



MJG Capital

The Case for

Mining Equities

AAII Houston Chapter Meeting
March 10, 2021

Agenda For Today

1. Why invest in mining equities?
2. Mining equities are historically undervalued.
3. The mining development lifecycle and where junior mining fits in.
4. The MJG investment process and characteristics of a typical investment.
5. MJG partnership specifics, performance, and current allocation.

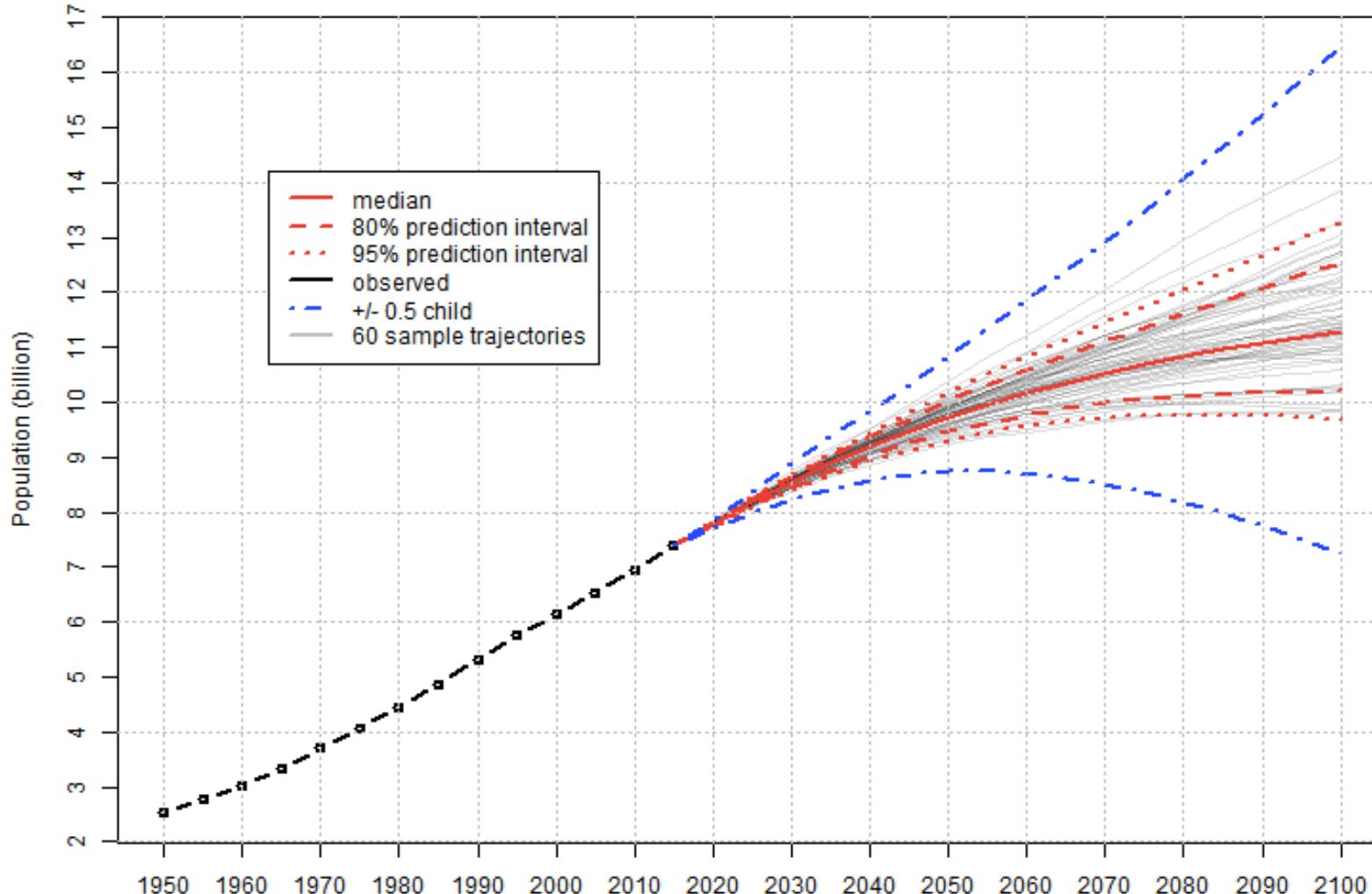
Why Mining Equities?

1. Population & Consumption Trends.
2. Long-Term Outperformance Of The Broader Market.
3. Significant Outperformance Over Holding Physical Metals.
4. Historically Cheap Relative To Most Any Other Asset Class.



Population & Consumption

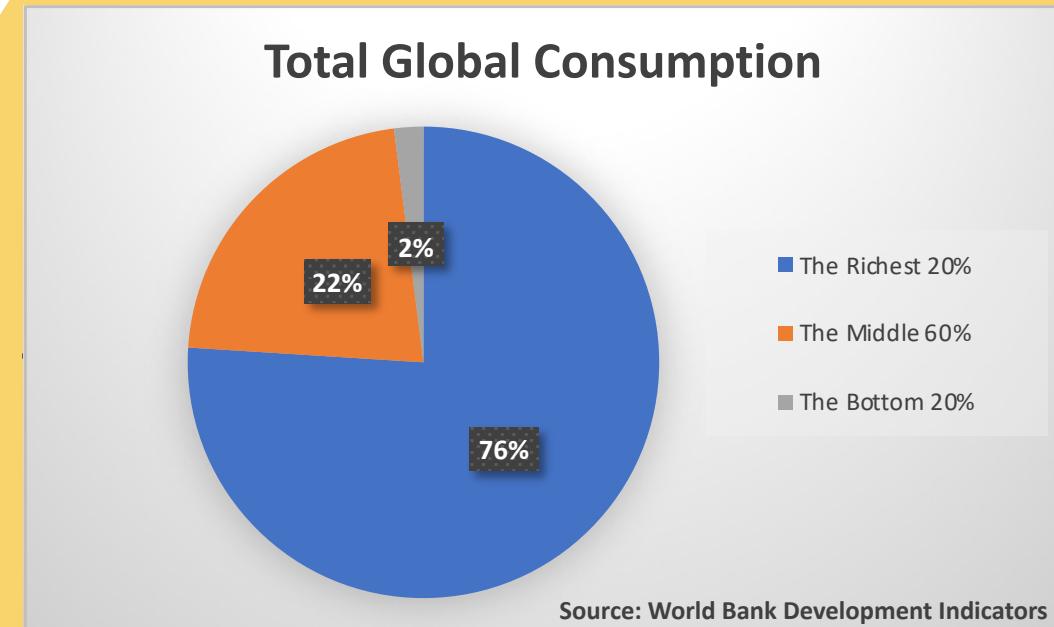
World: Total Population



Source: United Nations, Department of Economic and Social Affairs, Population Division (2017).
World Population Prospects: The 2017 Revision. <http://esa.un.org/unpd/wpp/>

Population & Consumption

- ▶ Consumption of metals and basic materials skewed dramatically to the top 20%.
- ▶ Consumption increases for top 20% will be driven by services and premium brand purchases going forward.
- ▶ But the middle 60% want the material comforts we live with today.

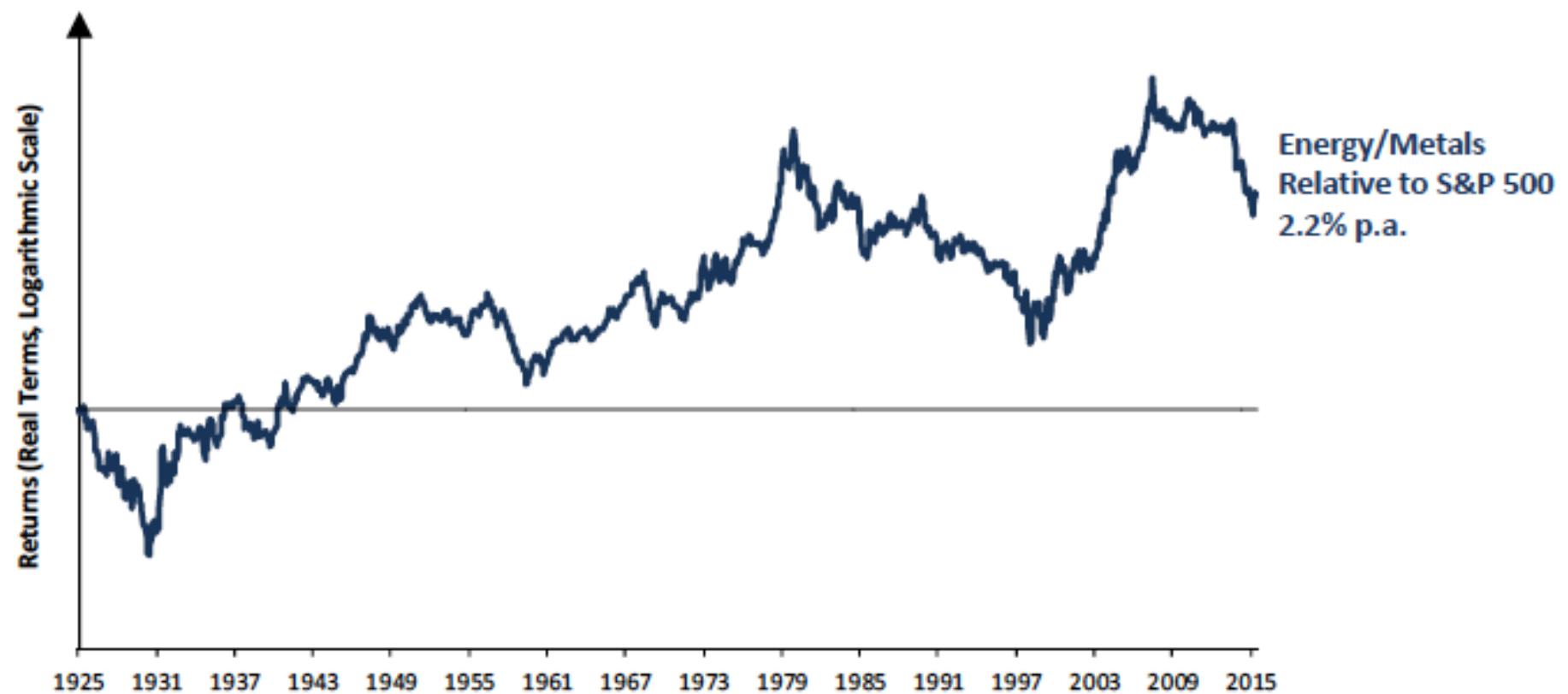


Population & Consumption

$$\text{Global Population} \times \text{Consumption Per Person} = \text{Total Global Consumption}$$

Outperformance Versus Broader Market

Exhibit 10: Despite Recent Pain, Resource Equities Have Outperformed since the 1920s

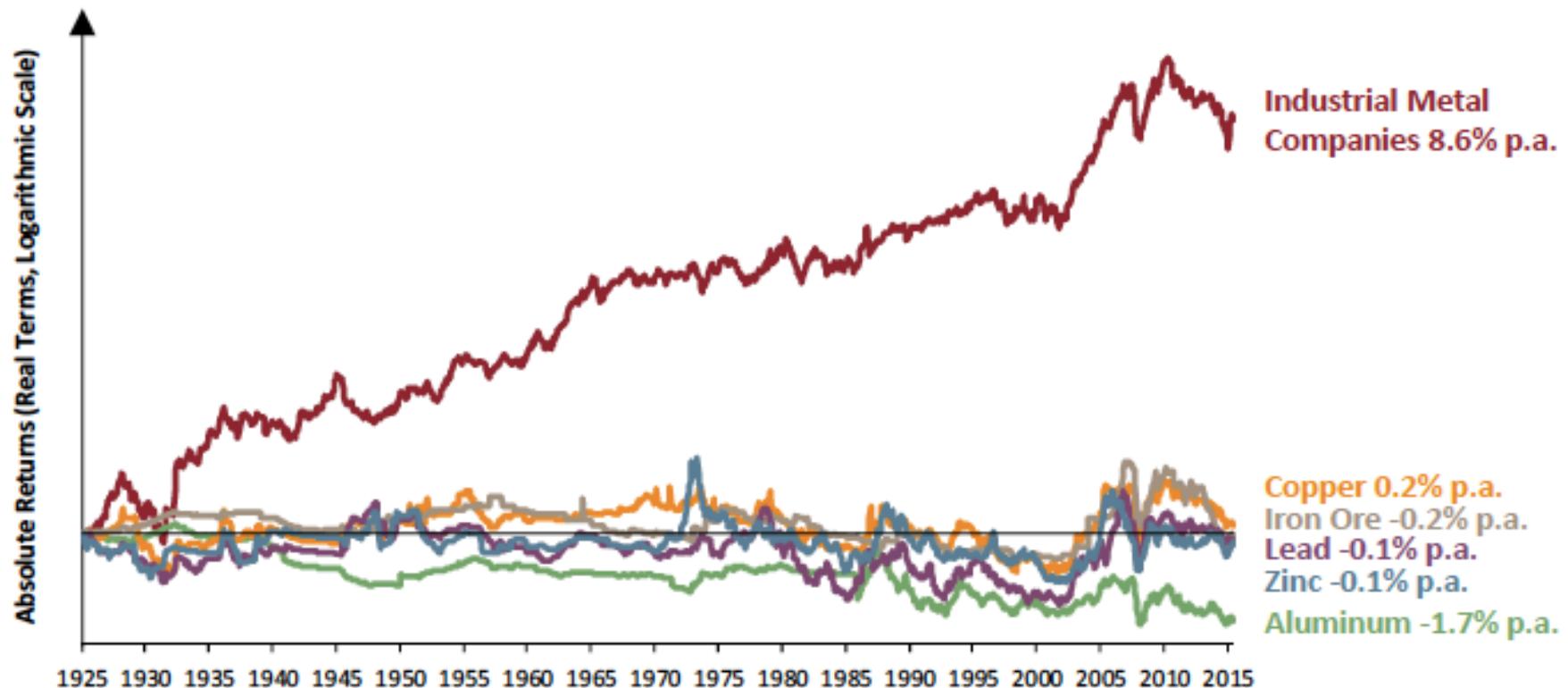


As of 6/30/16

Source: CRSP, Global Financial Data, GMO

Outperformance Versus Physical Metals

Exhibit 2: The Equity Risk Premium Comes through Loud and Clear in Metals & Mining as Well...

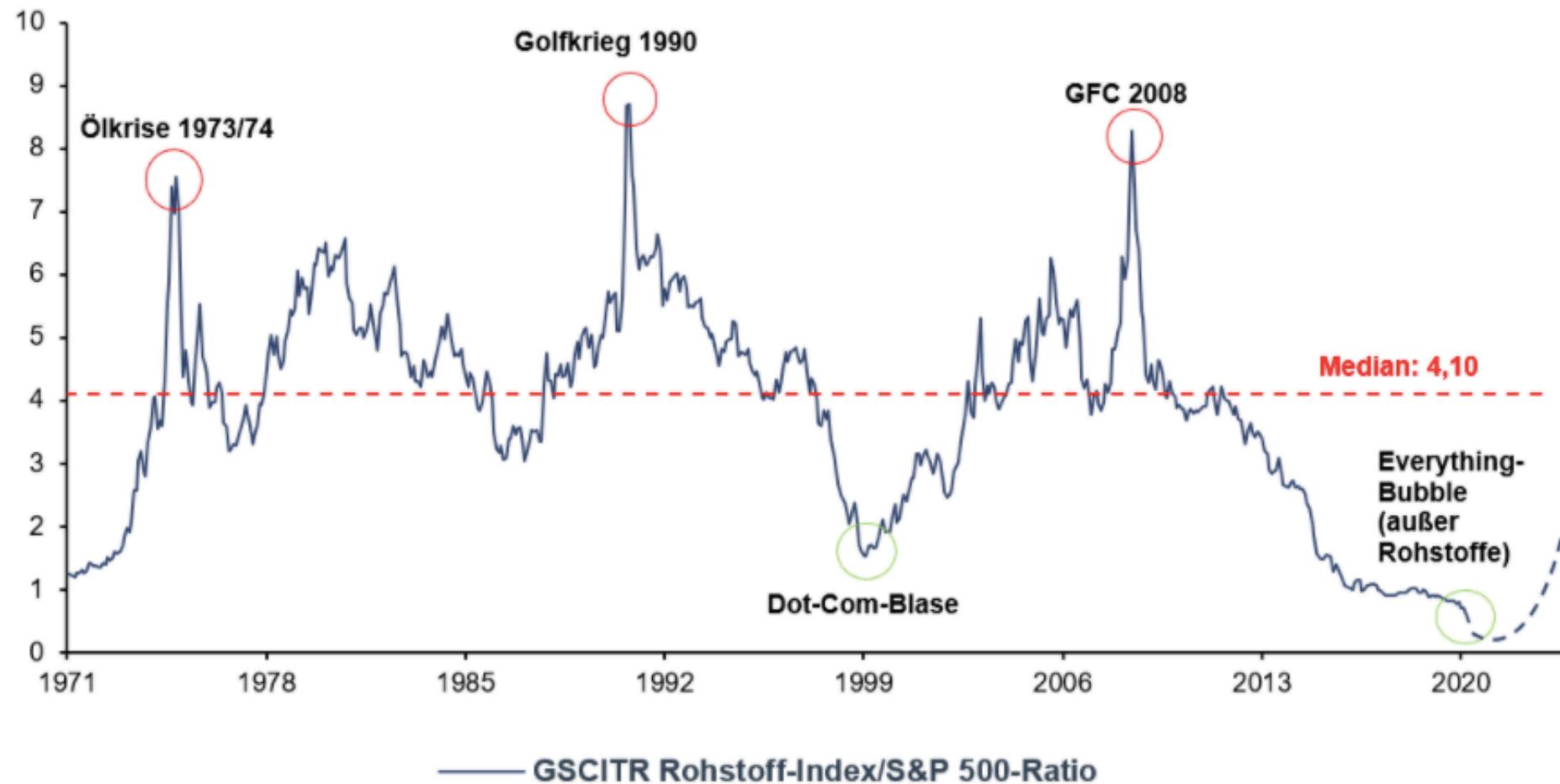


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Source: CRSP, Global Financial Data, GMO

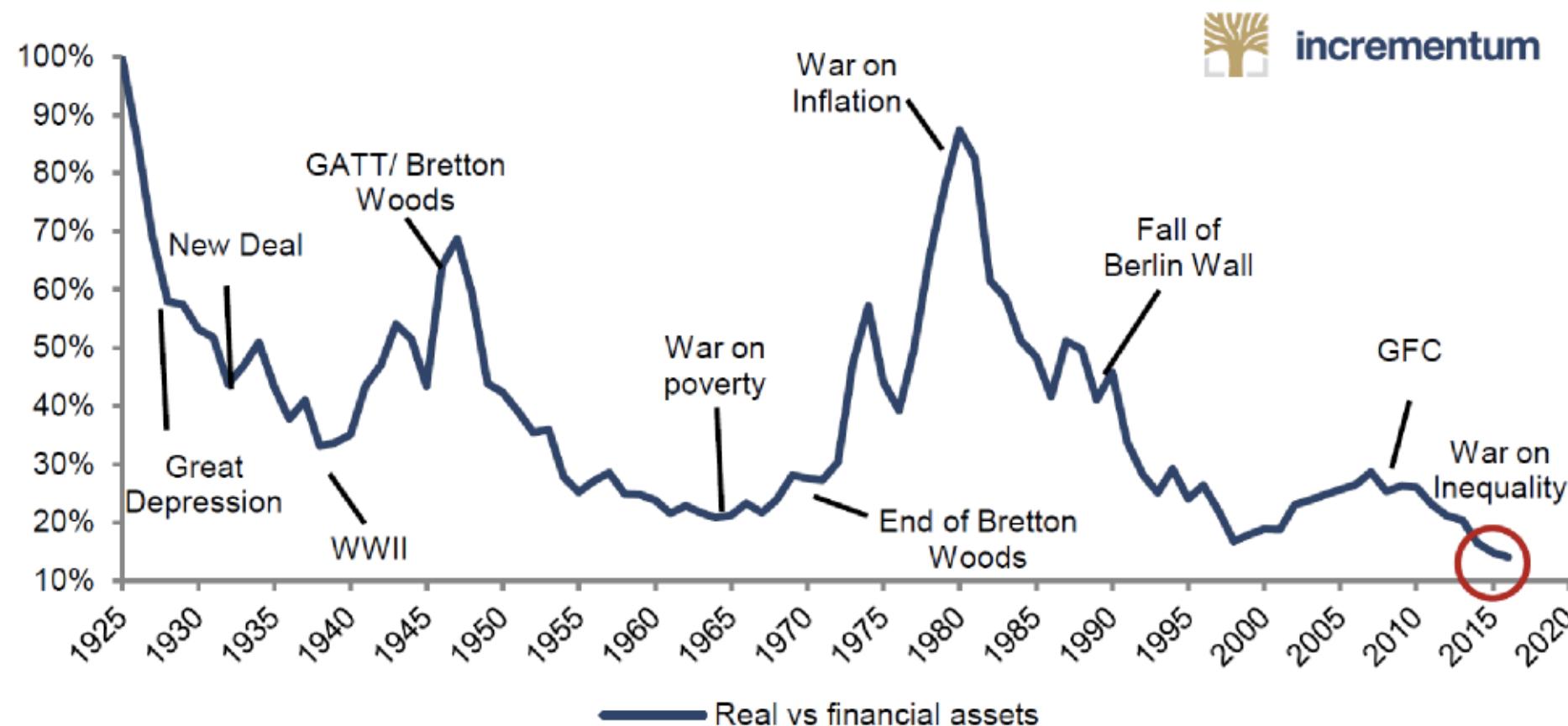
Historically Cheap

GSCITR Rohstoff-Index/S&P 500-Ratio, 01/1971-05/2020



Historically Cheap

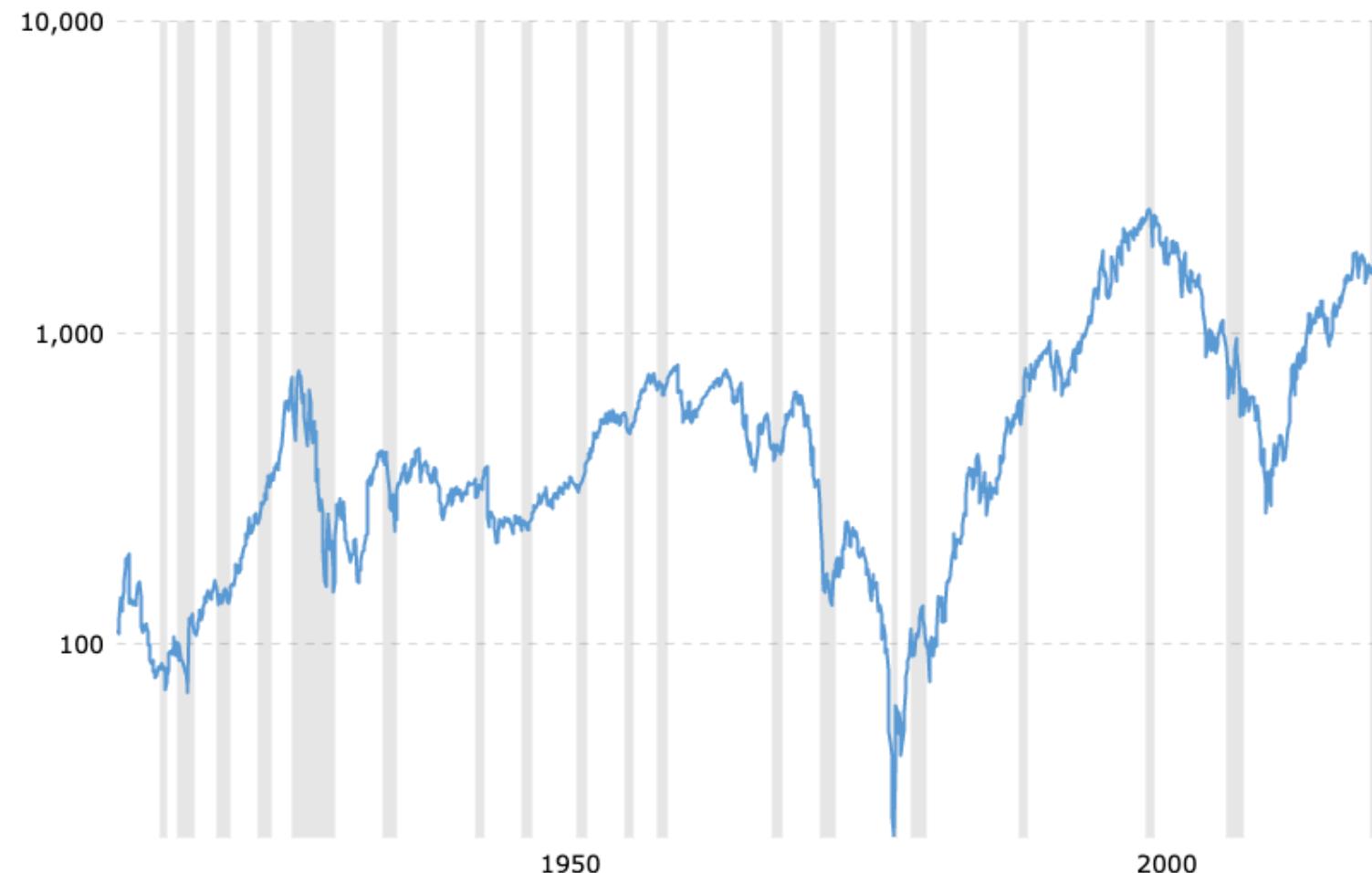
Real Assets at all-time lows relative to Financial Assets



Source: BofA Merrill Lynch Global Investment Strategy, Incrementum AG

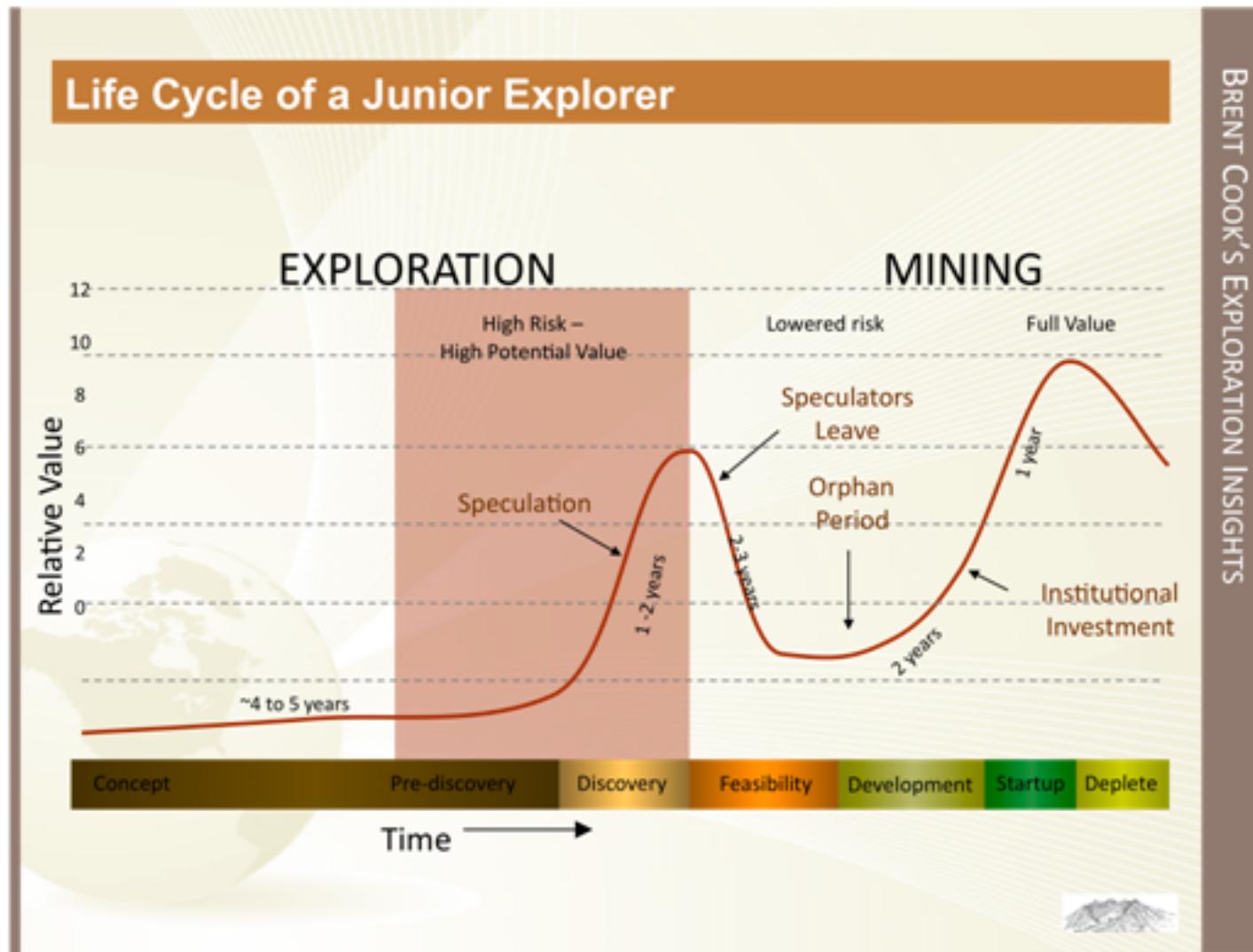
Historically Cheap

Dow to Silver Ratio - 100 Year Historical Chart



Source: Macrotrends. <https://www.macrotrends.net/2610/dow-to-silver-ratio-100-year-historical-chart>

Mining Development Lifecycle



Source: Created by Pierre Lassonde, graphic from Brent Cook and Exploration Insights.

Junior Mining: A Beast Of Its Own

- ▶ The vast majority of junior companies are not investable under any circumstance.
- ▶ Most of the rest aren't investable without a full, long-dated warrant.
- ▶ A “basket approach” is a recipe for failure.
- ▶ G&A costs are out of control.
- ▶ Junior mining investing is a game of saying “no” and “not yet”.

“A mine is a hole in the ground with a liar standing next to it.”

~Mark Twain



Common Themes Amongst Our Investments

- ▶ 10% + Management Ownership
- ▶ Low G&A expenses relative to peers
- ▶ Major catalyst achievable before next capital raise
- ▶ High quality, experienced management operating within their circle of competence
- ▶ Offers attractive fundamental or expected value
- ▶ Preference for prospect generator & royalty business models



MJG Investment Process

- 1. People**
- 2. Project(s)**
- 3. Financial Structure**
- 4. Expected Catalysts**
- 5. Price to Value**
- 6. ESG Risk**
- 7. Geopolitical Risk**
- 8. Commodity Price Risk**

#1 People

- ▶ Relevant experience in specific jurisdiction.
- ▶ Created value for shareholders in past ventures.
- ▶ “Skin in the game”.
- ▶ Incentives aligned with shareholders.
- ▶ Access to capital.
- ▶ Ethical operators.

“I’d take a good team and an average asset over a good asset and an average team any day.”

~Peter Munk

#2 Project(s)

- ▶ Doug Beattie's Nine Key Inputs To Any Mining Project.
- ▶ Technical viability with realistic assumptions.
- ▶ Tier 1 economics at spot metal prices.
- ▶ Must be a big opportunity. Small mines carry just as many risks as big ones.

“Don't waste your time on little projects.
Small is not beautiful in this business.”

~**Ross Beaty**

#3 Financial Structure

- ▶ Avoid debt and preferred share structures.
- ▶ Evaluate price, size, terms, and frequency of previous financings.
- ▶ Is there big disparity between issued and fully-diluted share count?
- ▶ Ask for stock option and warrant expiry schedule.
- ▶ Ask for schedule of all past financings since inception.

Stock Option & Warrant Expiry Schedule

Stock Options Outstanding	Exercise Price	Expiry Date
400,000	0.15	June 29, 2021
50,000	0.12	August 31, 2021
1,400,000	0.32	June 6, 2022
200,000	0.155	June 21, 2022
1,000,000	0.33	October 14, 2022
2,150,000	0.19	April 21, 2025
200,000	0.18	May 27, 2025
1,900,000	0.085	January 17, 2027
500,000	0.15	March 31, 2027
100,000	0.195	April 27, 2027
660,000	0.29	November 28, 2027
3,225,000	0.27	February 19, 2029
15,840,000		

Warrants Outstanding	Exercise Price	Expiry Date
4,695,240	0.25	August 26, 2020
17,857,143	0.28	April 13, 2020
901,666	0.25	September 14, 2020
2,731,000	0.15	May 19, 2021
1,494,500	0.15	July 29, 2021
3,925,000	0.15	December 9, 2021
31,604,549		

#4 Expected Catalysts

- ▶ Confirm major “unanswered questions” to be answered in next 12-18 months.
- ▶ Are the company’s expectations realistic?
- ▶ Define success/failure of each catalyst in advance.
- ▶ Assess ability of company to answer these questions with current working capital position.

“What I am trying to do is determine an important unanswered question...”

~**Rick Rule**

#5 Price to Value

- ▶ Determine fair value per share of a given security.
- ▶ Multiple valuation techniques relevant for junior mining investors:
 - ▶ Net working capital position per share
 - ▶ “Sum of the parts”
 - ▶ Risk-adjusted net present value
 - ▶ Expected value
- ▶ Compare fair value per share to current price per share.
- ▶ If significant delta, do more diligence to find out why.

“The value approach is inherently sound... devote yourself to that principle. Stick to it, and don't be lead astray.”

~**Ben Graham**

#6 ESG Risk

- ▶ Environmental, Social, Governance criteria incorporated into investment analysis.
- ▶ Non-financial factors that may have material impact on success of any project.
- ▶ Project transparency leads to better relations with local communities.

“In the resource sector, 30-40% of profit is at stake due to resource nationalism, mineral taxes, land access rights, community reach, and reputation.”

~McKinsey & Co

#7 Geopolitical Risk

- ▶ Assess mineral code - royalties, corporate taxes, and/or government free-carried interest.
- ▶ Create timeline of relevant elections, legislation, etc expected in country.
- ▶ Analyze behavior of other mining companies (both juniors and majors) active in country.
- ▶ Does portfolio already have significant exposure to country or region?

“We believe geopolitical risk is overvalued by the market, while technical risk is undervalued.”

~Dave Cole

#8 Commodity Price Risk

- ▶ Assess supply/demand picture.
- ▶ What is global all-in cost of production?
How does this compare to spot price?
- ▶ Is sentiment euphoric, despondent, or somewhere in between?
- ▶ Does portfolio already have significant exposure to given commodity?

“Trends should be considered a qualitative factor. If viewed too quantitatively, this leads to over or under valuation.”

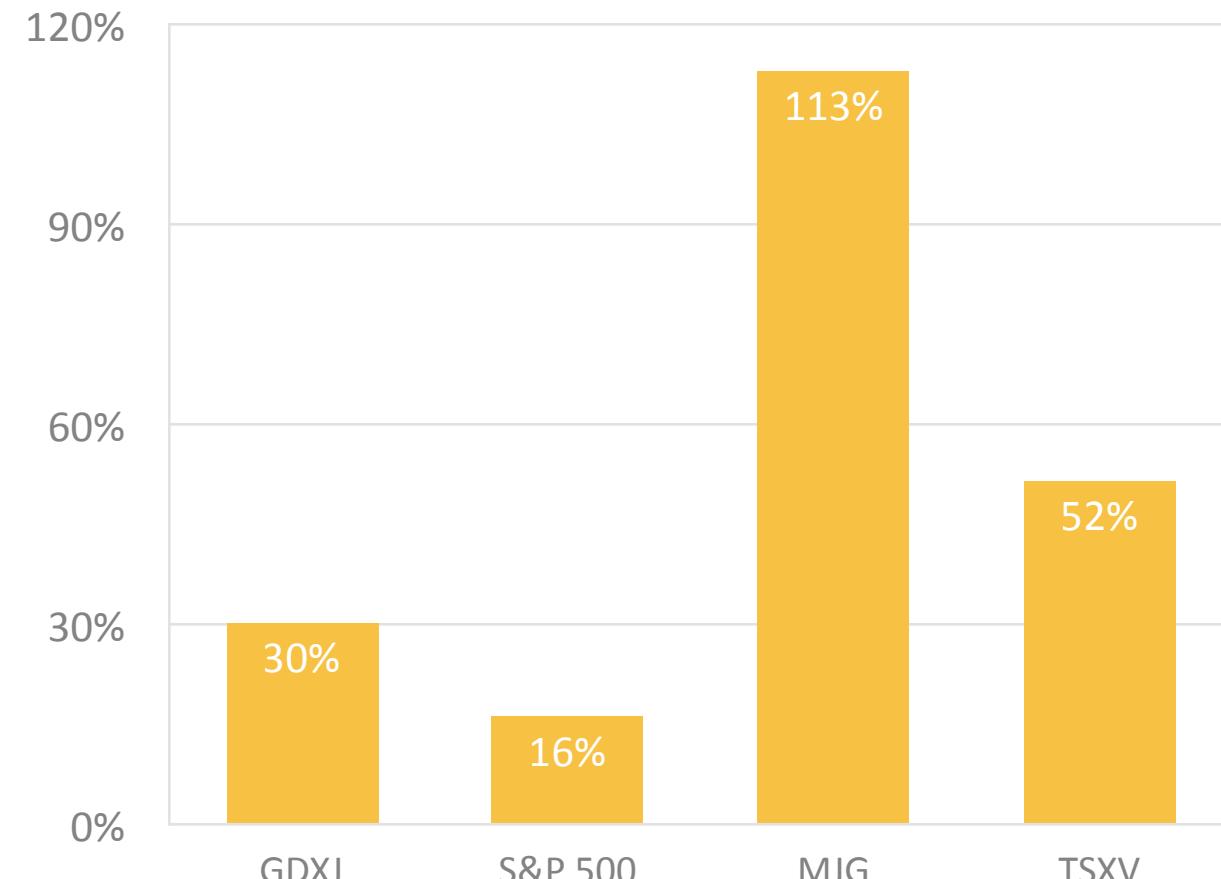
~Ben Graham



MJG Capital Fund, LP

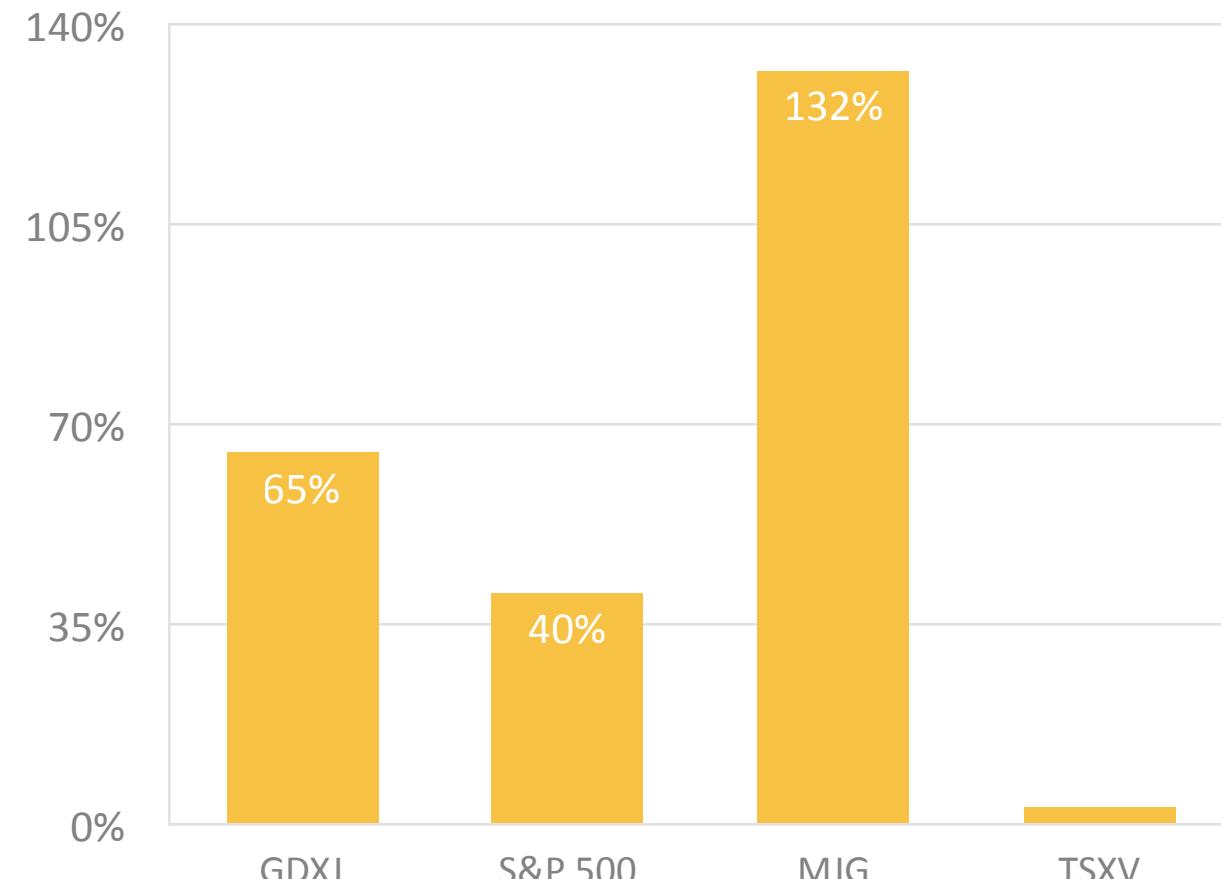
- ▶ Strict natural resource mandate
- ▶ 15-25 open market positions in the portfolio at any given time
- ▶ Limited Partners are subject to a **10 year** lock-up on invested capital
- ▶ **1.5%** annual management fee

ONE YEAR PERFORMANCE



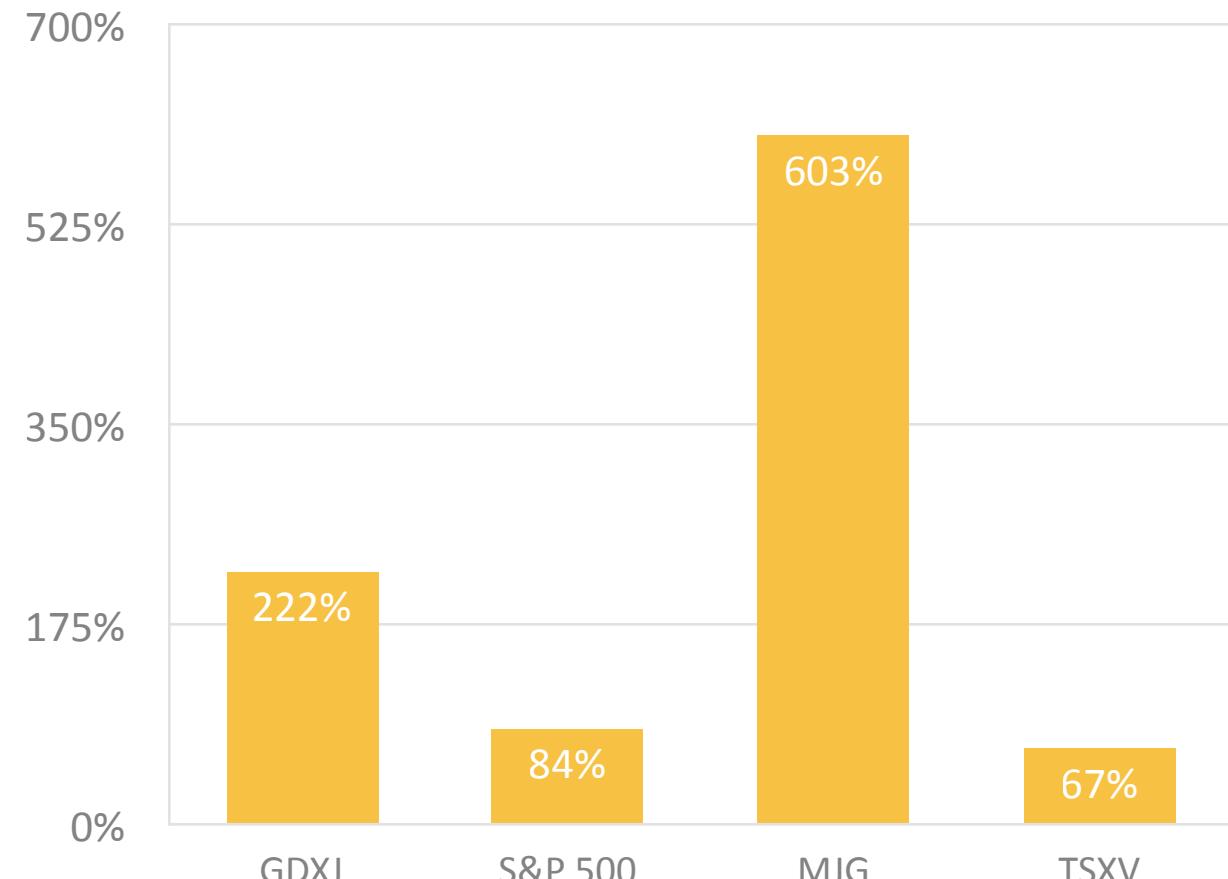
MJG Capital has outperformed the S&P 500, TSX Venture Index, and GDXJ over 6 month, 1 year, 3 year, and 5 year time horizons as of 12/31/20.

THREE YEAR PERFORMANCE



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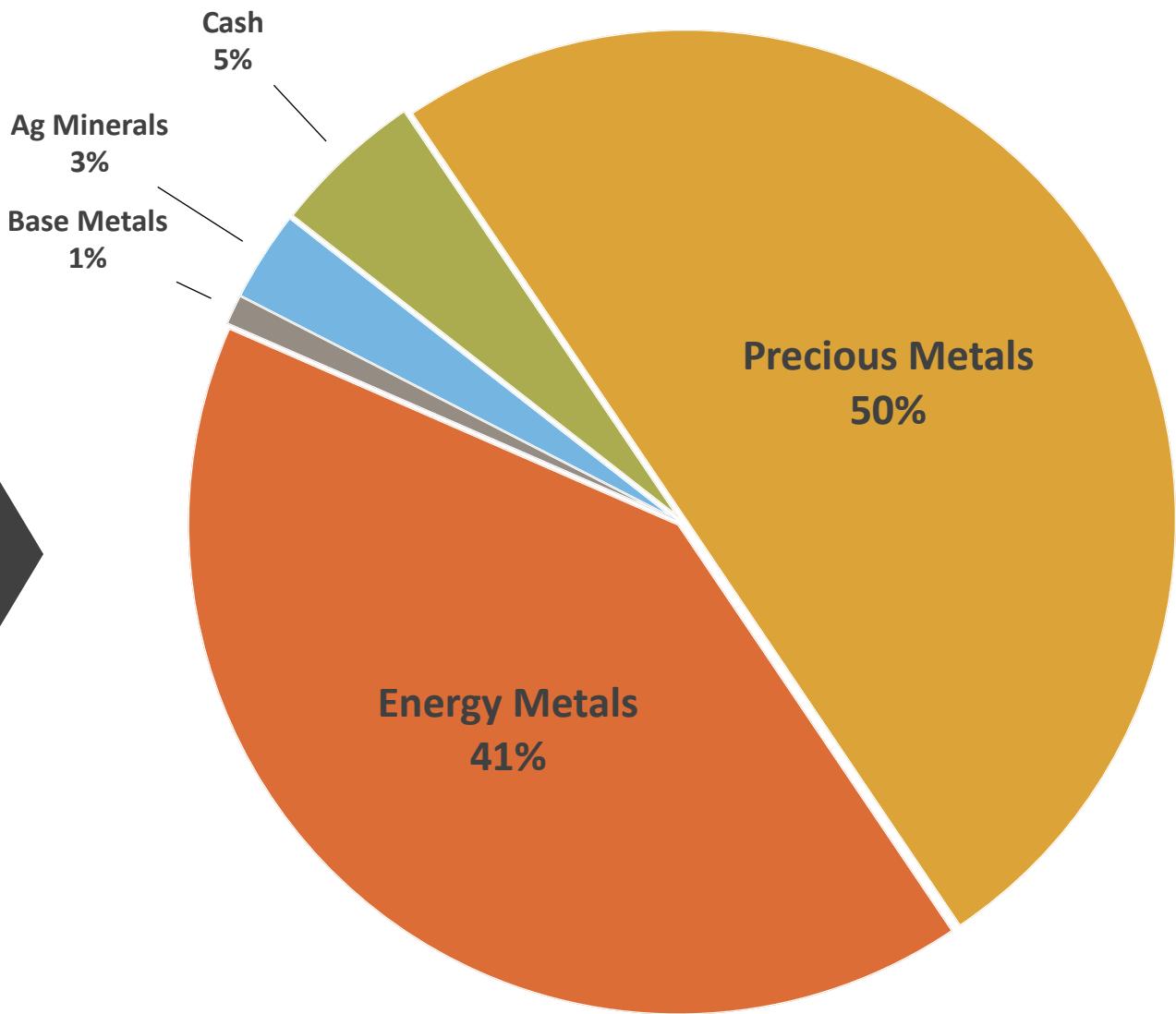
FIVE YEAR PERFORMANCE



MJG Capital has outperformed the S&P 500, TSX Venture Index, and GDXJ over 6 month, 1 year, 3 year, and 5 year time horizons as of 12/31/20.

*As of Dec 31, 2020.

MJG Allocation By Commodity



*As of Dec 31, 2020.

MJG Capital
Fund, LP

QUESTIONS?



Matt Geiger

Managing Partner

(650) 814 - 6105

matt@mjcapital.com

www.mjcapital.com

Megatrends

