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The Maven Letter: February 1, 2017

Hello all! I am writing to you today from Niseko, a ski town on Japan's north island. The skiers among you likely know that Japan is famous for its absolute masses of dry fluffy powder – Jap-pow, as it's known. I can report that the stories are true: the last two days have been some of the best skiing of my life!

I am on my honeymoon, so the letter is abbreviated today. I do have a new recommendation for you, a dividend-oriented royalty company that is about to achieve a key milestone.

Gold has strengthened again and is looking better, technically, with each day. Uranium continues to inch upwards but I still think this is primarily an early-year flare up. And companies are raising money – Premium subscribers will get a note shortly on a financing for a proven team creating a new vehicle. (The Premium service is designed to give accredited investors access to financing opportunities. The cost is \$5000 a year; a subscription to the Maven Letter is included. If you are interested, email me at gwen@resourcemaven.ca).

I will only publish next week if something very significant happens and demands comment. I hope you can understand that this trip is a once-in-a-lifetime experience, in more ways than one, and I want to focus. I will return to the full letter before you know it. Thank you, sincerely, for your understanding.

New Recommendation: Morien Resources

TSXV: MOX	Cash: \$1.4M
Price: \$0.45	Debt: nil
Shares outstanding: 53M	Market cap: \$23.8M

This buy serves two purposes:

1. **Diversification:** Morien holds royalties on two non-metal mining projects. The key one is a royalty on a high quality coal project about to enter production. The other is a royalty on a granite aggregate asset that is also advancing towards production. As such Morien offers diversification in two ways: away from the metals that dominate the Maven portfolio and by offering cash flow rather than constant capital needs.
2. **Near term share price upside plus ongoing dividends:** the Donkin coal project is about to enter production. That achievement will add \$2 million to Morien's account, lifting its cash to \$3.4 million. The news will should also draw eyes to the story, as production at Donkin means

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regular (and increasing) payments to Morien. That's why I expect near-term share price upside. Longer term, Morien will assess opportunities to acquire other similar royalties, but the basic business plan is to return royalty capital to shareholders.

I would guess many of you read that last sentence, about returning capital to shareholders, and thought something along the lines of: "I'll believe that when I see it!" And fair enough – I have heard plenty of stories of promised payments as well, most of which never manifested. But there is one reason to believe such will not be the case with Morien: John Budreski.

Budreski spent years in two significant roles: CEO of Orion Securities and vice-chairman of Cormark Securities. Both positions demand and create immense knowledge in mining capital markets. Budreski saw every kind of mining deal imaginable during those years...and he left believing that no model competed with the royalty business model.

Today Budreski is a director of Sandstorm Gold and a director of Alaris Royalty (TSX: AD). Sandstorm is, of course, a leading gold royalty and streaming company. Alaris is a royalty company active in a range of sectors, from medical to food products companies, and it offers a 7.4% dividend yield because it returns a good chunk of royalty incomes to shareholders.

Budreski is royalties through and through. He also believes strongly in shareholders, in returning their capital and not diluting their ownership.

If Budreski were not involved, I doubt I would have faith in Morien's promise to return its royalty payments to shareholders. But he is, and so I do.

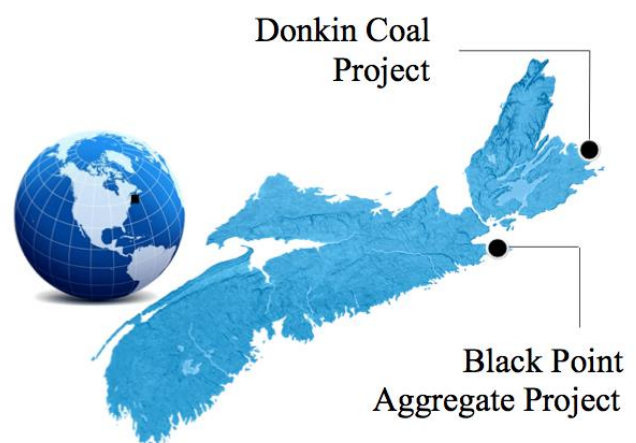
The Basics

Morien has been a busy company the last few years. In late 2014 the company sold its 25% stake in Donkin coal, one of the largest undeveloped coal assets in the world for cash payments totaling \$5.5 million plus a net smelter royalty ranging from 2% to 4% depending on production levels.

The buyer was Kameron Collieries, which is part of the Cline Group of companies. The Cline Group is the business arm of billionaire Chris Cline, the billionaire West Virginian who made his fortune betting on coal. So successful is his story that Cline is often called King Coal.

This is a man with immense capital reserves and a proven ability turn opportunity into success in the coal world. And Donkin, in the Canadian east coast province of Nova Scotia, is his next bet.

Project Locations



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At its initial rate of production of 2.75 million tonnes per year, Donkin should pay Morien between \$4 and \$8 million annually, depending on coal prices. The payments increase significantly if Cline increases production, which is likely, because production above 500,000 tonnes per quarter pays twice the royalty than the first 500,000 tonnes of quarterly output.

Six months earlier Morien had sold its stake in an aggregate project, also in Nova Scotia, to Vulcan Materials, North America's largest aggregate producer. That deal locked in \$1.8 million in cash payments and a production royalty expected to bring in roughly \$500,000 annually to Morien for more than 50 years.

Two strong deals put cash in the bank and secured future cash flow, and both were with very strong partners. With its present secure, Morien looked to strengthen its future. Since those deals the company has had a standing normal course issuer bid, which is what a pubco has to file if it wants to buy back its own shares. And buy back shares is precisely what Morien has been doing: since Q1 2015 Morien has repurchased 6.5 million shares, representing 11% of the outstanding count.

The goal is to increase share value and set each remaining share up for bigger dividend payments down the road.

The Donkin Project

When Kameron signed the Morien deal it also bought Glencore's 75% stake in the asset, giving it full ownership. Kameron immediately got to work.

Donkin is a high grade underground coal deposit. Underwater, in fact – the two coal seams at Donkin sit a few kilometers offshore, accessed via two parallel, 3.6-km long tunnels.

Nova Scotia has a long history of coal mining, but all of the coal mines in the province closed 15 years ago. The Donkin project was under development when DEVCO, the federally owned and now defunct Cape Breton Development Corporation, went under.

DEVCO had spent \$100 million developing Donkin, driving the two 3.5-km long tunnels from the harbor out underwater, to where half a billion tonnes of coal sit in two wide, rich seams. The coal at Donkin is good stuff, a mix of high-quality thermal coal and good metallurgical coal.

Kameron started by dewatering the tunnels, a task it completed in June. That was step one. Since then Kameron has completed the range of other requirements to start mining.

A conveyor belt now runs the full length of one tunnel. The first continuous miner is built and ready to roll. The coal handling, preparation, and processing plant is under construction, expected to be ready by the middle of the year.

The operation will get going earlier though, as run-of-mine coal can be sold into the high end of the thermal coal market. That is imminent. Within six months a second continuous miner will double production and the on-site process plant will upgrade the coal before it is sold.

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Upgrading the coal will mean Kameron should be able to sell into the high-vol metallurgical coal market, achieving better prices.

It's a rolling start, but things will ramp up quickly. By the end of the year Kameron plans to be running two continuous miners on each of two sections, to achieve that 2.75 million tonnes of annual output.

They are ready to roll. Only final site approvals from the province are outstanding.

And the Donkin asset is set up for low costs: the wide coal seams can be mined using low-cost continuous miners, the project is a short haul from the port, and there is a lot of coal to be mined. And there is a ready market: Nova Scotia relies on coal for 60% of its energy needs but almost all of that coal is imported from South America.

The Donkin deal secured \$5.5 million for Morien, in staged payments. The first \$2 million was transferred on closing. The next payment will happen with production: Morien gets \$2 million on or before the sale of the first coal from the asset. And there's a deadline – the payment has to be made by February 27th of this year whether Donkin is producing or not.

The final \$1.5 million is due either when Kameron makes its first export sale or by February 27, 2018.

Then there's the royalty. Morien gets a 2% NSR royalty on the first 500,000 tonnes of coal sales per quarter and 4% on any tonnage above 500,000 tonnes. So even the expected production level of 2.75 million tonnes per annum puts 750,000 tonnes into the 4% royalty category.

And I expect that Chris Cline sees potential for more than 2.75 million tonnes of annual output from this asset.

Black Point Aggregate Project

Black Point is home to a granite deposit along the Nova Scotia coast, of the kind that can be mined, crushed, and sold into aggregate markets in the US. That potential is why Vulcan bought the project in 2014 and has both planned and permitted a mine at the site.

The deal put \$1 million into Morien's account immediately. Another \$400,000 was paid in April 2016 when the project got green lights for development from the federal and provincial regulators. A final \$400,000 payment is expected shortly, once a series of related permits are achieved.

The buyer, Vulcan, is pushing this project to production. Provided permits continue to roll in as expected, Vulcan plans to produce from Black Point in 2018. The production royalty is not huge, but it would pay Morien \$250,000 to \$750,000 annually. And there's enough Class A granite there to keep Black Point rolling for 50 years.

Endgames

I see three possible endgames for Morien.

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1. **Kameron buys the company.** This is the likely endgame if things go well at Donkin and Kameron decides to increase production, given that Morien's royalty doubles from 2% to 4% for tonnage above 500,000 tonnes per quarter. If Kameron decides to increase production, it will quickly do the math and realize that it makes far more sense to buy Morien than to keep paying it.
2. **A larger royalty company buys Morien.** If Donkin ramps up nicely and it looks like Kameron might be interested in expansion, a company like Franco Nevada could see good value in Morien's annual cash flow.
3. **Morien gets used as a shell for an exploration or mining deal.** When guys like Ross Beaty or Frank Guistra want to start a company, they look for a shell company to put it in. Morien is actually ideal for that. It has a tight share structure and loyal shareholders, and will have cash coming in.

Putting it together, Morien:

- Will get \$3.9 million in milestone payments over the next 13 months (\$2 million at first Donkin production, \$1.5 million at first Donkin export, and \$400,000 once Black Point secures additional permits)
- Will see royalty revenues from Donkin start shortly. By the end of the year Donkin should reach its first stage of full production, putting Morien's annual royalty somewhere between \$4 and \$8 million a year (depending on coal prices)
- Should get a share price re-rating as Donkin announced production and Morien gets its first payments. Further share price upside depends primarily on Kameron's decisions to expand production and coal prices.
- Has three potential endgames, all of which would work well for shareholders.
- Is buying back shares to increase the value of each investor's holdings.

I am a buyer in the market at current pricing.

Portfolio Updates

Portfolio updates will be very brief this week, as my husband is patiently waiting while I work...on our honeymoon. Thankfully it was a quiet week on the news front, which is not surprising as companies do their all to get news out before the January conference week, which makes for a quiet period following.

Two companies reported early-stage exploration results – **Auryn (TSX: AUG)** identified two good gold-in-soil anomalies at Huilacollo, the epithermal gold oxide project in Peru, and **Black Sea (TSXV: BLS)** added two new targets at Zlatusha, bringing its list of porphyry and epithermal targets to seven.

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Two other companies announced financings. **Erdene (TSXV: ERD)** announced a \$10-million raise priced at \$0.77 per share; within a day the company increased it to \$12 million because of demand. **Red Eagle (TSX: R)** also announced a \$10-million bought deal financing, priced at \$0.75. I understand that book is also very (over) full. Neither raise was a surprise: I said when I recommended Erdene recently that the company would raise shortly in order to fund what will be a big exploration program in Mongolia and Red Eagle is raising to fund its exploration program, now that the mine is up and running nicely.

Lithium X (TSXV: LIX) acquired a new brine property in Argentina. I will assess the acquisition and report back when I have some insight.

I get regular questions about when **Maritime (TSXV: MAE)** will report its prefeasibility study. Would that I knew. I am as frustrated as all of you on the delay.

NexGen's (TSX: NXE) share price continues to rock as this early year uranium market stays hot. My position is unchanged: until I see a new long-term contract signed, I am not convinced this move is anything but a flare up. Nevertheless, it's very nice to see NXE at \$3.57!

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