

Clausi follow-ups on Rumours, News and Guesses

It's easy to toss an opinion out into the digital airwaves. It's harder to track them back and see what's happened since. So here we go, following up on some of my articles published here at InvestorIntel over the past few months:

Pretium Resources. The rumour was that this developer of the massive Brucejack project in north British Columbia was hunting targets in South America. I said at the time it was unlikely but possible. I checked with the Pretium people during PDAC in March. This rumour has as much chance of being true as I have of winding up on a Victoria's Secret runway.

Anaconda Mining Inc. In mid-February I wrote that this Newfoundland gold producer would have to get bigger regionally before it could expect any real respect in the markets. Anaconda later announced that during Q3 of 2015, it sold 4,508 ounces of gold (a new quarterly record), roughly 59 per cent higher than Q3 2014. Revenue for the quarter was \$6,266,754 at an average sales price of \$1,390 per ounce.

The better news, from a long term investor viewpoint, is that Anaconda is getting more aggressive. It announced a goal to double the Point Rouse Project annual production of gold from 15,000 ounces to 30,000 ounces, by feeding bulk tonnage from pits like Stog'er Tight and by blending ore from high-grade veins like Deer Cove with Pine Cove pit feed.

It also is conducting exploration work on properties in the area.

You should measure management by the success they have in executing on this good plan.

Medical Marijuana. A longer article updating this topic is

coming. Right now, we're all waiting for the outcome of the *Allard* decision in the Federal Court of Appeal, which won't be out until next fall or so. My guess is the new MMPR laws will be found constitutional but their implementation will be delayed by court order until the MMAR (patients under the current system of "grow-your-own") are able to transition over. In concept it will be similar to how the Supreme Court dealt with Canada's prostitution laws, giving both sides a leg-up.

If the decision turns out this way, many of the new MMPR licence holders will find themselves without a target market, with minimal revenue, without a viable business plan, and therefore without a future. Expect much short term pain, opening the market for consolidation and long-term gain. Remember the dot com crash in 2000, and how the good tech companies not only recovered but thrived.

We're also quite interested in the Supreme Court of Canada hearing *Smith*.

At issue is Owen Smith, from Victoria, B.C., caught baking snacks with marijuana for members of a local compassion club. While some of those members were legally authorized to smoke medical marijuana, Mr. Smith gave it to them in baked form, which is illegal. Whether you think the law is goofy isn't the point: what's in play in law is the constitutional aspect of health care. Regardless of which side wins, the decision will have far-reaching consequences not only for medical marijuana users but for everyone accessing health care in Canada.

And if we're talking about MM, let's quickly chat about **Hemp**. Quoting myself from this past summer:

Nine states have now passed bills allowing for hemp production. Eight more have passed bills calling for its study. Hemp is booming.

As a retail product in the USA, over half a billion dollars of

hemp products were sold at the retail level alone in 2012, and this at a time when the growing of hemp was still unlawful! One can only imagine the explosive growth when farmers across the country begin harvesting hemp. And as social attitudes and legislation governing cannabis become more permissive, it is not unreasonable to expect the restrictions on growing hemp to ease off as well.

That's happening now. State after state is permitting hemp, the THC-free cousin to marijuana. Expect much more news from the industrial hemp world.

Alabama Graphite. AG recently announced it had found naturally occurring graphene on its Coosa graphite property in Alabama. That announcement was poorly handled by management which probably muted the market response, but even so the shares popped from around 20 cents to the low 30's on high volume, before settling to around 22 as of today.

The news, though, is staggering in its implications. If a cheap natural source of graphene can be found and easily processed, the applications are almost endless. I'm a bit surprised there has been no follow-up news from the company to take advantage of the market paying attention.

My guess is management is working through issues with IIROC and the regulators as to the mishandling of the press release, and is working through a long list of non-disclosure agreements with scientific bodies around the world. Keep an eye on AG for the science. As with every evolving company, there will have to be changes to the board and management team to adapt to the next phase of the company's success.

Arcan Resources. Management failed the security holders on this one. The debentures have been converted to common shares, at a significant haircut. There are now about a hundred gradzillion shares now outstanding, making it impossible to calculate real value. The private equity investment house that

backed the deal (Stornoway Portfolio Management and Scott Reid) has appointed two new directors to the board. Time will tell if the team can work its way out of this mess.

Iron Ore: Lonely is the commodity without love. *The Northern Miner's* editorial on page 4 of the March 16 – 22 edition spells it out extremely well. Having a Cost of Production almost equal to Revenue, prior to G&A, is not a sustainable business model. Iron ore is trading below USD\$60 per tonne, and very few companies can make money at these levels. Those wheezing sounds you hear are the iron ore companies gasping for breath. The Australian producers should survive, but it's a just a roll of the dice as to who else will be around in two years. High risk, low return ... not an ideal investment.

And this is when you can expect sovereign funds to poach great assets from other countries. China still might be in the hunt for iron ore.

Integra Gold. We talked about this near-term producer in Val D'Or, Quebec prior to the release of its latest PEA on the Lamaque gold project. The stock was trading around 20 cents. It was an easy call that the PEA would have a substantial impact on the company's perceived value. It's now trading fairly solidly in the low 30's – that PEA showed that value had been created by the drill bit and by the boardroom table.

The company has since released initial drill results from its 2015 Triangle drill program, and final results from condemnation drilling over the proposed ramp at the Parallel zone on Lamaque South. The results are good (see the March 24 /15 press release).

Integra continues to work eight drill rigs on Lamaque, targetting 50,000 metres of drilling in 2015. This means a steady flow of mostly-positive news out of Integra over the rest of 2015.

Don't be surprised if a larger intermediate company takes a

run at Integra over that period.

Athabasca Basin. Continues to be in play. Twenty per cent of the world's uranium comes out of the Basin, and the corporate machinations will take place regardless of the price of uranium.

Watch for bloodshed as corporate and personal scores get settled in north Saskatchewan. Some of the juniors up that way, with weak assets and poor corporate governance and no ability to raise capital, don't deserve to survive. There will be a consolidation play in the area, with one or two of the resulting players then being perfectly set up for takeout at a premium, so make sure your helmet is buckled and your mouthguard is in. Lawyers, proxy advisory firms and investment bankers could make their year-end bonus off the expected activity in the Basin. Points North Landing could become the next Fort McMurray.

Clausi Takeover Targets (Part 1): Integra Gold Corp.

M&A activity can signal the bottom of a market, a place that the miners have been in for far too long. Goldcorp Inc.'s recently announced acquisition of Probe Mines Limited for \$526M is the latest example of a powerful balance sheet absorbing a weaker junior with a great asset. It's time to look at



three other resource issuers that could be in play. We'll look at an preproduction company, a producer and an explorer.

First up is the preproduction company. It's on path to become a gold producer in the near term. Integra Gold Corp.'s (TSXV: ICG | OTCQX: ICGQF) main asset is the 100% owned Lamaque Property in Val-d'Or, Quebec. Val-d'Or translates to "Valley of Gold", appropriate for such a prolific mining region in a mining friendly jurisdiction. Labour, infrastructure and mining wisdom are readily available.

On January 13, 2015 Integra released the results from its updated Preliminary Economic Analysis. By any standard this was a tremendous document. Highlights included:

- Base case pretax internal rate of return of 77 per cent and net present value (5-per-cent discount rate) of \$184.3-million. Read that again because it's going to be important later down this article;
- Preproduction capital requirements down from \$69.2-million to \$61.9-million;
- Preproduction period down from 24 months to 18 months;
- Life-of-mine cash cost of \$551 per ounce and all-in sustaining costs of \$731 per ounce (at \$1,175 per ounce);
- total pre-tax cash flow of \$238M over a 4.5 year mine life; and
- increased gold recoveries across all zones by roughly 1%.

In English, this means Integra cut its cash needs, reduced the lead time to production by 25%, crammed down its all-in sustaining costs and provided visibility on the key metrics for success. They significantly de-risked the company and as a result made it very attractive to larger companies with stronger balance sheets.

Integra Gold Corp

TSXV/AlphaV:ICG

Tuesday January 20, 2015 10:46 AM ET.

0.28 **0.00** (0.00%)

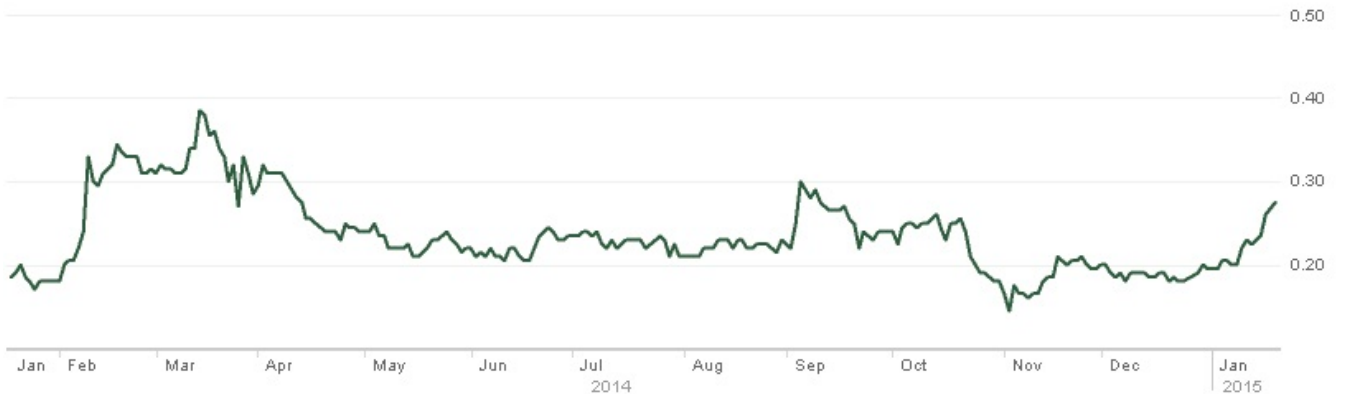
Bid/Lots Ask/Lots Open/Prev Close Day Range 52-Week Range Vol/Avg Daily Vol
0.27/421 **0.28/156** **0.28/0.28** **0.27-0.28** **0.14-0.42** **1.8M/953.2K**

ADVANCED CHART

1 Hour | 1 Day | 2 Day | 5 Day | 10 Day | 1 Month | 3 Month | 6 Month | YTD | **1 Year** | 3 Year | 5 Year | 10 Year | 20 Year | Max



ICG 1/20/2015 Open: 0.28 High: 0.28 Low: 0.27 Close: 0.28



Lower capital needs. Reduced cash cost. Increased recoveries. Reduced time to production. Any one of these would have been a strong achievement. The appropriate market response to having all of these in Integra's updated PEA should have been OMG! Instead, we got another yawn from an inattentive market.

In addition to what is described in the PEA, Integra has two future drivers of value. The first is the drill bit. Integra has drilled over seventy thousand metres (43 miles!) since April 2013 at Lamaque on various zones. Results confirmed the continuity of mineralization in each of the Fortune, Parallel and Triangle Zones.

While these drill results were disclosed, their economics were not included in the latest PEA because they came after the cut-off date.

The other key area driver of value is big picture thinking in the board room. The leadership team pulled off a major coup in October, 2014 when it acquired the assets of Century Mining Corp. from a receiver. This acquisition included a mill and mine complex at Lamaque. This means the company no longer needs toll or custom milling at third party facilities, so Integra can reduce its operating costs (from \$665 cash cost per ounce to \$551). This acquisition also is a factor in the increased gold recoveries and a streamlined permitting process.

There's still another tasty tidbit for a suitor. The Sigma/Lamaque acquisition also included all of the mineral resources contained within the property, none of which were included in Integra's PEA. Those resources are just hanging there in limbo, waiting for the next PEA to pick them up.

This quarter, we should see the next PEA incorporate the historic resource estimate from Sigma-Lamaque, and build in the gold values from the 70,000 metres of completed drilling. Those two drivers of value should:

- expand the volume of mineralization;
- drive the all-in cash cost down even further;
- convert resources to reserves;
- extend the mine life;
- increase the after-tax cash flow; and
- ultimately, at a lower risk, increase the overall value of the project.

It is possible that the grade may slip as the additional assays are incorporated, but with a projected diluted head grade of 8.4 g/ t gold, the grade can slip a fair bit and still be an economically viable project.

This information is in the public domain. Anyone with a spreadsheet and some resource knowledge (specific gravity of 2.7ish?) can calculate roughly how much value those two items

will provide, and that includes the M&A teams working for the majors and producers. A project like Lamaque has to be on their radar screens.

Integra has 244M shares outstanding. The year hi-low is \$0.42 – \$0.15, now bouncing around between \$0.20 and \$0.27 a share, which means the market values this company's equity at roughly \$50 – \$65M. Remember from above that the PEA sets the NPV of Lamaque at \$184.3-million, not including the 70,000 metres of drilling or the historic resources.

That's a huge gap for a would-be suitor. Probe shareholders are getting roughly a 50% premium over the market price from Goldcorp. The same premium applied to Integra would see shareholders receiving roughly 50 cents per share, and even that would not take the company's value up to where the PEA set it.

There are of course risks. Between now and the announcement of any potential takeover, the biggest risk to Integra is management's execution on construction and cost containment. We all have horror stories about other projects where preproduction costs rocketed out of control and destroyed shareholder value. A larger producer with experience in bringing a mine into production would have the ability to manage this risk better than could Integra.

It wouldn't be a surprise to see an announcement of someone taking a friendly or hostile run at Integra. The not-so-hidden value has not yet been recognized by the broader market, thereby creating an opportunity for a larger producer to buy a significantly undervalued asset in a prime mining jurisdiction. Even if no takeover happens, Integra's management has significantly de-risked the company and created opportunities for value creation.

Next: A junior trading only at cash value despite having a million ounce NI 43-101 resource estimate.