Generation Mining looks to knock Russia off its palladium pedestal

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I had the good fortune of being able to spend a few hours at the Prospectors & Developers Association of Canada (PDAC) Convention in Toronto on Monday before flying back home to Calgary. If you've ever been to PDAC you know a few hours is definitely not enough time to do justice to one of the world's premier mineral exploration and mining conventions. However, I was able to stroll through the whole place and at least have a look at all the exhibitors. One booth jumped out at me as being unique in that it was promoting the company's palladium-copper project. I may have missed any others, but that was the only booth I saw with that combination. That was enough to make it the one booth I stopped at to have a quick chat about what was going on and I'm glad I did.

The company with this somewhat unique asset is Generation Mining Limited (TSX: GENM | OTCQB: GENMF) (Gen Mining), who's focus is the development of the Marathon Project, a large platinum group metal mineral deposit in Northwestern Ontario. The Marathon property covers a land package of approximately 22,000 hectares, or 220 square kilometres. It contains reserves of 2,342 million oz Pd, 532 million lbs Cu, and 756 million oz Pt which are listed as minerals considered critical for the sustainable economic success of Canada and its allies, as set out in the Canadian Minerals and Metals Plan. Generation Mining owns a 100% interest in the Marathon Project which is literally surrounded by gold mines with Barrick Gold's Hemlo mine the closest, just a few miles due East.

Source: Generation Mining Corporate Presentation

The other reason I was intrigued by this company is that the world's largest producer of palladium is Russia's Norilsk Nickel which contributes to Russia's total annual palladium output of 76,000 kilograms making it the second largest producing country in the world. South Africa is the country with the most palladium production at 80,000 kilograms/annum but after Russia comes Canada at a distant #3 with 17,000 kilograms and the U.S. at 14,000 kilograms. I'm reasonably confident that sanctions on Russia, its Oligarchs and its companies are likely to be with us for a while, making for a potentially large hole in the supply of this particular metal.

The good news, at least for North American consumers of palladium, is that Generation Mining is well on its way to being a producer, with mine construction expected to begin in 2023. A March, 2021 Feasibility Study for the Marathon Project estimated that at US$1,725/oz palladium, and US$3.20/lb copper, Marathon's Net Present Value (at 6% discount rate) is approximately C$1.07 billion with a payback of 2.3 years and an IRR of 30%. Up front capital costs were estimated at C$665 million, net of equipment financing and pre-completion operating costs and revenues. The mine would produce an estimated 245,000 palladium equivalent ounces per year over a 13-year mine life at an all-in sustaining cost (AISC) of US$809 per palladium-equivalent ounce.

Since the Feasibility Study, the Company has been working on financing and approvals in order to achieve its goal of starting construction in 2023. In December, 2021 Generation Mining announced it had secured a C$240 million streaming deal with Wheaton Precious Metals Corp. (TSX: WPM | NYSE: WPM). Wheaton will pay Generation Mining C$40 million on an early deposit basis prior to construction to be used for development of the

Marathon Project, with the remainder payable in four staged installments during construction, subject to various customary conditions being satisfied. The first C$20 million was received on March 31, 2022. The Company provided an update on June 8, 2022 on Phase II of project financing. Phase II involves the access to medium term financing with the initial stage being a request for proposal (RFP) process for the balance of the project financing. The RFP process has resulted in strong initial non-binding expressions of interest with the total potential committed capital being well in excess of US$1 billion among several interested parties. It is estimated that the project can carry approximately US$400 million in senior debt based on the Company's Feasibility Study. Additionally, Export Development Canada (EDC) has provided an expression of interest to provide potential project financing of up to US$200 million.

In May of this year, Generation Mining announced it had completed the Public Hearings conducted by the Joint Review Panel on the Environmental Impact Statement of the Marathon Palladium-Copper Project. The Project requires environmental assessment approvals from both federal and provincial governments. The Panel will complete and publicly release a recommendation report within 90 days. Once the report is published, the federal and provincial Ministers will make the final approval decision on the Project's environmental assessment within 120 days.

The next few months could be transformational for Generation Mining as it looks to make the move from explorer to producer. The streaming deal and possible debt financing could make the project capital requirements relatively non-dilutive for equity shareholders, and with a market cap of just under C$110 million and a C$1 billion NPV project that could add 25% to Canada's overall palladium production, this could make for some pretty good leverage if the market re-rates this company to something

similar to its peers.