

Recent Company News

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RECOMMENDATION UPDATE

Comments:

CLOSING POSITION—Balmoral's [first resource estimate](#) for its flagship Martiniere property is not bad at all. Twenty years ago, a half a million ounces of gold would put a junior exploration company on everyone's radar. Not anymore. But our reason for exiting is not the size of the deposit, as this is just a first pass and there's clear potential for it to get much, much bigger. Our view is that while the open pit portion has excellent grade (at almost 2.0 g/t gold, it's about twice the global average grade), the grade of the underground portion is not so great—and it's primarily at depth that the company expects to be able to add more ounces. Now, there are some much higher-grade areas at depth, which Balmoral could focus on following, but that would make expanding the deposit a slower and more difficult process than adding tonnes at the current so-so grade. But obviously, adding tonnes at a so-so grade is of questionable economic value. We know and respect management, so we expect that they will go the non-BS route, and focus on following the higher-grade zones at depth. That means they will have to spend a lot of money, and they don't have a partner with deep pockets to pay for it. That leaves this play in a bit of a bind.

Balmoral does have a healthy cash position (about \$10 million). The company also has other projects, including the Grasset nickel-gold-PGM property (which is a very interesting, but complicated deposit). And, again, these are great People whom we think very highly of. But with plenty of great stocks to choose from, "not bad at all" doesn't make the grade. Now, the company does have options. They may well find Other People's Money from a larger company to pay for what comes next at Martiniere, or use their current cash to find more near-surface gold that changes the game there. But those are "if" and not "when" questions, and we prefer to speculate on "when" questions. This team has created a lot of value for shareholders before, and we do expect that they will eventually do so again, but that could take longer than our customary time horizon, and we could see a lot of shareholder dilution along the way.

Formal recommendation: Close position, redeploy into something with more immediate upside potential.