

A brighter outlook for junior gold miners

Thoughts from Ani Markova

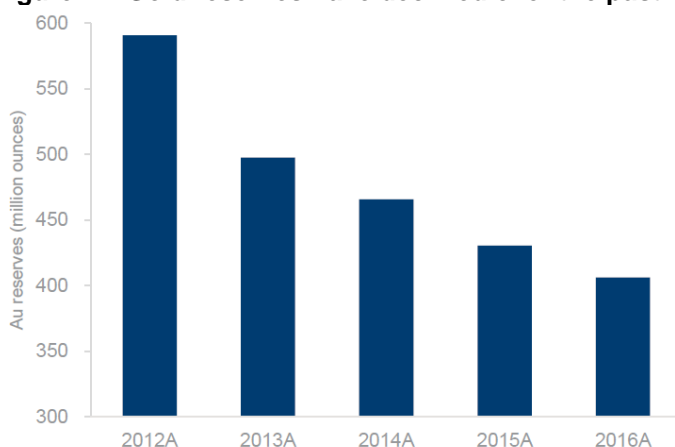


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In the protracted downturn in the gold price between 2011 and 2015, gold miners responded by cutting costs in order to preserve profitability. As a result, exploration spending, sustaining and expansionary capital expenditures were cut. In addition, large mining projects that require significant capital investment were shelved. Many junior gold miners struggled to raise the cash required to continue advancing their gold projects as well.

Today, as the gold price has somewhat recovered, mining companies are showing a greater propensity to spend. However, we believe this higher level of investment is unlikely to address the decline in mine life that the industry is now facing. Mine reserves (gold ounces that are known to be economically feasible for extraction) for senior gold producers have declined for the last five years as a result of lower investment in the preceding years, which has also resulted in a decline in mine life. Senior gold producers are now left with approximately twelve years of mine life reserves economic at current prices¹.

Figure 1 – Gold reserves have declined over the past five years to a 30-year low²



Source: Company reports as of December 31, 2016. Goldcorp company presentation, Feb 28, 2017

As senior gold miners grapple with declining mine lives, we expect merger and acquisition (M&A) activity to target small- and mid-cap mining companies that have secured new mining districts with potential mineable deposits. For example, in 2016 Goldcorp announced a \$520 million acquisition of Kaminak Gold, which controlled the Coffee Gold project located south of Dawson City, Yukon. We have also seen senior gold producers increasingly

¹ Scotia Bank GBM estimates, March 20, 2017

² Scotia Bank GBM estimates, April 2017

take an ownership stake in early stage projects owned by junior miners in order to gain optionality on future mine production, while at the same time providing some of the requisite funding to gold junior miners. Joint ventures are also on the rise, with senior gold producers partnering to develop large-scale gold projects that require significant investment. Most recently, Goldcorp and Barrick Gold announced a 50/50 joint venture to advance the Cerro Casale and Caspiche copper-gold porphyry projects in Chile, an example of how large gold producers are trying to unlock value for assets requiring significant infrastructure investment.

Ultimately, increased M&A activity and joint ventures bode well for junior gold companies with quality projects in our view. Further, as the gold price has recovered, junior gold companies have improved their ability to access requisite funding either in the form of equity and/or debt financing with cash reserves increasing to CAD \$240 million from just \$70 million in June 2015³. This has in turn improved the ability for juniors to advance their respective projects and unlock value. We have increased our exposure to junior miners over the last year, as we are finding relatively attractive opportunities and we believe they are well poised to outperform in the current market environment.

CONCLUSION

We believe the current environment of declining mine production and mineable reserves bodes well for junior gold companies with quality projects, which are being funded by investors and/or senior mining companies. We have increased our allocation to junior miners over the last few months to give investors exposure to the opportunities in this segment. At the same time we are cognizant of the risks and manage this by maintaining a well-diversified portfolio. We believe that fundamental success factors, as well as M&A activity will provide a framework for outperformance throughout the year. Stay tuned.

For more information, speak with your AGF representative or visit AGF.com/Institutional.

³ Junior mine 2016 Signs of Life, PwC Canada, 2016.

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