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

February 24, 2019

A few weeks ago I caught up with Steven Poulton, Chief Executive of Altus Strategies, and we talked about the gold market, why investors should take a look at project generators, and what's next for Altus Strategies.

On Next Bull Market Move I'm here with Steven Poulton, Chief Executive of Altus Strategies. How are you today Steven?

Very well Kerem. Hope you're doing well.

Let's begin with gold. Before the call we were having a brief discussion about gold over the last few months. Gold is now perhaps starting to act stronger with the recent backdrop of a weakening Dow Jones and S & P 500. What are your current thoughts on this?

It has certainly been very positive to see gold edging up over the last few months, having been pretty well range-bound for the last three years. With everything going on in the wider markets and the various forms of geopolitical uncertainty at present, many people had been looking at the price and wondering why it hadn't been moving higher.

Obviously there was the calamity in the 'blue chip' tech-stocks towards the back end of last year, as bond yields rose and money, or rather debt, became more expensive.

The FANGs of this world had evidently become a one way bet and it was no great surprise when the short-money started to move in, so long as the Fed continued to signal its intention to raise rates through 2019. However, their forward guidance is now suggesting that the quantitative tightening phase may be relaxed, or even postponed.

Through all of this, gold has moved through and held its ground above $1,300/oz. One notable characteristic of the current gold market is the resurgence in central bank buying, which has recently hit at a 50 year high. This speaks volumes and for all the implicit reasons.

Most insiders in the gold market are currently forecasting that prices will be strong throughout 2019 and end the year in positive territory.

It is very difficult in the current market to call exactly where that would be. There is a complex debate to be held, in respect of the outlook for the US dollar. While there is a broad consensus that excessive public as well as private debt is unsustainable and will likely lead to inflation in the longer term, a valid case can also be made for a stronger dollar due to weakening macro-economic data and a less predictable geopolitical backdrop.

None the less it's good to see gold doing well and we hope its outperformance continues. Longer term, over the next few years, we see gold heading much higher.

In the short term, the breakthrough of 1,300 per ounce and high profile M&A, including Barrick/Randgold and Newmont/Goldcorp has provoked further interest in gold stocks.

While we're not yet seeing aggressive bull-market type buying, the recent outperformance of gold against stock has caused a number of asset managers to start look at gold and gold stocks once again as a defensive strategy, against blue chip market overvaluation, to protect against wider inflationary pressures and fundamentally for the potential that all of these factors have.

Since our last interview there's been some exciting news of deals and exploration results from a number of your projects. One based in central Cameroon, another in western Mali, another in northern Ethiopia and finally one in Central Morocco. Can you give us some details about these results?

Absolutely. We recently announced the signing of definitive agreements to vend our bauxite joint venture in central Cameroon into ASX listed Canyon Resources (ASX:CAY) who are our current joint venture partner on that project.

If fully concluded, we will receive listed equity with a current value of approximately £3.4 million / C$5.8 million, based on today's price of Canyon's shares. We will also receive a US$1.50 / tonne 'life of mine' royalty on bauxite ore mined and sold from our former JV licences.

Having strategically staked the project in 2010 we entered the JV with Canyon in late 2013. Our total expenditure generating the project prior to the JV was less than US$125,000 and this amount was repaid in cash by Canyon. We also received an initial 8 million Canyon shares, which are no longer subject to escrow and have a current value of approximately £0.8 million / C$1.5 million. The deal powerfully showcases the strategic value of our counter-cyclical project generator business model.

Shortly before the Canyon news we announced the signing of a letter of intent for a JV with ASX listed Indiana Resources on our Lakanfla and Tabakorole gold projects in western Mali. If definitive agreements are signed then Indiana will have the option to acquire up to an 85% interest in these two projects. In return Altus will receive upfront equity in Indiana, future milestone based payments of cash and equity and a 2.5% NSR on the two projects.

The Lakanfla project is strategically located adjacent to the world renowned Sadiola gold mine, at which oxide resources are reportedly being exhausted. Historical drilling results have returned exceptional results, including 5.10 g/t Au over 26.0m, 9.78 g/t Au over 12m and 5.61 g/t Au over 14.5m. We believe Lakanfla potentially hosts a substantial karst-style gold target, analogous to the adjacent FE3 and FE4 pits of the Sadiola mine.

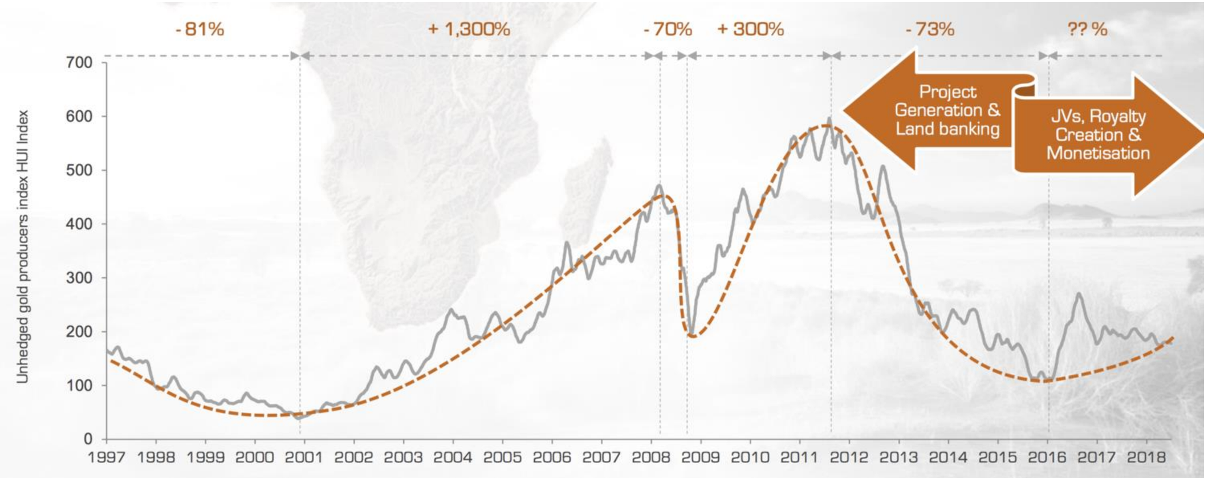
The Tabakorole project is located in southern Mali and targets a shear zone that has reportedly been mapped for 2.7km in length and is up to 200m wide. Historical drilling results to date at Tabakorole have also been very encouraging, including 2.92 g/t Au over 60.0m and 3.30 g/t Au over 44.0m.

Aside from the deal flow, we have been generating some excellent exploration results in northern Ethiopia at a project called Daro. We staked Daro for its geological prospectivity for Volcanogenic Massive Sulphide, so called VMS, style copper gold systems which the Arabian Nubian shield is highly prospective for and account for a number of very large gold and copper gold mines.

We've been aggressively exploring Daro for about 18 months and have discovered a number of prospects to date. Most recently a prospect called Simret, where we've had silver grades of 944 grams per ton. We've also had some very decent lead grades with kicks of zinc too.

These results when combined with the presence of artisanal gold workings and oxide copper mineralisation are all symptomatic of a potential VMS system.

In respect of Morocco, we recently announced that our letter of intent with Raptor resources has been terminated. Unfortunately market conditions meant Raptor was unable to advance the opportunity on to the ASX as had been envisaged.



This potential for deals not to occur is inherent within our model, but also speaks to the value of having a highly diversified and broad portfolio, a negative outcome on any one project or deal is unlikely to have a significant impact on our overall valuation, while conversely a positive outcome from any one project has the very real potential to positively impact our valuation.

Staying in Morocco, we recently announced exploration results from our Takzim copper and cobalt project, located in the centre of the country. We've undertaken a program of rock chipping along with reconnaissance soil sampling.

These programmes have generated very good results, defining a 600 meter long anomaly, with grades up to 8% Cu and more than 1% zinc. Notably it also returned cobalt grades of up to 0.15 percent. Takzim is shaping up to be a very interesting license package that is located in the heart of a historic copper and base metal mining district. This is the essence of high impact and low cost exploration.

Excellent. So can you give our readers a recap on your business model? And why you believe a project generator strategy can create exceptional shareholder returns?

Those are very good questions. There are a number of factors that cause the project generator model to work strongly in favour of shareholders. I will start with so called 'skin in the game'. It's not uncommon to see that the shareholdings of project generator management teams to be higher than traditional exploration companies.

For example the board of Altus holds a 35% interest in the Company. There are two principal reasons for that. Firstly and it's perhaps a sweeping, but I believe credible statement, that project generators tend to be owned by more entrepreneurial management teams, who believe in the value which can be created from making and monetising discoveries.

The management of project generators tend to be investors in the businesses and as such put their own capital risk alongside other shareholders.

The second reason is that the model for financing project generators tends not to be overly dilutive for the listed entity, as dilution occurs at the individual project level, on a case by case basis, with multiple joint venture partners financing the exploration costs.

This means shareholders of the parent are not subject to relentless dilution. There will be dilution from time to time as project generators raise money for working capital, but it should not be excessive.

There comes a point in many junior exploration companies where the shareholdings of the board and management become so small that they are motivated by the lifestyle of managing a junior and not by the value per share that is created.

That equation usually ends badly for all shareholders. However, high insider ownership tends to create a virtuous circle. With more 'skin in the game' management behave more like owners and not employees. This means they are less likely to be reckless with the company's share capital.

The alignment of interests of the management team and the shareholders is a fundamental reason why project generators can be a safer bet than the traditional exploration company.

A further inherent value-driver for project generators is the fact that portfolio diversification is built-in. Typically a project generator will be diversified across several assets, commodities and jurisdictions. In a traditional exploration stock, an investor may be fully exposed to just one or two projects in just one jurisdiction.

We have all seen how this concentration of risk can end very badly for shareholders. The shareholders of project generators can sleep soundly in the knowledge that if there's a particular instance within a jurisdiction, or commodity or result from the drill bit, then their entire investment is not at risk. Conversely if something particularly goes well then the upside can be considerable.

Altus is focused on Africa, a continent where our group has a long track record of making and monetising discoveries. Our portfolio is diversified across six countries and 17 projects and we have two joint venture partners in Resolute and Canyon, both listed on the ASX in Australia and a further LoI deal with ASX listed Indiana.

We expect the number of projects and JVs we have to grow and our objective is for our shareholders to experience multiple successful returns from the coming bull market.

In addition to the inherent value of portfolio diversification there is also huge value in the speed and efficiency that comes through the project generator model. A traditional exploration company will raise capital, hopefully make a discovery on the back of that asset and advance it with systematic exploration. Typically it will take between eight and ten years to move a discovery into production. It's increasingly taking even longer than that.

That's a long time which will encompass at least one or two market cycles and that's equity as well as commodity cycles. When those cycles come together it means resource stock performance can be amplified on the upside, but also on the downside when inverted.

Investors are taking considerable risks by backing a traditional resource company from discovery through to production.

It might be likely that the share price will do particularly well when the discovery is made and then again when the asset gets into production. However, too many variables exist to allow investor to know exactly when they should be buying and selling and loyalty on its own doesn’t pay a dividend.

Ultimately if you can invest in a company which has the expertise, skills and capacity to focus exclusively at the discovery stage, has a diversified portfolio, is able to accelerate several assets simultaneously and which is financed through partnerships at the project level, rather than the capital markets alone, then investors will be maximising their so called bang-for-buck.

Therefore, to answer your original question, there are several interrelated reasons why investing in a project generator is a fantastic way to invest in the exploration space and a strategy that some if not all investors should participate in.

Briefly, before the call we were talking about the recent merger and acquisition of a couple of majors in the gold space. What are your thoughts on this and do you expect that kind of activity to continue within that space and maybe in the juniors as well?

It's a great question. We've just seen the proposed transaction between Newmont and Goldcorp and that’s encouraging coming on the back of the deal between Barrick and Randgold.

While it's encouraging to see larger companies striking deals in the first instance, it is also crystal clear that a consolidation trend is now in play and will continue through the rest of 2019 and into 2020.

This theme speaks to the lack of growth through discovery that has occurred during the last decade or longer. Companies have been unable to grow their balance sheets by advancing existing projects.

Our industry is unique in that its business plan is to make its assets smaller every year through mining them out. The faster they can shrink their assets, the higher they may be valued.

You can only do that for so long without replenishing the inventory though acquisition or discovery, until you go out of business. It is therefore quite understandable why larger mining companies need to take each other out. They have to consolidate to stay relative, not just competitive.

We expect the M&A theme in the large caps to catalyse broader interest in the sector and that this is likely to cause a trickledown effect of speculation in the mid-tier companies, who may become acquisition targets. This speculation will likely generate some buying activity at a time when the market is completely sold off and the sellers are gone.

As such we see a potentially virtuous circle as new investors come into the space and prize shares out of tight hands at much higher prices. As such and while we expect gold to move higher, even if gold remains where it is now, then people should do very well during this coming consolidation phase.

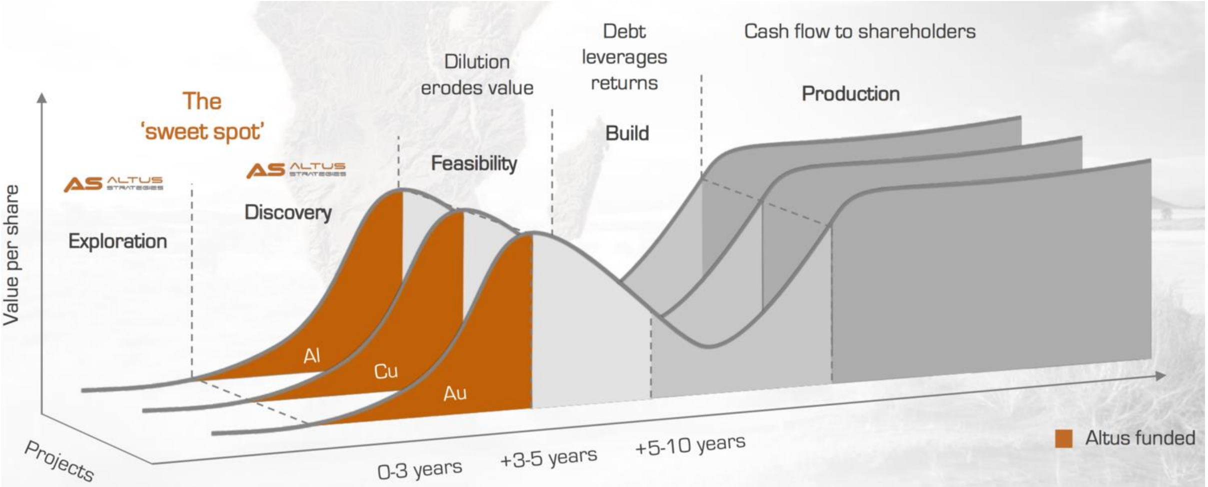
In the meantime we are still not seeing significant investment in grassroots exploration. Ultimately this is the part of our industry which drives value creation.

As just described without material discoveries mining companies will eventually run out of resources. This situation not only speaks to much higher valuations for companies who have decent projects but also to considerable new money flowing back into the exploration space.

As mentioned earlier, mining is a highly cyclical industry and we have been through a profoundly deep down-cycle since 2011. The start of M&A activity may be the canary in the proverbial coal mine in respect of the potential coming bull market in the resource space.

If the price of gold and other metals also out-perform as discussed above, then those returns may not just be strong, but sustainable and substantial.

As a final question can you share with us any plans that Altus Strategies has over the next 12 months?



Certainly. We are actively undertaking exploration, generating projects in six countries across Africa. The other half of our business is executing transactions and undertaking joint ventures, as well as monetising them through trade sales or vend-ins.

During the course of this year, we'd like to be in a position where we have a number of joint ventures signed on our portfolio projects. We have already announced a couple of deals recently, one on our bauxite project in Cameroon with ASX listed Canyon Resources and another on two of our six gold projects in Mali with ASX listed Indiana Resources.

These deals are in addition to our existing joint venture with ASX listed Resolute Mining in southern Mali. We also have gold discoveries in Liberia and Cameroon, plus a portfolio of copper and other base metal projects in Morocco as well as copper and gold projects in Ethiopia and Ivory Coast which are either ready or are close to being ready to transact on.

As we discussed earlier on the call, project generators create fantastic portfolio optionality, while also shielding investors from the excessive dilution seen with traditional exploration companies. Monetising our assets and growing the portfolio is what 2019 is all about for us.

Excellent. Okay. Well thank you very much for your time today Steven.

Thank you Kerem. It's been a pleasure speaking with you.

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