

Gold Explorers With Resources Quarterly

Q2/18: Breakout Above 1,350/oz Or Renewed M&A Needed For Next Exploreco Rally?

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Michael Curran, CFA

(416) 507-3950

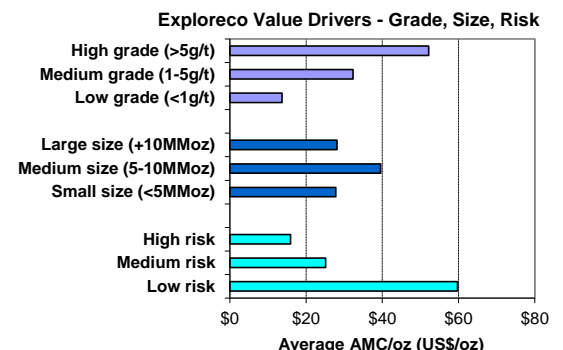
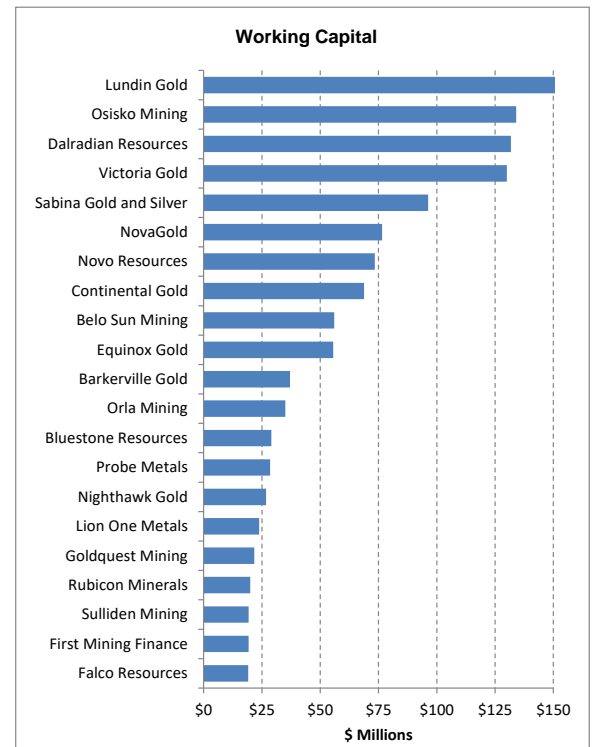
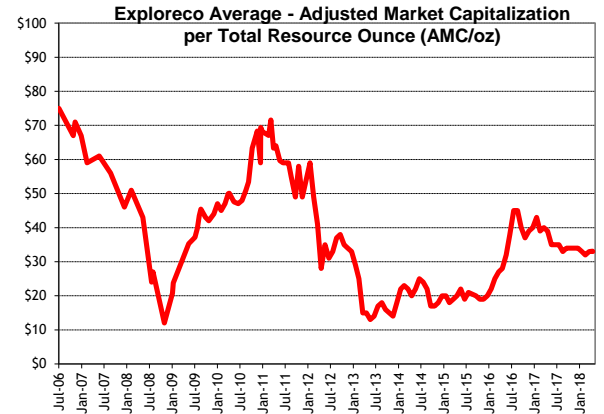
mcurran@beaconsecurities.ca

For a number of years we have tracked publicly-traded gold explorers with published resources (aka - the non-producers). For many of the companies, projects have not yet advanced enough to apply DCF-based valuation methods, and thus we employ **Adjusted Market Capitalization per Total Resource Ounce** (AMC/oz or EV/oz) as a primary valuation tool.

- **Current Valuation Levels:** our gold explorers with resources universe (81 stocks) trades at an average AMC/oz of **US\$33/oz**, up from the US\$28/oz average seen last quarter (see fig top right).
- **M&A Activity:** the 2017 trend towards strategic investments continued with several financings since our last report (fig2). The first M&A activity of notice in 2018 is the friendly merger of **Rio2 Mining** (RIO-V, not covered, no rating) and **Atacama Pacific** (ATM-V, not covered, no rating).

Investment Strategies: We believe higher grade deposits in low political risk jurisdictions should be a primary focus for exploration-staged investing – our favourites include **Dalradian Resources** (DNA-T), **Osisko Mining** (OSK-T), and **Auryn Resources** (AUG-V). Other names we believe have gold deposits with strong economic potential include: **Cardinal Resources** (CDV-T), **Algold Resources** (ALG-V), **Columbus Gold** (CGT-V), **Goldquest Mining** (GQC-V), **Orca Gold** (ORG-V), and **Falco Resources** (FPC-V).

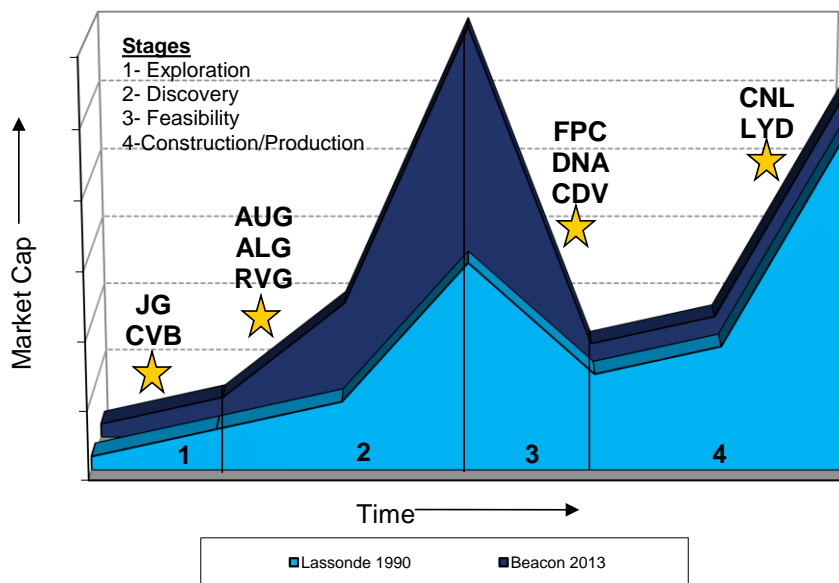
Gold Exploreco Universe Q2-2018



Lifecycle Model

The lifecycle of a mining share model links mining share price movements to the stage of development or advancement of a project, through **Exploration, Discovery, Feasibility, and Construction/Production**.

Fig 1 Lifecycle of a Mining Share



Source: P.Lassonde's *The Gold Book* (1990), M.Curran modifications (2013)

The lifecycle model shows that the best opportunities for share price performance relate to the new discoveries and the successful advancement of projects to production. The main modification of our lifecycle model, when compared to the 1990 original, is the extent of the upward move in share prices during the Discovery phase, where investors' exuberance regarding the size of a discovery can take share prices well through the ultimate value of the future operating mine. The "reality" of the feasibility stage, where expectations are brought down as the project parameters are evaluated and an economic mine is engineered, can lead to a period of weakness in the shares, often extending into the initial phase of mine construction (or even into the start of production).

Mergers & Acquisitions (M&A) Space

Other than the completion of the takeover of Integra Gold by Eldorado Gold, we did not see any meaningful takeover activity since our last quarterly.

However, the recent shift in producers' preference from pure takeouts to strategic investments in the non-producers continued. While several have employed this method over the years (Agnico-Eagle comes to mind), we now see most **senior producers** holding a portfolio of equity investments in non-producing explorecos. Strategic investments tend to be in the range 5-20%, and can often include board presence for the investor (when 10%-20%).

In addition, there are also a few well-known **individual investors** who regularly take strategic positions in exploration-staged companies (Eric Sprott, Ross Beaty, Lucas Lundin, Frank Giustra, Pierre Lassonde, Rob McEwen, Stan Bharti, etc.).

Finally, a third group of strategic investor we see involves **private equity (PE)** firms (such as RCF, Waterton, Liberty, Appian, Orion, Pala, Sentient, Electrum, Paulson, etc.) as well as other quasi-governmental organizations (EBRD, IFC, Qatar Mining, etc.).

Fig 2 Strategic Investments (since our last quarterly)

<u>Target</u>	<u>Strategic Investor</u>	<u>Asset Location(s)</u>	<u>Resulting Position</u>
Guyana Goldstrike	Zijin	Guyana	25.0%
Lundin Gold	Newcrest	Ecuador	27.1%
Lundin Gold	Lundin Family Trust	Ecuador	22.3%
Lundin Gold	Orion	Ecuador	11.4%
Victoria Gold	Orion	Yukon	19.0%
Victoria Gold	OsiskoGR	Yukon	16.0%
Monarques Gold	Reso Quebec	Quebec	5.0%
Int. Tower Hill	Electrum	Alaska	10.7%
Int. Tower Hill	Paulson	Alaska	32.0%
Orezone Gold	RCF	Burkina Faso	19.9%
Euromax	Galena (Trafigura)	Macedonia	32.0%
Midas Gold	Barrick	Idaho	19.9%
Pure Gold	AngloGold Ashanti	Ontario	14.9%
Pacton Gold	E. Sprott	Australia	10.1%

Source: Company press releases

Multiple Pressure Points

Explorecos suffer some of the same macroeconomic pressures as the producers (commodity prices, geopolitical risk), but because they don't currently generate revenue, management (and investors) must also monitor their balance sheets very closely.

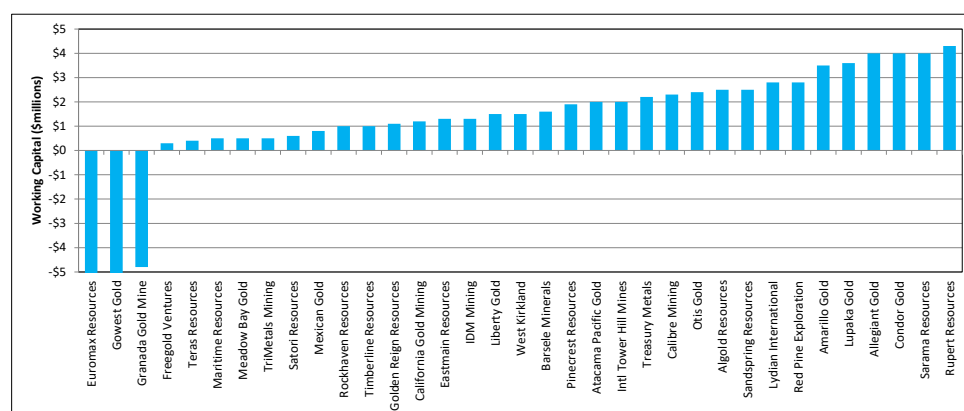
Project-Specific Risk

As many non-producers focus the majority of their efforts on a single asset, any setbacks to the advancement of the project can have a material negative impact on the share price.

Depleted Balance Sheets...Improved, But Many Still In "Survival Mode"

While the chart on page 1 outlined a number of the non-producers have ample cash, the majority remain in the opposite position of needing additional funding to continue advancing their projects through exploration, feasibility, and/or permitting over the next few years.

Fig 3 Explorers With Under \$5 million in Working Capital



Source: Companies' last published financials

Financing Market...Tracking Slower in 2018

Our tracking of Canadian-listed equity financings (gold-only companies, minimum \$2 million raised) was just over **\$3 billion** raised in 2017, down from the \$4 Billion seen in 2016, but well ahead of the **~\$2.2 billion** we tracked in 2015 and 2014.

Thus far in 2018, financing activity we have tracked among the gold equities (through May 14) is **~1.3 Billion**, which is significantly behind the \$2.2B million seen over the same period of 2017. Our view is that the window for financing for the non-producers will require higher gold prices (>\$1,350/oz) and/or increased M&A activity.

Fig 4 Gold Explorers With Resources Universe: AMC/oz (EV/oz)

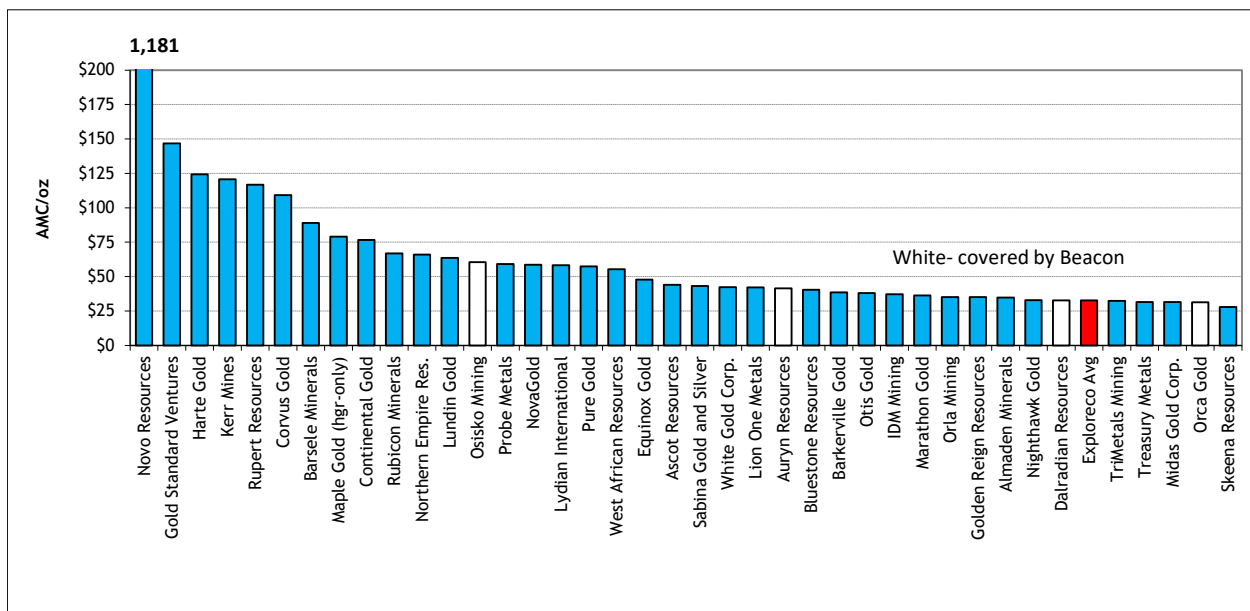
Company	Sym. Exch.	Share Price CS/sh	Shares O/S M	Market US\$MM	Cap US\$MM	AMC (1) US\$MM	(M+1) Measured 000oz (2)	(M+1) Total Resource 000oz	Gold Grade g/t	AMC/ M+1 oz US\$/oz (3)	AMC/ M+1 oz US\$/oz (3)	Area of Major Exploration
Algold Resources	ALG.V	\$0.12	224	\$22	\$20	\$43	645	2.91	454	30	Alaska	
Allegiant Gold	AUJU.V	\$0.36	47	\$13	\$10	-	721	0.63	n.m.	14	Nevada	
Almaden Minerals	AMM.TO	\$0.98	102	\$80	\$67	1,642	2,004	0.54	41	34	Mexico	
Amarillo Gold	AGC.V	\$0.25	104	\$20	\$26	1,210	1,498	1.62	21	17	Brazil	
Ascot Resources	AOT.V	\$1.52	152	\$185	\$172	2,475	3,969	0.73	70	43	BC	
Atacama Pacific Gold	ATM.V	\$0.80	85	\$54	\$53	2,667	4,477	0.51	20	12	Chile	
Auryn Resources	AUG.TO	\$1.70	86	\$117	\$106	800	2,620	5.10	133	41	Nunavut	
Barkerville Gold	BGM.V	\$0.63	440	\$222	\$192	2,959	4,977	2.52	65	39	BC	
Barsele Minerals	BME.V	\$0.80	103	\$66	\$65	87	729	2.86	746	89	Sweden	
Belo Sun Mining	BSX.TO	\$0.28	466	\$104	\$59	4,956	6,107	0.96	12	10	Brazil	
Bluestone Resources	BSR.V	\$1.30	64	\$66	\$43	840	1,070	11.97	51	40	Guatemala	
Calibre Mining	CXB.V	\$0.07	313	\$16	\$14	-	1,058	3.40	n.m.	14	Nicaragua	
California Gold Mining	CGM.V	\$0.23	50	\$9	\$8	515	879	1.60	16	9	California	
Canarc Gold	CCM.TO	\$0.07	219	\$11	\$7	928	2,224	9.44	8	3	Nevada, BC	
Cardinal Resources	CDV.TO	\$0.44	371	\$131	\$118	4,300	7,400	1.14	27	16	Ghana	
Chesapeake Gold	CKG.V	\$2.26	45	\$81	\$65	19,010	19,828	0.50	3	3	Mexico	
Columbus Gold	CGT.TO	\$0.30	159	\$38	\$34	1,729	2,160	1.42	20	16	French Guyana	
Condor Gold	CNDR.L	\$0.40	67	\$34	\$31	1,083	2,314	4.03	28	13	Nicaragua	
Continental Gold	CNL.TO	\$3.64	188	\$548	\$532	2,800	7,000	8.84	190	76	Colombia	
Corvus Gold	KOR.TO	\$2.81	104	\$234	\$229	1,760	2,186	0.32	130	105	Nevada	
Dalradian Resources	DNA.TO	\$1.02	355	\$290	\$185	3,033	6,071	13.59	61	30	N. Ireland	
Eastmain Resources	ER.TO	\$0.25	199	\$39	\$38	1,063	1,667	6.65	36	23	Quebec	
Equinox Gold	EQX.V	\$1.06	423	\$359	\$337	5,600	7,200	0.79	60	47	USA, Brazil	
Euromax Resources	EOX.TO	\$0.20	165	\$26	\$50	2,600	4,610	0.38	19	11	Macedonia	
Eurosun Mining	ESM.TO	\$1.28	58	\$59	\$55	3,720	3,720	0.82	15	15	Romania	
Falco Resources	FPC.V	\$0.67	189	\$101	\$87	4,563	5,616	1.54	19	15	Quebec	
First Mining Finance	FF.TO	\$0.53	557	\$236	\$221	6,950	12,387	1.52	32	18	Quebec, Ontario, Nfld.	
Freegold Ventures	FVL.TO	\$0.09	174	\$12	\$12	2,726	5,894	0.69	4	2	Alaska	
Galway Metals	GWM.V	\$0.21	75	\$13	\$7	553	890	2.68	13	8	Quebec, NB	
Granada Gold Mine	GGM.V	\$0.23	59	\$11	\$14	808	2,308	3.37	18	6	Quebec	
Goldquest Mining	GQC.V	\$0.23	255	\$47	\$29	1,738	1,935	2.60	17	15	Dom. Republic	
Gold Standard Ventures	GSV.TO	\$2.00	254	\$407	\$393	895	2,692	0.77	439	146	Nevada	
Golden Reign Resources	GRR.V	\$0.22	192	\$34	\$33	150	938	7.44	220	35	Nicaragua	
Gowest Gold	GWA.V	\$0.06	355	\$17	\$28	422	1,177	6.39	67	24	Ontario	
Harte Gold	HRT.TO	\$0.42	572	\$192	\$188	714	1,475	7.51	263	127	Ontario	
IDM Mining	IDM.V	\$0.07	449	\$25	\$24	584	649	8.49	41	37	BC	
Integra Resources	ITR.V	\$0.95	56	\$43	\$31	-	3,543	0.71	n.m.	9	Idaho	
Intl Tower Hill Mines	ITH.TO	\$0.82	187	\$122	\$121	15,400	20,200	0.60	8	6	Alaska	
INV Metals	INV.TO	\$0.54	93	\$40	\$25	2,550	3,090	4.05	10	8	Ecuador	
Kerr Mines	KER.TO	\$0.25	256	\$50	\$54	313	445	10.93	172	121	Arizona	
Liberty Gold	LGD.TO	\$0.40	177	\$56	\$55	2,218	3,643	0.40	25	15	Turkey, Nevada	
Lion One Metals	LIO.V	\$0.64	102	\$52	\$33	300	768	9.20	110	43	Fiji	
Lumina Gold	LUM.V	\$0.79	264	\$167	\$156	8,012	14,612	0.55	19	11	Ecuador	
Lundin Gold	LUG.TO	\$4.97	213	\$848	\$584	7,350	9,480	8.77	80	62	Ecuador	
Lupaka Gold	LPK.V	\$0.21	121	\$20	\$18	1,145	1,792	0.91	15	10	Peru	
Lydian International	LYD.TO	\$0.37	755	\$223	\$305	3,030	5,040	0.70	101	61	Armenia	
Maple Gold (all)	MGM.V	\$0.25	200	\$40	\$34	238	2,993	0.91	145	12	Quebec	
Maple Gold (hgr-only)	MGM.V	\$0.25	200	\$40	\$34	-	456	10.20	n.m.	75	Quebec	
Marathon Gold	MOZ.TO	\$1.12	146	\$131	\$127	2,137	3,244	1.99	59	39	NFLD	
Maritime Resources	MAE.V	\$0.11	86	\$8	\$7	429	1,090	7.71	17	7	NFLD	
Meadow Bay Gold	MAY.CD	\$0.18	50	\$7	\$7	572	1,116	1.03	12	6	Nevada	
Mexican Gold	MEX.V	\$0.37	38	\$11	\$11	286	891	0.98	37	12	Mexico	
Midas Gold Corp.	MAX.TO	\$1.15	187	\$172	\$202	5,610	6,569	1.61	36	31	Idaho	
Monarques Gold	MQR.V	\$0.30	233	\$56	\$51	2,588	2,882	2.65	20	18	Quebec	
Nighthawk Gold	NHK.TO	\$0.60	189	\$91	\$69	-	2,100	1.64	n.m.	33	NWT	
Northern Empire Res.	NW.V	\$1.39	66	\$74	\$62	-	947	1.26	n.m.	65	Nevada	
NovaGold	NG.TO	\$6.28	322	\$1,619	\$1,631	23,514	27,859	1.84	69	59	Alaska	
Novo Resources	NVO.V	\$5.55	158	\$701	\$643	299	558	2.70	2,150	1,152	Australia	
Orca Gold	ORG.V	\$0.62	162	\$80	\$71	1,739	2,275	1.79	41	31	Sudan	
Orezone Gold	ORE.V	\$0.79	158	\$100	\$91	4,770	5,764	0.67	19	16	Burkina Faso	
Orla Mining	OLA.V	\$1.35	179	\$193	\$165	4,700	4,700	1.00	35	35	Panama	
Ostisko Mining	OSK.TO	\$2.70	208	\$449	\$342	3,488	5,758	3.45	98	59	Quebec	
Otis Gold	OOO.V	\$0.28	162	\$36	\$34	520	820	0.54	65	41	Idaho	
Pinecrest Resources	PCR.V	\$0.21	62	\$10	\$9	-	1,070	0.90	n.m.	8	Ghana	
Probe Metals	PRB.V	\$1.28	94	\$96	\$73	-	770	2.60	n.m.	95	Quebec	
Pure Gold	PGM.V	\$0.66	223	\$118	\$108	1,648	1,826	8.95	66	59	Ontario	
Red Pine Exploration	RPX.V	\$0.07	294	\$16	\$14	-	600	1.71	n.m.	24	Ontario	
Rockhaven Resources	RK.V	\$0.14	154	\$17	\$16	-	1,358	4.48	n.m.	12	Yukon	
Rubicon Minerals	RMX.TO	\$1.43	66	\$75	\$69	281	1,030	6.10	245	67	Ontario	
Rupert Resources	RUP.V	\$1.06	102	\$87	\$88	-	756	1.60	n.m.	117	Finland	
Sabina Gold and Silver	SBB.TO	\$1.67	252	\$336	\$259	4,031	6,047	5.82	64	43	Nunavut	
Sandspring Resources	SSP.V	\$0.29	133	\$31	\$29	7,089	10,421	0.86	4	3	Guyana	
Sarama Resources	SWA.V	\$0.11	182	\$16	\$13	282	1,202	1.83	45	11	Burkina Faso	
Satori Resources	BUD.V	\$0.08	28	\$2	\$1	240	278	6.12	5	5	Manitoba	
Seabridge Gold	SEA.TO	\$13.70	58	\$634	\$620	60,101	96,228	0.52	10	6	BC	
Skeena Resources	SKE.V	\$0.50	90	\$36	\$30	290	1,040	1.03	103	29	BC	
Sullden Mining	SMC.TO	\$0.37	41	\$12	(\$3)	1,789	2,411	1.24	(2)	(1)	Quebec	
Teräs Resources	TRA.V	\$0.09	174	\$12	\$12	1,017	1,127	0.47	11	10	California	
Timberline Resources	TBR.V	\$0.12	44	\$4	\$3	1,500	1,875	0.92	2	2	Nevada	
Treasury Metals	TML.TO	\$0.43	123	\$42	\$44	1,111	1,441	1.98	40	31	Ontario	
TriMetals Mining	TMI.TO	\$0.13	190	\$19	\$19	528	597	0.54	35	31	Nevada	
Victoria Gold	VIT.V	\$0.36	769	\$221	\$117	4,827	6,312	0.66	24	19	Yukon	
West African Resources	WAF.V	\$0.35	579	\$162	\$149	2,017	2,620	5.00	74	57	Burkina Faso	
West Kirkland	WKM.V	\$0.06	368	\$16	\$15	-	679	0.49	n.m.	22	Nevada	
White Gold Corp.	WGO.V	\$0.85	89	\$60	\$53	-	1,244	2.26	n.m.	42	Yukon	

Mean	54	33
Median	36	23
Min	(2)	(1)
Max	2,150	1,152

Source: Company disclosure, Thomson Reuters Eikon data
(1) AMC calculated as Market Cap plus Long-Term Debt minus Working Capital
(2) M+1 resources include only NI 43-101 or JORC compliant gold
(3) AMC = Mkt Cap + LT debt - Cash

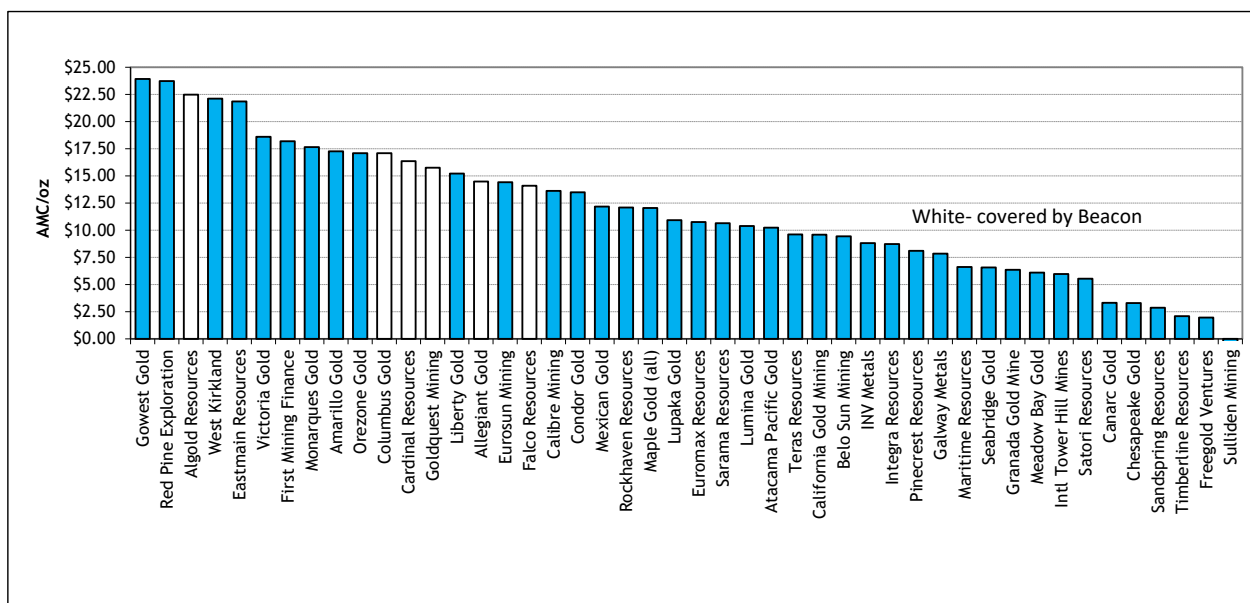
Source: Company reports, Thomson Reuters Eikon share data

Fig 5 Gold Explorers With Resources: AMC/oz > US\$25/oz



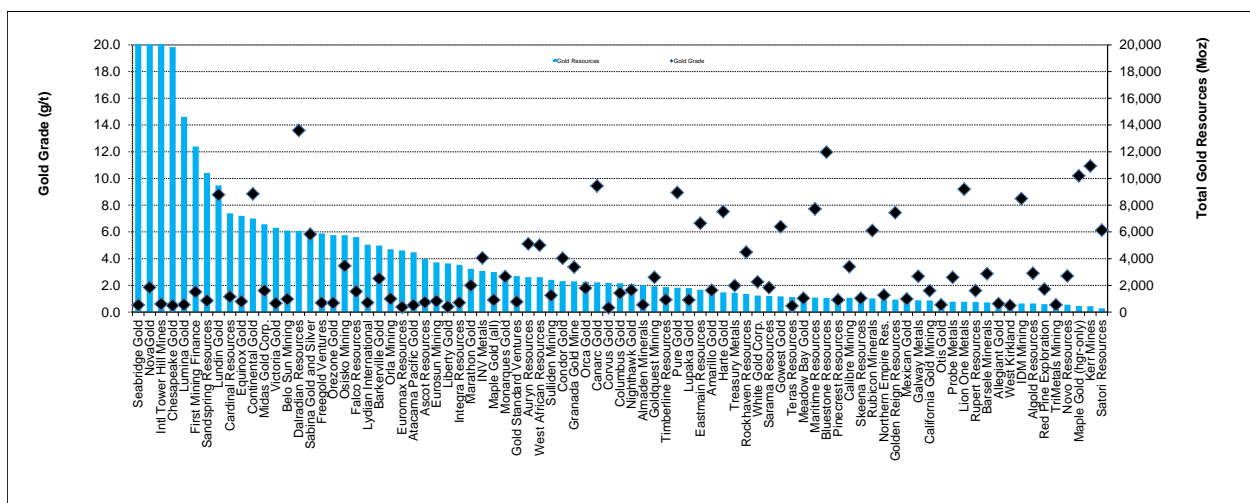
Source: Company reports, Thomson Reuters Eikon share data

Fig 6 Gold Explorers With Resources: AMC/oz < US\$25/oz



Source: Company reports, Thomson Reuters Eikon share data

Fig 7 Gold Explorers: Grade (diamonds-left axis) and Total Resources (bars-right axis)



Source: Company reports, Thomson Reuters Eikon share data

Gold Price: Run to \$1,400/oz This Year?

Gold rallied from \$1,250/oz in December to \$1,370/oz in late January, before falling back to \$1,310 in early February (now \$1,320/oz). In 2017, gold averaged US\$1,257/oz, basically in line with 2016. We are gaining confidence that spot gold can break through recent resistance around \$1,360/oz and spend some time above \$1,400/oz this year, thus we remain optimistic that our \$1,300/oz forecast for 2018 could prove too low.

Fig 8 Gold Price: Trouble Sustaining +\$1,350/oz Level



Source: Big Charts

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As at April 30, 2018	# Stocks	Distribution
Buy	66	71%
Speculative BUY	11	12%
Hold	8	9%
Sell	0	0%
Under Review	7	8%
Tender	1	1%
Total	93	100%

Buy	Total 12-month return expected to be >15%
Speculative Buy	Potential total 12-month return is high (>15%) but given elevated risk, investment could result in a material loss
Hold	Total 12-month return expected to be between 0% and 15%
Sell	Total 12-month return expected to be negative
Under Review	No current rating/target
Tender	Clients are advised to tender their shares to takeover bid or similar offer

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