



Ubika Gold 20

December 12, 2016



Ubika Gold 20

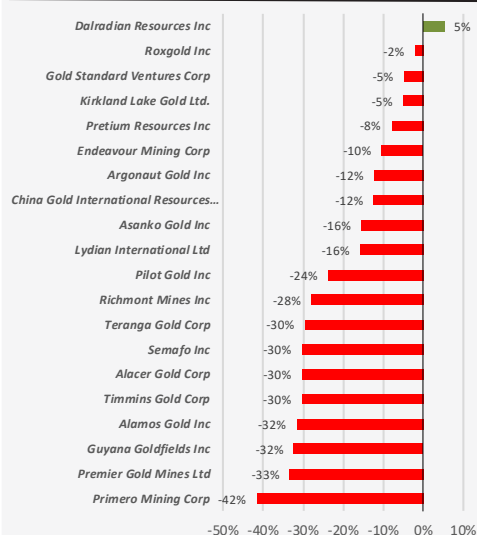
October 25, 2016 - December 12, 2016

UG20: -20.8% (+78% Y/Y)
 Gold: -9.1% (+9% Y/Y)
 TSX Gold Index: -17.2% (+48% Y/Y)

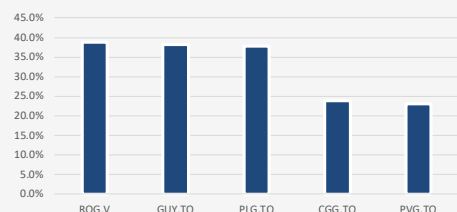
Dollar amounts in CAD unless otherwise stated.



UG20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
 David Bar | Analyst | Gravitas Financial Inc. | dbar@gravitasfinancial.com | 1 (647) 284-8485

Gold Miners Have Had a Tough Go of Late, But a Few Could Be Set to Shine

With the gold price having dropped by 9.1% since October 25th, it has weighed heavily on the Ubika Gold 20 Index, which has shed 20.8% of its value, and its benchmark the TSX Gold Index has suffered the same fate, dropping 17.2%. It wasn't all bad news, however, as we welcomed Richmont Mines (TSE:RIC) to the UG20. That, plus an explanation of the recent Kirkland Lake and Newmarket Gold merger and more inside the UG20 update.

Industry Highlights

- The U.S. Federal Reserve has hinted at rate hikes and some even say there's a 100% chance of a raise at its next meeting on the 13th and 14th of December. The Bank of Canada, on the other hand, decided to keep its overnight rate at 0.5% at its December 7th meeting, citing uncertainty supported by a hike in both U.S. and Canadian bond yields as investors moved into stocks after Trump was elected.
- After the merger between Newmarket Gold Inc. and Kirkland Lake Gold Inc. was voted in favor by both companies' shareholders, the excitement for the new business entity (Kirkland Lake Gold Ltd, TSE:KL) hasn't stopped. On November 14th, it was announced that Kirkland Lake Gold has rejected a \$1.4 billion takeover offer presented by South Africa's Gold Fields (NYSE:GFI) in combination with Silver Standard Resources (TSE:SSO). The resulting issuer – Kirkland Lake Gold Ltd. – will have 202.3 million shares out, and the new company's market cap is now \$1.7 billion versus Kirkland Lake Gold Inc. prior market cap of just \$916mm.
- Between November 9th and November 16th, it was estimated that nearly \$1 billion in gold, approximately 30 tonnes, was imported into India in the wake of its demonetisation. On November 8th, Prime Minister Narendra Modi gave four hours' notice that Rs500 and Rs1000 notes (86% of currency) would cease to be legal tender in an attempt to curb income tax evasion. This saw consumers flock to jewelry retailers and purchase gold at a high premium. India is the world's second-largest gold consumer, according to Reuters, but has seen 2016 become the worst year for demand since 2009, due to the higher prices

Upcoming Events

- Association for Mineral Exploration Annual Roundup 2017: Jan 23rd-26th, 2017 In Vancouver, British Columbia
- Open Pit Slope Design and Implementation: Jan 12th-13th, 2017 at InfoMine Inc., Suite 640-580 Hornby Street, Vancouver

Get Additional Ubika Research Reports on SmallCapPower.com



Notable Performers

Primero Mining Corporation (TSX:P)

Primero Mining Corporation (“Primero”) is a precious metals miner engaged in the acquisition, exploration, development and operation of resource properties in Mexico and Canada. Even with higher gold prices for the better part of the year, Primero’s stock is down about 60% YTD and fell 42% over the reporting period, as poor Q3 results and a production guidance reduction weighed on the stock’s value.

On November 9th, Primero released its Q3, 2016 results, which disappointed, as it posted an \$11.7mm loss, on the back of a 28% drop in revenues to \$57mm compared to \$79.2mm in Q2, 2015. The drop in revenues was due to the loss of productivity at its San Dimas mine brought on, in part, by lower head grades, unplanned worker absences and work stoppages caused by repairs at the Las Truchas hydroelectric dam. This limited the mine to 70% of its required power supply, which compounded the issues and forced Primero’s All-in Sustaining Cost (AISC) to skyrocket to \$1,350/ gold ounce for the quarter compared to \$775 for Q3 of 2015. The reduced productivity has also led to the reduction in Primero’s production guidance for the year to 170,000-190,000 gold equivalent ounces (“AuEo”) from its previous estimate of 195,000-215,000 AuEo.

Although the outlook for Primero heading into 2017 isn’t great, as further short-term labour disruptions are expected in February 2017 for discussions of the employees collective bargaining agreement, the reporting period did bear some fruit. On November 17th, Sage Gold Inc. (“Sage”) (CVE:SGX) announced that it had signed a Toll Milling Agreement with

Figure 1: Proximity of Sage’s Clavos Mine to the Black Fox Milled Owned by Primero



Source: Company Presentation

Primero Mining Corp's Black Fox -Stock Mill. The agreement is for 200,000 tonnes per year for a grand total of 1.1mm tonnes over the estimated 7-year mine life of Sage's Clavos Mine (previously owned by Kirkland Lake's St. Andrews Goldfield). Proximity of the mine to Primero's mill is shown in Figure 1 below. The first material to be shipped is expected in July 2017, with processing expected to begin in September 2017. Although no financial details of the arrangement have been published, this will increase revenues and decrease Primero's operating costs at the mill by ensuring higher capacity throughput at all times.

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.

With decreased productivity expected and depressed gold prices looming, Primero will have some tough decisions ahead. In the coming months Primero's short-term liquidity may provide some challenges as its cash and inventory (\$55.7mm) isn't enough to cover all of its maturing obligations (\$91.2mm). However, the largest single portion of its current liabilities, a maturing revolver credit facility of \$49.4mm, doesn't mature until May 2017. This gives the Company time to get operations fully functioning and, if not, the Company is already considering the possible sale of its Cerro Del Gallo property. With a balance sheet value of \$65mm, Cerro Del Gallo would be able to provide any liquidity needed, however may be sold off at a steep discount if buyers know there's a time crunch. As Primero is currently trading at slightly higher Enterprise Value to EBITDA (EV/EBITDA) multiple of 9.2x compared to the median of 7.8x amongst producing gold miners, unless the Company can turn around its performance in Q4, there may be a downward correction coming.

Premier Gold Mines Ltd. (TSX:PG)

Premier Gold Mines Ltd ("Premier") is a junior gold miner focused on the exploration and development of gold deposits in North America, owning two properties in production, one in development, and current exploration activities on a number of others. Although long-term growth opportunities presented themselves over this reporting period, Premier's stock was weighed down by falling gold prices and poor Q3 performance, dropping 33%.

At its McCoy-Cover exploration property in Nevada, Premier released extremely positive results from its ongoing 15,000m drill program, extending the high-grade mineralization in the Cove Pit yet again. Extremely high-grade results over substantial lengths have been found, boasting 28.64g/tonne over 12m, 50.96g/tonne over 4.1 m, and 32.3m of 5.31g/t. Other key intercepts can be found below in Figure 2. These are very positive results, which although are overshadowed by falling gold prices, will likely produce a favorable resource estimate that is

Figure 2: Key Intercepts from McCoy-Cover Drill Results

Hole ID	Coordinates ⁽¹⁾ (m)	Azimuth /Dip (Degrees)	From (m)	To (m)	Core Length ⁽²⁾ (m)	Au (g/t)	Ag (g/t)
PG16-12	4465432N/481977E	047/-57	599.7	611.7	12.0	28.64	7.37
			601.1	605.2	4.1	50.96	11.84
			627.1	634.0	6.9	27.71	12.95
PG16-14	4465389N/481988E	071/-51	532.5	534.3	1.8	5.26	1.25
			653.9	664.8	10.8	6.16	0.86
			653.9	655.5	1.6	9.43	1.97
			657.5	660.7	3.2	9.48	0.45
PG16-16	4465563N/481906E	047/-55	551.7	584.0	32.3	5.31	1.20
			559.9	567.5	7.6	8.55	2.41
			580.6	584.0	3.4	12.04	1.88
			653.0	661.7	8.7	7.44	3.29

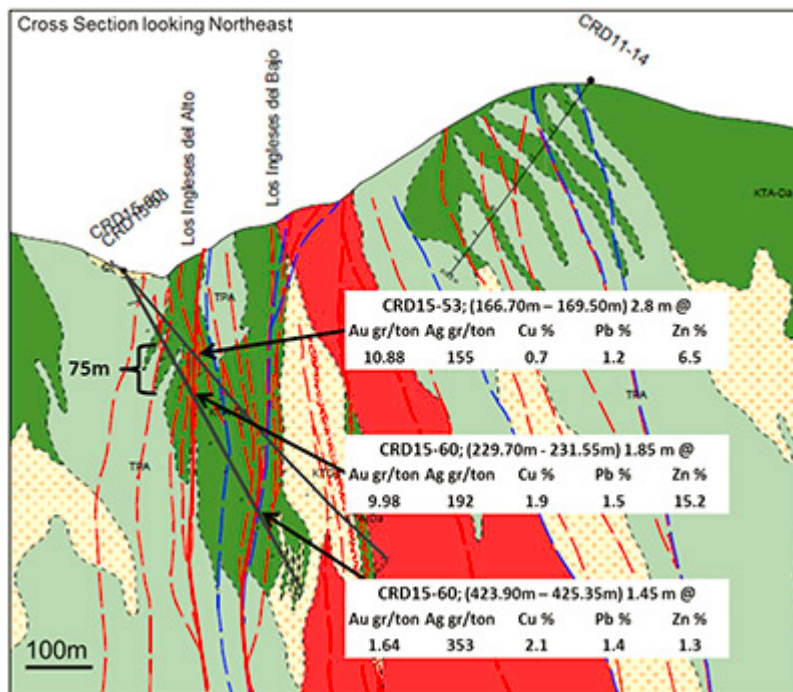
Source: Company Filings

expected in Q1 2017 and a Preliminary Economic Assessment thereafter. All drilling for the 15,000m program is scheduled to be complete on December 15th, 2016 with all cores and assays prior to that being used to conduct the resource estimate.

Premier also released a feasibility study for the Hardrock Project on its joint venture property with Centerra Gold Inc. (TSE:CG), the “Greenstone Gold Property, located in Geraldton, Ontario. The study revealed that Probably mineral reserves were 4.7mm contained ounces of gold, which would produce 4.2mm ounces over a 14.5-year mine life with an average AISC of \$780/oz. The after-tax NPV of the project with a 5% discount rate is \$414mm for Premier. Although the companies have not made a construction decision on the project, this is a sizeable project to have in your back pocket and should market conditions improve you could almost guarantee that it will commence. That being said, once construction begins, ore won’t be mined until the third year and gold not poured until the fourth (or first year of operating mine life), and with an initial cap ex of \$1.2 billion, represents a sizeable decision for the JV partners.

Further strengthening Premier’s future prospects, Premier signed acquisition deals at the end of October with both Kinross Gold Corp (TSE:K), and Goldcorp Inc. (TSE:G) for highly prospective gold deposits. The Goldbanks Project in Nevada with Kinross has a near surface, low grade Inferred resource of 556,700 oz, however the target is a high-grade vein that produced an intersect from drilling that held 192g/t gold and 10,850g/t silver over 1.1m. Over a 1m intersect may not be significant in the grand scheme, but does leaves the possibility open for more mineralized zones to be discovered. The Alto-Cristina Project in Mexico with Goldcorp, has two, high-grade polymetallic vein discoveries (Alto, Bajo) that have been discovered, (pictured in Figure 3).

Figure 3: Cross Section of the High Grade Veins in Goldcorp's Alto-Cristina Project



Source: Company Filings

Although drilling is currently underway at the Alto/Bajo vein structure, results are expected by year end but previous drilling found intersects of 10.88g/t Au, 155g/t Ag, 0.7% Cu, 1.2% Pb and 6.5% Zn across 2.8m. The details of the two sales can be found in the press release dated October 26, 2016. As both Kinross and Goldcorp are large, well-respected miners, having deals on properties with them looks extremely good for Premier. Not only that but these acquisitions are also characterized by options and so Premier has the ability to decide in time, depending on market and company conditions, if it should continue with them, limiting its exposure.

Although Premier is coming off a Q3 loss of \$5mm and a YTD loss of \$27.7mm, the Company became a producer this year and is on its way to ramp up production. With the purchase of the producing Mercedes Mine in Mexico and the commencement of operations at South Arturo, you can expect to see profitable production of more than 180,000 ounces for 2017, with a consolidated AISC of just \$489 per ounce of gold. To put that into prospective, Canadian giants Agnico Eagle and Barrick Gold have average AISC's for Q3/2016 of \$821/oz and \$704/oz, respectively. Currently trading at a Price to Net Asset Value Ratio (P/NAV) multiple of 0.8x is slightly above the 0.7x multiple industry benchmark, however with the impending resource estimate and PEA for the McCoy-Cove project being expected in H1 2017, this may account for the slight premium currently being placed on the stock.

New Addition: Richmond Mines Inc. (TSX:RIC)

Richmont Mines Inc. (“Richmont”) is a Canadian gold producer with assets in Ontario and Quebec, which has been exploring, developing and operating assets for 25 years. Although its stock value has dropped 30% Since October 25th, we believe that the depressed price presents an opportunity as management has positioned its key assets for growth.

When analyzing mining companies there are three major areas to evaluate; a company’s management, geography of operations, and the assets themselves. For Richmont Mines, the management team is tried and tested with four of its top operational executives having 80+ years of experience in the mining industry. Richmont is led by Mr. Renault Adams, a mining and mineral processing engineer by education, who has previously held the positions of President and CEO at Primero Mining Corp (TSE:P), where he brought the value of the company from \$2.80/share in 2011 to a high of \$8.75/ share in 2014. Previously, he also held the position of Senior VP, America’s Operations, at IAMGOLD Corporation (TSE:IMG) as well as other senior positions at Cambior Inc. and Breakwater Resources Ltd. Having a strong management team with experience provides a great chance of executing on future development efforts to continually drive growth. To support that statement, consider that when Mr. Renault took over in November of 2014, Richmont’s stock was approximately \$2.36/ share.

Richmont Mines is also a favourite company because its assets are geographically confined to the provinces of Ontario and Quebec, Canada. This provides exceptional benefits as the Company has numerous properties in one of the safest mining jurisdictions in the world. This means that Richmont has the knowledge of the approval process within the jurisdictions,

Figure 4: Location of Richmont’s Producing and Development stage properties with approximate location of 4 of 5 exploration properties denoted by larger yellow circles

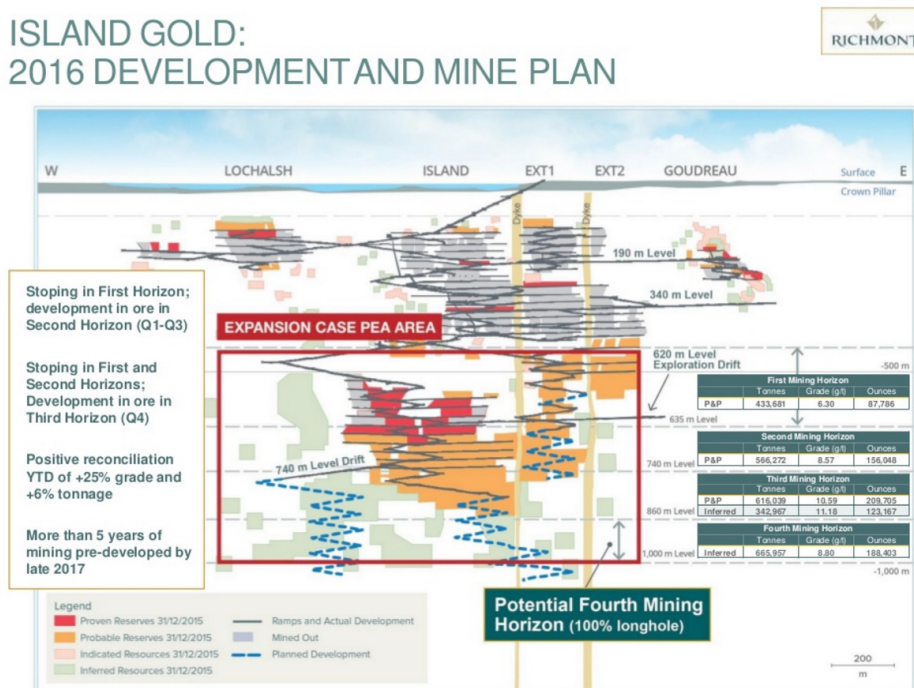


Source: Company Filings

creating the ability to efficiently navigate the various stages of mine development. In addition, Richmond’s assets, both producing, development, exploration and processing are all in developed mining jurisdictions with the infrastructure and work forces to operate them. When looking at the placement of its Beaufor, Wasmac, Camflo Northwest, The Chimo Group, and Louvem properties, they are all within close proximity to each other and to its Camflo Mill, enabling the easy vertical integration of their operations into its supply chain. Even its large Island Gold Mine is in a very populated mining district of Northern Ontario with solid infrastructure and an internally-owned mill.

Richmont’s assets are also very valuable in terms of production and development potential. When evaluating the Island Gold Mine located North of Wawa, Ontario, its Preliminary Economic Assessment was released in October 2015, and management is working on expanding its PEA mineral reserve and resource estimates from the 5.7mm ounces of Proven and Probable Reserves estimated in Dec 31, 2014. The new estimates are expected to be released in February 2017. Furthermore, Richmond has been undergoing drilling activities within the area described within the initial PEA to extend the life of the mine between the 400m and 1000m level, with a possibility of expanding the resource below the 1000m level. In Figure 5 below, you can make see the Indicated and Inferred resource that Richmond is looking to upgrade with its planned shaft development in dashed blue. As a large part of the underground infrastructure is already in place, Richmond will be able to access these new areas with very little capital expenditure, increasing the profitability of the mine by decreasing the fixed costs per gold ounce produced associated with the initial mine development.

Figure 5: Depiction of Island Gold Mine and Planned Developments



Source: Company Presentation

Important Disclosure

Smallcappower.com is owned and operated by Ubika Corporation whose divisions include Ubika Research and Ubika Communications. Ubika Corp. is a wholly owned subsidiary of Gravitas Financial Inc. The following terms and conditions ("Terms of Use") govern the use of this website ("site") www.SmallCapPower.com. By accessing this site, you agree to comply with and be legally bound by the Terms of Use as set out herein. Ubika reserves the right to seek all remedies available at law and in equity for violations of these Terms of Use, including the right to block access from a particular internet address to our site.

Disclaimer

Ubika Corporation and its affiliates or partners will seek to provide services to companies mentioned on the smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities. Ubika Corporation and its related companies (including its directors, employees and representatives) or a connected person may have ownership/stock positions in, or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts in certain underlying companies mentioned in this site and which may also be clients of Ubika's affiliates. In such instances, Ubika and/or its affiliates and/or their respective officers, directors or employees will use all reasonable efforts to avoid engaging in activities that would lead to conflicts of interest and Ubika and/or its affiliates will use all reasonable efforts to comply with conflicts of interest disclosures and regulations to minimize the conflict.

Specifically all companies mentioned or listed as "Analyst Covered Companies" at smallcappower.com and which are shown under the heading "Analyst Covered Companies" on the page: <http://www.smallcappower.com/companies> have entered into a commercial relationship with Ubika Corporation or our affiliates for capital market services and have paid fees and/or shares or stock options or warrants for being featured and mentioned in smallcappower.com. Hence these "Analyst Covered Companies" at smallcappower.com are shown at the website as an advertisement only and any mention of these companies does not and will not constitute an offer to buy or sell securities in the featured companies. Ubika Corporation, its affiliates or partners will seek to provide services to companies mentioned in smallcappower.com website. Hence, all information available on smallcappower.com should be considered as commercial advertisement and not an endorsement, offer or recommendation to buy or sell securities.

Ubika Corporation and its divisions Ubika Communication and Ubika Research (collectively, "Ubika") are not registered with any financial or securities regulatory authority in Ontario or Canada, and do not provide nor claims to provide investment advice or recommendations to any visitor of this site or readers of any content on this site.

The information on this site is for informational purposes only. This site, including the data, information, research reports, press releases, findings, comments, views and opinions of Ubika's analysts, columnists, speakers or commentators, and other contents contained in it, is not intended to be: investment, tax, banking, accounting, legal, financial or other professional or expert advice of Ubika or its affiliates, or a recommendation, solicitation or offer by Ubika or its affiliates to buy or sell any securities, futures, options or other financial instruments, and such information should not be relied upon for such advice. Every user of this site is advised to seek professional advice before acting or omitting to act on any information contained in the site.

Research reports and newsletters have been prepared without reference to any particular user's investment requirements or financial situation. Where reference is made to estimate of value or relative value of a specific company, there is no guarantee that these estimates are reliable or will materialize. Readers of these reports and newsletters are advised to conduct their own due diligence before making any investment decisions. Ubika does not make independent investigation or inquiry as to the accuracy and completeness of any information provided by the Analyst Covered companies. Although the content has been obtained from sources believed to be reliable, this website could include technical or other inaccuracies or typographical errors and it is provided to you on an "as is" basis without warranties or representations of any kind. Ubika and its affiliates make no representation and disclaim all express and implied warranties and conditions of any kind, including without limitation, representations, warranties or conditions regarding accuracy, timeliness, completeness, non-infringement, satisfactory quality, merchantability, merchantable quality or fitness for any particular purpose or those arising by law, statute, usage of trade, or course of dealing. Ubika and its affiliates assume no responsibility to you or any third party for the consequences of any errors or omissions.

Information in this site is subject to change without notice. Ubika assumes no liability for any inaccurate, delayed or incomplete information, nor for any actions taken in reliance thereon.

Ubika, its affiliates and their respective directors, officers, employees, or agents expressly disclaim any liability for losses or damages, whether direct, indirect, special, or consequential, or other consequences, howsoever caused, arising out of any use or reproduction of this site or any decision made or action taken in reliance upon the content of this site, whether authorized or not. By accessing this site, each user of this site releases Ubika, its affiliates and their respective officers, directors, agents and employees from all claims and proceedings for such losses, damages or consequences.

Ubika and its affiliates do not endorse or recommend any securities issued by any companies identified on, or linked through, this site. Please seek professional advice to evaluate specific securities or other content on this site. Links, if any, to third party sites are for informational purposes only and not for trading purposes. Ubika and its affiliates have not prepared, reviewed or updated any content on third party sites and assume no responsibility for the information posted on them.

Ubika and/or its affiliates and/or their respective officers, directors or employees may from time to time acquire, hold or sell securities and/or commodities and/or commodity futures contracts mentioned in this site.

This site may include forward-looking statements about objectives, strategies and expected financial results of companies featured in this site or where research reports are available on companies displayed and/or featured on this site. Such forward-looking statements are inherently subject to uncertainties beyond the control of such companies. The users of this site are cautioned that the company's actual performance could differ materially from such forward-looking statements.

World Wide Web sites accessed by hypertext links ("hyperlinks") appearing in this site have been independently developed by parties other than Ubika and Ubika has no control over information in any hyperlinked site. Ubika is providing hyperlinks to users of this site only as a convenience. Ubika makes no representation and is not responsible for the quality, content or reliability of any information in any hyperlinked site. The inclusion of any hyperlink in this site should not be construed as an endorsement by Ubika of the information in such hyperlinked site and does not imply that Ubika has investigated, verified or monitored the information in any such hyperlinked site. Should you wish to inquire about creating a link from your World Wide Web site to this site, contact SCP marketing via e-mail at: info@smallcappower.com. for written authorization.

[See our full disclaimer here.](#)