Ubika Gold 20

June 6, 2016

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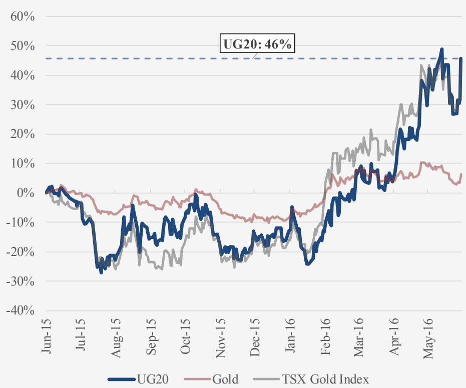
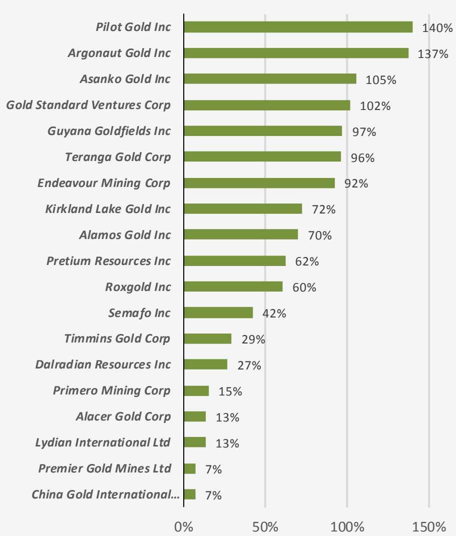
Feb. 16, 2016 - June 6, 2016

UG20:	+57.7% (46% Y/Y)
Gold:	+3.7% (6% Y/Y)
TSX Gold Index:	+35.4% (44% Y/Y)

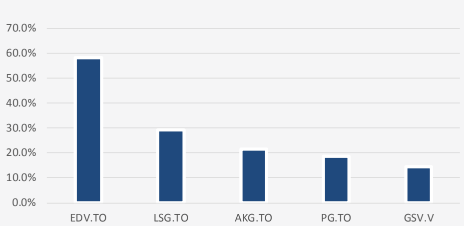
Dollar amounts in CAD unless otherwise stated.



UG20: Performance Distribution



Top Volume Gainers (m/m)



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Monumental Gains – Due For a Pullback?

In its entirety, the UG 20 index has soared roughly 50% since the last issue on February 16, 2016. Indeed, the sector is heavily resource based, and as such, is dependent on gold as a commodity. That being said, gold's price has only increased ~4% since the last issue. How could a ~4% increase in the commodity's price result in a ~50% increase in the index? Could it be the constituents are extremely levered and are thus prone to another dip in gold prices? From our point of view, that explanation is not the entire case. It is our belief that the sector has been shunned for too long by investors. Although the initial upward price movements by the commodity resulted in the upward surge, we believe investors have realized the undervaluation that existed in the sector. That being said, the surge in gold prices has been (almost entirely) trending downward recently, giving reason to gold investors to turn bearish again as the USD turns around and appreciates. We think the sector has experienced too much growth in the prior months, and is due for a modest pullback in the upcoming days.

Industry Highlights

- Gold has slid to a 4% return from February 16 to June 6, 2016. However, the bullion commodity is still up 17% year-to-date.
- Global uncertainty was the initial factor in the surge in prices, however with the stabilization of the energy markets, as well as a probable Feds Fund rate hike this summer, investors have given up much of their recent bullish sentiment.
- Geopolitical risks, along with market volatility, may help the yellow commodity rally again this year, despite a rising opportunity cost to hold it. For example, the continued migrant crisis in Europe, widespread tensions in the Middle East, and even the U.S. election uncertainties could result in an outperforming gold market as investors flee to the 'safe haven'.
- Negative interest rates in much of Europe give incentive for investors to buy gold. While the commodity does not offer a stream of income, investors must not forget that a 0% yield is preferred to a negative one.

Upcoming Events:

Commodity markets are relatively volatile. Gold is no exception. In fact, while it is true that bullion has been depressed and has been trading on a downtrend from ~$1300/oz to ~$1100/oz throughout the past three years, global volatility has caused a sudden rally in 2016. Investors will want to be in the know with global events. In particular, we suggest investors follow these key upcoming events:

- **June 14-15 & July 26-27, 2016:** Federal Open Market Committee (FOMC) meetings will provide news on interest rate movements in the U.S., causing currency volatility and shifts in the price of gold
- **September 19, 2016:** the Executive Programme in Gold Reserves Management 2016 aims to train and provide a platform for central bankers and ministry officials around the world to exchange views and share practices in gold reserve management.

Notable Outperformers

Argonaut Gold (TSE:AR)

Argonaut Gold skyrocketed 137% over the focus period. When analyzing Argonaut, it is imperative to realize the cost leadership it enjoys. Investors should hone in on the following positive features of Argonaut's operations.

- **Free cash flow generation with gold prices above $1,000**. This is a strong point that not many gold producers seem to share. Prior to this year's gold-price climb, a continual worry for bullion investors has been the lack of cash generation and uneconomical mining operations.
- An already **strong cash balance of USD$47 million**. This cash mountain has the potential to serve as means for accretive acquisitions, providing shareholders value from an external source. In addition, the Company maintains a clean debt balance of just $3 million, with an undrawn $30 million credit facility.
- Should gold prices revert back to upward movements, Argonaut would benefit greatly. Specifically, its development assets (San Agustin, Magino, San Antonio) provide **tremendous leverage to upside in gold prices.**
    - **San Agustin** provides high returns (PEA showed 50% IRR with $1,200/oz gold and $15/oz silver). During 2017, this asset is expected to commence production and contribute to Argonaut's stream of products. We think capital expenditures will (and should) ramp up for this project, especially with the help of the $30 million line of credit.
    - **Magino** has longer-term prospects for the Company, however relatively high initial capital expenditures (~USD$540 million) lead us to believe the mine site has high potential to provide its shareholders.

Figure 1. Argonaut's Asset Positioning Map

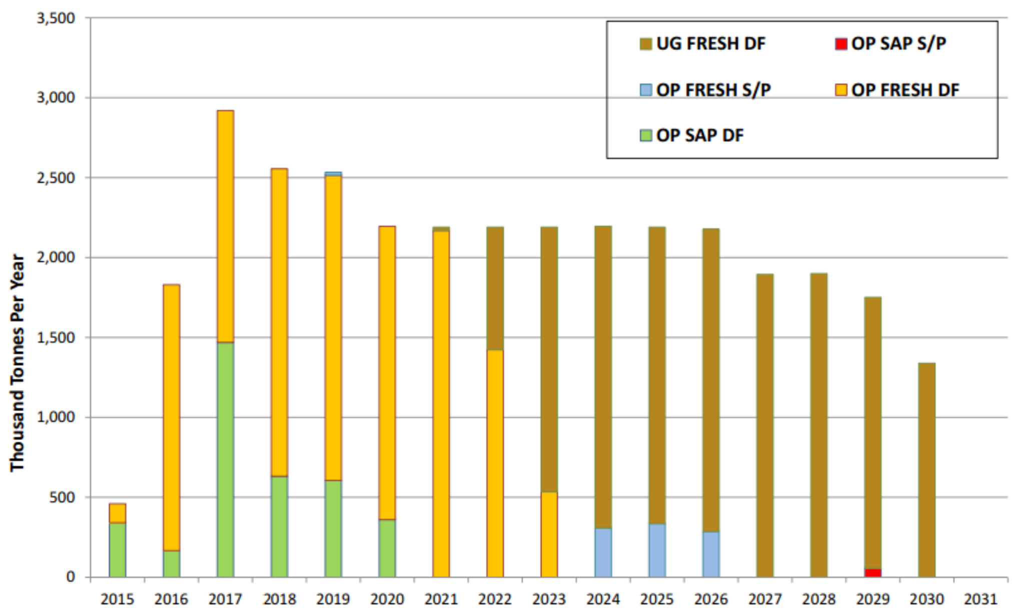
Source: Company Filings, Ubika Research

Guyana Goldfields (TSE:GUY)

Guyana Goldfields soared a whopping 97% since February 16, 2016. There are several factors that distinguish Guyana from its peers. Perhaps the most apparent is its area of operations – the country of Guyana, South America. It operates a single producing mine: Aurora, which has a stunningly low breakeven gold price of US$700/oz. Investors have kept their eyes on its operations for the following reasons:

- **Robust economics at the Aurora gold mine** have led to increasing cash balances and the servicing of debt. The mine is expected to produce ~200,000 oz/year from 2017-2028, giving investors a steady and longer-term horizon for such an investment.

Figure 2. Life of Mine (LOM) Ore Milled



Source: Company Filings, Ubika Research

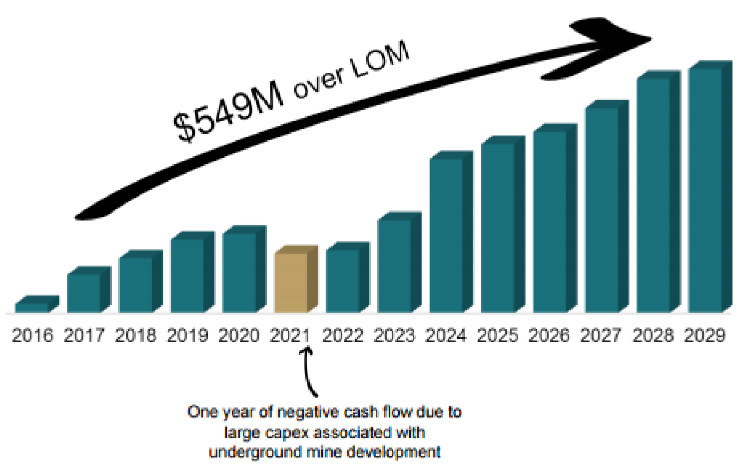
- With operations based solely in Guyana, careful analysis of the country is needed to fully gauge potential operational successes. Being the only English speaking country in South America, as well as part of the Commonwealth (which entails democratically elected governments under a parliamentary system), the **jurisdiction is friendly** towards miners. With a royalty of 5% at gold price of $1000/oz or less and 8% at price of greater than $1000/oz, Guyana Goldfields has developed strong relationships with the government. This implies a level of stability for investors.
- Guyana Goldfields has been successful in cost reductions in the past, and is implementing plans to further **reduce mining costs** in 2016. One key development is the elimination of rental equipment as they transition to a company-owned fleet. Another is the stabilization of their mill asset, reducing third-party labour costs. The Company currently has a cost $/oz sold of $620 (including royalty).

Teranga Gold (TSE:TGZ)

Teranga Gold operates the only commercial gold mill in Senegal, Africa, named the Sabodala Gold Mine. An emerging gold belt straddles the border between Senegal and Mali, where ~50 million ounces have been discovered, posing a significant catalyst for the only mill in Senegal. The Company's stock has appreciated 96% since the date of last issue. Here are some aspects we like about Teranga Gold:

- **Insider ownership** sits at ~15%, implying aligned management.
- **Declining costs** seem to be ongoing. The Company reported a 23% decrease in mining costs since 2014, a 40% decrease in milling costs since 2014, as well as benefits from lower fuel prices and favourable FX rates (40%-50% of costs are Euro-denominated).
- **Mining-friendly jurisdiction** align with views of Teranga Gold. The government sees the gold mining sector as a key pillar for economic growth in Senegal.
- **Boasting a base case of ~200,000 oz average annual production** from 2012-2024, the Company has a stable outlook in the medium-long term horizon.
- **Significant cash-flow buildup** throughout LOM. In addition, the $549 million cash flow is sustained by relatively low capital expenditures. On an annual basis, the Company reports less than $10 million required to sustain assets. Excess cash allows for formidable growth opportunities, such as acquisitions. Another catalyst that can come to life from this excess future cash flow is the exploration and development of mine and mill assets in the Senegal-Mali border, home to 50 million ounces of gold.

Figure 3. Strong Cumulative Cash Flows for Life of Mine (LOM)



Source: Company Filings, Ubika Research

Most Notable Mover

Perhaps the most astounding returns were accumulated by **Gold Standard Ventures Corp. (CVE:GSV)**. The Company's stock has shot up 228% over the past year, 102% since the last UG20 issue on February 16, 2016, and an impressive 35% over the last month – which has turned many of UG20's constituents red with negative returns.

The Bottom Line

The fundamentals for gold prices in the near term are, generally speaking, negative. Increasing interest rates, low inflation environment, appreciating USD, and stabilizing energy markets all contribute to the possibility of a downward trend, bringing prices back to ~$1000-1100/oz. In turn, this will have negative consequences on high-cost producers, while stable, healthy cash-driven producers will continue to thrive.

In the longer term, our view on gold (and other precious metals) is more bullish. This is primarily due to inflationary pressures kicking back in as the world economy drives out of the current lows. Gold will serve as an inflation hedge, as it has in the past. The effect will be amplified by central bankers seeking to protect their country's currencies.

About the Index

We believe that there is a lack of high quality, widely available research of promising small cap Canadian companies. To fill this gap, we have come up with various industry reports, such as the Ubika Gold 20, to provide coverage of quality Canadian mining juniors. We hope that our work, meets your investment standard.

Disclaimer