



Ubika Gold 20

June 19, 2017

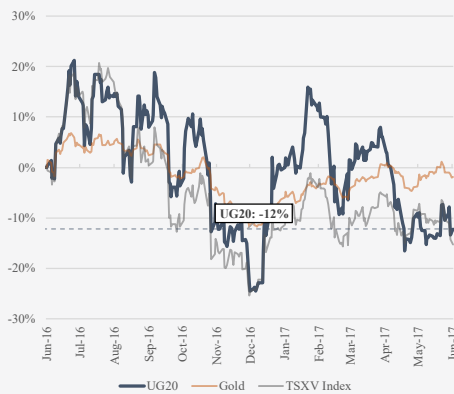


Ubika Gold 20

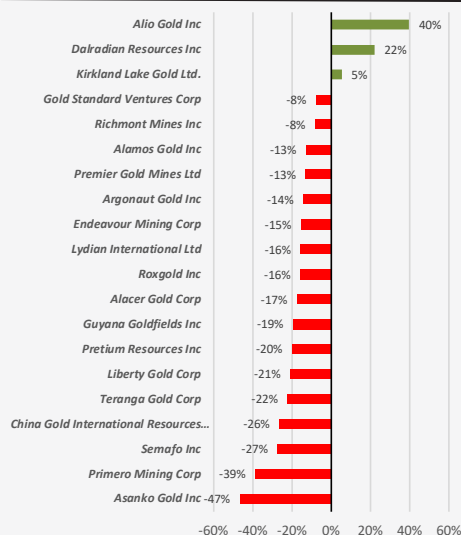
April 10, 2017 - June 19, 2017

UG20: -15.7% (-12% Y/Y)
 Gold: 0.1% (-2% Y/Y)
 TSX Gold Index: -7.8% (-15% Y/Y)

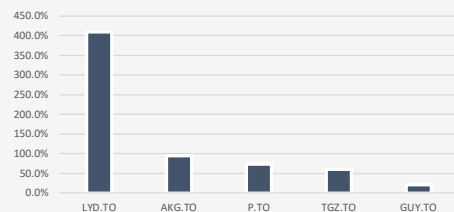
Dollar amounts in CAD unless otherwise stated.



UG20: Performance Distribution



Top Volume Gainers (m/m)



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Alio Gold, Kirkland Lake Gold Soar to Top the Ubika Gold 20 Index

It has been a poor couple of months for the Ubika Gold 20 (UG20), as the Index has returned -15.7%, lagging both its benchmarks TSX Gold Index and the gold bullion, which returned -7.8% and 0.1%, respectively. Since gold bullion yielded a slight positive return whereas the Index did not, the poor return of the Index must be attributable to poor individual company performance. It has been an exciting past couple of months for gold companies due to rising U.S. interest rates, as well as M&A activity in the sector. All this and more in this edition of the UG20.

Industry Highlights

- On June 14, 2017, the U.S. Federal Reserve announced a 0.25% interest rate hike.** This is the second rate hike in 2017, setting interest rates to a range of 1% - 1.25%. The hike had a negative impact on the price of gold as there is a widespread belief that fixed income investments become more attractive as interest rates rise, and money flows out of gold, which offers no yield at all. However, historical evidence shows only a 28% correlation between interest rates and the price of gold, which is low. Going by this logic, it may be an ideal time to invest in gold as prices may be artificially low.
- On June 8, 2017, Barrick Gold (TSX: ABX) announced it purchased a Nevada mining project from Coral Gold Resources (TSXV: CLH).** Barrick purchased the project for \$20.3mm in cash, as well as the return of 4,150,000 common shares of Coral held by Barrick. The Nevada project is an advanced-stage exploration property that spans ~8,480 acres and contains ~2.7mm ounces of gold.
- Canadian Gold producer IAMGOLD Corp (TSX:IMG) announced on June 6, 2017 it is selling a 30% interest in its Cote Gold project.** The project, which is in the Abitibi Gold Belt, will be sold to Japan's Sumitomo Metal Mining for \$195mm. The project is in its pre-feasibility study phase and the CEO of IAMGOLD stated the partnership with Sumitomo Metal Mining will help advance it into the development stage.
- On June 5, 2017, Canadian company Osisko Gold Royalties (TSX: OR) announced that it has entered into a definitive agreement to purchase a precious metal portfolio from Orion Mine Finance Group (private).** The high-quality portfolio consists of 74 royalties, streams, and precious metal offtakes for a total consideration of \$1.1B. The portfolio diversifies Osisko's asset base and is estimated to double their near-term cash flow and more than triple their cash flowing assets from 5 to 16.

Upcoming Events

- Mines and Money Americas, October 2, 2017, Toronto, ON, Canada.

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Notable Performers

Alio Gold Inc (TSE: ALO)

Alio Gold, formerly Timmins Gold, is a gold producer engaged in the operation, development, exploration, and acquisition of resource properties in Mexico. The Company owns and operates the San Francisco mine in the state of Sonora, Mexico, and owns the Ana Paula gold project, located in the Guerrero Gold Belt of Mexico. The Company's stock is up 40% this year due to strong Q1/2017 results as well as revised guidance for its San Francisco mine.

The Company reported revenues of \$32.2mm in Q1/2017, a 12.9% increase from the same period last year. The increased revenue was driven by an increase in gold ounces sold, and higher average realized gold prices. The Company produced 26,048 ounces of gold in Q1/2017 compared to 25,120 in Q1/2016. The increase in production was driven by improved recovery, partially offset by a decrease in average processing grade. The increased production, paired with a lower strip ratio resulted in cash costs per ounce decreasing to \$735 compared to \$761 in Q1/2016.

Figure 1: Alio Gold Financial Results

REVIEW OF FINANCIAL RESULTS			
		Q1 2017	Q1 2016
Gold sold (ozs)		26,048	24,667
Silver sold (ozs)		11,899	14,671
Average realized gold price (per oz)	\$	1,232	\$ 1,160
Average London PM fix gold price (per oz)	\$	1,219	\$ 1,183
Metal revenues	\$	32,306	\$ 28,609
Earnings (loss) from operations	\$	9,780	\$ (8,585)
Earnings (loss) and comprehensive income (loss)	\$	6,042	\$ (10,720)
Earnings (loss) per share			
-Basic	\$	0.02	\$ (0.03)
-Diluted	\$	0.02	\$ (0.03)
Cash provided by operating activities	\$	9,743	\$ 2,373
Cash dividends declared	\$	Nil	\$ Nil

Source: Sedar Filings

The Company revised its 2017 guidance due to the increased financial performance. The updated guidance is summarized as follows:

- Updated mineral reserves of 928,700 ounces of contained gold compared to 573,000 ounces
- 20,000 to 22,000 ounces of gold produced per quarter compared to 17,500 to 18,750 as previously thought, for total production guidance of 86,000 to 92,000 ounces for 2017, up from 70,000 to 75,000 ounces
- Average gold production of 109,000 ounces per year for the five years from 2018 to 2022
- Invested in capital stripping over the next 2 years totalling 22.5mm tonnes to be fully funded from cash flow from operations
- 695,000 ounces of gold production from April 1, 2017 to mid-2024
- All in sustaining costs (AISC) expected to be less than \$1,000 per gold ounce

Using these inputs in a simple model using a 5% discount rate and 35% tax rate, and the 5-year median gold price of \$1,518, gives an after tax NVP of \$139mm, which is 39% of the company's current market cap. This explains the rise in stock price and shows that investors are optimistic about the project, yet still cautious about gold prices as well as the regular uncertainties faced by gold companies.

Figure 2: San Francisco Mine NPV

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Inputs									
Production	86,000	109,000	109,000	109,000	109,000	109,000	109,000	109,000	79,700
Revenue (USD\$1,225 Gold)	105,350,000	133,525,000	133,525,000	133,525,000	133,525,000	133,525,000	133,525,000	133,525,000	97,632,500
Outputs									
AISC (USD\$1,000/Oz.)	86,000,000	109,000,000	109,000,000	109,000,000	109,000,000	109,000,000	109,000,000	109,000,000	79,700,000
Cash Flow	19,350,000	24,525,000	24,525,000	24,525,000	24,525,000	24,525,000	24,525,000	24,525,000	17,932,500
Cash Flow after tax	12,577,500	15,941,250	15,941,250	15,941,250	15,941,250	15,941,250	15,941,250	15,941,250	11,656,125
PV	12,577,500	15,182,143	14,459,184	13,770,651	13,114,906	12,490,387	11,895,606	11,329,149	7,889,324
After tax NPV USD	104,819,525								
After tax NPV CAD	138,587,135								

Source: Ubika Research

The Company has made developments in the Ana Paula gold project. On May 16, 2017, Alio announced the results of a pre-feasibility study. Highlights from the study include:

- Proven & probable mineral reserves of 1,021,000 continued ounces of gold
- 85% Gold recovery
- AISC of \$524/oz.
- \$233mm after tax NPV and 34% IRR at \$1,250/oz. gold, using a 5% discount rate

The company estimates they will begin development by the end of 2019.

Figure 3: Ana Paula Project

Key Ana Paula Project Milestones	Projected Completion
Pre-Feasibility Study	Q2 2017
Permitting	Q4 2017
Project Financing Arranged	Q1 2018
Definitive Feasibility Study	Q1 2018
Investment Decision and Construction	Q2 2018
Commissioning and Start Up	Q4 2019

Source: Company Filings

The company is trading at 0.71x estimated NAV, whereas gold companies usually trade around 0.7x NAV. The discount to peers likely reflects the various uncertainties faced by its early-stage Ana Paula project, as well as expected gold price fluctuations.

Kirkland Lake Gold (TSX: KL)

Kirkland Lake Gold is a mid-tier gold producer with five wholly-owned and underground operating mines in Canada and Australia. Their profile is anchored by three high-grade, low-cost mines, the Macassa mine, Taylor mine and Fosterville mine. The Company's stock price is up 5% since our last report due to strong Q1/2017 financial results and an improved 2017 outlook.

The Company's revenues increased 111% to \$169mm in Q1/2017 compared to the same period last year. The increase in revenue was driven by two acquisitions made in 2016, which contributed over \$70mm in additional revenues for the period, and higher average realized gold prices. Gold production in Q1/2017 was 130,452 ounces, led by their Fosterville mine in Australia (48,723 ounces) and Macassa mine in Canada (46,083 ounces). These two mines are also low cost mines, and their high production output led to increased profitability as Q1/2017 operating cash cost of \$564/oz. were slightly lower than Q1/2016 costs of \$569/oz. Earnings from mining operations were \$47.8mm in Q1/2017, an increase of 104% compared

to Q1/2016. The increase in earnings reflects the incremental revenues the Company generated together with the increased profitability due to most revenues being generated from two highly-profitable mines. The Company is currently operating at ~84% of expected production in 2017, giving them operating leverage, so expect to see earnings increase in 2017 due to a forecasted increase in production.

Figure 4: Kirkland Lake Q1/2017 Performance

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Tonnes milled	520,888	223,450
Grade (g/t Au)	8.2	9.1
Recovery (%)	95.2	94.7
Gold produced (oz)	130,425	62,275
Gold Sold (oz)	137,841	69,309
Averaged realized price (\$/oz sold)	\$1,223	\$1,154
Operating cash costs per ounce sold (\$/oz sold)	564	569
AISC (\$/oz sold)	873	861
Adjusted net earnings (in thousands)	\$16,141	\$13,849

Source: Sedar Filings

Due to the strong quarter the Company increased its guidance, which includes:

- Cash costs range of \$475/oz. to \$525/oz. decreased from a \$625/oz. to \$675/oz. range
- AISC/oz. range of \$850/oz. to \$900/oz. decreased from a \$950/oz. to \$1000/oz. range
- Production guidance increase from 500,000 oz. to 525,000oz. range to 530,000 oz. to 570,000 oz. range

The company also revised guidance for many of its individual mines which can be seen below.

Figure 5: Kirkland Lake Revised Guidance

	Canadian Mines			Australian Mines		Consolidated
	Macassa	Holt	Taylor	Fosterville	Cosmo	
Gold production (oz)	190,000 to 195,000	65,000 to 70,000	55,000 to 60,000	200,000 to 225,000	20,000	530,000 to 570,000
Operating cash costs per ounce sold ⁽¹⁾	\$520 - \$550	\$670 - \$725	\$450 - \$525	\$310 - \$330	\$1,500 - \$1,600	\$475 - \$525
AISC per ounce sold ⁽¹⁾						\$850 - \$900
Operating costs (in millions)						\$270 - \$280
Royalty costs (in millions)						\$20 - \$25
Sustaining and growth capital (in millions)						\$180 - \$200
Exploration expenditures (in millions)						\$45 - \$55
Corporate G&A expenses (in millions)						\$17

Source: Sedar Filings

Kirkland Lake Gold has a strong balance sheet with \$280mm in cash, no debt, and a 1.6x current ratio. The Company intends to put this cash to good use as they have a US\$45-55mm growth exploration budget that will help support its 20+ drilling operations. Furthermore, in Q1/2017 the Company began to pay a \$0.01 per share quarterly dividend, reflecting the stability of their operations and confidence in their ability to generate free cash flow. The Company's strong balance sheet, low cost operations, and exploration potential position it well to continue to enhance shareholder value.

Kirkland Lake Gold is trading at 2.98x NAV, which is slightly higher than the mid-cap gold company average of 1.7x, meaning that investors are optimistic about the prospects of the Company, likely due to its extensive exploration program.

Semafo Inc (TSX: SMF)

Semafo is a Canadian-based mining company with gold production and exploration activities in West Africa. The Company operates the Mana Mine in Burkina Faso and is in the late development stages of the Boungou mine. Semafo's stock price is down 27% this year due to poor Q1/2017 results and decreased 2017 guidance.

In Q1/2017, the Company reported revenues of \$66.8mm, a 10% decrease from \$74.6mm in Q1/2016. The decreased revenues reflected lower gold oz. sold, which was a direct result of lower grade gold mined. Gold production for the quarter was 55,400 oz. They processed 731,800 tonnes at an average grade of 2.55 g/t Au, compared to 682,900 tonnes processed at an average grade of 3.04 g/t Au, resulting in 61,300 gold oz. produced in Q1/2016. This may seem confusing, but it essentially means the Company is now processing more ore that has less gold in it, whereas in previous years the ore they were processing has a higher gold content. Since the Company must process more ore to get the same amount of gold, the costs associated with extracting the gold increase as they must take more ore out of the ground and send it through their processing plant. This is the reason the Company's cash cost and AISC costs per oz. both increased 33% and 28%, respectively, from Q1/2016 to Q1/2017. The Company's deteriorating margins led to a 125% decrease in EPS to -\$0.01 per share in Q1/2017 compared to \$0.04 per share in Q1/2016. Furthermore, this resulted in a 42% decrease in operating cash flow over this same period.

Due to misleading ore outlines that led to a significant variation in grade at the Company's Mana mine, and decreased performance, the Company has revised its outlook for 2017.

Figure 6: Semafo 2017 Outlook

2017 Outlook		
	2017 Initial Outlook	2017 Revised Outlook
Gold production (ounces)	215,000 - 235,000	190,000 - 205,000
Total cash cost ² (per ounce sold)	585 - 615	685 - 715
All-in sustaining cost ² (per ounce sold)	795 - 835	920 - 960
	2017 Initial Outlook	2017 Revised Outlook
Sustaining capital expenditures		
Sustaining – Mana	12	n/a
Stripping – Mana	34	n/a
	46	n/a
Initial exploration budget	23	n/a

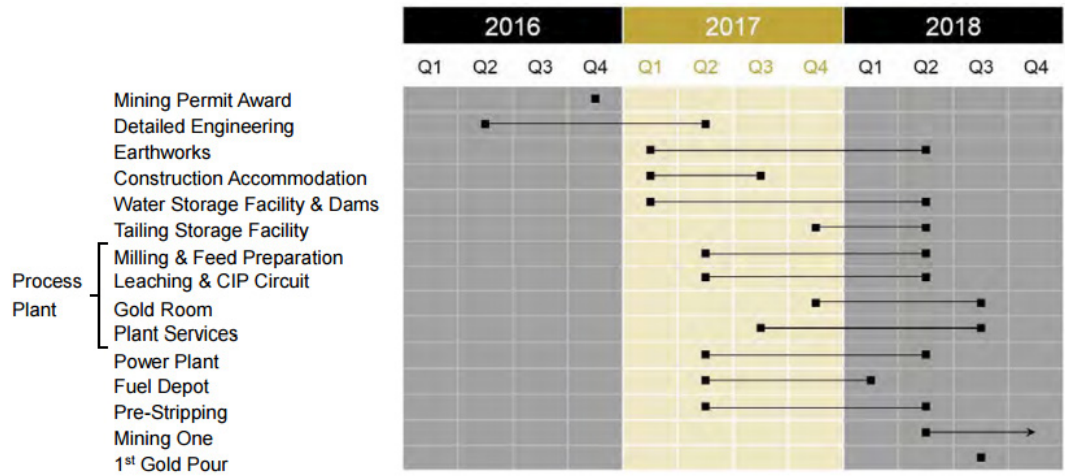
Source: Sedar Filing

The Company has a strong balance sheet with \$255mm in cash and \$57mm in long-term debt. The Company has enough cash alone to cover their short-term liabilities 4.5x over. The Company has enough cash to finance the construction of the Boungou Mine, their four exploration programs and their expected capital expenditures at Mana.

In 2016, the Company completed a feasibility study for their Boungou Mine. They study found maiden reserve estimates of 9.6mm tonnes at an average grade of 4.15 g/t Au for 1,276,000 oz. of contained gold. Average annual production is estimated at over 226,000 ounces at a total cash cost of \$283 per oz. and AISC of \$374 per oz. Construction began in early January 2017, and production is scheduled to start in the second half of 2018. This represents a profitable mine that would offset the Company's deteriorating margins. This project provides the opportunity to invest in a cash-flow generating gold mining company that has a great balance sheet.

The company is currently trading at 1.0x NAV.

Figure 7: Boungou Mine Construction Milestones



Source: Company Filings

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