



Ubika Gold 20

July 18, 2016



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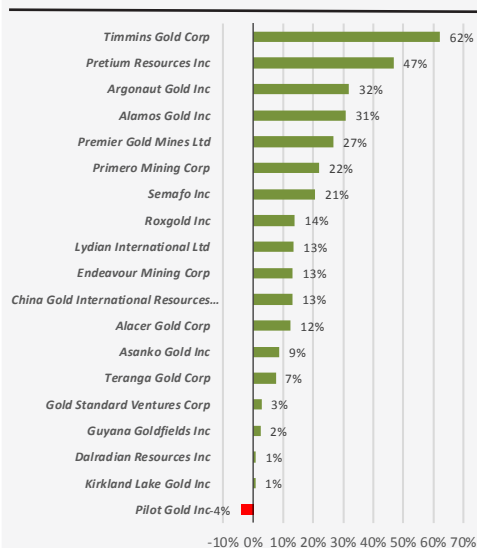
June 6, 2016 - July 18, 2016

UG20: +20.7% (112% Y/Y)
 Gold: +7.0% (17% Y/Y)
 TSX Gold Index: +16.8% (95% Y/Y)

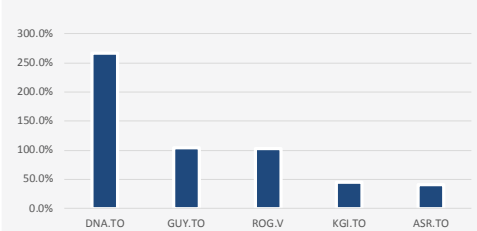
Dollar amounts in CAD unless otherwise stated.



UG20: Performance Distribution



Top Volume Gainers (m/m)



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Strong and Consistent Gains for the UG20

Since the last UG20 issued on June 6, 2016, the index has appreciated in value by 21%. Compared to the 7% rise in the price of gold and 17% upside witnessed by the TSX Gold Index, the UG20 generated 14% and 4% in alpha, respectively. Since Mid-March of 2016, the UG20 has consistently been advancing its lead against the other two benchmark indices. While we do attribute this to a matter of stock picking, we must be cognizant of the market forces at play here. Indeed, apart from a few anomalies (i.e. uranium), commodities have been performing exceptionally well this past month and a half. Gold is no exception: Brexit uncertainties, multiple terrorist attacks from ISIS, and US presidential dilemmas have all been contributing to the general volatility in global financial markets. During such times, the bullion commodity soars, and brings its fellow mining companies with it.

Industry Highlights

- **Global yields continue to fall** following the unexpected British exit from the European Union. The decision brought waves of uncertainty across financial markets, causing a “flight to safety” reaction. Consequently, bond prices surged and yields fell:
 - Japan’s 10-year bond is currently yielding negative 0.24% after Prime Minister Shinzo Abe’s majority win on Sunday’s election. The dubbed – Abenomics – have plunged interests rates to their current levels
 - U.S. 10-year yields have fallen to 1.53%, down almost a whole percentage point from a year ago
 - Investors are now paying Germany to borrow for 10-years: the country is the second G7 (the other is Japan) nation with negative yields. The euro zone’s benchmark issuer hit a record low of negative 0.2%, but now fetch negative 0.05%
- **Gold prices continue to appreciate** as investors witness real returns on fixed income securities going lower and lower. Although inflation is still a not much of a worry, yields continue to fall. As a result, the opportunity cost for holding such bonds increases as investors can find income elsewhere. At a certain point, a 0% yield (i.e. gold) trumps the negative yields that many of the world’s bonds currently offer. Demand for the bullion thus rises and prices surge.
- **The Eurozone crisis** is becoming more and more apparent, even after Greece’s brokered deal on its debt in May. Low yields on Spanish, Italian and Portuguese bonds continue to drive investors into gold. Further, the Italian banking crisis is getting serious: EU laws prevent bailouts for the system which is heavily under bad debt (a whopping 17% of bank loans are bad).

Upcoming Events:

In an environment with global pressures on all fronts, investors would be wise to follow financial news diligently. Here are some upcoming events we find are note-worthy:

- Executive Programme in Gold Reserves Management: September 19, 2016
- Bank of England’s monetary policy meeting in early August
- FOMC Meeting on Fed’s Funds Rate: July 26-27

Notable Outperformers

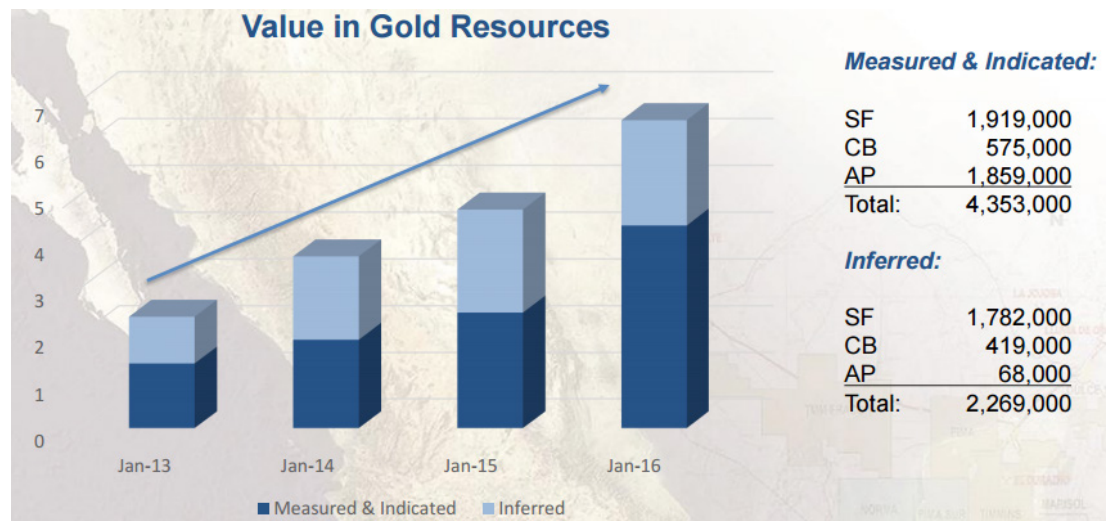
Timmins Gold Corp. (TSE:TMM)

Timmins Gold is a Mexican gold play that is transitioning into a rapid growth phase. The Company owns the San Francisco Mine in Sonora, Mexico. Their Ana Paula gold project in the Guerrero Gold Belt is an advanced stage development project 180 km from Mexico City. It is a high grade, high margin gold play with modest capex requirements. In terms of exploration, Timmins owns the Caballo Blanco Property in Veracruz, Mexico.

The Company has surged 62% in value since we last covered them on June 6, 2016. Year-to-date, Timmins has realized over 250% gains – a phenomenal feat even for the surging gold sector. The growth is primarily attributable to the following factors:

- 2Q16 gold production figures were announced at 25,863 for the quarter. This represented a 13% increase Y/Y, due to more tonnes being mined at a higher grade.
- The average realized gold price for the quarter was only \$1,232/oz, which is expected to rise and get closer to the current \$1320+/oz price of gold.
- Timmins repaid its secured debt to Sprott Resource Lending and Goldcorp for \$10.2 million, as well as the Lundin Group’s debt for \$2.0 million, all in the span of 2Q16. The Company earned a gross profit of \$6.3 million, a figure not seen since Sept., 2014.
- San Francisco mine plan was revised to harvest more quality cash flow. The Company aims to focus on high-margin mining in the site. Specifically they estimate ~\$25 million in EBITDA at an overly conservative \$1080/oz gold price for the year. When realized gold prices begin to stabilize around \$1300/oz, annual gold production from the mine should be ~100 koz for the next 5-6 years. Total proven and probable reserves in the mine are totaled at 1589 koz.

Figure 1. Value of Gold Resources Experiencing Strong Growth



Source: Company Filings, Ubika Research

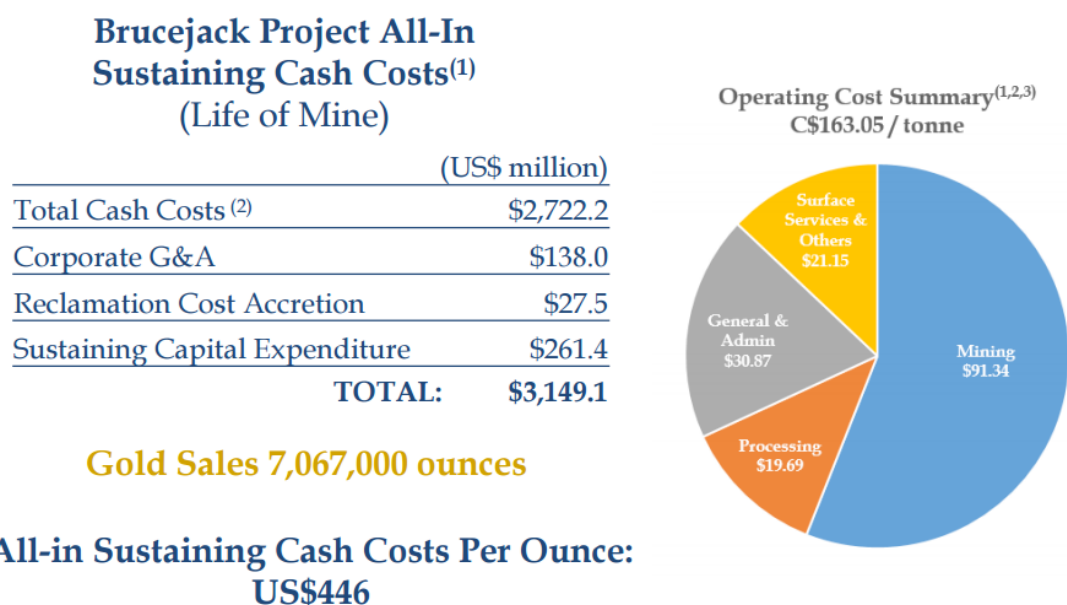
Pretium Resources Inc. (TSE:PVG)

Pretium Resources is an exploration and development play based in British Columbia. Specifically, its projects include the Brucejack Project and the Snowfield Project, both situated in northwestern B.C. The Brucejack Project is currently being focused and will soon be transitioning to a high-grade underground production play. The Project has four mining leases and six mineral claims which add up to approximately 3050 hectares in the site. Contrarily, the Snowfield Project has one mineral claim and an area of approximately 1267 hectares.

With a commercial production target sometime in 2017 for its Brucejack Project, Pretium shareholders will soon be witnessing materialized organic cash flow. In particular, the Brucejack has a mine life of 18 years, amounting to a total gold production of 7.27 million oz. This represents a 400 koz average annual production for the life. In terms of recovery rates, the mine boasts a 97% figure for gold, and a 90% for silver. The total project is expected to cost \$641 million US to ramp up production on the site. Once the underground infrastructure in complete, the Company can begin commissioning the gold and start monetizing it. Looking forward to this, it is no surprise that the stock has skyrocketed 47% since we last focused on them, and over 100% year-to-date.

In terms of costs, the mine has an all-in sustaining costs (AISC) per ounce of \$446 US, LOM. This is assuming gold sales of 7 million oz and total cash costs of \$3,149 million US. Compared to average figures of above \$700/oz, investors are happy to see the strong possibility of earnings in the future. The structure can be analyzed clearly in Figure 2.

Figure 2. Life of Mine (LOM) Ore Milled



Source: Company Filings, Ubika Research

Alamos Gold Inc. (TSE:AGI)

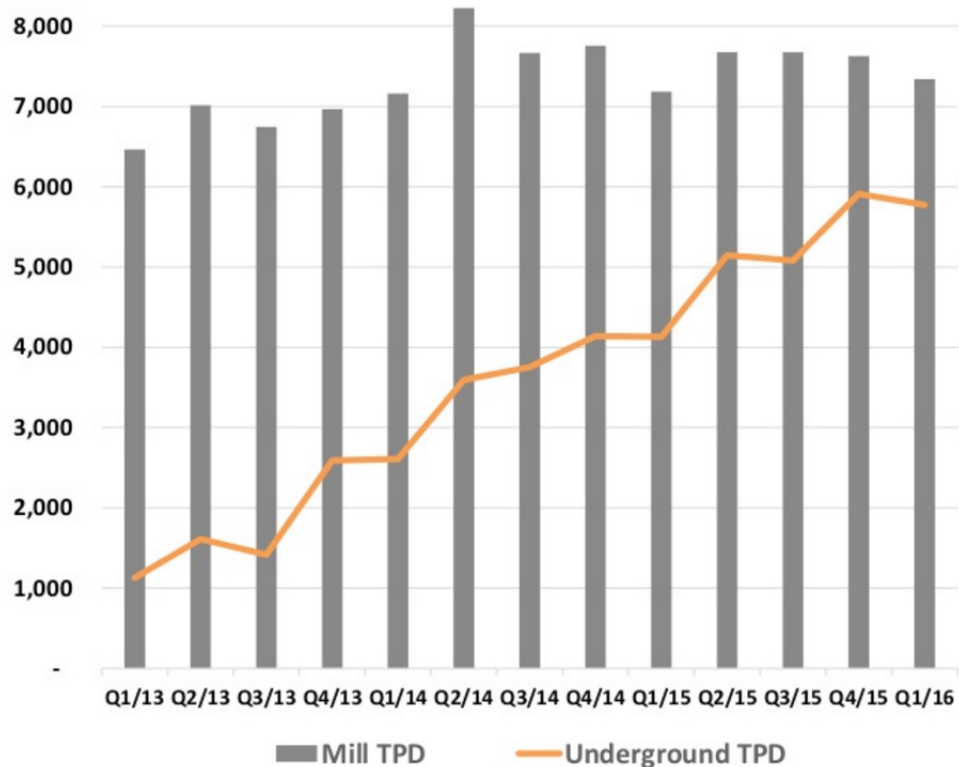
Alamos owns and operates mines in Canada, Mexico and Turkey. The Young-Davidson Canadian mine is located in Northern Ontario, consisting of 11,000 acres of land. The mine is situated on the site of two past-producers that each mined over one million ounces of gold. Its Mexican mines are the Mulatos and El Chanate, whereas its Turkish gold development projects are: AgiDagi, Kirazli and Camyurt. 60% of its land is located in Canada. In terms of production, 78% is located in Canada, abolishing fears of unsafe political jurisdictions.

Alamos has had a strong historical trend in revenues throughout the years, contrary to the majority of other gold miners. This time last year the Company was earning sales of \$70 million per quarter. Now, largely due to the increased price of bullion, Alamos has averaged \$108 million per quarter.

The Company has accumulated a significant cash balance of \$273 million, while maintaining a total debt portfolio of \$319 million. To further enforce Alamos' strong liquidity and capital freedom, its current working capital ratio sits at a healthy 4.3x. This strong balance sheet was through achieving its 2015 year-end target of 6,000 tpd on the Young-Davidson mine, as well as a 14% decrease in Q11 2016 AISC from 2015 levels.

Out of the 14 analysts that cover Alamos, 8 are currently rating it a Buy, 0 a Sell, and 7 appear to find the stock justifiably valued. The stock is up 31% since June 6, 2016.

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



Source: Company Filings, Ubika Research

The Laggard

Pilot Gold Inc. (TSE:PLG)

Compared to the index which climbed 21% during the focus period, Pilot Gold was the only constituent which ended up in the red with a 4% depreciation in price. While the Company is certainly liquid with an abysmal current liabilities figure and strong \$9.5 million in cash, it has not been living up to investors' expectations. We believe it has to do with the Core Drill results of its Goldstrike Oxide Gold Project in Utah released on June 17, 2016. That being said, we believe the exploration-based play may be undervalued and will soon realize due gains from more positive results.

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.

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