the next bull market move

I'm a speculator searching for the next bull market move. And I think I've found it.

The Next Bull Market Move Interview - Steven Poulton, Chief Executive of Altus Strategies

October 21, 2018

We would like to welcome Altus Strategies as a brand new guest on The Next Bull Market Move. We talked about their assets in Africa, the project generator model, and what’s next for Gold over the next few years.

On The Next Bull Market Move we have a brand new guest, we have Steven Poulton who's chief executive of Altus Strategies. How are you today, Steven?

Very good and thank you for calling Kerem.

No problem. Let's talk a little bit about your background first. How did you end up in the junior mining space, and you’re based near Oxford in England, is that correct?

That's correct. Altus is based in Didcot just south of Oxford, about a 45 minutes train ride west of London. There's a fairly interesting backstory in terms of why we are here. It stems from the days of Selection Trust, a mining and trading group which had a number of interests in Africa. This part of the UK is logistically convenient for a physical trading business, being at the intersection of an arterial east-west rail line and a north-south road. Selection Trust was acquired by BP Minerals and in turn Rio Tinto.

As such there’s a bit of a mining community in these parts. The present-day reason boils down to how we manage our shareholder’s money. Ultimately a modest office outside of London, where rents are high, means we can invest more money on actual project generation activities.

In terms of background, having graduated in the late 90s with an MSc in Mining Geology from the Camborne School of Mines I was fortunate to secure a place with the team of a pioneering TSXV and AIM listed West African junior called Mano River. The company had hard rock gold, diamond and iron assets in Liberia, Sierra Leone and Guinea, three countries which at that time were arguably not for the faint hearted. Investor appetite was further restrained by an ever falling gold price, booming dotcoms and the shadow of the BRE-X scandal still looming large.

Mano was founded by Guy Pas a serially successful resource entrepreneur and the company was managed from Didcot by Dr Tom Elder as CEO. Not so coincidently Tom is a former senior Rio Tinto executive and a profoundly experienced commercial geologist. We are delighted to now have Guy and Tom as Senior Advisors, as well as shareholders at Altus.

In terms of other companies, in 2002 I co-founded a junior called Ariana with fellow Altus co-founder, exec director and Camborne School of Mines alumni Matthew Grainger and Kerim Sener, who I had studied honours geology with at Southampton University. We listed Ariana in London in 2005 and under Kerim's diligent stewardship that company is now pouring gold in western Turkey and has a very attractive portfolio of exploration properties. In 2004 I founded African Aura as a pioneering junior, focused on Cameroon and Liberia. David Netherway who is a co-founder and chairman of Altus was also the Chairman at African Aura and Matthew Grainger joined the team also shortly thereafter with John Gray as our CEO.

The TSX-V listing coincided with the eve of the financial crisis of early 2008. The team got the deal over the line and subsequent year was predictably tough. However, a couple of years later we merged the business with Mano River, before splitting it apart in 2011, this time along commodity lines, into an iron ore firm called Afferro, which was sold for approximately US$200m, and a plus 100,000 ounce hard rock gold producer in Liberia, formerly called Aureus and now Avesoro, which remains listed in Toronto and London. I remained on the board of Stellar, being the London listed diamond subsidiary of Mano, until its acquisition by an ASX listed company earlier this year.

These various transactions have been highly educational, not least in respect of the cyclical nature of the mining sector and how, with unwavering perseverance and sufficient patience, this feature can be exploited to maximise shareholder value creation.

Let's talk a bit about your company. Altus Strategies is a product generator and all your assets are focused in Africa. Is the African focus because this part of the world is still relatively unexplored for mining companies? And does this create more opportunities for those kinds of discoveries that have happened in other parts of the world?

It's a great question in respect of why Africa. Having founded the company in 2007, we listed Altus in London in August 2017 with the ticker ALS. Shortly after this we acquired TSX-V listed Legend Gold and in June of this year we completed a dual listing on the TSX-V with the ticker ALTS. The Altus group comprises a fantastic team, including 16 geologists, who are passionate about making discoveries in Africa. We are now operating in six African countries and have eighteen projects.

One of the key reasons we focus on Africa is that it is such a huge and prospective continent. You could effectually fit the land masses of the US, China, India, Mexico, Western Europe, Japan and still have room for others into its landmass. And it's also historically under-explored, in part because of perceptions over political risk, but also simply because it is so large. Basically it means the opportunity of making discoveries which are at or close to the surface, is much higher than in more mature mining and exploration destinations.

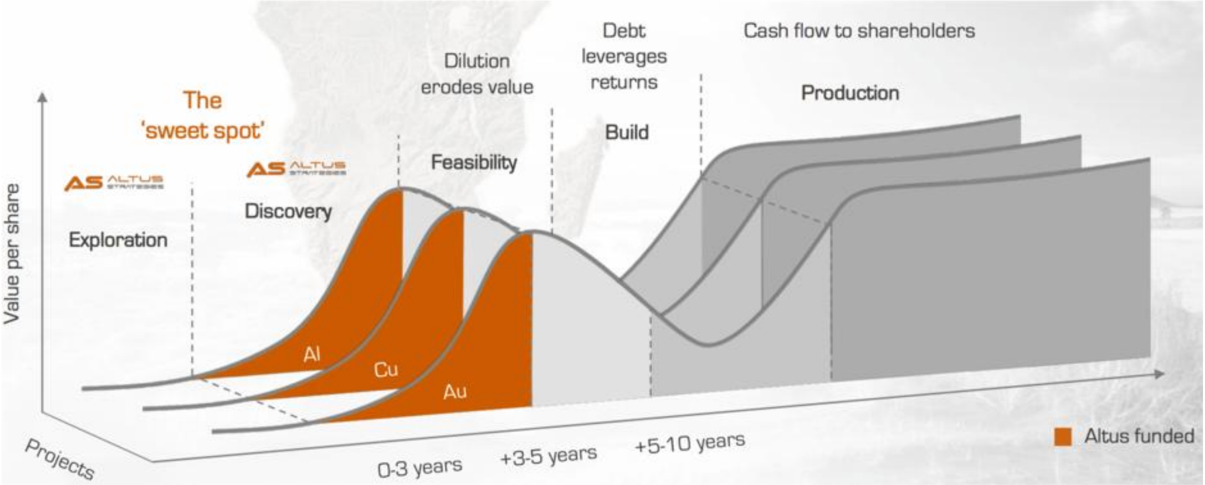
If you go to the US, current data suggests new discoveries are being made on average at about 200 meters depth. If you go to Canada, it's about a 125 meters down. While in Africa, excluding South Africa, it's around about nine meters below surface. To get an average of nine meters, there will be a number of projects at say 50 meters, but the vast majority of projects will be cropping out as surface, in other words zero meters.

What we're trying to do for our shareholders is basically cut the amount of time and money which is spent making discoveries, and thereby maximize their upside for the risk they take in us not making an economic one. Basically we can generate more projects and cover more ground faster. It's a genuine win-win.

Very good. So what metals are you focusing on within these projects, and can you give us a snapshot of perhaps a couple of these projects? What are you focusing on right now?

Sure. Well, we are currently in six countries, and we have a couple more on our radar. Our current countries of operation, in no particular order are, and I'll go anti-clockwise; Ethiopia, Morocco, Liberia, Mali, Ivory Coast and Cameroon. We have active exploration ongoing in one form or another in every single country.

About 50 percent of our portfolio is weighted towards gold, with around 25 percent in copper, 10 percent in bauxite and iron and the balance is in other base metals such as zinc, lead and cobalt. It's genuinely diversified by commodity as well as geography, and this speaks to our project generator model. We think that's another win-win for our investors.



Excellent. I was taking a look at your presentation and you have a number of backers that includes Sprott Exploration Capital Partners and Euro Pacific Gold Fund. Rick Rule is famous for liking and investing in companies that follow the project generator model, so, how does this model give investors limited downside but potential great upside, if we are back in a bull market for those metals?

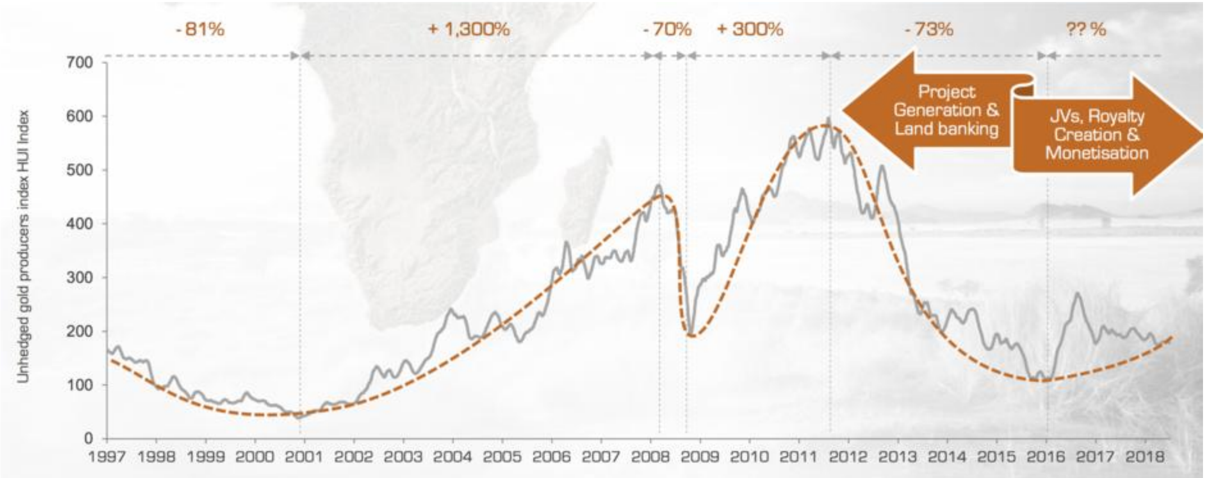
We're very privileged to have such a strong shareholder register. The board and our key shareholders own more than half of the company, including those names you mentioned. We also have a number of other sophisticated and notable institutional and high net worth investors. There's certainly been a flight to quality since the start of this painfully long and deep bear market, which started in 2012 and arguably from which we are still only emerging. By this I would emphasise that it's been a flight of quality investors going towards quality companies.

Almost every generalist institution investor has simply thrown in the towel on meaningful exploration during the past decade. With broader equity markets performing so well helped by the household tech stocks names, money has moved into passive investment funds. During this time speculative capital has shied away from the resource sector, in favour of real estate, marijuana, block-chain and cryptocurrency plays. It is fair to say that's been the right trade until now. There have been some spectacular returns and valuations generated from that strategy, while the market for exploration companies has drifted lower or flat-lined. Many juniors are now trading at a fraction of their intrinsic value. It cannot be stressed strongly enough that mining is a highly cyclical sector and that this should be taken as an opportunity by those willing and able to play the long game. If you get your timing right, the returns from being contrarian can be spectacular.

In terms of where to invest, I firmly believe investors should have a project generator in their portfolio, to gain exposure to the tremendous upside, but diversified downside that they offer. Single or dual asset explorers can of course provide fabulous returns too. However, we also all know of the many stories of companies not working out and performing in a spectacularly negative fashion. Investing in exploration is an intrinsically risky busy, but there are a number of reasons why the current timing for investing in a project generator could prove exceptional.

Project generators such as Altus actively seek to exploit the cyclicality of the sector. As a contrarian we have been investing in exploration throughout the recent downturn. However, we also aim to blend the exploration down-side while maximising the leverage to actual discoveries and success. Time is a critical function of the project generator business model. If we were to go through each one of our assets in turn and spend say a year on each, it would take us almost two decades. Our investment and exit horizon is perhaps three to five years. In order to do that and be successful, we run multiple exploration projects simultaneously.

Anecdotally one of our investors on the institutional side mentioned to us that the reasons they're backing Altus, is that we're managing our company with a dispassionate and portfolio approach, which is similar to how they manage their clients' money.



Exploration is literally fundamental to the future of the mining sector and the supply of metals the world needs. It happens to also be the part of our industry which can generate the highest returns on investment when an economic discovery is made. In past cycles mining companies have tended to rely upon the ability to purchase projects or companies at modest premiums during each upswing.

A number of major and what you might call challenger mid-cap mining companies appear to now be appreciating that buying assets to sustain their future in the coming bull market may not be as straightforward or inexpensive as it has been in the past. Not only does competition exist from private equity groups who can finance assets all the way through to production, but there are also an increasing number of private non-western industrial conglomerates who have the balance sheet to finance mine development and are actively seeking to exploit the current market opportunity.

There are also simply fewer quality projects available for development, given the dearth in genuine grassroots exploration activity that has taken place over the last decade. In response to this landscape the more entrepreneurial mining companies are starting to take strategic, and by that I mean greater than 10%, interests in juniors that they feel have potentially economic projects and or highly prospective land banks. Anecdotally we are seeing a marked increase in enquiries from various industry as well as non-industry groups regarding our project portfolio.

By investing in Altus our shareholders are aligning their interests with management, who are material shareholders and investors in the firm. A strong alignment of interests is critical when investing in any company, let alone one in mineral exploration. We effectively run Altus as owners, and not outsourced managers. This means we can have a dispassionate approach to our project portfolio. We avoid the risk of falling in love with our projects by having a strategy of partnering each one. Our shareholders expect us to monetizing assets and to generate income, allowing us to not just survive but hopefully prosper outside of, or at least within reason not being totally dependent upon, the equity markets.

We have all witnessed the death by a thousand cuts of dilution, as the management of a traditional junior finance and dilute at the parent level as they do not wish to sell an interest in at the project level. Often the investors who took the biggest risk, by investing earliest, end up owning a disproportionality insignificant amount of the asset. Meanwhile the market grows fixated on the outcome of the flagship asset, while always being mindful that another financing is likely to be just around the corner.

That’s not the case with Altus. With our project generator business model, we’re actively looking to exit and monetize projects by either selling a partial interest in them through a joint venture, or by listing them as a SpinCo on a separate market. Basically we are always seeking to employ other people's money to advance our projects, while we retain equity and royalty exposure.

I think for most investors the major reason they would invest in a project generator is because of the lack of dilution and the multiple assets, which could hit the basic payoff of a great discovery, so that's good to hear.

Exactly.

Before the call, we were just talking about the Australian markets because you guys were over there a few weeks ago, and we were talking about the sentiment in Australia around the mining sector. Can you talk a bit about that?

Certainly. My colleague and fellow exec director Matthew Grainger and I attended the Africa Down Under conference in Perth. While we were there we signed a letter of intent for the spin out of Aterian Resources, our Morocco focused exploration subsidiary, which has a very interesting copper-silver discovery at Agdz, along with a number of other projects that are focused on other base metals, such as zinc and cobalt. The deal is with a private company called Raptor Resources, which intends to undertake a listing on the ASX and earn an immediate interest in our project and the potential to earn up to a 100 percent interest. In return, we would own a stake in Raptor, receive some cash and retain project royalties. The deal is currently being worked on.

While that in itself is an exciting development, it also reflects the mood in Australia more broadly, which is currently more upbeat than in London or Canada where I have just got back from. There's an element which you can clearly sense, that the profits that were made when the market rebounded in Australia towards the back end of 2016, have been reinvested into smaller capitalized companies, as opposed to being diverted into block-chain or marijuana plays. The extra capital has been oxygen for the sector, with new exploration and drill programs being financed, discoveries generated and stock prices rising. Classic characteristics of an early bull market which certainly seems to be intact in Australia. Of course Australia is heavily endowed with commodities and has a mature home grown mining sector. However, it's not totally insular. As we know, there have been a couple of high profile Canadian listed groups with Australian assets that have done particularly well over the last year.

While the trend seems strong and intact in Australia, in London and arguably in Canada since the bounce of late 16 and some of 17, we haven't really seen the follow through. Some stocks have done okay and many are well off their all-time lows, but they haven't performed as well.as many in the sector were expecting. This last year has been at best a flat line, while many individual juniors have simply not caught a bid at all over the summer and performed terribly. Good news updates in many cases have been used as opportunities to sell. It's been a really tough year so far, for the majority of juniors.

However, we have been very encouraged by what we have seen in the Australian market and come away with a deal, which we hope to get wrapped up before the end of the year. We've also had a number of conversations with other Australian based groups, who recognize the value opportunity across our portfolio of projects in Africa. These conversations echo those we are having with other groups. There is such a paucity of good quality discoveries that are also available for transactions.

As discussed at the top of the call, a key feature of the project generator model which we've been executing is that during the downturns is that you have to be acquisitive and courageous, to accumulate assets and explore. Even though the mining companies are shying away from it and even though the market pays it no value, you simply have to keep exploration front and centre, knowing that during the next bull market the tables will turn 180 degrees in your favour.

Very good. Okay. Let's move onto gold. Do you feel that we're back in a bull market for gold? And what's your outlook for the metal over the next few years? Are you bullish?

It's a good question. I would say we're agnostic as we're having difficulty valuing a dollar if you are to reverse the equation and use gold as your benchmark. A decade ago, the financial crisis caused gold to sell off, it being as source of short term liquidity. Prices dropped to the

700 dollars per ounce range, but it then did particularly well afterwards with its properties as a preserver of value. At that time you could make a clear case for why gold would not just breach a thousand dollars but that it would likely double. In fact it rallied up to as high as the 19 hundred dollar mark. You could sense the macroeconomic trends meant the price was only going to be going a lot higher, both nominally and in real terms.

The great pull back in gold prices, which started in late 2011, with its fall to the 11 hundred dollars range, is firmly in line with long term bull market cycles. A 50 percent drop as part of a larger up trend is not totally unusual. However, the price performance over the last three or four years, when we had expected to see gold moving consistently higher, hasn't occurred. Instead gold has tended to trend in a very narrow range. In the short term when something's not doing what you expect it to, it’s clear you model is wrong.

As such and while gold has been gradually consolidating in this period, we don't have a strong short term in-house position, to say whether we think gold is going to go a couple of hundred dollars higher or lower. While on balance higher seems likely, much may depend on short term volatility in other markets, including equities, housing and currencies. There’s understandable nervousness right now in equity and sovereign debt markets. We are potentially coming to the end of a decade long boom in blue chip equities, housing and other markets, which has been pumped up with zero interest rates, bonus generating stock buybacks, excessive borrowing and autocratic money creation. As we have seen before gold tends to fall early into a market correction as a source of liquidity, before reversing and performing well. The recent pullback in the Dow and positive movement in gold speaks to the current fragility of markets and how underweight, or even short, investors are in gold.

Longer term, and by that I would say three or four years out we expect the gold price to start, or continue, to edge meaningfully higher. Big picture drivers such as an expanding global population, with an ever growing affluent middle class in the emerging markets means there will be more wealth and disposable income, a degree of which will be directed toward jewellery and savings. Not least for cultural reasons. Combine that with the excessive debt created in part by the fractional reserve banking system, likely causing some institutional and sovereign investors to exchange their dollars for gold at some point and we would expect more net buying than selling. The dollar remains the global safe-haven currency and may yet strengthen further, relative to other currencies, on signs of global market weakness or any potential calamity in the Eurozone.

So, we shall see. When I started my career we were working on scoping studies using 350 dollars an ounce. As they say, everything is relative.

Finally, is there anything else you'd like to share with new investors who might be looking at Altus Strategies for the first time? We're still coming out of this bear market within the mining cycle as well as gold and copper as well. So, is there anything you'd like to tell us?

I guess that timing is everything. We trade on the TSXV under the symbol ALTS and in London under the symbol ALS and our share price has fallen since we undertook a C$0.15 capital raise in April to around C$0.06 today.

Throughout this time Altus has been creating value by generating discoveries and undertaking transactions. We believe this inherent value is not being reflected in our share price. Supporting this statement and as you will have seen from our most recent news release, a number of directors have been buying more shares. Despite having a great portfolio of projects and strong shareholders, the generalist investors have yet to pick up on the opportunity. This is more of a reflection on the state of the junior resource market more broadly, than something that solely relates to Altus.

Our objective is to make multiple returns on our investment. A good case study for this might be our Birsok bauxite project in Cameroon, which we have partnered with ASX listed Canyon Resources. We selected Birsok due to its proximity to the world renowned Minim Martap bauxite project. After some initial and successful exploration we struck a JV with Canyon. As part of that deal we received a cheque for 150 thousand Australian dollars, which effectively covered our entire exploration outlay.

Furthermore Canyon granted us 8 million shares, which have a current market value of 1.6 million Australian dollars. Very recently Canyon was granted an exploration licence on the Minim Martap project. We recently announced that we will be vending our JV into Canyon in return for equity further 30M Canyon shares plus a 1.5 US dollar per ton royalty on any bauxite ore that is mined and sold from our former JV property.

These additional shares have a current notional value of six million Australian dollars and the royalty may create a valuable and perpetual income stream in due course. This deal illustrates that, despite the downturn, as a project generator we are able to make and monetise discoveries while also retain zero cost exposure to the exploration upside.

Over the last couple of months we have seen some small scale selling of our shares. By small I mean in the realms of a few thousands of dollars of stock, but it's unfortunately had a material impact on our market capitalization. This is not something any management team likes to see, and is something we obviously wish to rectify. What it does do however, is potentially create a compelling price point for new as well as existing investors who understand the project generator model and are seeking to get ahead of the next coming bull market. So I would end by saying that we believe there's fantastic value in our shares just now and highlight the recent director share purchases, as actions speak louder than words.

Thank you very much, let's wrap it up for today and hopefully we'll have you back on the show soon.

You are very welcome, it has been a pleasure. Thank you, Kerem.

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For more information on Altus Strategies go to https://www.altus-strategies.com

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