Sprott

Gold Report

April 12, 2019

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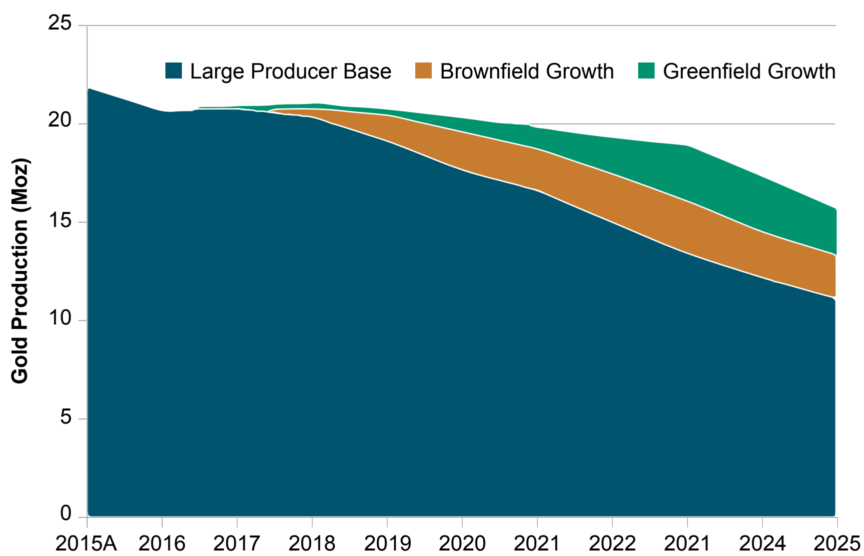
Miners Ride a New Wave of Consolidation

Maria Smirnova, Senior Portfolio Manager interviews Whitney George, Chief Investment Officer, Sprott Asset Management, about the latest wave of gold mining consolidation.

Investment Thesis: *We believe a new gold mining mergers and acquisitions (M&A) cycle has been ignited, and we expect this merger boom to accelerate over the next several years. The tepid gold price environment since 2011 has forced many gold producers to decrease their focus on exploration and this has caused a significant drop in new discoveries, at a time when global gold reserves are being depleted (see Figure 1).*

The challenging environment is forcing the largest miners to strategically combine to reduce expenses and improve their operations. We expect these mergers will create a cascading effect in the industry as the combined entities shed non-core assets and prompt other companies to rethink their strategic priorities. Within the sector, we also see meaningful gradations of valuation between larger- and small-cap companies which could further fuel the cycle.

Figure 1: Gold Production is Declining (2015-2025e)



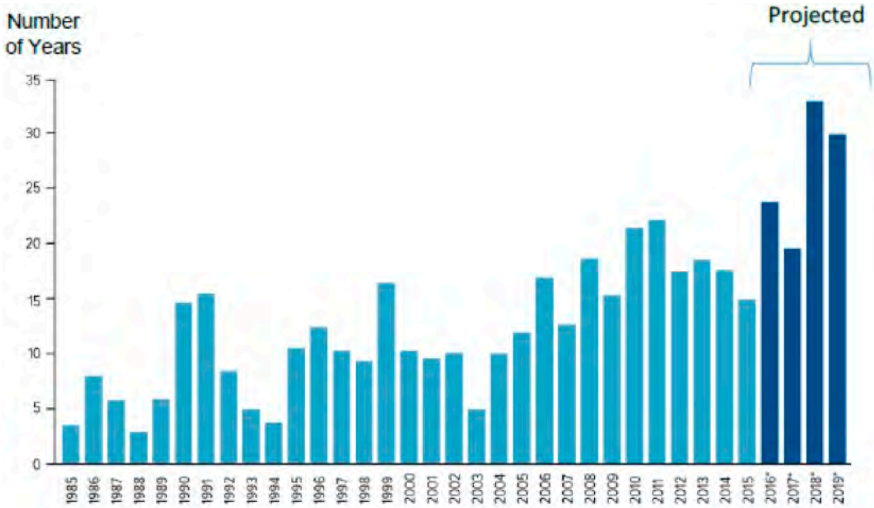
Source: BMO Capital Markets. As of 2015.

Maria: How do you evaluate mining companies?

Whitney: I have learned over my career that all businesses are cyclical. Most investors see a business as a "growth" business if it has been growing for a long time, and progressed without any disruption. But it doesn't matter whether you are evaluating a technology or a finance business, for example, all businesses have their cycles.

For mining companies, business cycles can be very long. It takes many years to find ore deposits and then turn them into productive mines. As shown in Figure 2, the discovery-to-production period has gotten much longer. For the mining industry, its business cycles can span 2-3 generations, and play out over decades. To invest in this sector takes commitment, patience and understanding.

Figure 2: Number of Years Between Discovery and Production is Increasing



Source: SNL Metals & Mining. U.S. Global Investors IAMGOLD. As of 2016.

Maria: Gold declined in the late 1990s bottoming at $250/ounce in 1999. Can you discuss the wave of consolidation in the gold mining industry at the time?

Whitney: In the 1990s, the mining industry was struggling and there were too many companies running single mines. This triggered a wave of consolidations, rollups, and acquisitions that lasted into the early 2000s. Kinross Gold was a notable example. Founded in 1993 by Robert Buchan, Kinross represented the amalgamation of three companies: Plexus Resources Corporation, CMP Resources and 1021105 Ontario Corp. Another example was Newmont Mining.

After gold fell below $400 an ounce in 1996, Newmont began aggressively snatching up smaller U.S. domestic miners and slashing costs. This all culminated in the large 2001 acquisition of Normandy Mining, Australia's largest gold producer, and Canadian Franco-Nevada Mining. This vaulted Newmont to the top spot in gold reserves and production, ahead of its rival AngloGold. Newmont, AngloGold, and Barrick represented the top three gold miners at that time (2002).

This wave of consolidations helped mining management gain much-needed cost efficiencies, which is a healthy business practice when you are in a difficult part of the business cycle. Because they had improved the quality of their businesses, when gold prices began to rise in the 2000s, these mining companies became very profitable.

Maria: Do you see similarities between today's M&A activity and the previous period in the 1990s?

Whitney: We are experiencing the logical industry-consolidation activity that we saw in the late 1990s to the early 2000s, which followed a prolonged period of disinterest in gold. In those early days of the last wave, there were no premium mergers at the start—buyers were not willing to acquire a company above its market price. This is where we are today.

Gold has experienced a tough period for the past seven years since prices peaked in late 2011 at about $1,900. This period of weaker prices has increased pressure from shareholders on companies to cut costs and slash debt. Investors are not very interested in gold right now. Capital is very hard to come by. The gold mining sector is still highly fragmented, and investors are no longer willing to invest in single mine companies because of the high risk. There is impetus for smaller mining properties and companies to merge into larger organizations.

Figure 3: Gold Price History ($US, 1/1/1970 – 3/31/2019)

Source: Bloomberg. As of March 31, 2019.

We've already seen aggressive consolidation among the majors (large-cap companies) like the Barrick-Randgold deal, which closed on January 1, 2019. Newmont followed with a bid for Goldcorp, as it vied with Barrick to regain its top position. Most recently, Barrick and Newmont agreed to an innovative joint venture in Nevada, which will represent the world's largest gold producing operation. Australia's Newcrest Mining has bought a majority interest in Canada's Imperial Metals and is working on a joint venture deal with Greatland Gold.

These are the early innings of what we believe will be a new, prolonged M&A cycle. We see tremendous potential especially in the junior mining space, given that smaller gold mining companies are trading at a material discount to larger mining companies.

Maria: What is driving the current wave of consolidation?

Whitney: Mining companies are under constant pressure to replace reserves. It is far easier for management to increase production through acquisitions, than through the long exploration and development process. Across the industry right now, exploration, sustaining and development capital are at historically low levels.

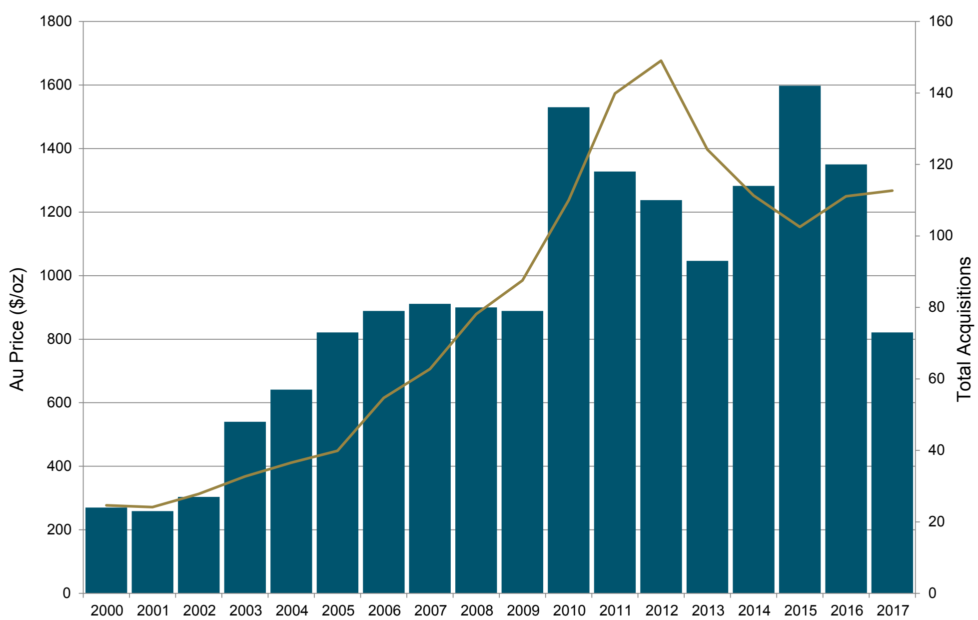
Once the price of gold trends higher and we see renewed enthusiasm for the mining industry, investors will want to see growth. The only way to get growth rapidly is through mergers and acquisitions. We then might see a repeat of what we experienced in 2003-4 through 2011, when mining companies were given higher valuations which allowed them to buy reserves from lower-priced entities and claim it to be accretive. This represents the "silly" season which tends to appear at the end of an M&A cycle, and which creates the kinds of mistakes we saw going into 2011 when miners overspent on deals during the decade-long boom that ended in 2011.

Figure 4: Tremendous Consolidation Potential Among Gold Miners

Please Note: Major gold miners are represented by the predatory shark image on the right; while junior gold miners are represented by the small fish on the left.

Source: RBC Capital Markets. As of 07/23/18.

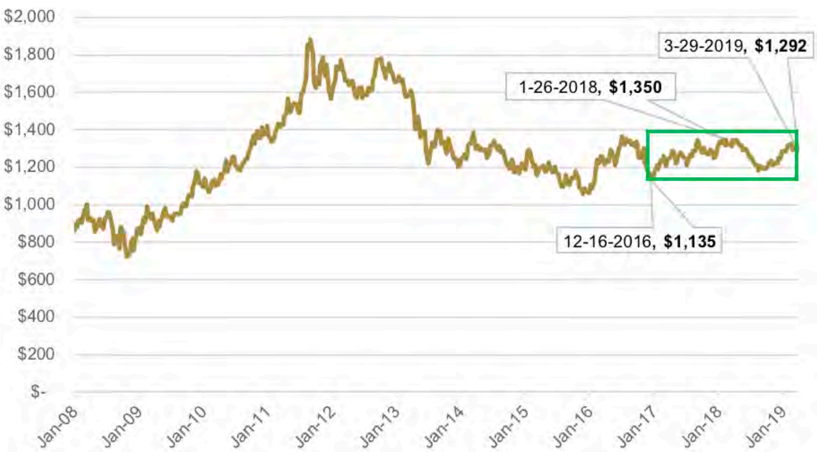
Figure 5: Number of M&A Deals vs. Spot Gold Price (2000-2017)



Source: BMO Capital Markets Metals & Mining Report 12/17/2018.

Looking ahead, gold price stability will help provide support for increased M&A activity. Gold has been relatively stable over the past two years, as shown in Figure 6, especially since the end of 2016. A stable gold price over an extended period, allows buyers and sellers to come together. After a big price decline, the sellers want yesterday's prices and the buyers want today's prices, and the two sides won't come together.

Figure 6: Recent Gold Prices Have Been Stabilizing (2008-2019)



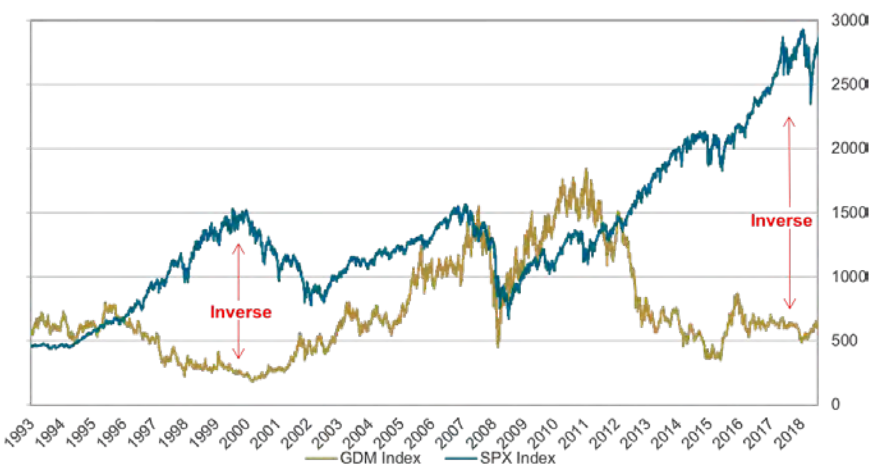
Source: Bloomberg. As of March 31, 2019.

Maria: How do you view the current investment opportunity presented by gold mining equities?

Whitney: Most equity markets are forward looking and are early predictors of events that unfold. There is no reason why gold mining equities will not foreshadow a recovery in gold prices. History demonstrates that gold mining equities have the ability to outperform during significant corrections in U.S. equities. As shown in Figure 7, since 1996, there have been only two periods of extended inverse performance between the NYSE Arca Gold Miners Index (GDM)[1] and the S&P 500: 1996-through-2002 and 2012-through-the-present. In the first instance, gold shares slumped as the internet bubble hit full frenzy through March 2000. Then, as the S&P 500 fell 52%, gold stocks tripled. Since 2012, gold shares have suffered from the sharp decline in the gold price and the self-inflicted damage caused by ill-timed acquisitions.

The gold mining industry has learned some tough lessons and has been fighting to rebuild its credibility and financial health ever since. The M&A boom currently underway is another sign that the larger mining companies are not waiting for a higher gold price to lift them higher—they are focusing on what they can control—mergers, acquisitions, divestitures and joint ventures have the potential to unlock tremendous opportunities and value for shareholders.

Figure 7: Gold Mining Equities Extreme Dislocation from S&P 500



Source: Bloomberg. As of March 31, 2019.

[1] The NYSE® Arca Gold Miners™ Index (GDM) is a rules-based index designed to measure the performance of highly capitalized companies in the Gold Mining industry; the inception of the Index is 9/17/93. The Standard and Poor's 500 Index (SPX) is a capitalization-weighted index of 500 stocks.

Two Unique ETFs to Invest in Gold Stocks

Each Index:

- Seeks to outperform purely passive representations of the gold and silver mining industry
- Uses transparent, rules-based methodology designed to overweight gold stocks with attractive investment merits relative to the other stocks in the index
- The stock selection and index weighting criteria were co-developed by Sprott Asset Management, a leading, long-time gold sector investor, and Zacks Index Services

SGDM
NYSE ARCA
Sprott Gold Miners ETF

- Stocks weighted in the index based on quarterly revenue growth and long-term debt to equity
- Reconstituted quarterly

SGDJ
NYSE ARCA
Sprott Junior Gold Miners ETF

- Stocks weighted in the index based on revenue growth and price momentum
- Reconstituted semi-annually

SPROTT ETFs

Sprott ETFs provide investors with access to innovative and unique indexes that are designed to outperform passive market cap-weighted offerings. Each Index is designed using specific **FACTORS** *that* **MATTER**™ for a particular strategy. These customized factors are selected because they have historically shown correlation to stock performance.

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Sprott Gold Miners Exchange Traded Fund

Quarterly Performance as of 03/31/2019

	Cumulative				Annualized		
TOTAL RETURNS	1 Month	3 Month	YTD	Since Inception[2]	1 Year	3 Year	Since Inception[2]
Sprott Gold Miners ETF (Net Asset Value)	-2.52%	8.10%	8.10%	-22.04%	-2.93%	0.99%	-5.15%
Sprott Gold Miners ETF (Market Price)[1]	-2.67%	8.40%	8.40%	-22.00%	-2.88%	0.99%	-5.13%
Sprott Zacks Gold Miners Index (Benchmark)[3]	-2.50%	8.28%	8.28%	-19.33%	-2.23%	1.71%	-4.46%

Expenses as of 03/31/2017

Management Fee	0.57%
Other Expenses[4]	0.00%
Total Operating Expenses	**0.57%**

Sprott Junior Gold Miners Exchange Traded Fund

Quarterly Performance as of 03/31/2019

	Cumulative				Annualized		
TOTAL RETURNS	1 Month	3 Month	YTD	Since Inception[5]	1 Year	3 Year	Since Inception[5]
Sprott Junior Gold Miners ETF (Net Asset Value)	-2.75%	10.89%	10.89%	17.17%	-8.37%	-0.88%	4.04%
Sprott Junior Gold Miners ETF (Market Price)[1]	-2.61%	10.92%	10.92%	17.30%	-8.03%	-0.82%	4.07%
Sprott Zacks Junior Gold Miners Index (Benchmark)[6]	-2.62%	11.09%	11.09%	21.13%	-7.73%	-0.06%	4.91%

Expenses as of 03/31/2017

Management Fee	0.57%
Other Expenses[4]	0.00%
Total Operating Expenses	**0.57%**

Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. Call 866.675.2639 for current month end performance.

1 Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.
2 Inception date of 07/15/2014.
3 The Underlying Index was created by Zacks Index Services ("Index Provider") to provide a means of generally tracking the performance of gold and silver mining companies whose stocks are traded on major U.S. exchanges. An investor cannot invest directly in an index.
4 Other expenses are based on estimated amounts for the current fiscal year and are calculated as a percentage of the Fund's net assets.
5 Inception date of 03/31/2015.
6 This factor-based Index aims to track the performance of small-capitalization gold companies whose stocks are listed on major U.S. and Canadian exchanges.

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IMPORTANT DISCLOSURES & DEFINITIONS

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a Statutory Prospectus, which contains this and other information please contact your financial professional or call 1.855.215.1425. Read the Statutory Prospectus carefully before investing.

Sprott Gold Miners ETF and Sprott Junior Gold Miners ETF shares are not individually redeemable. Investors buy and sell shares of the Sprott Gold Miners ETF on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

The Funds are not suitable for all investors. There are risks involved with investing in ETFs including the loss of money. The Funds are considered nondiversified and can invest a greater portion of assets in securities of individual issuers than diversified funds. As a result, changes in the market value of a single investment could cause greater fluctuations in share price than would occur in diversified funds.

Micro-cap stocks involve substantially greater risks of loss and price fluctuations because their earnings and revenues tend to be less predictable. These companies may be newly formed or in the early stages of development, with limited product lines, markets or financial resources and may lack management depth.

The Funds will be concentrated in the gold and silver mining industry. As a result, the Funds will be sensitive to changes in, and its performance will depend to a greater extent on, the overall condition of the gold and silver mining industry. Also, gold and silver mining companies are highly dependent on the price of gold and silver bullion. These prices may fluctuate substantially over short periods of time so the Fund's Share price may be more volatile than other types of investments.

Funds that emphasize investments in small/mid cap companies will generally experience greater price volatility.

Funds investing in foreign and emerging markets will also generally experience greater price volatility.

There are risks involved with investing in ETFs including the loss of money.

Diversification does not eliminate the risk of experiencing investment losses.

ETFs are considered to have continuous liquidity because they allow for an individual to trade throughout the day.

ALPS Portfolio Solutions Distributor, Inc. is the Distributor for the Sprott Gold Miners ETF and the Sprott Junior Gold Miners ETF.

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