

# Global Analyst

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*Today, we look at four companies that have been very active recently, three at different stages moving forward, the other trying to salvage what it can of its best mine.*

## **MUCH ACTIVITY LEADS TO OPTIMISM ON FUTURE**

**Midland Exploration** (MD, Toronto, 0.87) remains my top exploration company. It is a prospect generator, with a total of 17 active projects, seven of which are in joint ventures, option agreements, or alliances. It is very active, with \$8 million spent on exploration on their properties in 2017. For the coming year, an anticipated minimum exploration budget of \$6 million has been set, though this is likely to increase based on results. This will be on nine different properties, with drilling at (at least) four of these.

Several of its projects, though early stage, are potentially exciting. Recent news includes the discovery of a high-grade gold zone on the wholly owned Willbob; zinc and nickel mineralization at two properties in its James Bay alliance with Altius; new targets at the option with IAMGOLD at Heva; a new option, with Niobay at La Peltrie, and drilling on the property; a new gold zone at Casault, in joint project with Soquem; and the discovery of a copper-rich boulder field in the Eleonore area, a joint-venture with Osisko Mining. Other partners include Agnico and Teck.

It has also acquired several new properties in recent months for which it is seeking partners. With cash-on-hand of around \$14 million—following a flow-through (Canadian tax-qualified) raise at C\$1.35—the company is in a very strong position, and able to selective explore its 100% owned projects. The drip into the 80s provides us with a buying opportunity.

### Close to agreement on Indonesian mine, but at what cost?

**Freeport-McMoRan** (FCX, NY, 17.33) is close to an agreement with the Indonesian government of the share divestiture and other issues. It had hoped to have completed talks by the end of the year, but it appears they will stretch into the first quarter. A three-way deal including Rio—which has rights to cash flow from the mine (40% above a certain level until 2021 and 40% after that date)—is likely. Such a deal would preserve a higher percentage of the cash flow for Freeport. The devil in the details however, including how and when Freeport will be paid for the shares it relinquishes.

Apart from the ongoing negotiation, the Grasberg mine (on Indonesia's Papua island) continues to have other problems. Renewed separatist activity, including shootings and a port fire, saw suspensions of mining and a reduction in production. This was offset by

higher copper prices, which led to a good year for Freeport. Capital spending dropped to the lowest since 2010, while debt came down to its initial target of \$10 billion.

The stock has responded to strong operational performance at the company and expectations of a near-term agreement with the government. But we await the details, suspecting that the government and Rio may come out winners. Hold.

#### Continuing to advance a project

**Almaden Minerals** (AAU, Toronto, 0.96) continues to progress towards completion of its feasibility study, while also demonstrating that the resource can grow. Drilling at the Tuligtic project is focused both on holes in connection with the feasibility study, and also step-out holes in new areas on the property.

Almaden recently released assays from recent drilling confirming a new high-grade zone within the proposed pit at the Ixtaca deposit. Separately, it released the results of an independent social impact assessment, which shows community support for the project as well as recommendations for further interactions with local communities. Mining companies are not required in Mexico to produce SIAs; Almaden's study was prepared by a well-respected Mexican consulting group. Almaden has been very pro-active in community relations throughout its time in exploring and advancing the project.

The stock has bounced from a very depressed low of 76 cents earlier in the month to the current level. We think it's still undervalued here, though, given the recent bounce we could see a pullback. Buy in the low 90s.

#### And drilling indicates a potentially large system

**Almadex Minerals** (AMZ, Toronto, 1.30) has also released a series of results on different parts of its large El Cobre copper-gold property, the most exciting of which have been two rounds of results from the Raya Tembrillo area on a different part of the property from the Norte zone where most of the drilling has taken place. These holes are all intersected a zone of supergene copper. Though results are very encouraging, the company says additional drilling is needed to understand the geology. The company believes, however, that the results here and elsewhere indicate large-scale porphyry potential, with a cluster of porphyry systems.

The company is well financed, but drilling such a large system has led to discussion of bring in a partner and possibly spinning off Almadex. We like the project and company very much, and it is undervalued here. The stock however has been very volatile the last six months, so we would look to buy on dips, perhaps into the \$1.20s.

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