



Gold Juniors in 2020: Orefinders Anticipates What Lay Ahead

Gold's \$200 increase in 2019 marked the beginning of a rebirth of the juniors, but this increase alone was not enough to revitalise them. We argue that a higher gold price is the tip of the spear and the first of a sequence of events that will bring renewed investment to the sector.

Miners recorded the impact of a higher gold price on their bottom line in Q3 2019. With this new cash came the debate about how this capital is allocated. Fund managers called for dividends and internal investment, while leadership within the miners centred in on supply scarcity within a depletion business. Inevitably the necessity of securing supply will supersede to ensure operational sustainability and current circumstances will lead to history repeating itself with the gold miners consolidating their reserves via mergers and acquisitions. With the limited number of quality projects available and an industry that tends to operate in sync, the fear of missing out will be too large to overcome. Capital providers will be forced to follow or exit a sector which appears ripe for growth. Accordingly, we anticipate long term thinking to prevail and gold mining mergers and acquisitions to become a dominant theme in 2020 and beyond. A recent wave of M&A implies the wheels are already in motion.

Recent M&A Transactions

- Newmont sells interests in KCGM to Northern Star for \$800M December 16, 2019
- Equinox and Leagold Merger at Market Value December 16, 2019
- Endeavour Mining bids \$2.5 billion for Centamin December 3, 2019
- Zijin Mining to acquire Continental Gold in \$1 billion deal December 2, 2019
- Newmont Goldcorp to Sell Red Lake to Evolution Mining Limited November 25, 2019
- Kirkland Lake Gold to acquire Detour Gold November 25, 2019
- St. Barbara to acquire Atlantic Gold May 15, 2019
- Barrick and Newmont Nevada Joint Venture Agreement March 11, 2019
- Imperial to Joint Venture with Newcrest March 10, 2019
- Newmont and Goldcorp merger January 14, 2019
- Barrick to acquire Randgold September 24, 2018

Simple Math: Inevitability of Mergers & Acquisitions

Newmont Goldcorp forecasts 35 million ounces of gold production over the next five years from stated gold reserves of 65 million ounces. This implies the world's largest gold miner will be out of business in less than ten years. How does Newmont plan to sustain their production rate? Exploration? Unlikely. Significant gold discoveries have declined substantially over the past decade. The discovery of +10 million ounce deposits, while not uncommon between 1980-2010, have not materialized since. The potential for mega discoveries exists but they are deeper, harder to find, more expensive to extract and take longer to permit. For miners to meet their production rates and sustain their business, the most likely solution is Mergers and Acquisitions. This occurrence is nothing new, it is how the mining industry operates.

Not All Ounces are Created Equal

Compounding reserve depletions is the vast difference between ounces—not just their profitability but also their timeframe of extraction. For example, the Detour Lake Mine has 15.4 million ounces in reserve. At a 600,000-ounce annual production rate, its final ounces are payable in 25 years. What is the present value of a low-grade ounce recoverable in 25 years? Our Excel model computes a near-zero value.

The Juniors Lag: Everything Has its Order

As gold surpassed the \$1,400 level in June we forecasted its effects would take time to trickle up the risk curve towards the juniors. Since June, the gold price has increased another 7% to \$1500, while the equity of the major producers as indexed by the GDX have increased 24%. Yet the juniors, as indexed by the TSXV, are down over 10% with their access to capital being severely limited. The primary reason for this is that capital flowed towards the producers and their increased cash flows. However, as producers' returns rationalize and the M&A trend continues, we expect investment to flow to the juniors. The timing of this trickle up effect paired with the decline in competition for speculative investment from the cannabis and crypto market could set the stage for an aggressive rebound to a much depressed junior market.

Price will Track Costs: Discoveries, Grades and Tonnages are on the Decline

The decline in major discoveries is paired with most new discoveries having lower grades and tonnages resulting in higher exploration and extraction costs. This is a systemic issue facing the mining industry. We are not believers in 'Peak Gold', whose mitigating variable is price, but we are unwavering in the concept of 'Peak Discovery' whose crescendo appears to be behind us. Gold in the context of its current price is not discoverable as it was in previous eras, which inevitably has price equilibrium consequences.

New Entrants to the Canadian Market

Canadian companies, and more so Canadian assets, deserve premium multiples relative to lesser jurisdictions, and the Chinese and Australians have taken note. The former seeks the end product (physical gold or copper), while the Australians are using their arbitrage advantage with their higher Net Asset Valuations. Recent foreign entrants in the Canadian market include Newcrest, St. Barbara, Evolution Mining and Zijin. We expect this trend to increase with the Chinese being at the forefront in their pursuit of raw materials and metals.

Orefinders in 2020: A Pivot Towards Exploration

In 2020 Orefinders is prepared to pivot towards developing its portfolio of assets via the drill bit. Our acquisition strategy, which has been in place from 2015, enabled us to accumulate an enviable portfolio of advanced stage Abitibi gold assets at attractive prices. We anticipate fewer accretive acquisitions will be available and that investors will provide suitable returns for high quality exploration results. Orefinders is well positioned to deliver with its assets in the world class Abitibi district, each within major gold systems that provide opportunities for game changing discoveries.

Orefinders' assets are permitted to be drilled, each having series of priority targets. Our data analysis and models, often paired with new interpretations of mineralization, have generated high-quality drill targets such as the potential mineralized breccia pipes on the Knight project, and the large geophysical anomaly at Porphyry Lake, which could be the source of gold mineralization on the Knight Project.

Orefinders Exploration Plans in 2020

Orefinders has outlined three distinct targets on its Knight Gold Project which it plans to drill. Each has distinct geological styles and none of them having been drill tested in the past. Orefinders views the Knight Project as having highly prospective geology within a large mineralized system with gold having been deposited over a protracted period. The geology of the Knight Project is complex and has similar features to those found in the Kirkland Lake-Larder Lake camp, 110 km to the northeast. Priority targets include:

- 1. Porphyry Lake**
 - Large Near Surface IP Anomaly delineating potential source of mineralization at Porphyry Lake
 - Never been drill tested
- 2. Tyranite Mine**
 - Brand New 3D modelling of gold mineralization along the North-South trending Tyranite fault.
 - This interpretation of this geologic model has never been drill tested
- 3. More Minto Pipe-like Targets**
 - New targets with geophysical characteristics like the Minto Mineralized Breccia Pipe.
 - Never been drill tested

[Click Here to View Details on Knight's Drill Targets](#)

Orefinders Asset Growth: 2015 through 2019

	2019	2015	% Change
Number of Assets	6 ¹	1	500%
Gold Ounces	+1,100,000 ²	440,000	150%
Market Cap	\$7 million	~\$500,000	1,300%
Shares Outstanding	~126 million	51 million	147%
Gold Price	\$1,500/oz	\$1,160/oz	29%

The above shows that Orefinders' has built its asset base at an exceptionally low cost during the gold downturn, but our value has yet to be realized. There have been exceptions to the rule, however Orefinders' thesis has held true in that exploration drilling has destroyed value for gold juniors even when excellent results were delivered. It is our view that in 2020, given the fundamentals discussed above that the market is set to once again provide a return on investment for successful exploration results.

¹ Including Omega Project (Mistango River Resources, controlled by Orefinders' management); Opemiska Copper Complex (via investment in Power Ore Inc.); Kuta Ridge (via investment in Pacific Precious)

² Including SRK's 2013 Mirado Resource Estimate + Omega Project Resource + McGarry Historical Resource Estimate