



Mistango on Gold: A Juniors View on the Gold Price Environment

GOLD IN A MODERN ECONOMY: CENTRAL BANKERS AND INSTITUTIONAL INVESTMENT

We define gold as the baseline currency against which everything else is priced. Gold is the standard and fiat currencies like the US Dollar, Renminbi and Euro are the undulators which provide the illusion of gold's volatility.

Zero/Negative Interest Policy and Gold

Fund managers are faced with the dilemma of return on capital but also the return of capital itself. As capital seeks safety, it has two basic options: US Treasuries (bonds) or gold. In a high-interest rate environment, capital flows to the yield which Treasuries provide. But in a zero-yield environment, the opportunity cost of gold and treasuries equalize, and capital tends to favour gold's prospect of capital gains and the security of having no counterparty risk.

Dedollarization

Global central banks are leading the charge with gold purchasing at its highest level since Richard Nixon 'temporarily' unpegged the US dollar from gold in 1971. This is contrary to central banks' official stance of gold having no place in the modern economy and makes their position difficult to defend given the top 50 central banks own over 33,200 tonnes - or over one Trillion US dollars worth of gold. Fund managers are following suit with Ray Dalio announcing that gold is back en vogue. Even JP Morgan is advising their clients to reduce their exposure to the US dollar by increasing their allocation to gold.

Why the pivot towards dedollarization? US and Global indebtedness - and the money printing which will be required to repay it. Sanction risk is also on the rise with nations like Russia, China and Turkey seeking to reduce the authority of New York and Washington.

Trade War – A Catalyst

The Trump vs. China saga is rooted in political posturing as well as economic fundamentals. The US argues that it has been taken advantage of by China's massive trade surplus along with a suite of complaints ranging from intellectual property theft

and import tariffs. The aim of the 'tit for tat' battle is to increase the cost of importing each other's goods and discourage trade between the two. A dispute between the worlds two biggest economies has consequences that reverberate globally and an extended stalemate will crystalize a recession and give rise to monetary policies that devalue the US dollar and Renminbi – a currency war.

Currency War – A Fiat's Worst Nightmare

As the US dollar is benchmarked by gold, we can say the dollar has devalued by over 20% over the last 90 days. The Chinese Renminbi had maintained a 7:1 USD ratio for over 11 years until recently, when allowed to creep towards an 8:1 ratio. This resulted in Trump officially labeling China as a currency manipulator with Renminbi devaluation being China's strategy in the trade war to cheapen its goods to counter effect US tariffs. The US is responding with Trump aggressively pushing to devalue the US dollar as its own counter measure – and the race to the bottom begins.

Beyond a Currency War – Real Conflict

Consequences from these economic schemes could see China withhold supply of strategic metals which are essential to the West's economy and way of life. The Chinese enacted such policy against the Japanese in 2010 and is a page out of OPEC's 1970 playbook during its oil embargo. The US has long relied on foreign import of raw materials and has become hyper exposed to certain metals and minerals over which China exerts total control.

A SYSTEM OF CONFIDENCE – MACRO ECONOMIC IMPACTS ON GOLD AND OTHER CURRENCIES

Confidence in the Dollar

A dollar is a unit of value backed by the confidence of citizens. We use these units to buy groceries, pay rent and taxes. Access to dollars is limited by our ability to earn them through skill and effort. Without any limitation of a gold standard, politicians face no constraints and reserve the power to print, and not earn, an unlimited amount of dollars. Such ease of creation erodes a dollar's value. But at what point does its value disappear all together? How much must be printed for citizens to lose confidence in the promise of a dollar? Many believe the loss of confidence is near and with growing calls for Modern Monetary Theory to print unlimited dollars to repay debts, there is cause for concern about consumer confidence in the dollar.

Gold Standard – Be Careful What You Wish For

A gold standard may keep politicians honest by tying the quantity of dollars printed to gold owned. This is theoretically sound monetary policy, but disastrous for gold investors and gold mining companies. The implementation of a gold standard would not only bring chaos to a complex financial system but introduce arbitrarily fixed gold prices and even gold confiscation.

In 1933 Franklin Roosevelt fixed the price gold at \$20.67 an ounce. One year later to devalue the dollar, he increased gold's price to \$35 an ounce which held for 37 years. The elimination of free market priced gold risks the destruction of the gold mining industry while negating any economic benefit for owning gold bullion.

Central Banks are Guessing Like the Rest of Us

Monetary policy authorized by central banks and their global club, the IMF, is a black box. Few understand it and its unintended consequences can never be accounted for. Central banks have access to the very same data, computer programs and economic theories as other sophisticated analysts; but no one has a crystal ball. The truth is, central banks are guessing like the rest of us.

"The impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency."

March 28, 2007 – Ben Bernanke, then Chairman of the US Federal Reserve

"We do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system."

May 17, 2007 - Ben Bernanke, then Chairman of the US Federal Reserve

Supply of Gold

This memo focuses on the demand side of gold, but gold supply cannot be ignored. Systemic supply issues have been evident over the past 10 years and have been exacerbated by a 6 year exodus of sector investment that deferred exploration, project development and M&A while encouraging high grading of mines. The result will be increased upward pressure on future gold prices.

Gold production has plateaued over the last 5 years, and while there is still an abundance of gold to be found, it is 'undercover' with higher risk and expense. While the costs and timeframes of finding, developing and extracting gold are increasing, the discovery of new large gold deposits is exceedingly rare.

HOW TO GAIN EXPOSURE IN A RISING GOLD PRICE ENVIRONMENT – SELECT CONSIDERATIONS

What do you want from Gold?

Investors must first define what they want from gold. If it is portfolio diversification or doomsday insurance, consider gold backed ETF's or gold bullion for the latter. However, most investors just seek profit and want to participate in gold's upside and momentum. In this case consider gold equities – i.e. mining companies and the junior

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explorers and developers that focus on gold as they provide leverage to gold price and are easier to own and trade than bullion.

The Junior Miners – Higher Risk, Higher Returns... All else equal

The mining industry is bifurcated between the juniors who discover the gold and the seniors who build, operate and extract gold from mines. Traditionally, juniors have been relatively effective at discovery, derisking the geology and then marketing and selling themselves to the seniors who build the mine. And from an investor's perspective, there are few options available that offer the reward prospects, but also risk, that a discovery provides. Mistango is a junior and as such is considered to be on the high end of the mining risk/reward spectrum; but like any business across any industry, a sound strategy can mitigate some of the inherent risks associated with specific businesses.

The Junior Lag – Gold's Hot but the Juniors are Not... Yet

Over the past 3 months, gold price has increased by ~18% with the GDX and GDXJ ETFs (tracking large and small gold producers, respectively) up ~39% over this time period. Conversely, the Juniors have lagged with the TSXV Composite Index, an analogue for gold explorers and developers, being down 6% over the same period. So why are the juniors lagging behind?

In short, investor confidence. However the complexities of due diligence on the juniors and their earlier stage projects take time, as do structural market issues stemming from liquidity and larger capital being able to establish positions without dramatically moving share prices.

Recent exceptions are juniors that were invested in by industry icons like Eric Sprott and Rob McEwen. The publicity of these investments has seen herds of retail investors follow. These high profile investments become the de facto due diligence on juniors; however this strategy is not necessarily advisable as buying shares in Coca-Cola and Geico will not yield Warren Buffet like returns. Nonetheless this trend is clear.

When gold breached US\$1,400/oz, we expected a lag as time would be required for capital to travel up the gold risk curve. The lag between gold price, seniors and juniors is easily explainable and was demonstrable in previous cycles and like most things, timing is everything.

Mergers & Acquisitions – Mining's Lifeblood and a Junior Catalyst

M&A in the gold mining sector is inevitable. Gold's recent price spikes are likely to pause transactions that were being negotiated as buyers and sellers psychologically adjust to gold's new normal. Once the dust settles, we expect M&A to run as the public company gold mining model cannot exist without it. Mining is a depletion business that necessitates replenishment and with balance sheets healed from the previous

cycle, the seniors' attention must shift towards securing future supply. We expect the juniors to be the biggest beneficiaries of this trend.

Mitigating Risk with Juniors

Junior equities are rife with pricing inefficiencies to the upside and to the downside. Mispricing stems from illiquidity, metal price volatility, lack of asset understanding and misinformation. Identifying inefficiencies presents opportunities for investors. But for small companies, we encourage investors look at people that are involved first. Seek out the likes of Ross Beaty, Lukas Lundin and Robert Friedland who have been successful multiple times, indicating an aptitude for success rather than luck. More often than not the premium paid to invest alongside these individuals proves worth it.

Other primary considerations include stage of asset, management's geological theories and their strategies to develop. Obvious differentiators such as jurisdiction are major factors with assets in Canada, being a safe and stable jurisdiction, deserving a premium, while assets in difficult jurisdictions must be very compelling and/or are appropriately discounted.

We encourage investors looking to learn more about the opportunities within the junior sector to reach out to Mistango directly to learn about our strategy, assets and the broader junior markets. We can be reached at 416.5.644.1567 or stewart@orefinders.ca

Why is Mistango Opining on Gold Price?

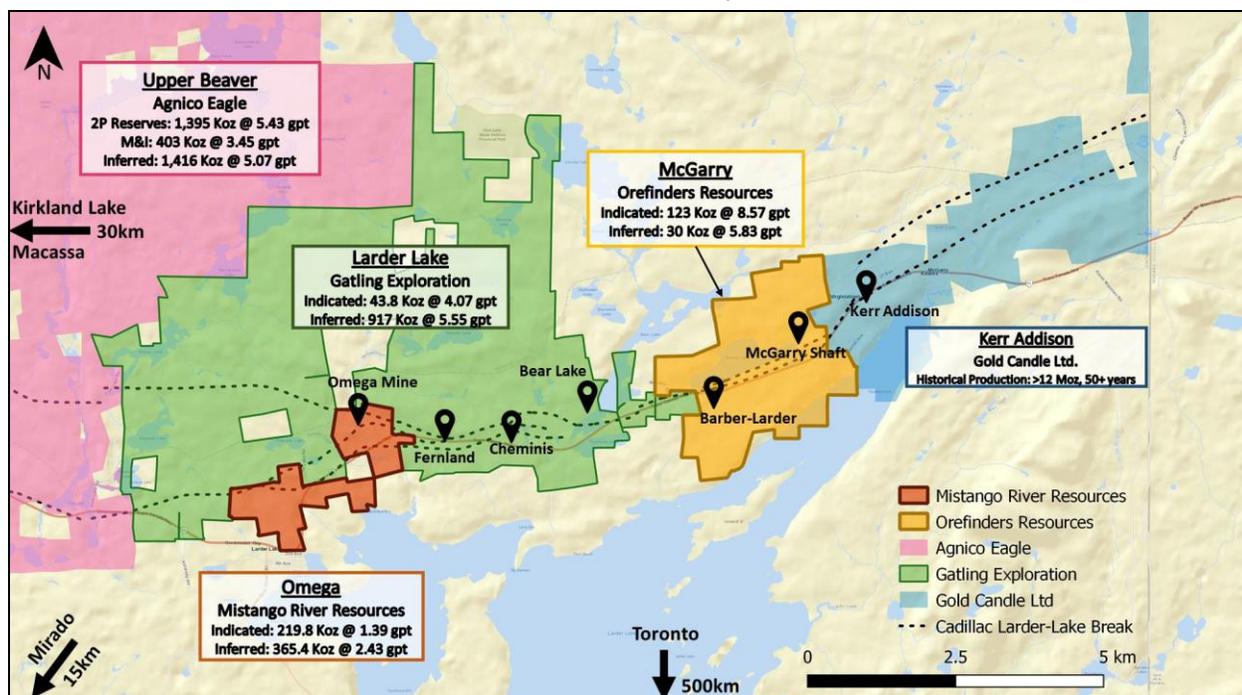
Mistango is a pure play gold company, and therefore, it is critical for our company to take an informed position on the factor which impacts us most – gold price. However, like Central Bankers, we have no crystal ball and instead, only a defined view on gold price fundamentals and a clear strategy for providing the best risk adjusted return to our shareholders. From its investment thesis, Mistango has shaped its corporate strategy accordingly.

The Fine Print

The purpose of this memo is not intended to serve as investment advice, nor is anyone from Mistango qualified to inform investors on gold or mining business aside from the business of Mistango. All investing carries risks and investing in mining, gold or its equities is no exception. Always do your own due diligence.

WHAT IS MISTANGO RIVER RESOURCES?

MISTANGO & ITS NEIGHBOURS: THE CADILLAC / LARDER – LAKE BREAK



SIGNIFICANTLY DISCOUNTED COMPARED TO ITS PEERS

Company	Market Cap	Ounces	Resource Style	Market Cap/Ounce
Mistango (MIS)	\$1.5M	~600,000 ounces	Single Resource – High grade Open Pit	<\$3/ounce gold
Gatling (GTR)	\$24M	~1,000,000 ounces	Three separate resources	\$24/ounce gold
Cartier (ECR)	\$25M	~880,000 ounces	Single Resource	\$28/ounce gold
Alexandria (AZX) <i>bought by O3 / Osisko</i>	\$35M	~1,000,000 ounces	Multiple Resources	\$35/ounce gold

OMEGA PROPERTY RESOURCE ESTIMATE (2013)

Cut-off Grade	Classification	Tonnes (Mt)	Gold (gpt)	Contained Gold (oz)
0.5 gpt Au above 130 masl	Indicated	4.92	1.39	219,438
3.0 gpt Au below 130 masl	Indicated	0.003	3.19	370
Total Indicated				219,808
0.5 gpt Au above 130 masl	Inferred	3.35	1.8	190,900
3.0 gpt Au below 130 masl	Inferred	1.34	4.0	174,500
Total Inferred				365,400

