

Sept 3, 2019

## A Maven Metals Update:

### Morien Resources (TSXV: MOX) – BUY (\$0.42)

The big news for Morien this summer was highly unexpected: Chris Cline, owner and founder of Kameron Collieries (which owns the Donkin mine), died in a helicopter accident in July. Cline was the heart of Kameron, a long-time coal mine executive with big vision who bought and built Donkin.

Cline's passing does raise some questions for Donkin. The main one: will Kameron decide to invest the additional capital to move the mine to longwall mining? Longwall would lift overall output significantly, which would be a big benefit to Morien as its royalty jumps from 2% to 4% on production beyond 2 million tonnes in a year and a longwall operation would definitely produce above that threshold.

There is no rush to make the decision. Kameron currently has two operating coal sections at Donkin. Both are still in development phase, which is where they mine a long tunnel out into the deposit. Once at the end, they will establish the first production panel and then will start retreat mining. The decision about longwall has to happen before the retreat process begins, which is months to a year out.

With Cline at the helm I would be more confident that longwall would be the choice. Without him, the big vision that always made Cline Group companies famous is gone – but he had hired very good people into his operation and they are now tasked with continuing his success.

Whether they decide to go longwall or not, Donkin's output will increase when real production begins, which means Morien's royalty payments will rise, which will mean higher dividends. That's the essence of the MOX bet: a dividend-paying bet on high quality coal.

Underlying that thesis is the fact that the Morien team runs a very tight ship focused entirely on creating shareholder value. To that end, I know they are assessing opportunities to buy royalties on another commodity. They will only make such a move if the deal(s) are immediately accretive and long lived.

And Morien has cash to make deals. The company had \$2.5 million in the bank and added another \$935,000 this morning by selling a tract of land in Georgia. The land came to Morien from a predecessor company and was a non-core holding; moreover Morien had sufficient US non-capital losses to offset the capital gain on the sale, so it's cash in hand.

The Morien team clearly believes the stock is undervalued. For one, insiders have been active on the bid. Chairman John Budreski bought 250,000 shares in mid-August after exercising 965,000 option in April without selling any shares; board member John Byrne bought 300,000

shares, also in mid-August. Those big purchases add to on going buying by management and directors, who now own 14.5% of MOX stock, up dramatically from just 5% in 2013.

Morien is also actively buying back shares: they have bought and cancelled 1.1 million shares so far this year. Fewer shares mean higher dividends, so it's a move I support.

Morien shares have slid since Cline's death. It's fair enough, as Cline was a true leader and his absence raises questions. But I think the safe bet is to assume Kameron will at least stick to its official plan for Donkin – continuous mining – and will continue to assess whether longwall makes sense. If that is the case, the investment thesis for Morien remains solid, as the company will take in healthy royalty payments – and hand out nice dividends – based simply on continuous mining. A longwall decision would just amplify the outlook.

Overall investor concerns about growth are likely also dragging on the stock. But Donkin is not particularly exposed to growth concerns. It is currently selling most of its product into the thermal market; power needs don't decline when growth slows.

Morien is a buy at current levels. That said, since the longwall decision is still some time out I think the Cline effect will continue to weigh on the stock for weeks to months, so there is no rush.

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