

EXPLORATION

insights

JOE MAZUMDAR

Turning Rocks into Money

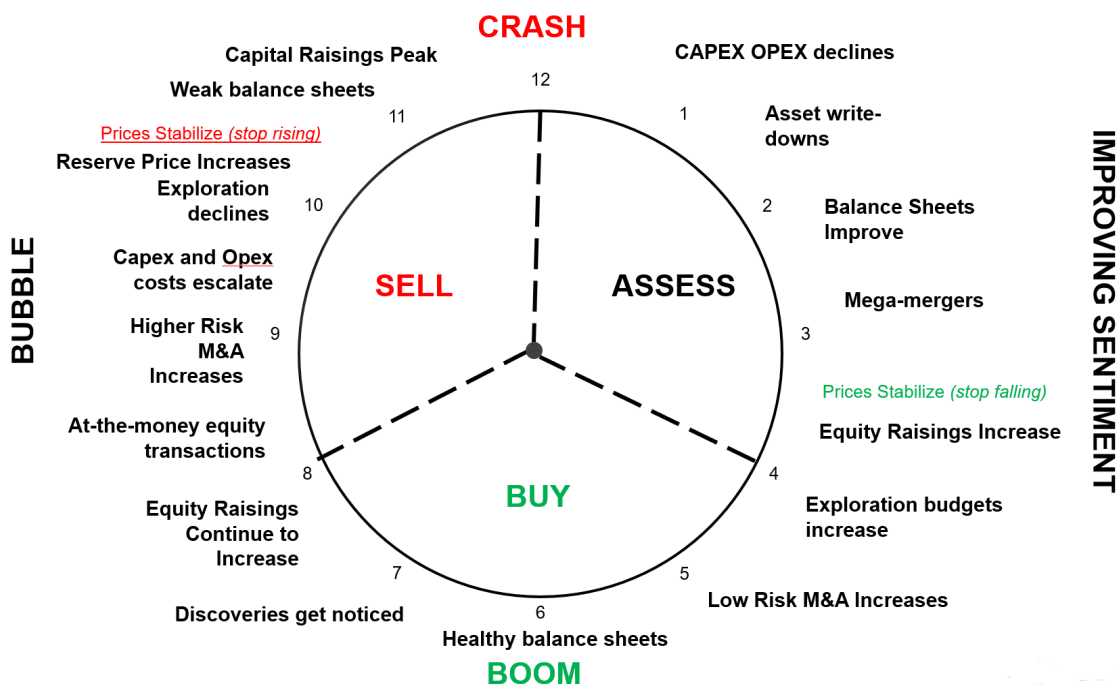
Pulse of the Market and Investment Opportunities

May 31, 2022

Dear Reader,

The year-to-date has included a lot more travel for me than the past two years combined, with site visits to the Iberian Pyrite Belt of southern Spain, the porphyry copper belt of the central Argentinian Andes, mafic-ultramafic hosted copper deposits in northern Brazil, and the low sulphidation epithermal gold district of southwestern Nevada in the US.

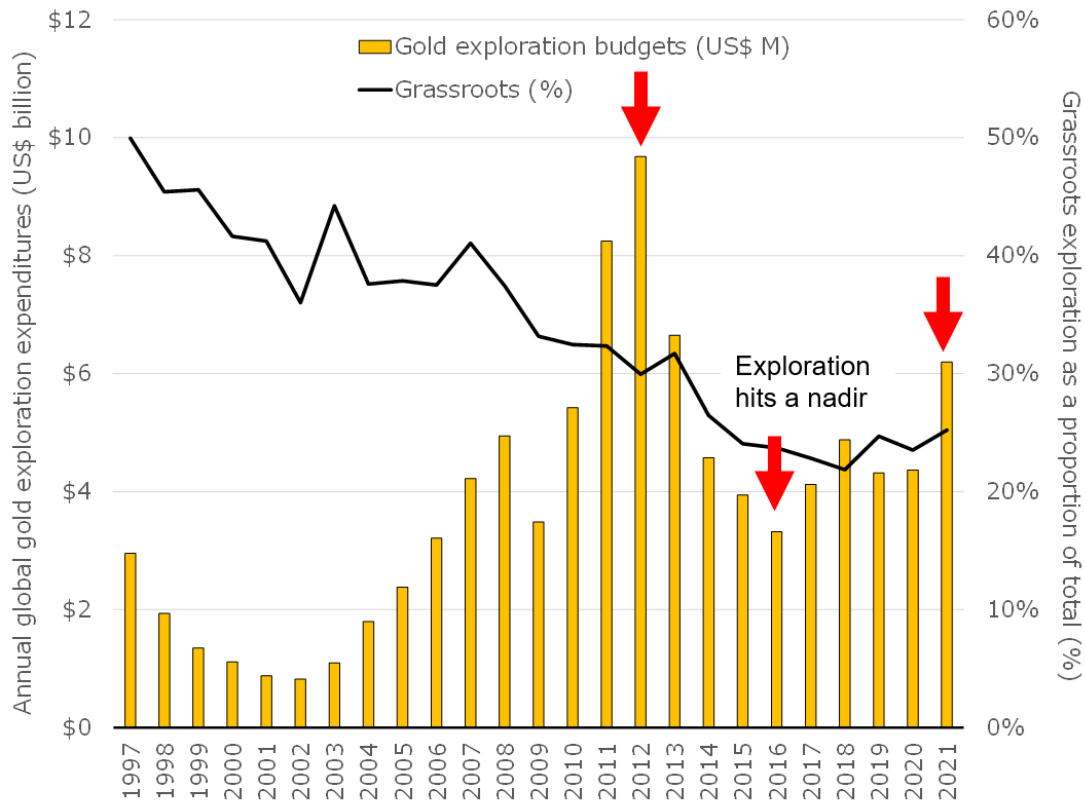
The number of live mask-less conferences has also picked up, another sign of a return to some normalcy. But markets are anything but normal, so the turmoil of the past several weeks has prompted me to update the gold industry's investment clock.



The gold sector investment clock focuses on exploration, equity financings, M&A trends, balance sheets, costs, and reserve prices. (Source: Exploration Insights adapted from Lion Selection's Lion Mining Clock and Cupel Advisory)

To gauge investors' position on the clock, I reviewed the current state of several financial markers:

- Exploration expenditures** - My hunch is that we will see a decline for the remainder of 2022, as juniors, who control a large proportion of gold exploration expenditures, may have trouble raising capital, and some producers may have to curtail their exploration budgets due to rising costs.



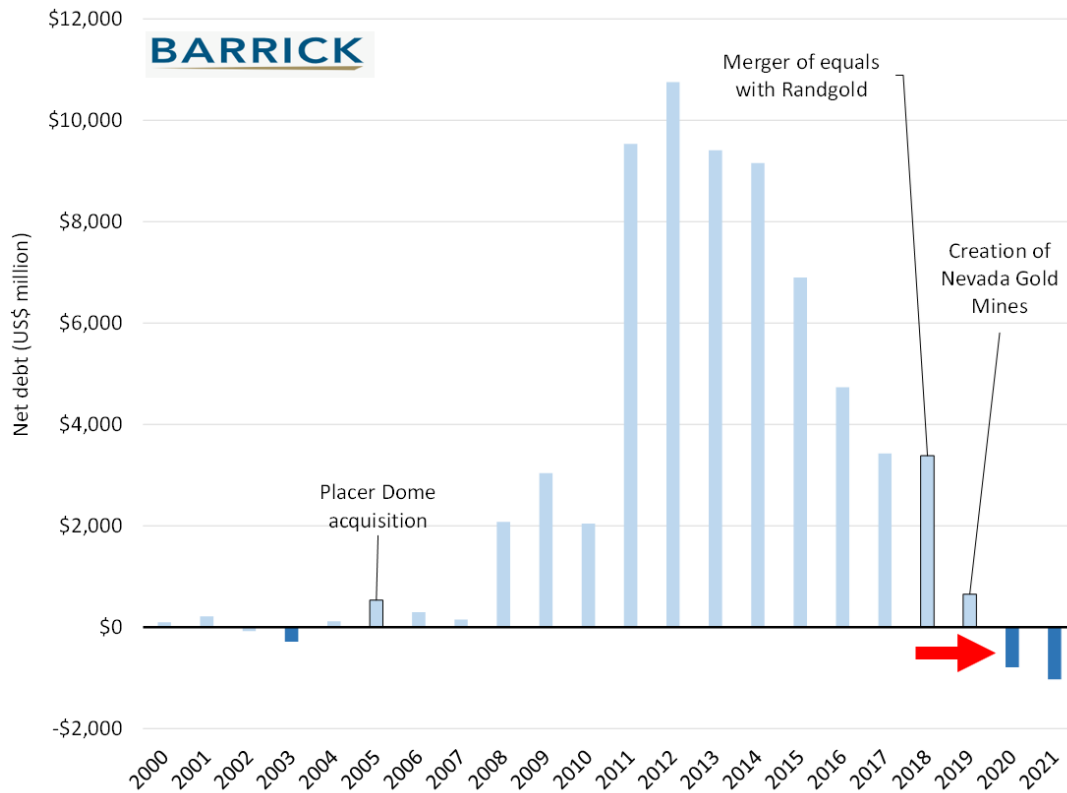
Annual global gold exploration budgets from 1997 to 2021 [yellow bars] with proportion directed to grassroots exploration. (Source: S&P Global Market Intelligence and Exploration Insights)

- **Riskier M&A transactions** - Other data that help diagnose the gold sector's state are the parties and assets involved in mergers and acquisitions (M&A), especially concerning the transactions' risk levels. Most M&A transactions since the mega-mergers of 2018-2019 had been well-founded deals. But at the end of March, I documented the acquisition of a few flawed projects that had taken place earlier in 2021 and had left me scratching my head as I couldn't unravel their 'hidden' value.



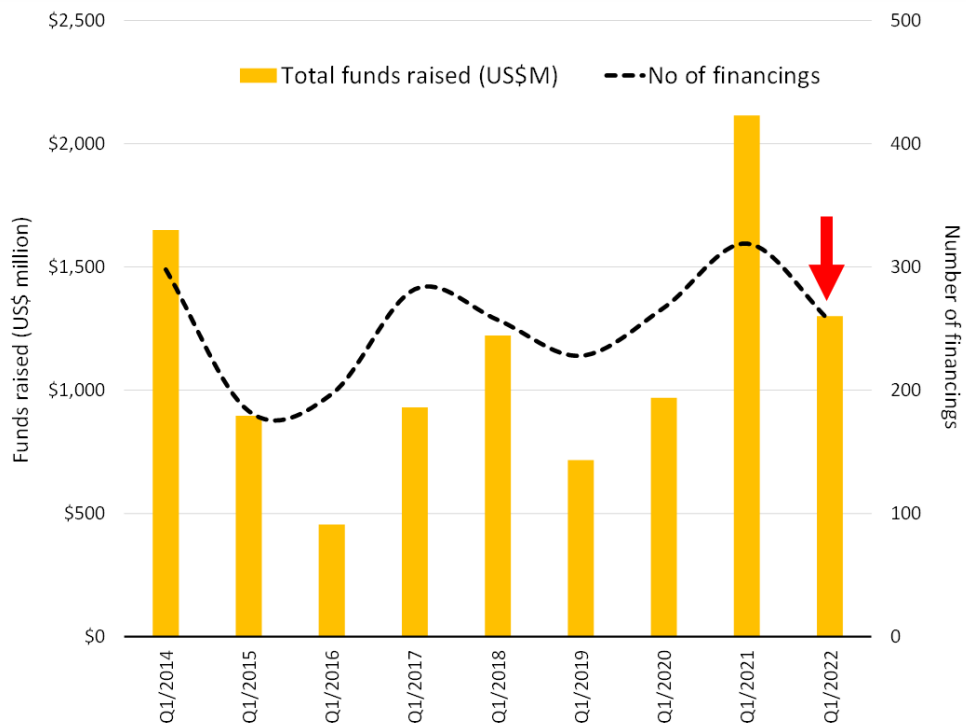
No brain, no heart, and he's much too shy. (Source: Exploration Insights)

- Healthy balance sheets among major precious metal producers** - Unlike previous precious metal cycles, major producers' balance sheets are currently healthy as proxied for by their net debt positions (long-term debt minus working capital). For instance, Barrick Gold's net debt position, which peaked at over US\$10 billion in 2012, has since gone negative.



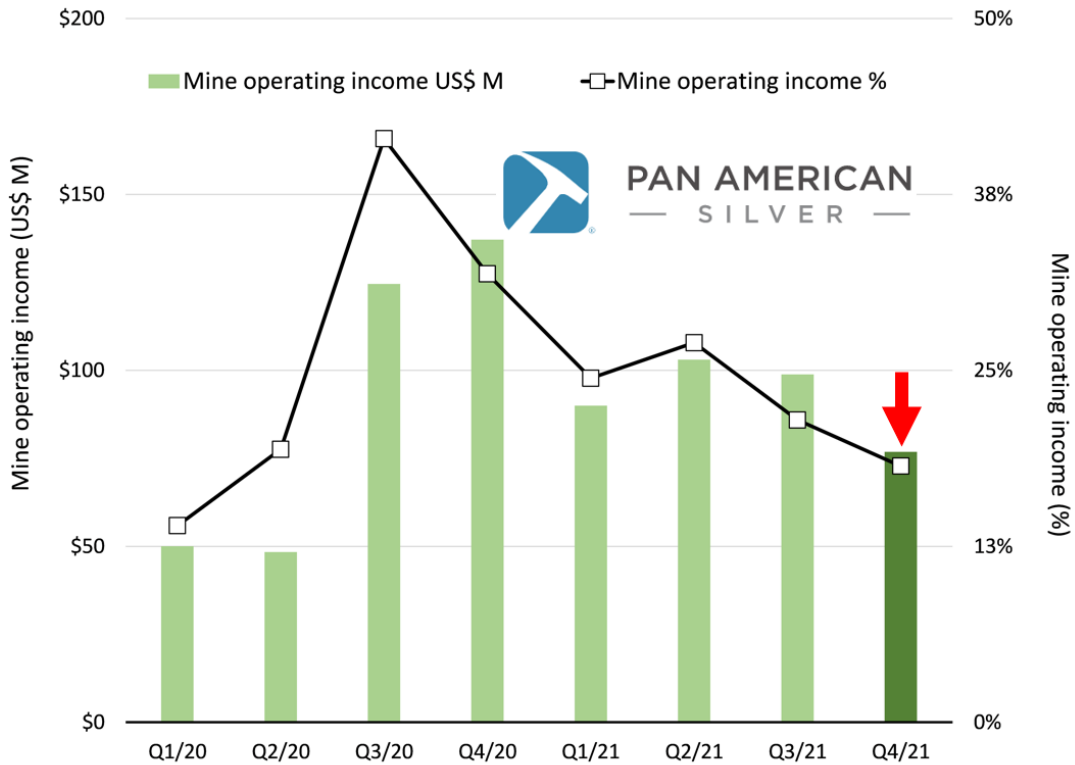
Barrick Gold's end-of-year net debt position [long-term debt minus working capital, blue bars] since 2000. The lower the number, the better. (Source: Barrick Gold, Investing.com, and Exploration Insights)

- Equity financings for gold juniors may have peaked** - To avoid the seasonality related to gold equity financings, I reviewed the amount raised by gold companies in the first quarter over the past nine years. In Q1 2022, they raised ~40% fewer funds than in Q1 2021. Moreover, US\$140 million of the funds were directed to a metallurgically-challenged, low-grade open-pit gold project in Nevada operated by Hycroft Mining and supported by followers of a theater company - AMC.



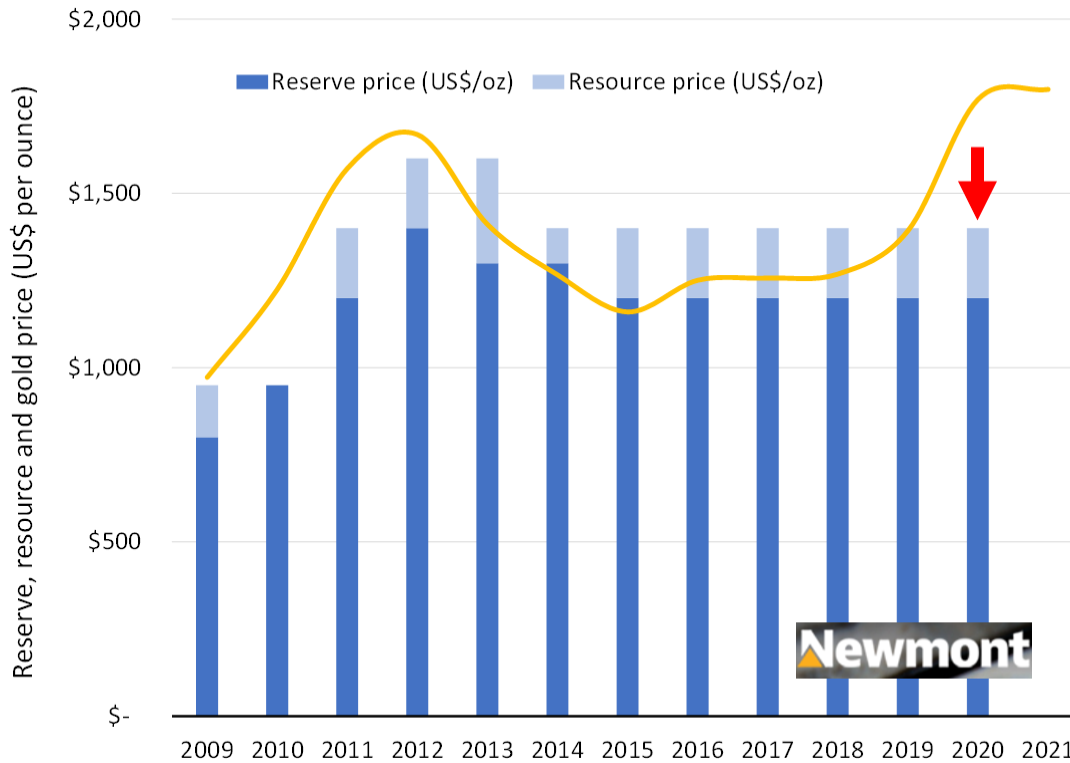
Comparison of total funds raised from the equity markets and number of financings by gold companies in the first quarter of the year since 2014. (Source: S&P Global Market Intelligence and Exploration Insights)

- Operating margins for producers are getting squeezed** - Precious metal companies have underperformed the gold price due in part to rising costs, which shrink operating margins in a flat-gold price environment. As recently as Q3 2020, Pan American Silver Corp. had a mining operating income of ~40%. But a combination of operational challenges and higher input costs pushed its operating margin down to 15-20% in Q4 2021.



Pan American Silver Corp.'s quarterly mine operating income [green bars] and as a proportion of revenue [black line] since 2020. (Source: Pan American Silver Corp., Investing.com, and Exploration Insights)

- Reserve prices for majors are still low (for now)** - Over the past 13 years, Newmont Corp.'s (NEM.NYSE, NGT.T) reserves have been booked annually employing an average price per ounce ~US\$200 below the gold price, and only on two occasions (2014 and 2015) did it surpass the gold price. In 2020 (and 2021, if reserve price assumptions did not change), the reserves were ~US\$600 cheaper than gold, the largest delta of the past decade.



**Reserve and resource prices [blue bars] versus the gold price [yellow line].
(Source: Newmont Corp., Investing.com, and Exploration Insights)**

Considering the current global state of affairs, including China's Zero COVID-19 policy, supply chain disruptions, hiking inflation rates, and the Russian invasion of Ukraine, my review of the various financial trends that affect the gold market (above) indicates that **we are positioned around the late afternoon to evening, or between the BUY (BOOM) and SELL (BUBBLE), sections of the investment clock.**

Trend	Investment clock time	Action
Exploration trends	700 pm	BUY
Mergers and acquisition (M&A)	900 pm	SELL
Balance Sheets	600 pm	BUY
Equity financing transaction	800 pm	SELL
Operating and capital costs	900 pm	SELL
Reserve prices	500 pm	BUY

In conclusion, for junior companies, the sector will require **more quality M&As** to improve the sentiment toward precious metal equities.

And for investors like you and me, **there's a unique opportunity to pick up favorite precious metal juniors** that may have seemed too expensive in the past.

Timing is critical when purchasing and selling stocks, especially illiquid junior explorers. However, to gain an edge, it is also key to choose companies underpinned by:

- **high margin assets,**
- **in mining-friendly jurisdictions, and**
- **operated by highly experienced management teams**

I'm here to help. Join [Exploration Insights](#) to gain a deeper understanding of these themes through my weekly *Newsletter*, the *Members Forum* where I interact daily with subscribers, and my 24 picks in the *Portfolio*:

SUBSCRIBE NOW

Below are links to **podcasts, interviews, and upcoming conferences** where Brent and I will be participating:

- [Joe & Paul's Another Mining Podcast !?!](#)

A monthly podcast with Joe Mazumdar of Exploration Insights and Paul Harris of CGS Mining Intelligence and Mining Journal discussing mining and exploration investment themes. In the latest installment, we discuss the market for gold equities, our research into 40+ gold deposits in the hands of juniors, and how potential M&A action may unfold.



- [Inflation is eating miners' margins, but there is a saving grace](#) - May 21, 2022 - Kitco Mining

Margin compression has been ratcheting up over several quarters, said Joe Mazumdar. Mazumdar and analyst Brent Cook sat with Kitco to discuss this and other topics.



- [Joe Mazumdar: Copper is the Commodity of the Decade, Ways to Get Exposure](#) - May 30, 2022 - Investing News Network

I sat down with Charlotte McLeod of Investing News Network on the sidelines of the recent Vancouver Resource Investment Conference to discuss why copper is my top pick with respect to commodities over the next decade.



- Both Brent and I will be speaking at the **Metals Investor Forum** in Toronto on **June 11-12** (link [here](#)), just before **PDAC 2022**, which was deferred to **June 13-15** in person and June 28-29 online (link [here](#)).



Last but not least, follow me on



for exclusive news, comments, and interviews, and

[check out the website](#)

for the latest articles and other freely available content.

Questions? Email me at subscriptions@explorationinsights.com or send your inquiry through this [Contact Us](#) link.

Good luck with your investments in the junior mining sector.

Best,

Joe Mazumdar

Disclaimer

This letter/article is not intended to meet your specific individual investment needs, and it is not tailored to your personal financial situation. Nothing contained herein constitutes is intended or deemed to be--either implied or otherwise--investment advice. This letter/article reflects the personal views and opinions of Joe Mazumdar and that is all it purports to be. While the information herein is believed to be accurate and reliable, it is not guaranteed or implied to be so. The information herein may not be complete or correct; it is provided in good faith but without any legal responsibility or obligation to provide future updates. Research that was commissioned and paid for by private, institutional clients is deemed to be outside the scope of the newsletter, and certain companies that may be discussed in the newsletter could have been the subject of such private research projects done on behalf of private institutional clients. Neither Joe Mazumdar, nor anyone else, accepts any responsibility, or assumes any liability, whatsoever, for any direct, indirect or consequential loss arising from the use of the information in this letter/article. The information contained herein is subject to change without notice, may become outdated, and may not be updated. The opinions are both time and market sensitive. Joe Mazumdar and the entities that he controls, family, friends, employees, associates, and others, may have positions in securities mentioned or discussed in this letter/article. While every attempt is made to avoid conflicts of interest, such conflicts do arise from time to time. Whenever a conflict of interest arises, every attempt is made to resolve such conflict in the best possible manner for all parties, but you should not assume that your interest would be placed ahead of anyone else's interest. No part of this letter/article may be reproduced, copied, emailed, faxed, or distributed (in any form) without the express written permission of Joe Mazumdar. Everything contained herein is subject to international copyright protection.