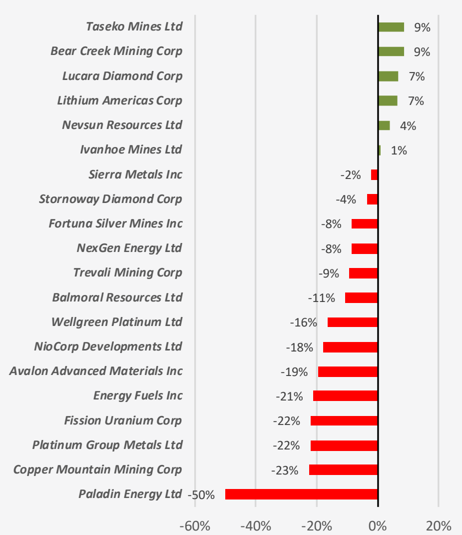
Ubika Mining 20

May 29, 2017

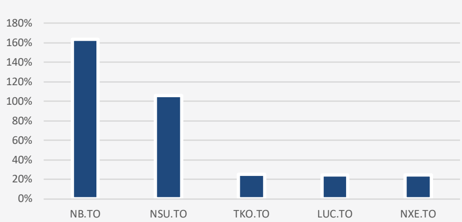
Ubika Mining 20
Mar. 13, 2017 - May 29, 2017

UM20:	-3.5% (+1% Y/Y)
TSX Venture:	+1.2% (+19% Y/Y)
TSX Mining:	+1.6% (+17% Y/Y)

Ubika Mining 20: Performance Distribution



Top Volume Gainers (m/m)



Alex Cutulenco | Senior Analyst | Gravitas Financial Inc. | alex@gravitasfinancial.com | 1 (416) 992-6731
Thomas Chapman | Analyst | Gravitas Financial Inc. | thomas@gravitasfinancial.com | 1 (647) 802-4556

Ubika Mining 20 Index Lags its Peers, Yet 3 Companies Find a Way to Shine

2017 has been a poor year thus far for our Ubika Mining 20 (UM20) Index, as it is down -17% YTD compared to a 1% gain for the TSX. Furthermore, the index is down -3.5% since our last report, mainly due to declines in uranium and base metals, most notably nickel, copper, and lead.

In this edition of the UM20 index, we give some industry highlights and discuss a few companies that have managed to outperform a poorly-performing index, and how they are positioned to perform going forward.

Industry Highlights

- **Hedge Funds are exiting bullish positions on silver** at a rapid pace. Bullish positions in silver held in the form of derivatives have fell from a record high to a 16-month low in a five-week time frame. This is a bad sign, as Hedge Fund managers are typically sophisticated investors. However, anybody with long positions in silver should take comfort in the fact that silver ETF holdings have increased nearly 1,000 tonnes this year, alluding to a generally bullish look on the precious metal.

- **Expect iron ore demand to decrease** as the Chinese government is taking measures to take the heat out of the Chinese property sector. Furthermore, steelmakers in China have nearly doubled their use of scrap, meaning there is less need for Iron Ore.

- **On May 9, 2017, Ontario passed the** Aggregate Resources and Mining Modernization Act. This introduced a new electric mining lands administration system, which will include electric claims staking. The act also creates greater duties and potential liabilities for extractors of aggregates and gives more power to the Government of Ontario with respect to aggregate extraction.

- Liberty Silver Corp has announced its intention to **acquire the Bunker Hill silver-zinc-lead mine** and smelting complex at Kellogg from Placer Mining Corp. The Company intends to pay US$30m for the assets, with the purchase being paid off in full by 2038.

Upcoming Events

- Canadian Mining Expo, May 31-June 1, 2017, at the McIntyre Community Centre, Timmins, ON, Canada
- COM 2017 hosting World Gold and Nickel-Cobalt, August 27-30, 2017, Vancouver BC, Canada

Notable Performers

Bear Creek Mining Corp (TSXV: BCM)

Bear Creek Mining Corp is a silver exploration and development company with plans to operate in Peru. They currently have one project in the last stages of development, and are awaiting a tribunal decision on arbitration action, which was initiated in 2014. The Company currently has no revenue and its future depends on the profitability of their Corani Project, and the outcome of the arbitration relating to the Santa Ana Silver Project. Shares of Bear Creek are up 10% since our last report.

The Company completed a feasibility study for the Corani Project, in which they found the mine contains mineral reserves of 44 million oz of silver, 479 pounds of lead, 331 million pounds of zinc and probably contains another 184 million oz of silver, 2,289mm pounds of lead and 1,470 million pounds of zinc.

Figure 1: Corani Project Mineral Reserves

Mineral Reserves									
					Contained Metal			Equivalent Ounces	
Category	Ktonnes	Silver g/t	Lead %	Zinc %	**Silver Million oz**	Lead Million lb	Zinc Million lb	Eq. Silver M oz	Eq. Silver g/t
Proven	19,855	69.1	1.09	0.72	44.1	478.7	313.4	82,5	129.2
Probable	117,843	48.6	0.88	0.57	184.3	2,289	1,470	366.5	96.8
Proven & Probable	137,698	51.6	0.91	0.59	**228**	**2,768**	**1,784**	**449**	**101.4**

Source: Company Filings

The Company estimates annual production of 8.4m oz of silver, 96.6m lbs of lead, and 59.6mm lbs of zinc, with a mine life of 18 years. With estimated outflows of $664m, a 5% discount rate, and metal prices as at January 24, 2017, the NPV of the project comes out to $628mm with an IRR of 20% and payback of 3.7 years.

Figure 2: Corani Project NPV

KEY ECONOMIC PARAMETERS* (dollar figures are USD)	
@Base Case Metal Prices (1)	
Net Present Value	$643 M
Internal Rate of Return	20.6%
Payback	3.6 years
Total Capital	$664 M
Initial Capital	$625 M
Sustaining Capital	$39 M
AISC (2) per oz Silver (by-product basis), first 5 years	-$0.15
AISC (2) per oz Silver (by-product basis), Life of Mine	$3.80
@ Current Metal Prices (3)	
Net Present Value	$628 M
Internal Rate of Return	20.0%
Payback	3.7 years

Source: Company Filings

Furthermore, the Company stated that every $1 increase in silver + $0.05 increase in zinc and lead prices results in a $120 million increase in NPV and 2% increase in IRR. Assuming the 5% discount rate is correct, the project would be valued at $1.4B. This arithmetic shows why the share price of the Company has appreciated 16% since our last report. However, when speaking to an industry expect, he claimed a 5% discount rate for a pre-production silver miner seems aggressive, so this $1.4B figure is likely inflated.

Figure 3: NPV at current metal prices

	Silver/OZ	Zinc/lb	Lead/lb
Price	$ 23	$ 2	$ 1
Price at Jan 24, 2017	$ 17.15	$ 1.07	$ 1.28
Change since Jan 24, 2017	$ 5.91	$ 0.53	-$ 0.02
Increase in NPV (millions)			$ 720
New NPV (millions)			**$ 1,348**

Source: Ubika Research

The Company still has many steps before development can start, which include getting additional permits (Water, construction, + other minor permits) and figuring out project financing. These roadblocks are likely the reason the Company is trading at such a discount to the projects' NPV.

In terms of the Santa Ana arbitration, it is worth noting the Company is seeking $525mm in damages and that the Peruvian courts have already ruled in Bear Creek's favour on key issues. The ruling and damages award judgement is anticipated in the second half of 2017.

With a market cap of $250mm, the Company is trading at a significant discount to its intrinsic value. However, this is contingent on everything going as planned for the Company, as well as silver prices remaining at current levels. The Company has significant upside potential and, by our calculations, could increase seven-fold if everything goes as planned, however there is great uncertainty surrounding the arbitration as well as the profitability of the Corani project.

Lucara Diamond Corp (TSX: LUC)

Lucara Diamond Corp is a diamond mining company that focuses on the acquisition, exploration, development, and operation of diamond properties in Africa. The Company currently has three land holdings in Botswana totaling 72km2, including one operational mine and two prospects. The Company is a leading independent producer of large, high-quality Type IIa diamonds from its Karowe mine in Botswana. The Company's stock price is up 8% since our last report mainly based on a positive exploration update as well as the competition of an exceptional stone tender.

The Company's performance was in line with forecasts for Q1/2017. Revenues for the period were $26.1mm (405/carat) vs 649/carat during the same period last year. The decrease in revenue was due to lower volume of carats sold and a decrease in carat weight of specials sold. The decrease in overall carats sold in Q1/2017 reflects the processing of lower-grade stockpiles during a transition of mining contractors at Karowe.

On May 11th, 2017, the Company announced it achieved US$54.8m from its first exceptional stone tender of 2017. This includes seven diamonds sold for more than US$2mm each, with one, 373.72 carat diamond selling for $17.5mm. The Company has now sold diamonds at an average value of US$1,221 per carat YTD.

The Company was awarded two precious stone prospecting licenses in 2014, on land which is known to host kimberlites BK02, AK11, AK13, and AK14. No further work is planned for BK02 and AK14 due to poor drilling results. At the AK11 site, microdiamond samples are currently being processes and are forecasted to be complete during Q2/2017. At the AK13 site, a drilling program was completed in Q1/2017. A total of six holes were tested with a 150-meter strike length of a vertical kimberlite dyke system, five holes intersected kimberlite. Within the five holes, three holes intersected wider intercepts of kimberlite. The Company stated that the micro-samples will be submitted during Q2/2017.

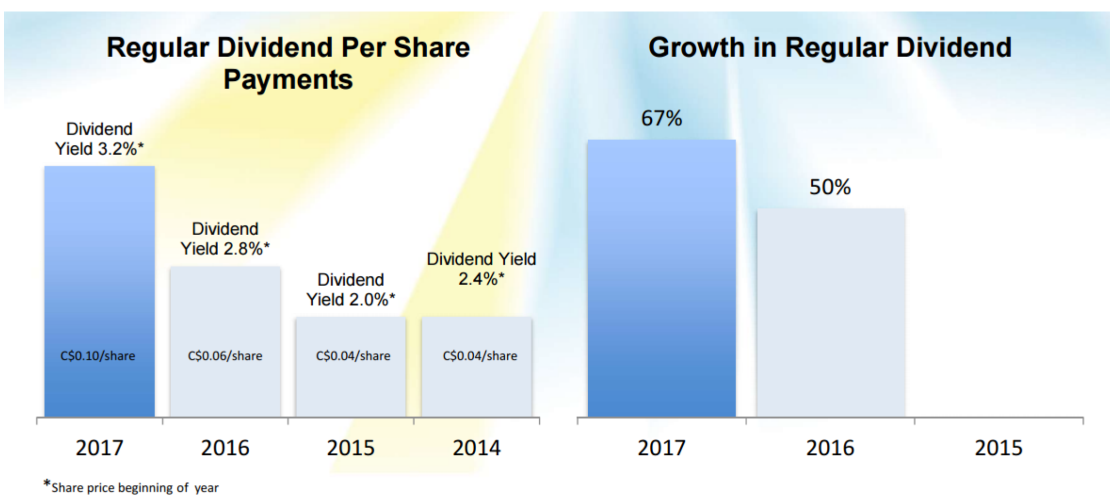
Figure 4: Lucara Diamond Q1/2017 Financial Summary

Production Information	Q1 2017	Q1 2016
Ore processed (tonnes)	598,934	651,909
Ore mined (tonnes)	131,380	605,705
Carats recovered (carats)	65,241	90,697
Plant feed grade (carats per hundred tonnes)	10.9	13.9
Waste mined (tonnes)	587,177	2,368,218
Revenues and Operating Margins	**Q1 2017**	**Q1 2016**
Revenue ($ millions)	26.1	50.6
Carats sold	64,444	77,990
Revenue ($ per carat)	405	649
Operating margin ($ per carat)	188	513

Source: Company Filings

Lucara has a strong balance sheet with $44mm in cash and no debt. Their cash alone is enough to cover their current liabilities two times over. Furthermore, the Company has high margins and a history of generating strong free cash flows, which support its 3.4% dividend yield. The Company's strong financial position limits downside risk and the prospect of finding large, high-quality diamonds provides significant upside potential.

Figure 5: Lucara Dividend History



Source: Company Filings

Lithium Americas Corp (TSX: LAC)

Lithium Americas Corp is a Canadian based resource company, which is in the development stage of two lithium projects, the Cauchari-Olaroz project and the Lithium Nevada project, and involved in the manufacturing and sales of organoclay products. Its stock price is up 10% since our last report, mainly due to rising lithium costs, and advancements in both of its projects.

On March 29, 2017, the Company announced positive feasibility study findings for Stage 1 of the Cauchari-Olaroz Lithium Project, which is located in northwest Argentina. Highlights included average annual production of 25,000 tonnes of battery-grade lithium carbonite over a 40-year project life, average EBITDA of US$233mm per year, a US$803mm NPV, 28.4% IRR, and a 3.4 year payback using a 10% discount rate.

Figure 6: Gibraltar Mine Operations (75% Owned)

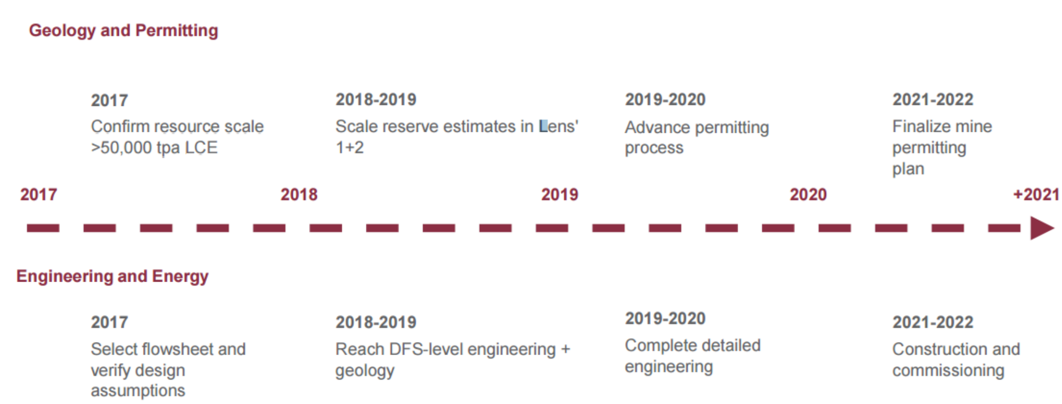
	Stage 1 DFS Results (100% basis) March 2017
Average annual production	25,000 tpa battery-grade Li_2CO_3
Project life	40 years
Proven & probable reserves	1.5 million tonnes LCE at 698 mg/L Li
Construction capital costs	$425 million (before VAT)
Operating costs	$2,495 / t Li_2CO_3
Lithium carbonate price assumption	$12,000/t battery-grade Li_2CO_3
Average EBITDA	$233 million
After-Tax Economics	\$803 million $NPV_{10\%}$, \$1.1 BB $NPV_{8\%}$ 28.4% IRR 3.4 year payback

Source: Company Filings

Furthermore, the Company has stated they have received government confirmation of all necessary permits to commence construction and operations. It should be noted the Company has a right to purchase a 50% share of the production of the project through a joint venture agreement with SQM, they have also entered into separate financing agreements with Gafeng Lithium and Bankchak (all you need to know about them is that lithium is a key input for their businesses) with an offtake of 95%, essentially meaning that Lithium Americas only receives 5% of the projected US$401mm in which they are entitled. However, the US$401mm figure should be higher due to the lower discount rate associated with the financing agreement. This may seem like a poor deal but it does wonders in terms of de-risking the project. It will also give the Company experience as a lithium producer and helps them get cheaper financing for Stage 2 of the project. The Company intends to begin construction in the coming months and begin production in 2019. The joint venture with SQM limits the downside risk of the project due to their industry experience and financial capabilities.

The Company is still in the early stages of the Lithium Nevada Project. In the near term, the Company plans to confirm the resource scale. They intend obtain all the necessary permits and begin construction by 2021-2022. After that the Company intends to begin production of lithium hydroxide

Figure 7: Lithium Nevada Project Timeline



Source: Company Filings

The Company's JV and strategic financing partnerships may look confusing but it is a smart play, which severely de-risks the project. The agreements position Lithium Americas Corp to gain experience as a lithium producer, which should result in cheaper financing for Stage 2 of production at Cauchari-Olaroz. Furthermore, entering into agreements with Gafeng Lithium and Bankchak establishes business relationships, which will allow for easier access to capital and an established customer base.

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.