

Q&A with Brent Cook, Geologist

We recently conducted a Q & A with Brent Cook about US investors investing in resource companies within a diversified MicroCap portfolio. Brent writes the Resource Corner column for MicroCap Review magazine and has years of experience and expertise in the field.

Question 1. As a microcap company investor why should I invest in resource companies? (Please discuss diversification, relationship to EV market, explain the difference between exploration, developers, and producers).

There is virtually nothing in our modern society that does not require metal, from the antimony, silver, zinc, cadmium, chrome, aluminum, gold, palladium, etc., that go into your computer to the iron, lead, copper, nickel, etc., that go into the farm equipment, processing facilities, trucks and stores that bring you food.

The global push towards cleaner energy and electrification will increase the demand for copper, lithium and a number of other metals as shown below. Significantly, the whole world wants the same lifestyle as most Americans enjoy meaning the demand for metals will continue to grow.

The problem, but more importantly, the opportunity, for microcap investors is that

the mining industry is not finding enough new metal deposits to meet demand. The bloated and bureaucratic nature of the major mining companies means they are relying more and more on nimble and innovative microcap junior exploration companies to make these new metal discoveries to fill their future production gaps. Majors will pay a significant premium for a legitimate deposit, one that may deliver 5 to 10 times returns to an early speculator in the junior exploration company.

Question 2. Are resource companies mostly Canadian and traded on Canadian exchanges?

The Toronto main and Venture exchanges host the vast majority of mining and exploration companies. There are over 1,000 exploration and mining companies listed on the Toronto exchange, 700 on the Australian exchange, and far fewer on the US and London exchanges.

Question 3. Can a US citizen buy Canadian resource stocks through their US broker or online? (I would answer this by saying many Canadian and foreign based resource companies are dual listed in US on OTC

Markets, Nasdaq or NYSE ...etc.

It is very easy for US residents to buy Canadian listed stocks. Any stockbroker can facilitate the trade (I use Sprott USA which specifically deals in resource stocks) and many online brokers allow US residents to trade Canadian stocks, although do be cautious with fees on penny stocks. Additionally, many microcap explorers are dual listed in the US.

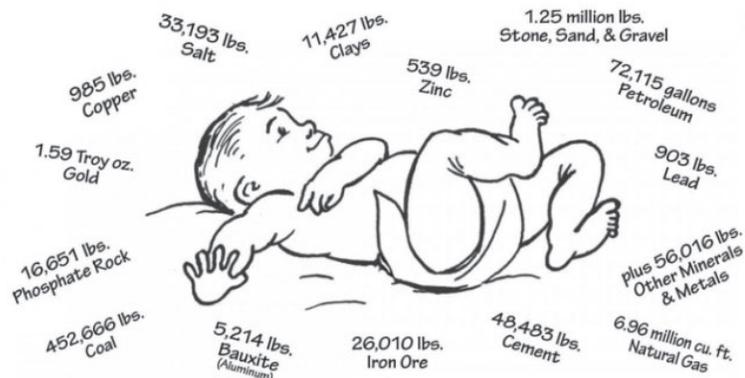
Question 4. As a value investor how do I compare a resource company balance sheet to companies with revenues?

Exploration is a risky and expensive business that often requires additional funds via financings or contributions from mining partners. The risk to reward is extremely high. It can be compared to biotech companies searching for a cure to diabetes, or technology companies working on the next app or video game and therefore requires constant due diligence on the speculator's part. However, an early stage exploration program sufficient to make a discovery and significant impact on a microcap explorer's share price can take as little as \$1M to \$2M.



■ BY SHELLY KRAFT

Every American Born Will Need...



3.11 million pounds of minerals, metals, and fuels in their lifetime

©2015 Minerals Education Coalition
The Society for Mining, Metallurgy & Exploration Foundation
Learn more at www.MineralsEducationCoalition.org

Question 5. How would an investor create a portfolio of both base metals and precious metals, and would you suggest mostly exploration companies?

I think an intelligent mining and exploration portfolio should consist of a few high quality royalty companies, some solid and growing base and precious metal mining companies, and a select group of exploration companies. Royalty companies generate profits by taking a cut of a mine's production and therefore face minimal operating challenges. Mining companies should be growing their reserves organically and have a cost of production in the lower third of the industry unit cost. Exploration companies should be run by competent, experienced professionals who know the difference between a mineral deposit and a geochemical anomaly. They should be exploring for a deposit that is large enough to attract a major mining company buyout.

Question 6. As an investor how would you describe the liquidity in resource stocks?

The larger mining and exploration companies generally have sufficient liquidity for a modest sized investor to execute trades. For instance, Newmont Mining (NEM. NYSE) trades 5 to 10 million shares a day, and Kirkland Lake (KLT) trades 1 to 2 million shares a day. At the other end of the spectrum, microcap exploration companies can be very illiquid, trading only a few tens of thousands of dollars per day.

Question 7. Do you think it is prudent to diversify a microcap portfolio with resource companies? If so why?

The mining and exploration space has had a rough few years while the "hot money" chased crypto and weed stocks. However, the mining space has always been cyclical, and, when it comes back, provides returns equal to any other specialty microcap sector. The demand for new deposits is real and I

think the depressed level of the mining sector offers a fine opportunity to diversify one's microcap portfolio.

Question 8. How do resource commodity prices affect microcap resource stocks?

Metal prices are certainly a key component of any surge of interest into the mining sector. The gold price is the big mover and I expect the gold price to rise over the next few years. Gold is essentially the reciprocal of the US dollar and given a wide range of geopolitical issues related to the US, its allies, China, plus the massive debt and decreased purchases of US treasuries by foreign investors, odds are the dollar declines while the gold price increases. If gold gets even close to \$1,400/ounce I expect that will trigger a significant rally into the sector.

Question 9. Please explain your newsletter and how it helps investors remain informed.

Just as the biotech and technology sectors require an in depth understanding of the underlying sciences, so does the exploration business. Geology, metal recovery, processing options, social and environmental issues, as well as local and national politics all play into valuing and assessing a junior explorer's chances of success. Exploration Insights is a newsletter written by Joe Mazumdar and myself, both seasoned economic geologists who travel the world evaluating exploration projects. The letter is about what Joe and I are doing with our own money in the sector. We are completely independent, paid only by subscriptions plus what we make from our investments. That's about as straightforward as it gets. ■

www.explorationinsights.com

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 Brent Cook and 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 Brent Cook, nor 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. Brent Cook, Joe Mazumdar, and the entities that they control, 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 interest of all parties, but you should not assume that your interest would be placed ahead of anyone else's interest in the event of a conflict of interest. No part of this letter/article may be reproduced, copied, emailed, faxed, or distributed (in any form) without the express written permission of Brent Cook or Joe Mazumdar. Everything contained herein is subject to international copyright protection.

Brent Cook is an economic geologist and mining analyst who has been involved in the minerals exploration and mining business for 34 years. During this time he has evaluated and valued grassroots through feasibility stage projects involving nearly all deposit types in over 60 countries. In 1997 he got tired of promoters making all the money on questionable properties while he was left standing soaking wet in the jungle and joined Rick Rule a Global Resource Investments (now Sprott-Global). He was principal mining analyst at Global until going independent again in 2002. Since then he has been an independent analyst and advisor to several investment funds and high net worth individuals. He is also co-author of the investment letter Exploration Insights which covers the mining sector, focusing on what he is buying, selling and avoiding with his own money.



Note: This article is not an attempt to provide investment advice. The content is purely the author's personal opinions and should not be considered advice of any kind. Investors are advised to conduct their own research or seek the advice of a registered investment professional.