasselka, nor the group behind SR.

Taking this one step further, Strategic has reported that a Prefeasibility Study can completed at Mustavaara for €1.4M (C$2.1m). This modest price tag – which is about as inexpensive as it gets for a proper PFS – can be attributed to the extensive historic data that SR has in hand. Mustavaara, after all, was a producing mine in the relatively recent past. Assuming similar economics to the PEA, Mustavaara at a Prefeasibility stage could justifiably be valued at a 0.05x after-tax NPV multiple – though investors should keep in mind that (a) SR will incur further dilution should it take this step and (b) project economics generally become less attractive when jumping from PEA to PFS with metal prices held constant.

All this said, it's important not to lose sight of the fact that Mustavaara and by extension Strategic will live or die with the ferrovanadium and pig iron prices (absent a major project acquisition). As with all optionality investments, the accuracy of metal price projections is most always more important than the valuation methodology itself.

Upcoming Milestones

Provided below are the SR milestones that can be expected over the coming year or so. Please note that the company hasn't formally provided guidance on when it will commence either a Prefeasibility Study or Updated PEA at Mustavaara, so the milestone referencing this below is the best guess on when SR will make a determination one way or another (assuming that ferrovanadium and pig iron prices remain buoyant). While these milestones will indeed be useful in tracking the company's progress, remember that – as an optionality play – the most significant catalyst for SR is the direction of ferrovanadium and pig iron pricing.

- Initial results from Joint Testing Program with VanadiumCorp **by end September 2021**
- Drill results from 1000m program at Silasselkä **by end 2021**
- Commence PFS or Updated PEA at Mustavaara (pending VanadiumCorp results) **by end Q2 2022**

Conclusion

At the current SR share price, investors are presented with the opportunity to invest alongside the Lumina Group and Ross Beaty in a company deploying a business model that these parties have previously implemented with great success. Given this track record, an outsized outcome over a three-to-five-year time horizon is certainly within the realm of possibility. But even at its current stage, the argument can be made that the SR share price would need to rise by just over 50% to fairly reflect the value of the PEA-stage Mustavaara Project at current ferrovanadium and pig iron prices.

That's not to say that this is not a high-risk speculation. Current shareholders are in essence waiting for one of two outcomes: (1) a significant and sustained run in the vanadium price or (2) a transformational acquisition of a new battery metal asset should the right opportunity present itself. These events may take years to transpire, or not transpire at all. The SR share price traded down to C$0.18 in the depths of last year's COVID-19-induced financial panic. We would likely see this level or lower were the markets to enter a similarly pronounced "risk-off" period in the coming months.

However, recent insider buying between C$0.23 and C$0.30 suggests that key members of management believe that the SR share price offers an attractive risk/reward profile at its current level. Time will tell. But history clearly shows that investors who have aligned themselves with the Lumina Group and Ross Beaty – particularly at a similar cost basis – have been treated extraordinarily well. Strategic Resources at its current share price provides an opportunity to do just that.

Featured Investment Updates

Over the course of previous MJG investor letters, *Featured Investment* write-ups have been included for nineteen different companies. These write-ups give current and prospective investors a glimpse into the MJG portfolio, while also providing insight into the methodology used to identify undervalued securities. The MJG partnership remains shareholders in seven 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* is provided for legacy MJG holdings highlighted in previous letters.

Nova Royalty (TSXV: NOVR)

Featured In: **January 2021**
Average Cost Per Share: **C$0.30**
Current Market Price (July 19, 2021): **C$3.23**

Nova Royalty has been a position since October 2018 – when the partnership 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. In recent months, the MJG partnership has taken some profits (20% of the original position) with an average sales price of C$4.56 per share. We are comfortable holding the remainder of our position for a matter of years assuming that Nova's management remains disciplined.

Nova Royalty has completed two new acquisitions so far this year. In early February, the company announced the acquisition of an existing NSR of "0.98% on open pit operations and 0.49% on underground operations on the San José 1/3000 exploitation concession that forms part of the Vizcachitas Project in Chile" for US$6.5m in cash and up to US$9.5m in shares. Vizcachitas is a large copper-molybdenum porphyry deposit in central Chile owned by a C$200m junior developer named Los Andes Copper. A PEA was completed at the project in mid 2019 – outlining a 45-year, open-pit operation with an after-tax NPV_8 of US$1.8 billion at $3.00 copper.

Ninety days after Nova's royalty purchase, it was announced that Warren Gilman's Queens Road Capital would be investing US$5 million into Vizcachitas by way of convertible debenture. Warren – who is highly regarded within the industry as having a good nose for high-quality development stage assets – commented upon the investment that "The Vizcachitas project is potentially the most advanced, ready to build copper porphyry project in South America." This is a ringing endorsement for this asset, where a Prefeasibility Study is expected by year end.

In mid-June, Nova announced the acquisition of a 1% net proceeds royalty on the West Wall copper-gold-molybdenum project jointly owned by Anglo American and Glencore. Anglo American previously reported a maiden inferred resource at West Wall of 750Mt at 0.54% Cu, 0.05 g/t Au, and 0.01% Mo. Since then, Anglo American and Glencore have completed various exploration activities, which have resulted in the identification of a new mineralized zone, West Wall Norte, and a significant increase in total mineral resources. West Wall sits just 20 kilometers away from Vizcachitas, providing the potential for the two projects to be integrated at some point.

Included below are the Nova milestones expected over the coming couple of years. It should be noted that, as a royalty company, NOVR is less catalyst-driven than many of the MJG partnership's holdings.

- Prefeasibility Study announced at Vizcachitas **by end 2021**
- Upgrade US listing to NYSE American or NASDAQ **by end 2021**
- Acquire first cash flowing royalty **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**

The Nova Royalty share price has taken a major hit in recent months – declining by roughly 50% from its 52-week high of C$6.25 in late January. This can be attributed solely to the company's valuation getting ahead of itself and not to operational missteps or poor strategic decision making by management. Even at its current share price of just over C$3.00, the company continues to have an excellent platform to execute on its vision. Also of note is that Ryan Beedie – a 10% shareholder and key backer of the company from its early days – has accumulated over 300,000 shares in the open market since just the beginning of June. These purchases (equivalent to ~C$1 million) from one of the company's largest shareholders signal a strong vote of confidence in Nova's future prospects.

Tonogold Resources (OTC: TNGL)

Featured In: **July 2020**
Average Cost Per Share: **US$0.05**
Current Market Price (July 19, 2021): **US$0.13**

Tonogold was highlighted as the featured investment in the July 2020 letter. Unfortunately, MJG is not at liberty to share an update at this point in time. The partnership is active in efforts being undertaken to better realize value at the company. Shareholders can reach out to matt@mjgcapital.com should they have questions about these efforts. I hope to provide an update on Tonogold in the next MJG investor letter.

Lara Exploration (TSXV: LRA)

Featured In: **January 2020**
Average Cost Per Share: **C$0.65**
Current Market Price (July 19, 2021): **C$0.67**

Lara Exploration was featured in the MJG partnership's January 2020 letter. The partnership first initiated its position at C$0.44 in November 2019. Subsequent purchases, as recently as March of this year, have lifted our cost basis to C$0.65 per share. An investment in Lara is a bet on an honest, previously successful management team utilizing a high-quality business model (organic royalty generation) at a reasonable valuation. While the company's share price performance hasn't thrilled to date, this original investment thesis remains intact.

That said, progress has been more sluggish than expected on a couple of fronts. In late March 2021, Lara announced that a 4350 meter diamond drill program – funded by earn-in partner Capstone Mining – was "planned to start in the second quarter" at the Planalto Project in Brazil. The company appears to have missed this guidance, likely due to either ground access difficulties stemming from recent heavy rainfall or COVID-related concerns. This Phase III drill program has the potential to serve as a significant catalyst for the company, so the delay is no doubt a source of frustration for LRA shareholders.

More concerning is the continued wait for commercial production at the Celesta Copper Mine. Lara owns a 2% NSR at Celesta, as well as a 5% project-level interest. At current copper prices, the Celesta NSR has the potential to generate in excess of 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. Lara last issued a Celesta-related news release in early February and owes shareholders an update.

Progress continues apace at Hochschild Mining's Corina Gold Project in Peru, over which Lara holds a 2% NSR (with no buyback). Corina is located just 15 kilometers away from Hochschild's Selene Mill, which is currently being fed by the nearby Pallancata Mine. Pallancata, however, is expected to run out of ore within the next couple of years. A soon-to-be hungry Selene Mill is good news for Corina's near-term production prospects, and it appears that Hochschild is intent on advancing the asset expeditiously.

In early February, Hochschild announced a 31.55 meter intercept grading 4.9 g/t Au and 43 g/t Ag at Corina – an outstanding result at only 200 meters depth. In April, Lara announced that Hochschild would be drilling an additional 2000 meters at the project in Q2. Assay results from this drilling should be expected later this quarter. Despite the political uncertainty that has engulfed Peru in recent months, Hochschild has shown no signs of slowing down at Corina.

Provided below are the Lara milestones that can be expected over the coming months. Most important is confirmation that Celesta has achieved commercial production and that royalty payments to Lara have commenced. Drill results at both Planalto and Corina may also serve as share price catalysts, as would any potential resolution to the ongoing litigation at Liberdade.

- Additional drill results (2000 meters) from Hochschild at Corina **by end Q3 2021**
- Commercial production announced at Celesta Copper Mine **by end Q3 2021**
- Minsur decision on whether to proceed at Lara Copper Project **by end Q3 2021**
- Phase III drill results (4350 meters) at Planalto **by end 2021**
- Go public transaction for the Bifox Phosphate Project **by end 2021**
- Resolution to Vale/Codelco dispute at Liberdade **by end 2022**

As the market waits on the above milestones, Lara appears to have limited downside at its current share price – a desirable attribute in this uncertain market environment. Little if any speculative premium is built into the stock, as the lion's share of the share registry is comprised of long-term holders who believe in the leadership of Miles Thompson. The current share price sits just 8% above its 52-week low and 45% above the lows seen in March 2020. The company has no need to dilute given management's capital discipline and strict adherence to the royalty generator business model. These factors – when considered alongside the C$500m exit that management achieved with their last company – suggest that Lara offers an attractive risk/reward profile at its current share price.

Salazar Resources (TSXV: SRL)

Featured In: **July 2019**
Average Cost Per Share: **C$0.25**
Current Market Price (July 19, 2021): **C$0.34**

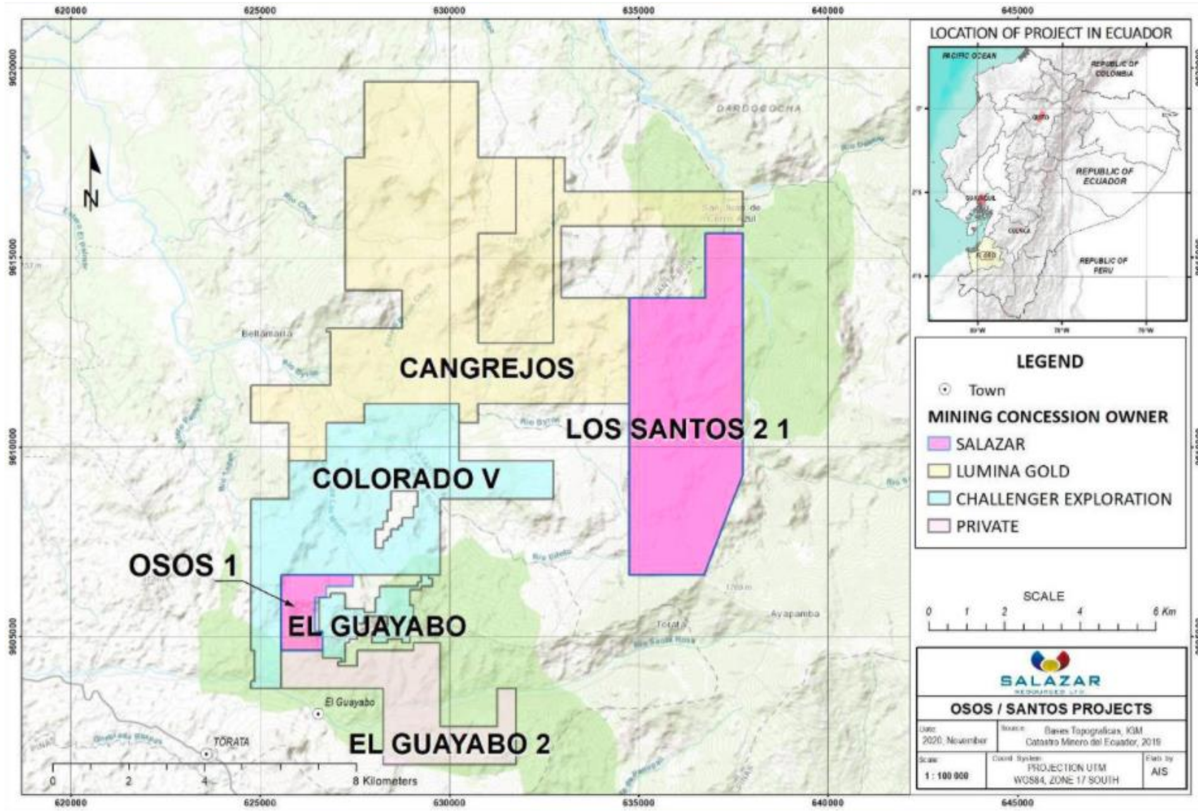
Salazar Resources was highlighted in the MJG partnership's July 2019 investor letter. The position was first initiated in May 2019 at C$0.16. Modest purchases, as recently as early July, have lifted the MJG cost basis to just under C$0.25. The company continues to be fairly valued for its 25% free-carry to production at the PFS-stage Curipamba Project. Salazar's 100%-owned project portfolio is valued at a meager C$7m at the current SRL share price.

After adjusting for cash and marketable securities, Salazar's partner Adventus Mining sports a C$130m enterprise value at its current share price of C$1.03. (Practically all of this value can be attributed to Adventus's flagship – a 75% earn-in stake at Curipamba.) It follows that the value of Salazar's 25% share of Curipamba should be worth approximately one-third that amount, or C$43m. Salazar's current enterprise value sits C$50m – suggesting an implied value of C$7m for the rest of its 100%-owned project portfolio.

This is a bargain considering Fredy Salazar's track record of discovery in Ecuador, not to mention that the company has the budget to drill an additional ~9000 meters across these properties this year. After announcing mediocre drill results from Los Osos in February and June (impressive widths but grades too low), the three highest priority 100%-owned projects are now Los Santos, El Rumiñahui, and a third property that cannot yet be named publicly due to ongoing staking.

Los Santos – which was only acquired by the company in December 2020 – is directly adjacent to Lumina Gold's 17m ounce Cangrejos Project and just 10 kilometers to the east of Salazar's 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.

Salazar has geologists on site at Los Santos and has been advancing geochemical testing, mapping, and target generation over the past six months. This is a project that has not yet been drilled – which speaks to the opportunity as well as the amount of grassroots work that must be completed first. According to company management, Salazar is in position to initiate a maiden 3000m drill campaign at the property in early Q4 2021. Assay results realistically won't be reported until early 2022.



Source: Salazar News Release. Dec 10, 2020.

There is also the Rumiñahui Project in northern Ecuador, which probably has the greatest blue-sky potential of Salazar's grassroots projects. Rumiñahui is located on trend with the high-profile Cascabel and Llurimagua copper porphyry deposits. CEO Fredy Salazar recognized the potential of the area 20 years ago, having been impressed by high grade samples and intense alteration. After fifteen years of community liaison Salazar Resources 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.

Unfortunately, Salazar – which stated its intention to drill Rumiñahui starting in Q2 of this year – is still waiting for its water permits. Management insists that the project will be drilled this year, with rigs turning on the project by November at the very latest. 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." Depending on when the company starts its program, assays may not be ready for release until early next year.

Provided below are the expected Salazar catalysts over the coming eighteen months. Also included are the milestones pertinent to Curipamba, Pjili, and Santiago – given Salazar's free-carried interest in each of these three projects.

- Draft EIA submitted to regulators at Curipamba **by end Q3 2021**

- Feasibility Study announced at Curipamba **by end 2021**

- Drill results (4000m) from “El Ponecillo” exploration target at Curipamba **by end 2021**
- Adventus announces drill results (3000m) at Santiago **by end 2021**
- Drill results (3000 meters) at Rumiñahui **by end Q1 2022**
- Drill results (3000 meters) at Los Santos **by end Q1 2022**
- Investment Agreement w/ Ecuador Government announced at Curipamba **by end Q2 2022**
- Environmental Permit received at Curipamba **by end Q2 2022**
- Construction commences at Curipamba **by end 2022**

Salazar remains well-financed with a working capital position of roughly C$6 million. The company also expects roughly ~US$1.6 million in net income this year from advanced payments, management fees, and drill rig rental income. This provides Salazar with a healthy 9000 meter drill budget across its 100%-owned projects, which are valued at a meager C$7m at the current SRL share price.

Adriatic Metals (ASX: ADT)

Featured In: **January 2019**
Average Cost Per Share: **A$0.87**
Current Market Price (July 19, 2021): **A$2.48**

Adriatic Metals was the featured investment in the January 2019 investor letter. The position was first initiated in September 2018 at A$0.39. The MJG partnership added modestly in April 2021, which lifted our cost basis to A$0.87 per share. Adriatic continues to offer compelling value at its current share price – particularly in the aftermath of very recent permitting developments – and is one of the more likely takeover candidates within the MJG portfolio.

Just hours before this investor letter was finished, Adriatic announced that it had received the final key permit necessary to commence construction at its Vares Silver Project. Vares has gone from discovery to fully permitted in roughly four years, which is a remarkable achievement by CEO Paul Cronin and his team. This abbreviated timeline is an anomaly in an industry where it routinely takes over a decade to progress a project from discovery to final approval. (For context, the average is 13 years in British Columbia.)

That's not to say that the permitting process wasn't thorough. As seen in the below image, Adriatic secured no less than sixteen major permits over this period. This required working with all levels of the Bosnia and Herzegovina government – including BiH federal ministries, the Zenica -Doboj Canton, and the local municipality of Vares. The cooperation of all these parties is a testament to the strong community and government support for Vares.

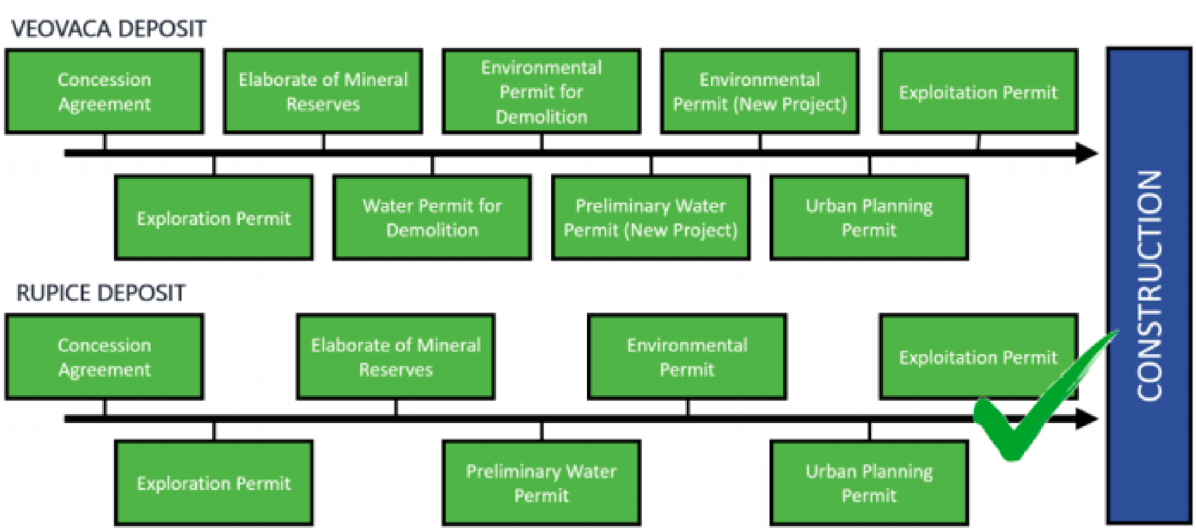


Figure 1: Permitting outline of Vares Silver Project

Source: Adriatic News Release. July 19, 2021.

With the Rupice Exploitation Permit now firmly in hand, the company now finds itself at an interesting inflection point where it must choose, in short order, whether to finance/build Vares or whether to sell it. There are cases to be made for both of these routes. Adriatic's success operating in BiH to date, the project's manageable initial capex of US$173m, and the suite of attractive, minimally dilutive financing proposals that are undoubtedly already on the table point to the former. But the sheer difficulty of building and commissioning a mine on time and on budget suggests that a sale at a sufficient premium would be the prudent route. Paul, a major shareholder of ADT himself, is in good position to make the best decision on behalf of shareholders. The company will have a few more weeks to mull over its options as its unlikely to announce a formal decision before completion of the Vares Feasibility Study expected later this quarter.

Provided below are the Adriatic Metals milestones expected before the end of this year. As discussed, the question now is whether Adriatic will attempt to build Vares itself. If the company does decide to take this step, construction is set to commence in Q4 2021 according to the July 19th news release.

- Feasibility Study announced at Vares Silver Project **by end Q3 2021**
- Decision to finance/build or monetize at Vares Silver Project **by end Q3 2021**
- Construction commences at Vares Silver Project **by end 2021**
- Maiden JORC Resource Estimate at Raska **by end 2021**
- Metallurgical testing update at Raska **by end 2021**

The Prefeasibility Study announced in October 2020 outlined a fourteen-year operation producing roughly 15 million silver equivalent ounces per year. The PFS outlined a US$1.04 billion after-tax NPV_8, 113% after-tax IRR, and 1.2-year after-tax payback. With the final permits now firmly in hand, a 0.8x multiple on the Vares after-tax NPV – an implied project value of US$830m – is reasonably justified given the exceptional economics and the multiples received by other high-quality silver development peers.

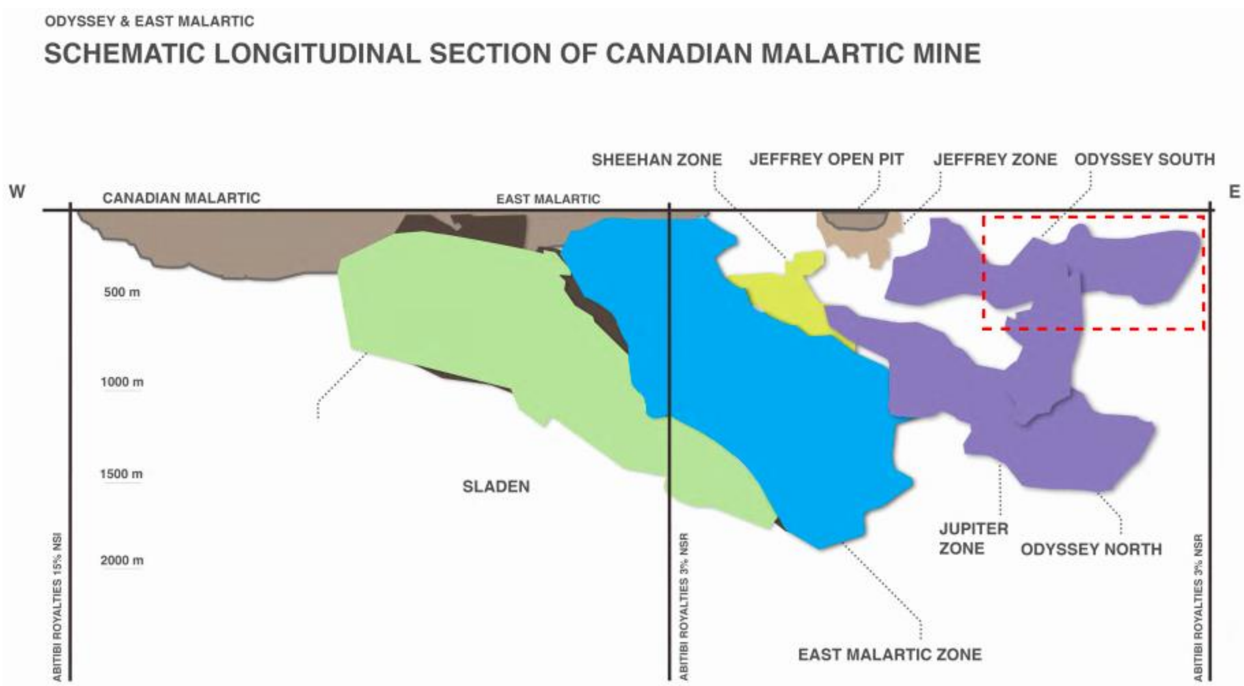
Assuming an additional 45 million shares of dilution (to fund approximately half of the initial capex via equity) yields a fair value of A$3.95 per fully diluted share. This figure – which ascribes no value to the Serbian project portfolio – sits nearly 60% above the current Adriatic share price of A$2.48. Barring exceptional circumstances, the MJG partnership will continue to hold its full ADT position until this level is breached.

Golden Valley Mines and Royalties (TSXV: GZZ)

Featured In: **July 2018**
Average Cost Per Share: **C$4.91**
Current Market Price (July 19, 2021): **C$6.50**

Golden Valley Mines has been a MJG partnership holding since April 2016. Our average cost now sits at C$4.91 per share after additional purchases as recently as last week. GZZ remains a core holding as the original investment thesis is very much intact. The company continues to trade at a substantial discount (24% 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.

Abitibi Royalties owns a 3% NSR covering significant parts of the Canadian Malartic Mine – Canada's largest gold operation. Much of the future development and eventually production from this mine will be focused on mineralization near or within RZZ's 3% NSR. Agnico Eagle and Yamana Gold, who are the mine's joint operators, are in the final stages of completing an underground PEA. This PEA is expected to incorporate several zones including East Malartic, Sladen, Sheehan, Odyssey North, Odyssey South, Odyssey Jupiter and East Gouldie.



Source: Abitibi Royalties presentation. July 2021.

As seen in the above cross section, RZZ's 3% NSR covers significant portions of East Malartic, Sladen, Sheehan, Odyssey North, and Oyssey Jupiter. Not pictured is the East Gouldie Zone, which at depth trends into RZZ's royalty ground. The underground PEA was expected in Q2 2021, so its release should be imminent – perhaps as soon as next week when Agnico Eagle and Yamana Gold report Q2 2021 earnings on July 28th and July 29th, respectively.

Also of particular note is recent drilling success at the Chert Zone announced by Agnico Eagle in a July 8th news release. Drill hole MEX20-164WD produced a stunning intercept of 7 g/t Au over 77.9 meters. Yes, this mineralization is deep at around 900 meters depth. But the grades and widths appear perfectly suited for bulk underground mining. While according to Agnico the "size and shape of the Chert Zone is not well understood yet", it appears that the zone outlined to date sits firmly within the RZZ royalty boundary. This is a significant development for Abitibi Royalties and by extension Golden Valley, but – judging by the RZZ and GZZ price action in the days since – the market has not yet caught on.

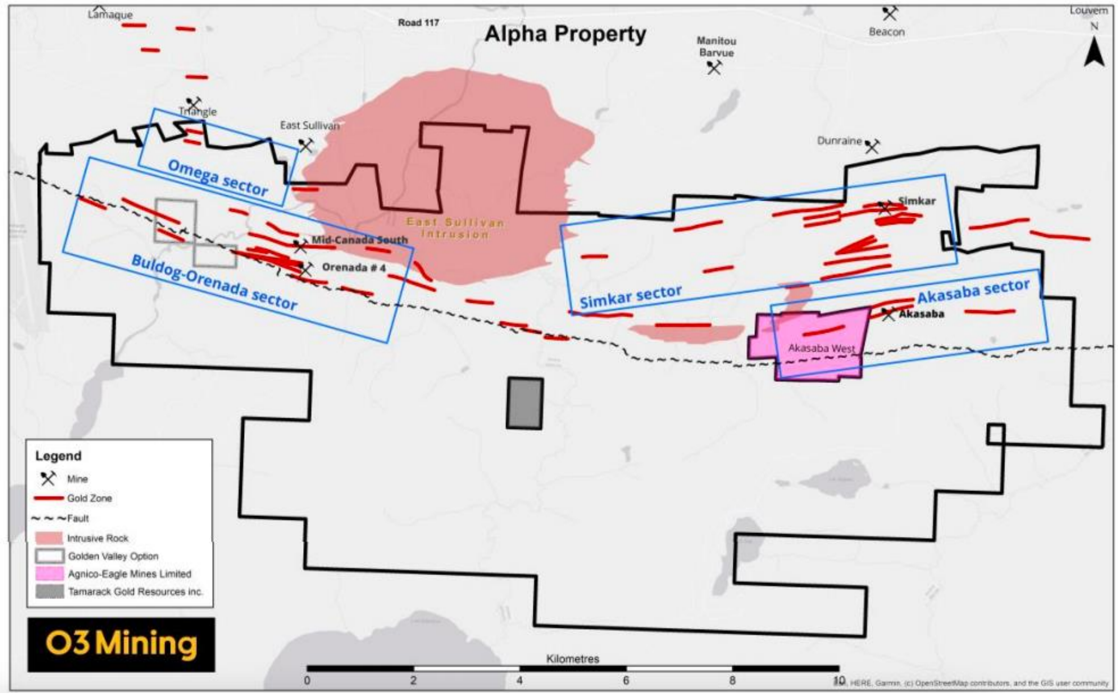
Golden Valley's 5,605,246 share position in Abitibi Royalties is valued at C$128m at RZZ's current share price of C$22.80, while Golden Valley itself sits at a fully diluted market capitalization of C$97m. Some may reason that this discount to the value of the RZZ position is warranted due to the tax implications of ultimately monetizing these shares. (Though this assumes that the remainder of the Golden Valley's portfolio has no value, which is not 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 roughly half of the current discount.

Beyond the Abitibi Royalties position, GZZ owns 25,687,444 shares of Val-d'Or Mining (TSXV: VZZ) worth C$2.8m at current share prices and 4,470,910 shares of International Prospect Ventures (TSXV: IZZ) worth C$650k. Additionally, Golden Valley owns 2,100,000 shares of Sirios Resources (TSXV: SOI) valued at C$210k. Cumulatively, the value of these three additional marketable securities is roughly C$3.7m 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. It looks as if a PEA at Cheechoo, which was originally expected in late 2021, has been pushed until next year. However, Sirios will remain busy at the project over the coming months with 10,000 meters of drilling (75% infill and 25% exploration) planned to be completed before year end.

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 few years, 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.

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 below within the Bulldog-Orenada sector) comprises a small but core portion of O3's Alpha Property, including portions of the Epsilon and Pontiac East zones.



Source: O3 Mining presentation. July 2021.

O3 Mining is set to drill a substantial 56,000 meters at Alpha this year – with 38,001 meters completed to date according to the company's most recent news release. Somewhat curiously, no assays have yet been released from the completed portion of the Alpha program. This is likely to change in short order.

Provided below are the GZZ-related milestones anticipated over the coming eighteen months. Most significant is the Malartic Underground PEA expected imminently. Pending drill results from O3 Mining at Alpha also serve as a potential near-term catalyst.

- Malartic Underground PEA announced by Agnico Eagle/Yamana **by end Q3 2021**
- Drill results from O3 Mining at Epsilon Zone (Centremaque Option) **by end Q3 2021**
- First underground drilling platform established at Malartic Underground **by end Q3 2021**
- Drill results (10,000 meters) from infill + exploration drilling at Cheechoo **by end 2021**
- Sirios Resources announces PEA at Cheechoo Gold Project **by end 2022**

Since the MJG partnership's initial investment into GZZ in April 2016, the discount to the RZZ equity position has fluctuated between 15-40%. Just a couple months ago, the discount was closer to 35%. With this context, the current 24% discount doesn't necessarily jump off the page. But it remains the case that current Golden Valley shareholders receive any upside from Centremaque, Cheechoo, Lac Barry, and the assorted equity interests entirely for free at the company's current valuation. The MJG partnership will continue to hold its 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 Price (July 19, 2021): **C$0.14**

The MJG partnership first initiated a position in Sama Resources via a private placement in late 2016. We've added to our SME position in bits and pieces over the past six months – with modestly-sized limit orders filling in February, March, May, and June. While this investment has been a test in patience, SME remains a partnership holding due to the quality of the people involved, the scale of the opportunity, a minimal risk of additional share dilution, and an attractive valuation.

Unlike much of last year, it's been an eventful period for the company. In late March, Sama announced the start of a 5000 meter diamond drilling program in the Ivory Coast. The drill program, fully funded by earn-in partner Ivanhoe Energy, is the first at the project since 2019. Initial drilling was focused on the existing PEA stage Samapleu Main deposit – with an intercept of 9.3 meters at 2.68% Ni and 1.47% Cu reported in mid-May. Just weeks later, it was announced that Ivanhoe Electric had approved the commencement a Prefeasibility Study at Samapleu Main to follow up on last year's PEA.

Additionally, exploration drilling remains ongoing at Yepleu and Grata. At Yepleu, a drill hole is just being completed at the property's highest priority target – a 20,000 CT conductor roughly 850 meters from surface. Results shouldn't be expected until September at the soonest. In the more immediate term, drill assays are pending from three additional holes drilled along the 4.5-kilometer mineralized trend found at Yepleu. These should be reported within a matter of weeks.

Outside of the Ivory Coast, Sama announced that it was selling its portfolio of Liberian gold exploration properties to Seahawk Gold (CSE: SEAG) for a 20.8% equity interest. This land package was quietly and cheaply assembled by Sama CEO Marc-Antoine Audet over the previous twenty-four months, and this initiative was unbeknownst to most Sama shareholders. The Seahawk share price is up roughly 50% in the weeks since the acquisition, while Sama's 8.5m share position is now worth C$7.7m. This was a tidy piece of business for both parties, given that the Liberian property portfolio was receiving no value within Sama previously.

Most recently, Sama announced the acquisition of a new land package in Quebec prospective for nickel sulphide mineralization. This move caused consternation amongst some Sama shareholders, who worried that this signaled a loss of conviction in the Ivory Coast asset. This seems to be an uncharitable interpretation – especially given that Sama has proven the ability to assemble and then monetize non-core exploration properties in the recent Seahawk Gold transaction. Not to mention that Dr. Audet is one of the preeminent nickel sulphide exploration geologists in the world, so this grassroots acquisition – while not within the Ivory Coast – fits firmly within his area of expertise.

Source: Sama news release. June 16, 2021.

The above image shows Dr. Audet standing on the mineralized gossan that prompted him to stake the land package, which has since been named the Lac Brulé Project. (A hand-held XRF device measured grades of up to 0.52% Ni and 0.58% Cu, while there also appears to be high concentrations of scandium.) SME management anticipates that drill targets at Lac Brulé may be outlined as soon as early next year. Rather than drill the project on a 100% basis, Sama shareholders can expect the company to either bring in a partner or alternatively spin out the asset into a standalone vehicle.

Included below are the milestones that Sama shareholders can expect over the coming twelve months. Given the company's outsized ownership position in SRG Mining and Seahawk Gold, major catalysts expected from either of these companies have been included as well.

- Drill results from exploration targets drilled at Yepleu **by end Q3 2021**
- Tyhpoon loops completed at Samapleu North and Mossikro zones **by end Q3 2021**
- Environmental Impact Study commences at Samapleu Main **by end Q3 2021**
- Final offtakes + construction financing package announced at SRG's Lola Project **by end 2021**
- Prefeasibiliy Study announced at Samapleu Main **by end Q2 2022**
- Spin out or earn-in deal with partner announced at Lac Brulé **by end Q2 2022**

At just under 240m shares on a fully diluted basis, SME sports a C$34m fully diluted market cap at its current share price of C$0.14. Cash and marketable securities (including a C$700k loan receivable from

SRG Mining and warrant exercise proceeds expected later this year) total C$24m – or just over 70% of Sama's market capitalization. This is the highest that this ratio has been since the MJG partnership first became SME shareholders.

Sama's current C$10m enterprise value also compares favorably to the roughly C$30m that has been "put into the ground" at the Ivory Coast land package (including pre-Ivanhoe Energy expenditures incurred by Sama). To complete its 60% earn-in, Ivanhoe Energy must spend another C$16m or so – providing another 2-3 years of cushion before further SME share dilution becomes a credible concern. This fact – in conjunction with the confluence of near-term catalysts and the substantial working capital position relative to market capitalization – suggests an attractive risk/reward profile at Sama's current valuation.

Featured Investments (Since 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**