



Ubika Gold 20

October 25, 2016



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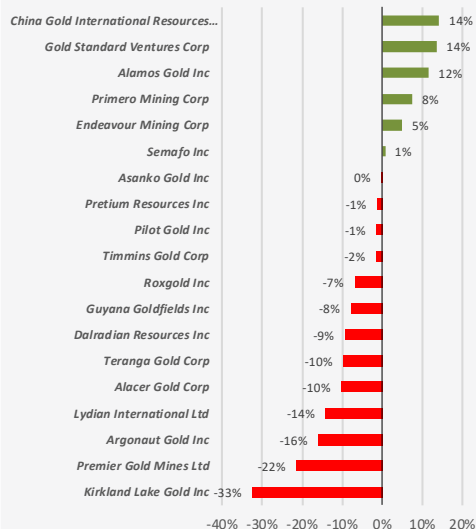
September 19, 2016 - October 25, 2016

UG20: -2.4% (+76% Y/Y)
 Gold: -3.5% (+9% Y/Y)
 TSX Gold Index: -5.8% (+56% Y/Y)

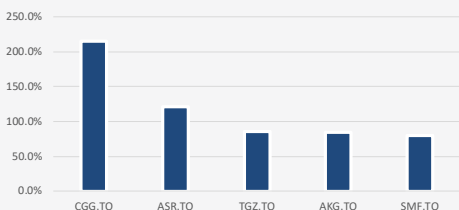
Dollar amounts in CAD unless otherwise stated.



UG20: Performance Distribution



Top Volume Gainers (m/m)



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UG20 Slightly Down as Gold Drops 3.5%

It has been a rough month for gold stocks as our Ubika Gold 20 Index has fallen 2.4% over the period of September 19th to October 24th. However, it isn't alone as our benchmark, the TSX Gold Index, slumped by a larger amount, down 5.8%.

It comes as no surprise that gold is down slightly over the past month, having fallen 3.5%. However, the decrease was pared in part due to weaker job creation data and a rise in the unemployment rate in the United States for the month of September, thus reducing the probability of a rate hike by the U.S Federal Reserve in December.

Industry Highlights

- On October 19th, the third and final U.S Presidential debate took place between Hilary Clinton and Donald Trump. It appears that Hilary Clinton won this debate moving her record to a perfect 3-0 (depending on the news source you look at) before the election. Although this is good news for the markets, as the opened slightly higher the morning after, it could continue to be bad news for the price of gold, as a Clinton victory would remove uncertainty from the market, thus pushing the price of gold down.
- After almost three weeks of closure, Barrick Gold's (TSX:ABX) Veladero Mine in Argentina resumed operations on October 4th. Back in September, a pipe carrying crushed ore and cyanide was damaged and resulted in a spill, which closed the mine. Barrick hasn't released any numbers on the economic impact of the closure. However, Veladero produced 602,000 ounces in 2015, meaning that the closure could cost the producer between 20,000 and 30,000 ounces. With a yearly guidance of between 5.0 and 5.5 million ounces, the closure will most likely have an immaterial effect.
- Barrick seems to have been in the lime light often over the last month as it also announced the sale of its interest in the Kalgoorlie super pit mine in Australia, on October 7th. The announcement has drawn interest from Kinross Gold Corp (TSX:K) and Chinese gold giant, Zijin Mining Group Co. (SHA:601899) and could fetch the largest miner in the world, (by market cap), up to \$1 billion.
- Coming off one of the strongest monsoon seasons in recent years, gold demand in India, the world's largest consumer market, is expected to rise on the back of Diwali and the Indian marriage season. The monsoon season, which has ended a three-year drought, will provide the rural farmers strong crop yields and allow them to splurge on gold buying as they make up a third of the country's consumption. As 35-40% of Indian wedding expenses are devoted to gold jewelry, the potential demand for the metal is expected to be around \$10 billion for the season.

Upcoming Events

- November 16th-18th: 2016 Manitoba Mining and Minerals Convention in Winnipeg

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Notable Performers

China Gold International Resources Corp Ltd (TSX:CGG)

China Gold International Resources Corp. (“China Gold”) is a gold and base metal mining company involved in the acquisition, exploration, development and operation of gold and base metal projects. Currently, China Gold holds interests in mining properties in Mongolia and Tibet. Although most miners have been in a decline over this past month, China Gold powered up to the top of our Ubika Gold Index, climbing 14%.

Although in steady decline for the better part of the month, China Gold’s stock price got a jolt on October 18th after it announced the establishment of a strategic partnership with the Chinese Academy of Sciences Northwest Institute of Eco-Environment and Resources (CASNIER). This partnership has resulted in the installation of a weather monitoring system at its Jiama Mine. Through this station a research team will study the extreme fluctuation in weather patterns caused by the cold and elevation of the mine (Figure 1, below). As the consistent freezing and thawing produces more wear and tear on the mining equipment, the information that the research team can provide China Gold will be invaluable. By having advanced warning on extreme weather changes, China Gold can act to mitigate the effects on its equipment thus prolonging its life and decreasing ongoing maintenance and future capital expenditures.

Figure 1. Frozen Temperatures plague the mining operations at Jiama



Source: Company Website

One other announcement of note from the period, is that China Gold has appointed Mr. Guan Shiliang as a Vice President. Mr. Guan is a senior professional engineer with 25 years of experience in the mining industry and serving most of that time in executive roles. Although it did not seem to have a direct effect on the stock price it is always important to have highly-experienced executives as a part of your team. For the quarter ended June 30th, China Gold saw its cost of sales as a percentage of revenues rise 7% compared to the same quarter in 2015. Although management attributes a large portion of this to higher waste rock and lower grades, with gold prices up approximately \$70 per ounce on average over the past two quarters, there may be some operational efficiencies that China Gold is hoping Mr. Guan can produce for them.

Kirkland Lake Gold Inc. (TSX:KLG)

Kirkland Lake Gold Inc. (“Kirkland”) is an intermediate Canadian gold miner with a 2016 production guidance of 270k-290k ounces of gold. Kirkland owns interests in five former high-grade gold mines in the prolific Lower Abitibi Greenstone belt, located near Timmins, Ontario. Despite the announcement of record gold production and low operating costs, Kirkland finds itself at the bottom of the Ubika Gold 20 Index for this period, falling 33%.

Although the value of Kirkland has been on a decline for most of the period, much like that of gold, there was one event in particular that had an effect and was responsible for an almost 8% loss in a single day. On September 29th Kirkland announced that it would be buying Newmarket Gold, a Canada-listed company with operations in Australia, in an all-stock deal estimated to be worth \$1 billion. It is expected that the entity will be a \$1.6 billion company producing over 500,000 ounces of gold. As Newmarket Gold is currently trading at a premium price to net asset value ratio of more than 3.5x, investors who hold Kirkland shares are worried that it will only bring dilution to their value. In addition, as both companies have operations in separate countries, the possibility of realizing synergies between the two jurisdictions is also open to skepticism.

Gold production increased 13% to over 77k ounces for the quarter, driven by high-grade throughputs, bringing the Company to record production in Q3/ 2016. However it seems that the market was more concerned with Kirkland’s ability to control costs. Although the Company had record low operating costs of CAD\$704 per ounce, which represents a \$156.00 (18%) per ounce cost reduction over the previous quarter, its AISC only dropped \$16 over the same time period (Figure 2). Understand that a reduction in one area doesn’t necessarily mean an exact translation into the bottom line because there may be initial capital expenditures that are necessary in order to realize the operating cost reductions, however it’s a large discrepancy, which will hopefully be explained in the MD&A when its released with Kirkland’s financials on November 2nd.

Figure 2. Comparison Cost Reduction: Operating Costs vs. AISC Costs

| | Operating Costs / oz | All-in Sustaining Costs/ oz |
|----------------|----------------------|-----------------------------|
| Q2/ 2016 | \$ 860.00 | \$ 1,276.00 |
| Q3/2016 | \$ 704.00 | \$ 1,260.00 |
| Cost Reduction | \$ 156.00 | \$ 16.00 |

Source: Company Filings, Ubika Research

Argonaut Gold Inc. (TSX:AR)

Argonaut Gold Inc. (“Argonaut”) is a gold mining company engaged in the exploration, development, and operation of gold mines in North America. It currently has operating mines and advanced-stage projects in Mexico as well as one advanced-stage exploration project in Ontario. Unfortunately, due to an incident at one of its mines and low-grade drill results, Argonaut Gold fell 16% and sits near the bottom of our Ubika Gold 20 Index.

The major contributor to the loss in value was the less than impressive drilling results produced from the El Creston gold-silver deposit at its La Colorada Mine. With high-grade gold of 10 g/t being found over very short intervals (1-3m) in only a couple of holes, and all of its larger intervals (greater than 25m) being less than 2 g/t, and a majority of them being under 1 g/t, the deposit doesn’t show promise of large margins and returns. This is because the low-grade deposits will produce high percentages of waste rock, which will increase the all-in sustaining cost (AISC) to produce the gold, decreasing profitability. Some of the drill results that were highlighted in the Company’s release are pictured below (Figure 3).

Figure 3. Drill Results from the El Creston Deposit

| Hole | Azimuth | Dip | From (m) | To (m) | Interval (m) | Au g/t | Ag g/t |
|--------------------|------------|------------|----------|--------|--------------|--------|--------|
| 16-LCRC-470 | 180 | -60 | | | | | |
| Interval | | | 163.1 | 249.9 | 86.9 | 0.80 | 7.5 |
| Including | | | 205.7 | 222.5 | 16.8 | 2.39 | 12.6 |
| Including | | | 248.4 | 249.9 | 1.5 | 3.39 | 31.8 |
| 16-LCRC-466 | 130 | -77 | | | | | |
| Interval | | | 24.4 | 64.0 | 39.6 | 0.80 | 4.8 |
| Including | | | 25.9 | 27.4 | 1.5 | 10.00* | 8.6 |
| Including | | | 61.0 | 62.5 | 1.5 | 3.55 | 2.5 |
| Interval | | | 73.2 | 117.3 | 44.2 | 0.86 | 5.3 |
| Including | | | 82.3 | 85.3 | 3.0 | 2.88 | 1.8 |
| Including | | | 106.7 | 111.3 | 4.6 | 2.87 | 22.4 |

Source: Company Presentation

The next event that has contributed to the drop in value is something you never want to happen, but it is still a reality in the mining industry. On September 26th Argonaut announced that it had a fatality at its El Castillo Mine in Mexico the night before. After the announcement Argonaut's stock went on a two-day slide and lost over 13%. Whenever there is a fatality at a mine it brings into question how responsibly it is being operated, garnering bad sentiment from the market towards future safety in the Company's operations, as it adds additional risk and liability to the Company.

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