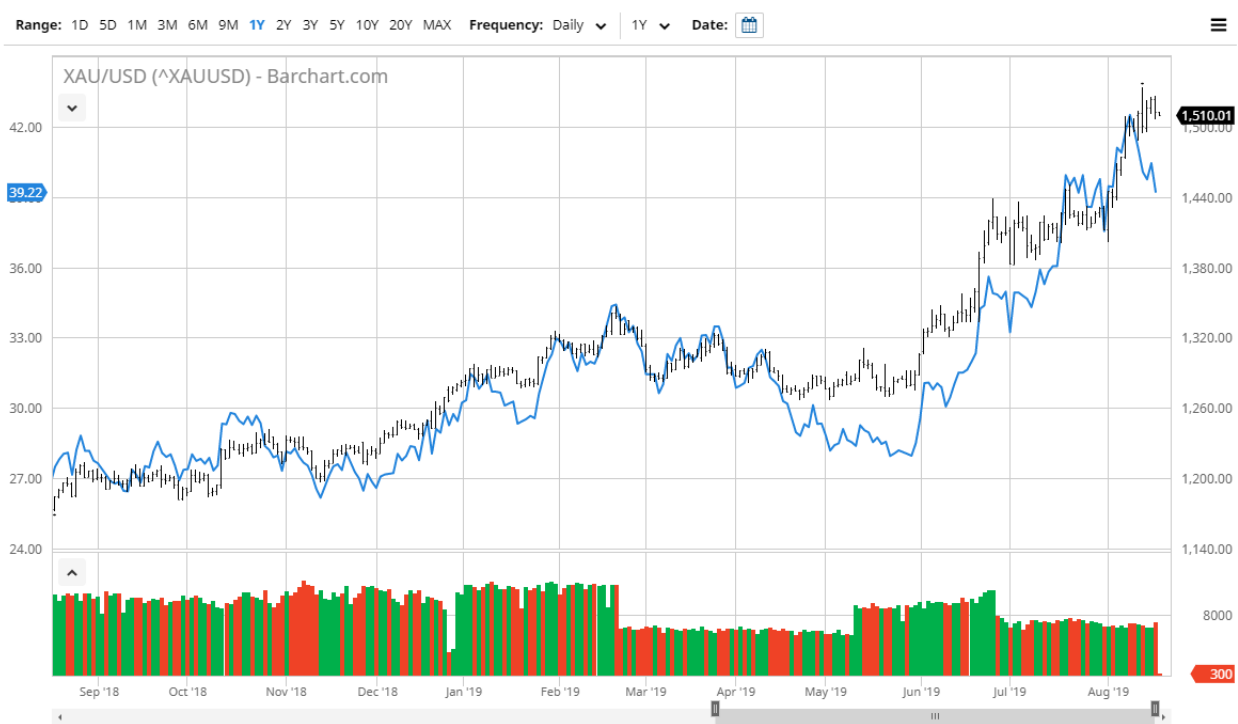
Gold Sector Snapshot – Criteria for Picking Junior Miners

- Gold prices appreciated 18% YTD
- Uncertainty in the world economy driving prices
- Rising prices helping increase feasibility of shut in mines
- Criteria to picking the ideal Junior Miner

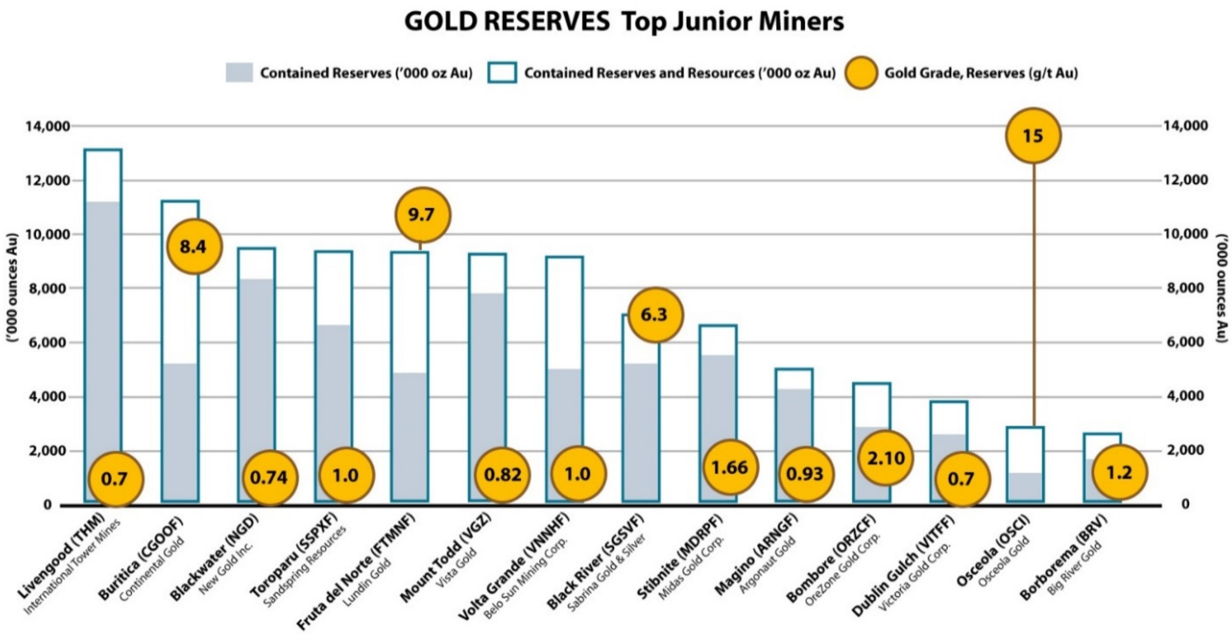
Gold prices are on an upswing and investors looking to park some money in the sector should be aware of some of the nuances of gold investing. Gold has appreciated 18% in part due to the China trade war dialog and the political uncertainty around the world. In addition, increases in volatility cause people to desire gold more. The Junior miners have moved in pretty much lock step with gold prices but there seems to be small divergence that investors might want to capitalize in buying assets at a discount. This article is going to explore some of the methods used to evaluate Junior Miners.



Spot Gold & Junior Miners Index

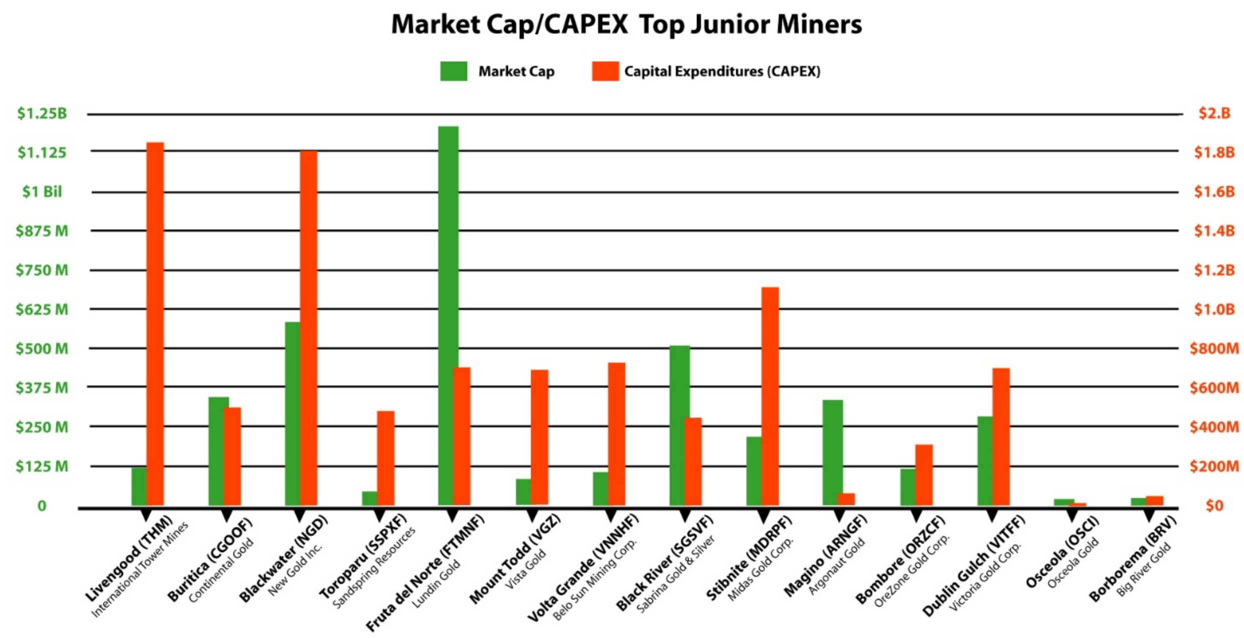
Junior Miner Analysis

There are 3 primary data points to look at when evaluating a junior mining company. The most important factor is the measured and indicated reserves known as proven and probable reserves. These reserves are calculated by a geologist and approximate the number of ounces that could be recovered if mining operations commenced. The next factor investors want to consider is the longevity of the project after they mine out the proven reserves. This is essentially the estimated or inferred reserves that the geologist can reasonably estimate from the core samples and geology. The final element is the quality of the ore. The higher the quality of ore, the less risk that the mine will be shut down due to low commodity pricing. This is why it's essential to look at the grade of the ore and the cost of extraction when evaluating the risk. Placer deposits typically enjoy the lowest cost of gold production and can weather any commodity cycle and therefore have the lowest risk profile.



Capital Expenditures (CAPEX) Correlate to Risk of Dilution

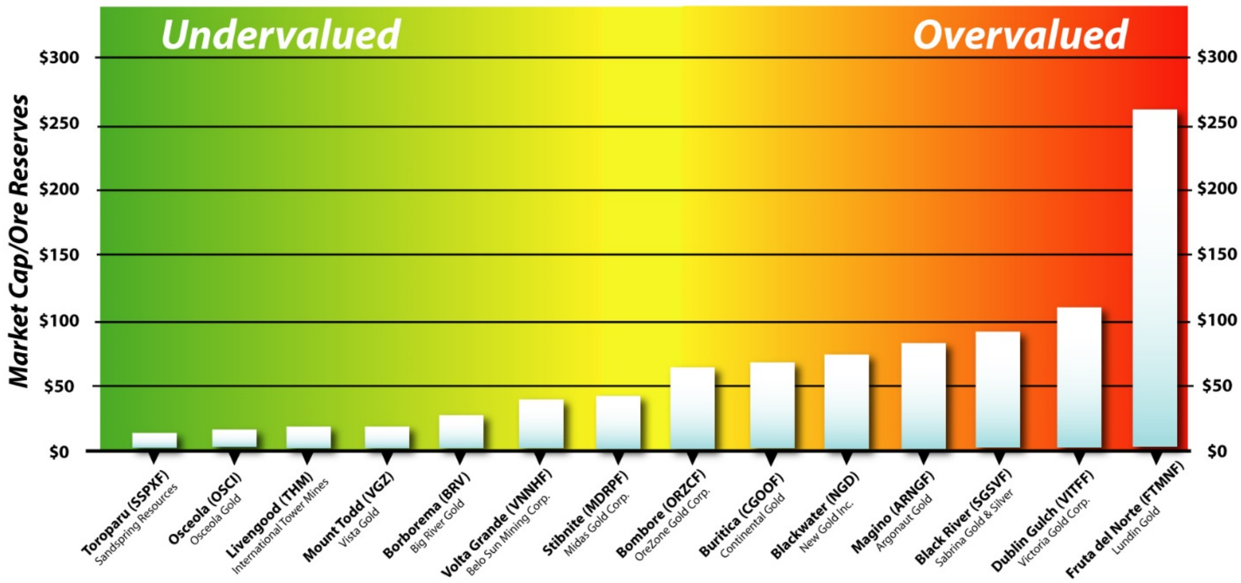
Planned CAPEX plays a major role in evaluating the potential dilutive impact to the stock price. A very high CAPEX means that a lot of money will need to be raised in the future to get the mine operational. A low CAPEX traditionally means that it will take less fundraising to get the mine operational. There are instances however when a low CAPEX is not good. For example, if the company isn't investing in technology to extract the metal more efficiently, then that could pose a risk to the company. The highest CAPEX project among the junior miners is the Livengood project. That mine will usurp a large amount of funding even though the project contains massive reserves. The other drag on the Livengood project is the relatively low quality of the ore. In contrast to the Livengood project the Osceola project has virtually no CAPEX risk and is essentially operational. The Osceola project also enjoys the benefit of a high quality ore making it one of safest projects to invest in because the risk of dilution is so minimal.



Valuation

One way to evaluate the miners is to normalize their market cap with respect to the size of their reserves. This ratio in effect reveals if the miner is either undervalued or overvalued. The glaring standout on the Gold Miners valuation chart is the Fruta del Norte mine which appears to be grossly overvalued but adjustments must be made due to its high quality of ore. Only OSCI contains a higher level of ore than the Fruta del Norte mine. **By all measures the Osceola mine is the most undervalued property in the sector.** Investors need to be wary of using this ratio without remembering to factor in the quality of the ore. The Toroparu mine might look like a steal because it has great reserves and the market cap is low in comparison but that the mines ore grade is low and the mining plan involves a huge capital expense which is likely to result in dilution.

GOLD MINERS Valuation Chart



Investment Summary

Picking the Junior mining stocks that are most likely to succeed requires a lot of homework and due diligence. The reason most investors flock to gold is because it's a safety trade. They want a store of wealth that they can fall back on in either good time or bad. Looking at the most undervalued properties in the sector is the safest trade. Looking at the mines that have the highest quality of gold is also the safest strategy. When you have both the highest quality grade of ore and the best value then you have struck gold!