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the Resource Markets



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Generation Mining (TSXV: GENM) and the Sibanye Decision

A few weeks ago Generation Mining got the decision they had been awaiting from project partner Sibanye-Stillwater. The major miner decided not to act on its back-in right, which would have let it re-up its stake to 51% from the current 18% by funding 31% of the initial capital cost to build the operation (about \$204 million), after which GENM and Sibanye would have split the remaining cost 49%-51%.

Generation's share price lost some ground on the news, falling from \$1.08 to \$0.87 today.



I can understand the reaction, as there are a few clear downsides to Sibanye declining to earn back majority ownership:

- **Sibanye backing in would have been a strong endorsement of the Marathon project.** Sibanye-Stillwater is the largest production of PGMS (platinum group metals) in the world.
- **Generation now owns 81% of the project, which means it must largely sole-fund the rest of the work to get Marathon ready to be built and then will have to secure build capital (estimated at \$665M in the recent feasibility study), which is a tall order for a company with a \$130-million market cap**
- **Sibanye still owns 18% of the project and about 7.5% of Generation. It's unclear what the miner will want to do with these positions now.** Sibanye has not been meeting cash calls for project funding; if that continues it will get diluted down, but until its stake drops below 10% (I think) it still has some

decision-making powers. Sibanye declines to back in at Marathon 8 Those are all valid points. But there are positives to Generation retaining majority ownership as well.

- Had Sibanye backed in, GENM would have owned 49% of a great project...but would have had no control over pace of development, news flow, or exploration. That matters because **minority owners of projects with major partners often see their share prices flounder simply based on a lack of news.** Majors work slowly and do not care about generating news.
- **Sibanye are not mine builders.** They bought every mine that they now operate already built. They are also not Canadian or familiar with operating in Canada. Nonetheless they spend a LONG time deciding whether to back in. It seems Marathon was a very tempting idea, even for a company that doesn't build mines.
- **There is a lot of exploration potential yet to be tested at Marathon.** Generation has been advancing this on the side as it pushed the main deposit at Marathon towards production and the team is now really excited about the potential to find more (tonnage, grade, copper). This would likely have been sidelined with Sibanye, who would likely have focused on getting into production.

I think the biggest question now is funding. That starts with how Generation will fund the rest of the pre-build work and continues straight into how GENM, a \$130-million market cap company, will secure \$665 million to build a mine.

The first part is relatively easy and after chatting with management I think their approach could rebuild some of the confidence in Marathon that the market might have lost when Sibanye didn't back in. The second part is a bigger challenge, to be sure, but still do-able for a very good project.

On the work they have to do now: Generation has \$12 million in the bank. Management figure they need a few million more than that to get through to a build decision. Importantly: they could stop exploring and not do the detailed engineering and ordering of long-lead-time equipment that make up the lion's share of spending for the next 12 months. But they want to do those things if at all possible.

That means they will need some more cash. They could do a financing, though management doesn't want to issue at current levels. So it sounds like they're sussing out the potential to sell a royalty.

Most of the project is royalty free (there's a small royalty on a small part). And royalty options abound. The most attractive to me is selling a gold royalty or stream: the mine should produce 150,000 oz. gold over its 13-year mine life, output that represents only 3.8% of revenue. Preselling this gold in some sort of stream or royalty could raise enough money to easily bridge the funding gap to get Marathon to a build decision.

We'll have to see how this plays out. I know Generation has royalty players in its data room but of course I have no idea how those conversations are going. Generation also likely wants to understand Sibanye's intentions for its project stake before selling a royalty.

But near-term royalties in good jurisdictions are a hot commodity. This could garner multiple offers. And a strong royalty deal with a good partner might, as I mentioned, rebuild some of the confidence investors might have lost in Marathon following Sibanye's decision.

I've outlined that GENM needs about 12 months to get to a build decision. The main factor there is permitting. The environmental assessment is in progress and GENM is optimistic it will generate a decision in Q2 next year. That would make it possible to start construction in Q3 or Q4, depending how long it takes to arranging build funding.

OK, so what's my outlook as a shareholder?

Generation has been a stellar performer in the Maven portfolio. We bought in late 2019 at \$0.19. It closed today at \$0.87, for a 358% gain. I also sold half my position at \$0.40 to bring my cost base down to \$0.10, so I'm looking at a 770% return on the shares I still hold.

Given the unknowns, I can understand those inclined to take that gain and walk. But I am not so inclined.

Marathon is a great project. It is a straightforward mine with good metallurgy and clean concentrates that should return a 30% IRR using conservative base case metal prices (and 47% IRR at spot prices). It's got a 13-year mine life and strong exploration potential (there are two smaller deposits that are not even in the mine plan).

It offers exposure to metals I really like: palladium, copper, and platinum. It's in a great jurisdiction (Ontario). And I think odds are very high that it comes through the EA process successfully, given that it essentially did so years ago and that GENM has already signed an agreement in principle for a Community Benefits Agreement with a prominent local First Nation group.

I want to retain exposure to all these positives. In doing so, I'm accepting that GENM's share price might waver in the next while. I think the drop from the Sibanye decision is already accounted but the market still doesn't know what Sibanye will do with its GENM stake or its project interest. And there are investors who will see a \$665-million build price tag as impossible for a junior like Generation.

To be sure, it's not an easy ask. But Generation has some key shareholders (Lukas Lundin and Eric Sprott) who might play a role. It has deep experience in raising funds and building mines on its board and in its management team. It has an asset that appeals to all kinds of investors on the electrification train, given its PGMs and copper. And with the Sibanye decision finally behind them, the team is highly motivated to advance this asset.

I will hold.

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