

[left-top] Australian mine: underground drilling; [middle] Periodic table of chemical elements; [bottom] Chilean mine: grinding and ball mills; [right] Canadian mine: glacial groundcover



Thoughts from my 30 Years of attending the Denver Gold Forum

SEPTEMBER 2024



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SNAPSHOT OF 1994



World Events 1994

- South Africa holds the first interracial national election on April 29, 1994. Nelson Mandela was elected President.
- Bosnian Serb's heavy weapons pound Sarajevo.
- Thousands dead in Rwanda genocide massacre.
- Israel signs accord with Palestinians, peace treaty with Jordan.
- Brazil wins USA hosted World Cup.
- Nobel peace prizes awarded to Yasser Arafat (Palestine), Shimon Peres (Israel) and Yitzhak Rabin (Israel).
- Gold averaged around \$390.
- S&P was around 470.
- Feds funds rate averaged 4.75 from 3 at the beginning of the year to 5.5 at the end of the year.



SNAPSHOT OF 1994



Gold Mining Industry 1994

- US Congress failed to pass mining law reform which would have brought a 3% gross royalty on federal lands and better ability for the public to launch citizen lawsuits against companies and agencies.

Some 1994 Gold Company Comments:

- Newmont's CEO was Ron Cambre and the CFO was Wayne Murdy. Annual gold production was 1.6 million oz.
- Soros and Goldsmith were major shareholders of Newmont. Newmont incurred a lot of debt taking a poison pill while battling T. Boone Pickens 1987 hostile offer.
- Yanacocha started production in 1993 with expectations of production through 1996 of less than 200k oz per year.
- The Batu Hijau project was expected to be (and became) a "go" with an expected capex of around \$1 billion making it one of the most expensive mining projects ever.



SNAPSHOT OF 1994

Gold Mining Industry 1994 Continued

- Barrick led by CEO Peter Munk and President Bob Smith bought Lac Minerals which owned the Pascua Lama mine for \$1.6 billion.
- Barrick's annual production was 2.3 million oz of gold on its way to 3.1 million oz in 1995.
- Barrick's Betze-Post Mine in Nevada was humming along producing almost 2 million oz per year. Development began for the adjacent Meikle underground mine that would produce in excess of 400k oz per annum.
- Placer Dome's CEO was John Wilson. Placer was producing about 1.7 million oz of gold per annum.
- At the Denver Gold Forum, Placer outlined plans to develop Las Cristinas, Musselwhite and Mulatos. The Zaldivar copper project was already being constructed. Placer was working on the feasibility study for the Cortex Pipeline project.
- Homestake's CEO was Harry Conger. Jack Thompson was expected to be his successor.
- The 100-year old Homestake mine was still producing 400k oz of gold per annum.
- First production at Homestake's Eskay Creek which was a big Canadian discovery in the late 1980's.
- Sante Fe Pacific Gold was newly public. Its production was 500k oz per annum. Its CEO was Patrick James.
- Amax Gold's Chairman was Milt Ward. Amax produced 0.25 million oz of gold per annum. Amax was working on financing Fort Knox (50% owned with Bema Gold) and Refugio projects.

Gold Mining Industry 1994 Continued

LEHMAN BROTHERS

October 18, 1994

Basic Industry:
Gold Mining

Daniel R. McConvey
1 212 526-2500
Peter D. Ward
1 212 526-3385

GOLD MINING: IT'S A WHOLE NEW WORLD!

COVERAGE INITIATED

- In this report, we give our perspective of trends in the gold mining industry and initiate coverage on **Newmont Gold** (NGC-41 1/8; 1-H.), **Newmont Mining** (NEM-42 7/8; 1-H), **Placer Dome Gold** (PDG-23 1/2; 2-H), **Battle Mountain Gold** (BMG-12 3/8; 2-H), **Amex Gold** (AU-7 1/2; 3-S), **Echo Bay Mines** (ECO-13 1/8; 3-H), **Homestake Mining** (HM-20 3/8; 3-H), and **Pegasus Gold** (PGU-15 3/8; 3-H).
- The world of gold mining opportunity today is 3 times bigger than it was five years ago. Third World and former communist states are competing for mining investments. The mineral prospects in many of these countries have never been subject to modern exploration or mining technologies. This situation is unprecedented. It offers North American gold producers enormous opportunities to enter a new phase of growth.
- Our view of of gold bullion price trends by gold bullion market expert, **George Milling-Stanley**. Expect continued gold price resistance at the \$400 level and support at the \$370 level. However, current medium-term nervousness about inflation is positive for gold.
- Sorry gold bugs. U.S. inflation may rise, but not for long.
- Share price aside, who are the best companies? We take a look.
- Gold shares trade on asset value. Our Premium Ratio Valuation Model values companies based on the quality of their reserves and resources (published and unpublished) and the related extraction costs. On this basis, we look at which are the most attractive equities.
- Yes, there is some predictability in gold share market movements! We look at the full cycle share price effect of a new mining project.
- **Also in this issue:**
 - The estimation of ore reserves and the role of geostatistics.
 - U.S. Mining Law Reform: The questions. The answers.
 - The valuation of a gold asset from an industry perspective.
 - Gold mining stocks are a greater percentage of the S&P than you think.



In October 1994, we published our Initiation of Coverage with the theme “Gold Mining: It’s a Whole New World.” With the Cold War over, the areas of the world to explore and invest in grew hugely.

Lehman Brothers Premium Ratio Valuation (estimating profit on recoverable reserves) is 1.63.

Over \$1 billion of write offs in the previous four years.

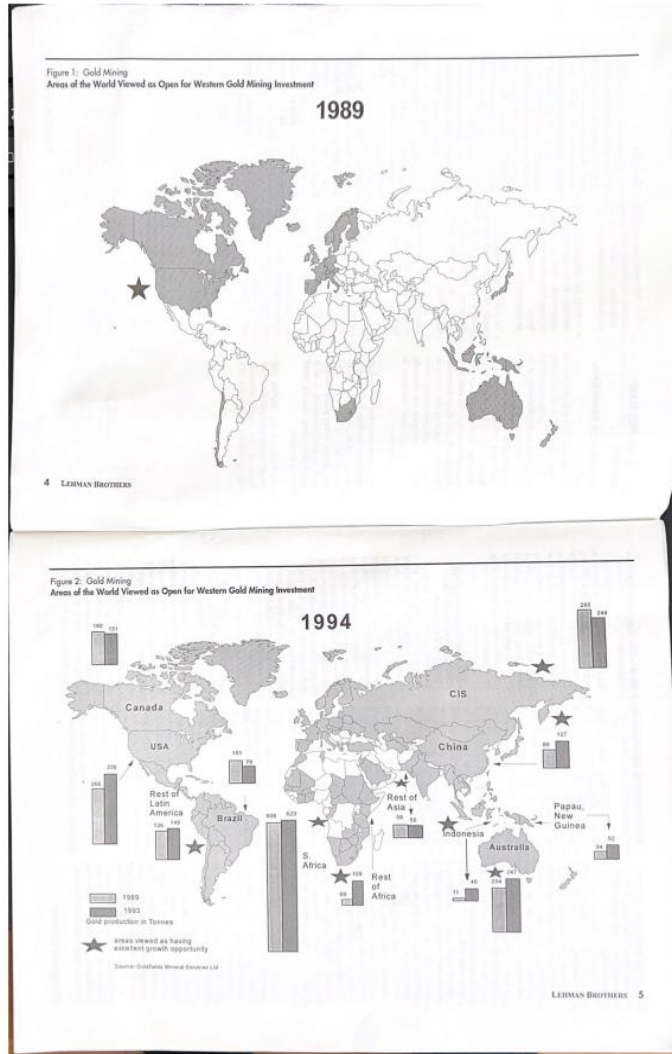
Average forecast 1995 P/E at \$390 gold = 33.



1989 to 1994 MINING WORLD

Gold Mining Industry 1994 Continued

Investable mining world



Parts of the world viewed as open for exploration and development in 1989 and 1994.

In the five years since 1989 the difference was huge.



QUICK REVIEW OF THE GOLD BULLION MARKET 1933-1986

Review of Gold Bullion 1933 to 1986



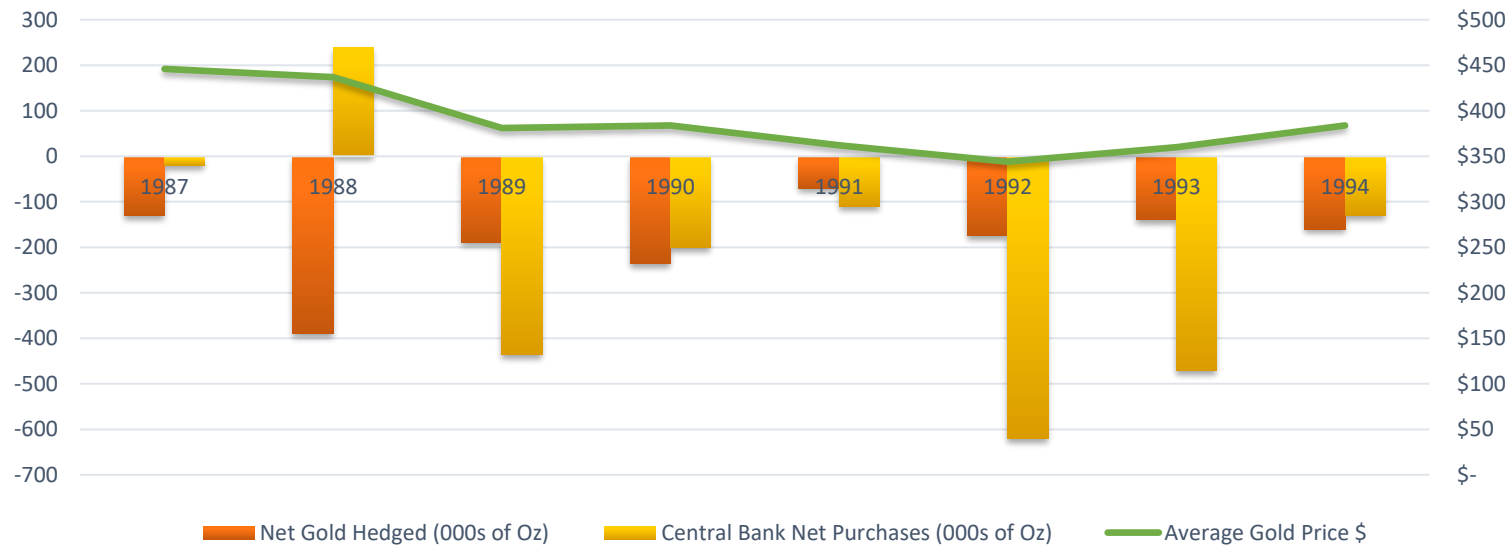
Source: Bloomberg and Rossport Investments



NET GOLD HEDGED AND CENTRAL BANK NET PURCHASES

Average Gold Price \$ vs Net Hedged and Net Central Bank Buying/Selling 1987-1994

High interest rates in 1988-89 especially in Australia motivated hedging.
Belgium makes first major central bank sale in 1989.



Source: World Gold Council and GFMS



A PERFECT STORM FOR GOLD 1994-2002

A Perfect Storm, Gold, XAU, and Fed Funds Rate 1994-2002

Gold prices fall as central banks and producers rush to sell into a western world more united, more confident with its monetary system, and more trustful of its institutions. Meanwhile, the Asian Currency Crisis exports deflation. One UK analyst called the central bank situation right until 1999.

Why is this relevant today? Because so much of the opposite is true.

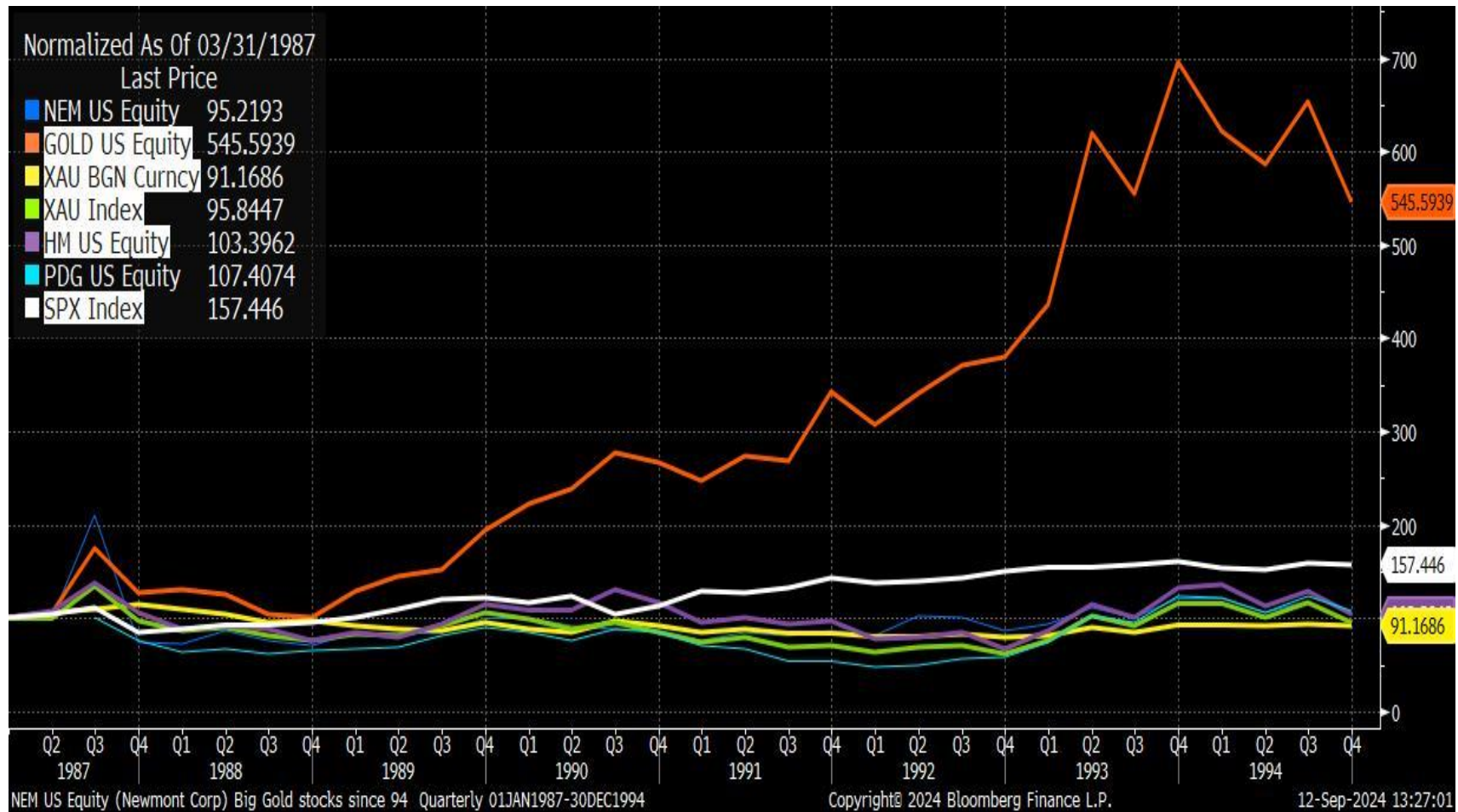


Source: Bloomberg and Rosspport Investments

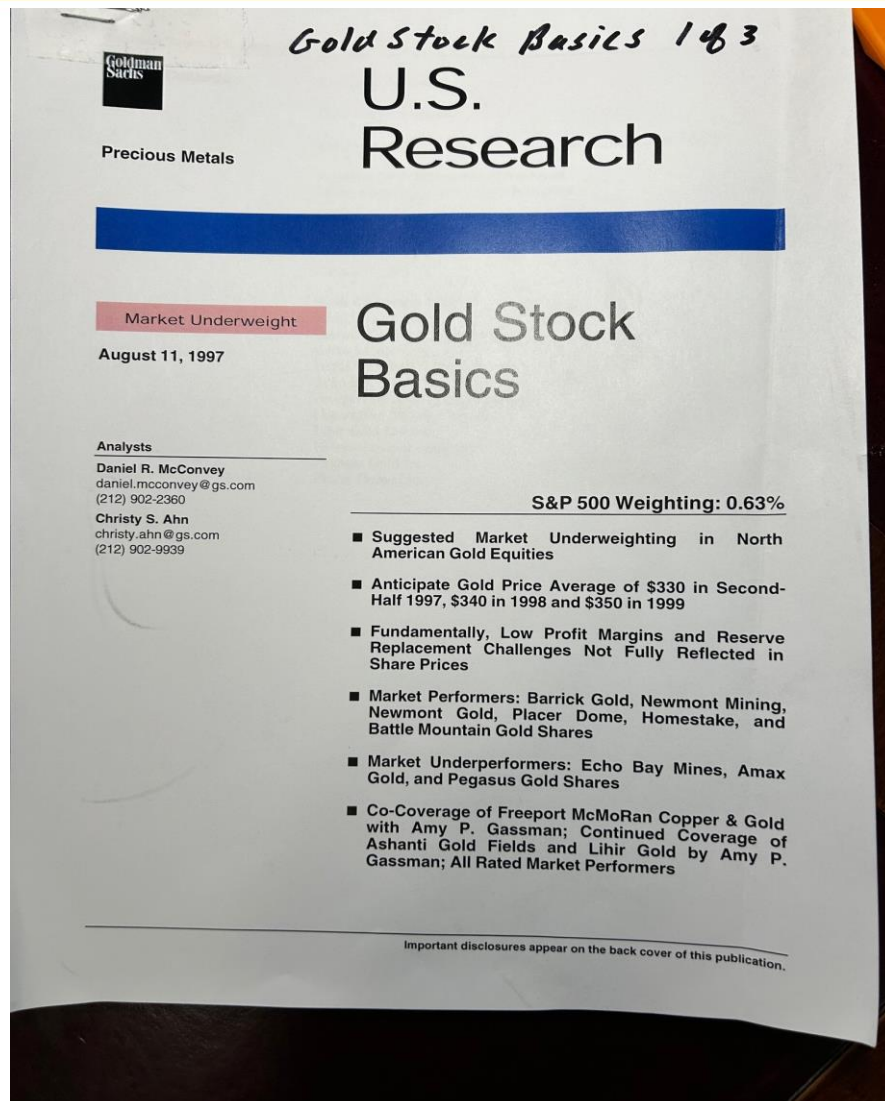


BARRICK GOLD SHINES 1987-1994

Barrick (orange line) with the discovery and development of the Betze-Post and Meikle Mines was the star during the seven years before the 1994 Denver Gold Show



BEARISH GOLDMAN RESEARCH LAUNCH IN 1997



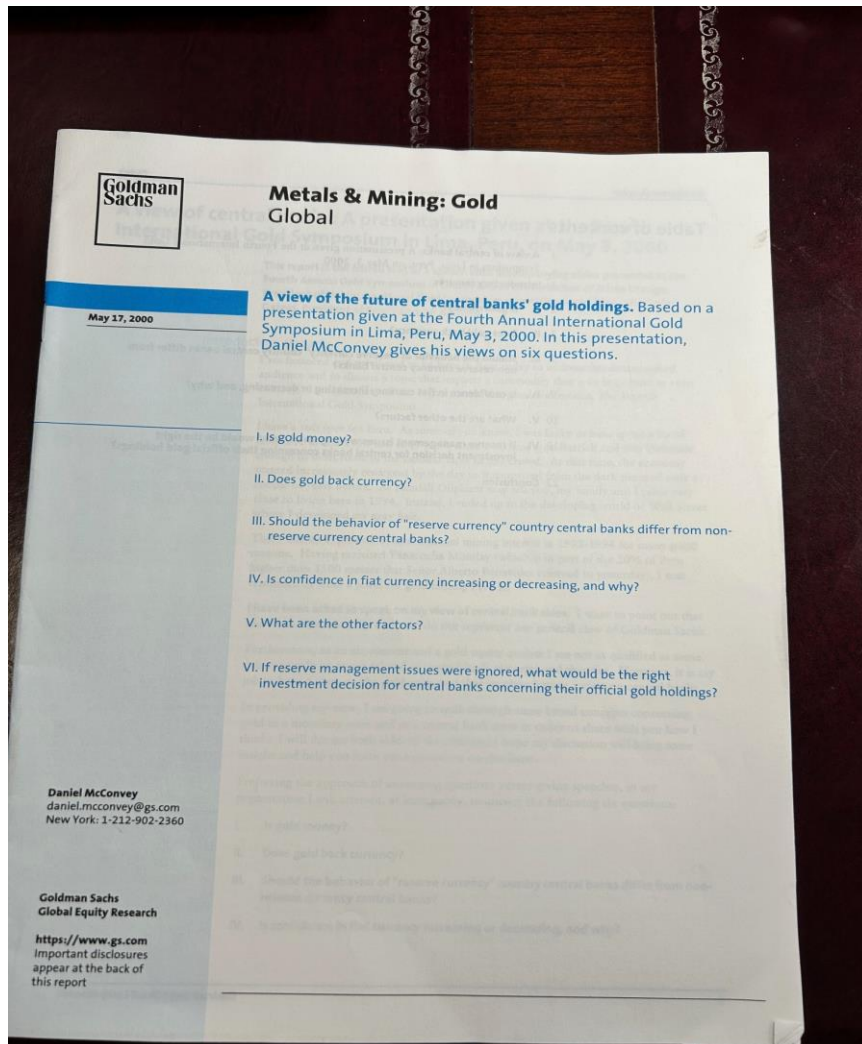
Our August 1997, Goldman initiation report “Gold Stock Basics” came out a month after the Asian Currency Crisis started. We were bearish. Gold was at \$330 and the XAU at 102 (vs. today 160). Even at \$350 gold miners were at break even. Things got worse.

We introduced NPV analysis. Our price to NPV multiple at \$350 and \$400 gold was 3.7 and 2.7, respectively.

“We believe the industry is operating at break-even. We estimate the total future cash outlays of recovering gold, including general and administrative (G&A) costs and future capital expenditures, at an average of \$300 per ounce. Based on this figure and current spot gold prices, current unit cash margins will be less than \$25, or 10% of revenue. However, this does not include exploration and financing costs, which currently run \$30-plus per ounce. Given exploration and debt-servicing needs, we believe that the gold industry requires a 33% operating margin (which would currently require a gold price of about \$400 per ounce) in order to be attractive. Currently, only Barrick achieves this margin, mainly due to its hedge position.”

“ROE in the gold industry appears to be in a period of secular decline”.

CENTRAL BANK GOLD SPEECH IN THE BEARISH MARKET OF 2000



A view of the future of central bank gold holdings.

Speech in Lima May 2000. Gold \$278

"Rightly or wrongly, the world is growing more confident with fiat currency. Whether next year, or 100 years from now, something major will happen that will shake that confidence. At that time, we would not be shocked to see central banks become net buyers of gold as they were in the early 1980s."



GOLD BULL WORLD 2003-2024 WITH ONE BIG DIP

The Post 9/11 Gold Bull World XAU, All Known ETFs, & Fed Funds, 2003-2024

Hedge books are eliminated, Central banks start buying, and new gold ETF's take off.

The Global Financial Crisis, Covid and other crisis help erode trust in institutions.



Source: Bloomberg and Rossport Investments

THE WANTING PERFORMANCE OF GOLD PRODUCERS SINCE THE 1994 DENVER GOLD SHOW



S&P, Gold and Selected Gold Stocks Since September 1994

Gold producers that were around in 1994, as best measured by the XAU index, have done poorly since then with the exceptions of Agnico Eagle and Newcrest (bought by Newmont in 2023). This graph excludes the value of dividends. The second incarnation of Franco Nevada is up 8X since 2007. Not shown on graph is Australia's Northern Star which is up 13X since 2007 ahead of the S&P.





VALUATIONS

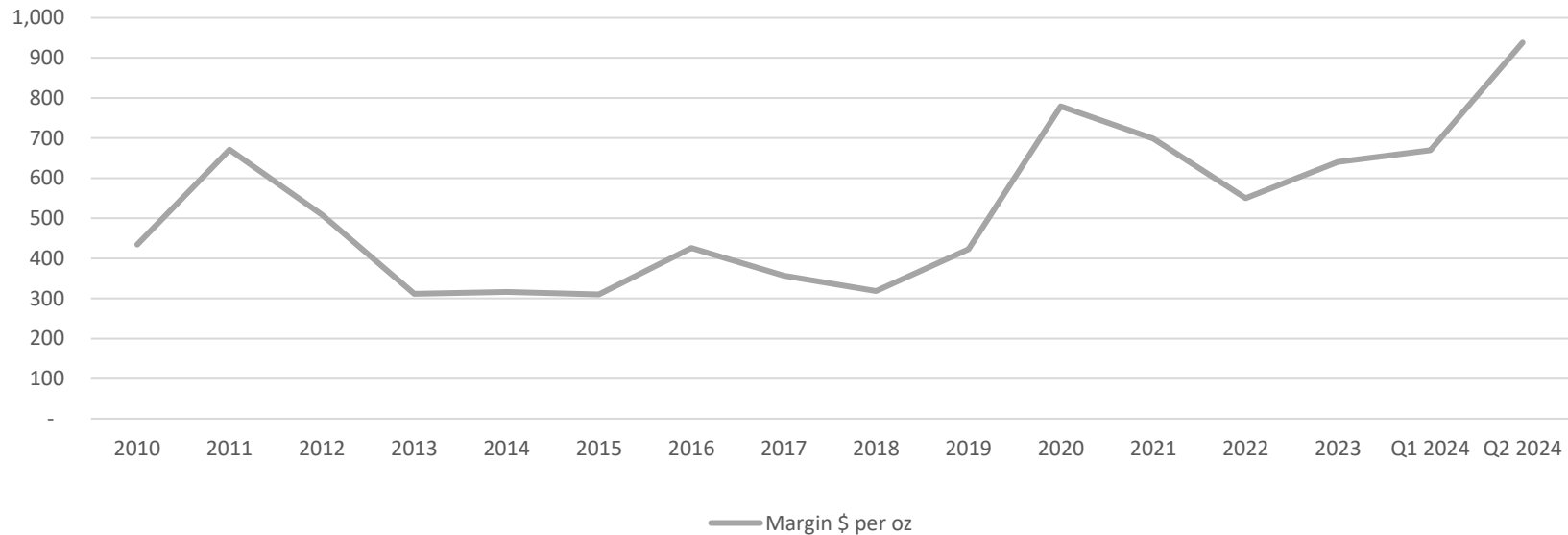
One reason for the underperformance of gold stocks in the last 30 years is the high valuations that existed in the 1980's, 1990's and beyond. Due to a number of factors including ETF's those high valuations have been eroded.

The 2X NPV valuations of yesteryear motivated some bad decisions in our view.

5% Price/NAV now per BMO at spot is 0.8 for Senior Producers and around 0.5 for medium producers vs. over 3.0 in my 1997 valuation. Margins are now about \$1000 per ounce which may be highest ever.

If gold companies can generate good returns, investors and liquidity are likely to come back.

Gold Producer Margins (gold price – AISC) are now a record \$1000 per ounce



Source: World Gold Council and Rossport Estimates

- A lot of good work has been done over the decades on ESG.
- ESG became a major focus for investors in the mining space as a result of three major tailings dam failures. These tragic dam failures include Vale's Corrego do Feijão mine in Brumadinho, Brazil in January 2019, Samarco Mineracao SA (a joint venture of Vale and BHP Billiton) in November 2015 and Mount Polley in British Columbia in August 2014. The recent heap leach failure at Victoria Gold's Eagle mine in June of this year, will further increase the scrutiny by ESG minded investors on mining companies.
- We think some of the NGO scrutiny has value. For example, we think the Church of England has done a lot of good work on tailings dams and in hindsight wish they would have included heap leach facilities in its scrutiny.
- We think Carbon Emissions scrutiny and initiatives will get stronger.
- The environmentalist in me watches mine footprints.
- In 2019, we wrote a letter to the Canadian Securities Administrators and its members including the Ontario Securities Commission, asking them to regulate a requirement for an Independent Review of every tailings dam of every Canadian listed company as well as requiring the disclosure of the Engineer of Record.
- We in the industry help communities especially in the developing world which is close to our heart. We need to keep that help going as long as we can at each project and mine site. We are making a difference.



CONCLUSION



Impressions, Suggestions, Wonders, and DNA

General

- We are in a very different monetary world than 25 years ago. Political unions are under threat in many parts of the world. Trust in institutions is falling.
- The deflationary shocks of the Asian Currency Crisis and China joining the WTO are behind us. Demographics are likely to have an inflationary impact going forward. AI may have a lot of work to do to offset this.
- ETF's have become a successful alternative to gold stocks. Bitcoin has been a successful alternative to gold bullion. Will there be others?
- We expect to see mine supply respond to higher prices.
- Aussie miners have really impressed us over the 30 years we have watched starting with going underground in Western Australia.
- Now some Chinese companies are leading the way in some fields.
- Immigration is needed and likely will fill many skill shortages.
- We wonder what is the right size for a gold mining company given, among other things, the huge task of replacing large reserves.

Some extra things we like to see in mining companies:

- A long-term view.
- Focus on sustainability versus size.
- Focus on how the mine footprint will look in 100 years.
- An avoidance of falling to pressure from investors when you know what is the right course.
- Speaking positively about competitors.

Impression, Suggestions, Wonders and DNA continued

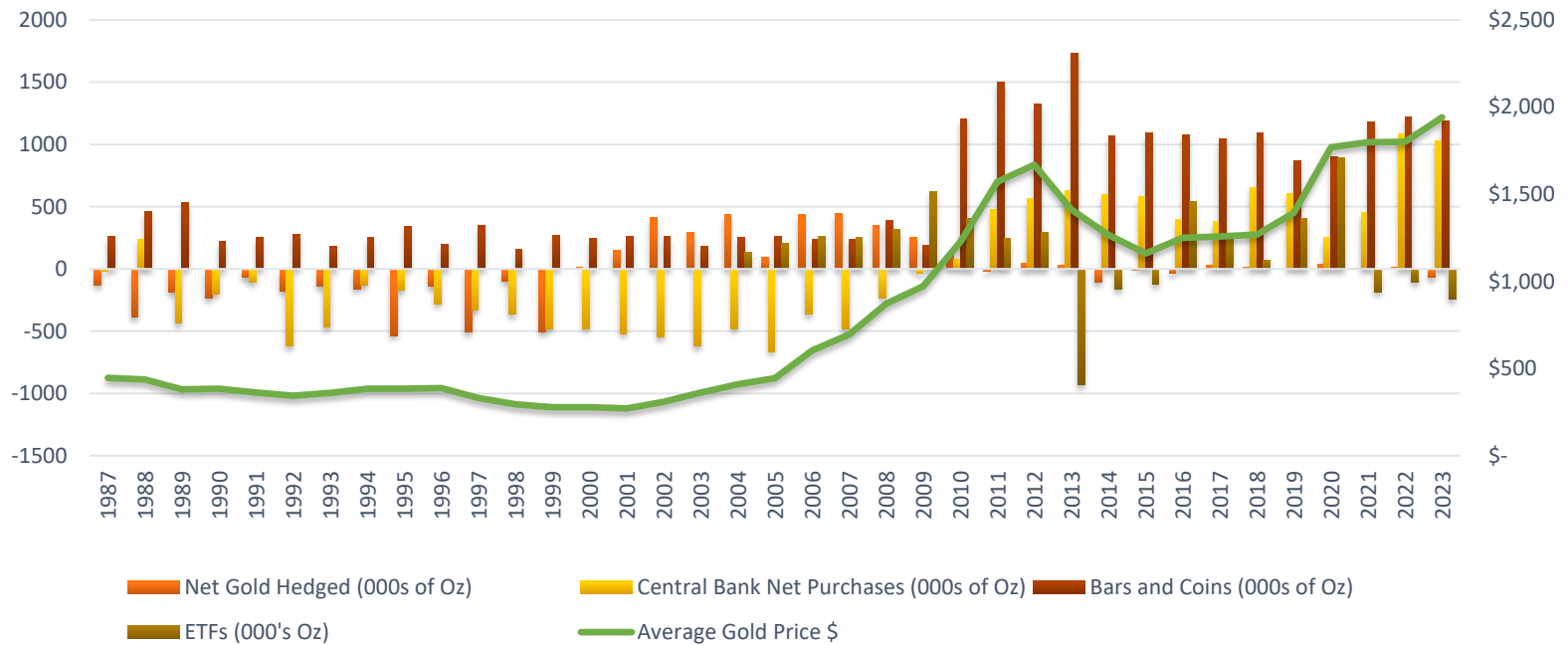
Suggestions for investors:

- Look for management teams that have done it before. e.g. The story of Harry Michael and Equinox Minerals.
- Know an analyst's bias and history.
- Be weary of investing in a big mining project in a country with little mining experience, a small GDP, and/or a sensitive environment. This is especially true if the mine footprint is large.
- Be careful with US permitting stories outside of Nevada.
- Copper gold porphyry mines tend to have the longest lives and tend to be the most economic over the cycle.
- Read the history of the company and talk to the previous owners of acquired properties.
- Bump up sustaining capex for outer years in your model.

Companies that have made an impression with their DNA over the last 30 years...

If you have any questions or comments please e-mail me at daniel.mconvey@rossport.com.

Average Gold Price \$ vs Net Gold Hedged and Net Central Bank Buying/Selling



Source: World Gold Council and GFMS



DISCLOSURES

Past Performance is Not Necessarily Indicative of Future Results

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