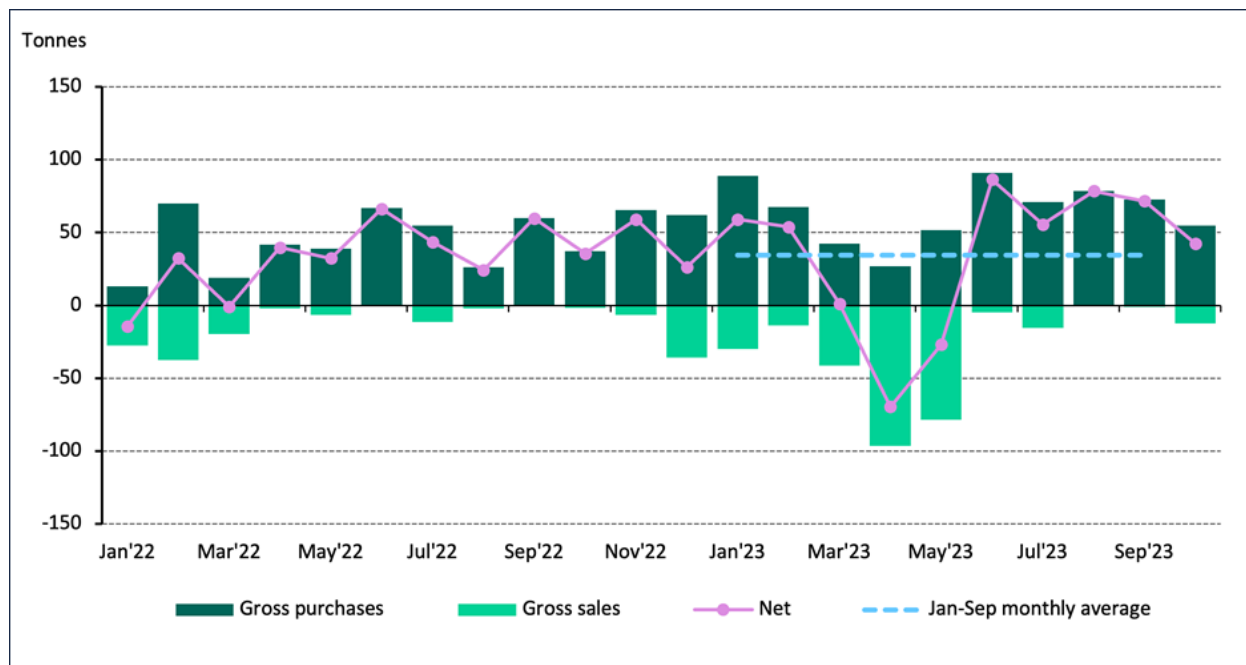


State of the Gold and Minerals Trade - Recap and 2024 View

I am delighted to say goodbye to 2023. On the personal side, our family dealt with serious health issues which were finally overcome by year-end, for which I am truly grateful. We moved back from New York and are building in Costa Rica. It was also a year of transition as SCP separated from Sprott and enjoyed immediate success, but which also loaded us with lots of start-up administration. I am certainly looking forward to a “normal” 2024!

Gold performed surprising well during the year, climbing a wall of interest rate increases, and powering through a strong US dollar and economic conditions. Gold started the year at \$1,823 and traded near \$2,050 at year end, a gain of 12.5%. Western investors represented by ETFs were selling into the rally, a new factor with the price close to all time highs. The most notable driver was significant accumulation by central banks, led by China and including Turkey, Qatar, and others, as outlined by the World Gold Council, and depicted in Figure 1. We expect central banks will continue to add gold as a reserve asset in an effort to diversify away from US-issued assets and, as foreign trade surpluses are recycled with this flow, gold purchases by sovereigns could materially increase.

Figure 1. Central banks continued their gold buying spree in 3Q23



Source: IMF IFS, respective central banks, World Gold Council

The main focus of markets during the year was continued obsession with monetary policy. Rates were hiked 37 times by central banks in 2023, with many investors fretting over the inevitable consequences after an extended period of the loosest monetary conditions ever. Early in 2023 and on cue, several

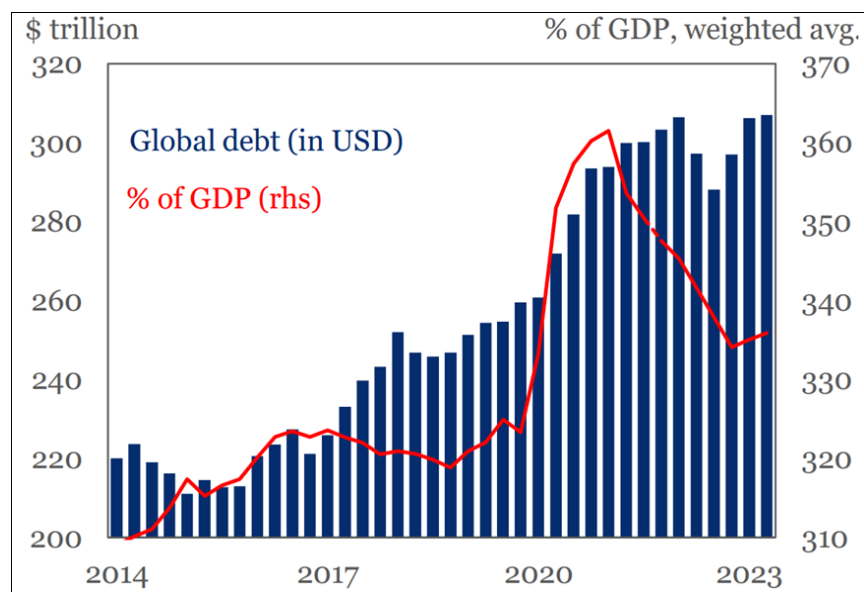
significant commercial banks were shuttered after incurring large capital mark-downs on Treasuries and commercial real estate loans. The long-anticipated pivot started in November with Fed chat turning dovish after inflation receded (by their accounting). Investors promptly put on their “what me worry?” holiday hats and global markets rallied hard into year end. Catching our interest was the jaw-dropping 100% plus gains in crypto, a stark reminder that the “anti the man” money flows are stronger than ever.

Where Does Gold Stand Now

I believe the most important attribute of gold is its reflection of a lack of confidence in other markets and governments, as an “anti-confidence thermometer”. It can also soar when other markets are getting happy-gassed like they are currently, as “risk on” mode encourages leverage and momentum across the spectrum. This outlines the challenge in making our call for 2024; if markets continue strong, government-calculated inflation is reported as snuffed and while rates hold, the arguments for gold as an anchor holding may be easing. It is therefore important to parse the reasons for gold’s surprisingly good recent performance and make some assumptions about what specific factors may ebb or flow in support of the metal this year.

Our first observation is that gold is now firmly tied to the rise in global debt levels, especially those of major sovereigns. Recent developments are not pretty.

Figure 2. Global Debt Surpassed US\$307 Trillion in the 1H23

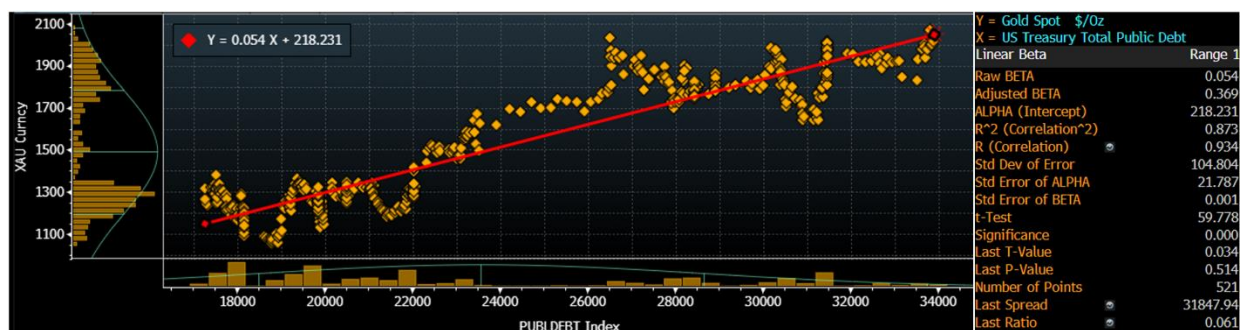


Source: Institute of International Finance

With the US national debt alone hitting \$34 trillion in the midst of a strong economy and nearly full employment, one can get concerned about recession scenarios. Shrill references to Minsky Moments and unsolvable math are transitioning to more mainstream concerns about the US and other government’s fiscal situations. To note, the 10-year Congressional Budget Office (“CBO”) projections which show that

even in the best-case scenario the annual deficits and total debt get much worse for the foreseeable future. Notable is the forecast that interest burden now exceeds defence spending. We believe gold is signalling that a broader range of investors are adopting gold as reasonable insurance to the heightened risk entailed by soaring government debt and deficits.

Figure 3. Gold vs public debt correlation



Source: Bloomberg

Western democracies lost their appetite for austerity long ago. Elsewhere, other G7 nations are out of ammunition to raise taxes and are more quickly hitting record debt to GDP ratios. We are firmly in the camp that this matters and is likely to lead to continued bouts of inflation, stagflation as governments keep real rates low, and the continued loss of purchasing power of fiat currencies. It is the latter front on which we most closely evaluate gold, below is the long-term track record summarized by our friends at Incrementum Research. Not bad compared to fiat currencies!

Figure 4. Gold performance in major FIAT currencies 2000-2023

Year	USD	EUR	GBP	AUD	CAD	CNY	JPY	CHF	INR	Average
2000	-5.3%	1.2%	2.0%	11.3%	-1.9%	-5.4%	5.8%	-4.2%	1.4%	0.6%
2001	2.4%	8.3%	5.3%	11.4%	8.8%	2.4%	18.0%	5.5%	5.8%	7.6%
2002	24.4%	5.6%	12.2%	13.3%	22.9%	24.4%	12.2%	3.5%	23.7%	15.8%
2003	19.6%	-0.2%	8.0%	-10.7%	-1.3%	19.6%	8.1%	7.4%	13.9%	7.2%
2004	5.6%	-1.9%	-1.7%	1.5%	-2.0%	5.6%	0.8%	-3.1%	0.1%	0.5%
2005	18.1%	35.1%	31.6%	25.9%	14.1%	15.1%	35.9%	36.3%	22.8%	26.1%
2006	23.0%	10.4%	8.1%	14.3%	23.3%	19.0%	24.2%	14.1%	20.7%	17.5%
2007	30.9%	18.5%	29.2%	18.0%	12.0%	22.5%	22.5%	21.8%	16.9%	21.4%
2008	5.4%	10.0%	43.1%	30.5%	28.7%	-1.5%	-14.2%	-0.8%	30.0%	14.6%
2009	24.8%	21.8%	12.9%	-1.6%	7.9%	24.8%	27.9%	21.1%	19.2%	17.6%
2010	29.5%	38.6%	34.2%	13.6%	22.8%	25.1%	13.2%	16.8%	24.8%	24.3%
2011	10.2%	13.9%	10.6%	10.3%	12.7%	5.2%	4.5%	10.7%	30.7%	12.1%
2012	7.1%	5.0%	2.5%	5.3%	4.2%	6.0%	20.7%	4.5%	11.1%	7.4%
2013	-28.0%	-30.9%	-29.4%	-16.1%	-23.0%	-30.1%	-12.6%	-29.8%	-19.1%	-24.3%
2014	-1.8%	11.6%	4.4%	7.3%	7.5%	0.7%	11.6%	9.4%	0.2%	5.6%
2015	-10.4%	-0.1%	-5.3%	0.6%	6.8%	-6.2%	-9.9%	-9.7%	-5.9%	-4.5%
2016	8.5%	12.1%	29.6%	9.6%	5.3%	16.1%	5.4%	10.3%	11.4%	12.0%
2017	13.1%	-0.9%	3.3%	4.6%	5.9%	6.0%	9.0%	8.3%	6.3%	6.2%
2018	-1.5%	3.0%	4.3%	8.9%	6.8%	4.1%	-4.2%	-0.8%	7.3%	3.1%
2019	18.3%	21.0%	13.7%	18.8%	12.6%	19.7%	17.2%	16.6%	21.3%	17.7%
2020	25.0%	14.8%	21.3%	14.1%	22.6%	17.2%	18.8%	14.3%	28.0%	19.6%
2021	-3.6%	3.6%	-2.6%	2.2%	-4.3%	-6.1%	7.5%	-0.6%	-1.7%	-0.6%
2022	-0.2%	6.0%	11.6%	6.3%	7.0%	8.3%	13.7%	1.1%	10.8%	7.2%
2023 YTD	11.8%	9.8%	7.1%	15.3%	11.9%	15.6%	26.2%	5.8%	12.6%	12.9%
CAGR	8.5%	8.2%	9.6%	8.5%	8.2%	7.9%	10.2%	5.9%	11.5%	8.7%

Source: Incrementum AG, Reuters Eikon

To summarize, our call on gold for 2024 is record highs. As a guide, we see it smashing through the recent technical cup and handle which points to the \$2,400-2,500 range. See chart below by the expert Carter Worth. This move is supported by 3 continued material factors;

1. Runaway sovereign debt, and worsening of the US fiscal situation;
2. Buying of gold as a reserve asset by central banks; and
3. Our belief that markets will either become disappointed in the pace of easing, or alternatively economic and banking issues will spur market corrections requiring further easing.

Figure 5. Gold Weekly bar chart



Source: Worth Charting, Bloomberg, FactSet

Gold Equities

In contrast to the gold price, precious metal equities generated disappointment during 2023. Notably, in terms of total returns, the juniors suffered disproportionately with the TSXV Precious Metals Index losing 33% from June 2023 to year-end, compared to GDXJ (-0.8% over the same period) and NYSE ARCA Gold miners Index (+0.3%).

Figure 6. Gold equities underperformed relatively to gold price



Source: Worth Charting, CNBC Pro

In our view, gold equities have the potential to re-rate and outperform the S&P 500 index, in the same way they did in 2020.

Figure 7. S&P 500 Index to GDX ratio highlighting buying opportunities



Source: Worth Charting, CNBC Pro

In December, tax-loss selling abated allowing modest rallies into the year end.

The primary reason for producers' underperformance relative to gold pricing is margin compression due to increasing costs. Producers who issued bold predictions regarding cost and capex control have disappointed investors as labour and equipment costs soared. Investors are both nervous and tired of chasing free cash flow prospects that have not materialized.

Junior mine developers are burdened by several factors which have combined to challenge shareholder value. High margin ore discoveries are rare, mine planning takes longer, social and government licences are increasingly difficult to obtain and maintain, and capital costs have soared. It is not an easy business, and single mine companies also suffer a much higher cost of debt and capital than senior producers.

These challenges have driven major valuation dislocations, providing opportunity to those investors willing to do their homework and not concerned with monthly share price volatility. Those developers with world-class operations in the planning or construction stage have never traded at larger discounts to their senior counterparts. We expect that those intrepid senior companies still interested in growth will find it more appealing to buy ready-to-go projects than stake them, and that acquisition bidding will provide a further catalyst for re-valuation of quality juniors over the next few years.

Our call for 2024 is that gold equities will find their usual torque to higher gold prices, particularly those with non-US operations benefitting from local cost control. The best way to invest is to rely on expert advice to choose high quality, catalyst-rich senior or junior producers. We expect juniors will narrow their discount to net asset values and to senior valuations, and that the M&A scene will continue to be active.

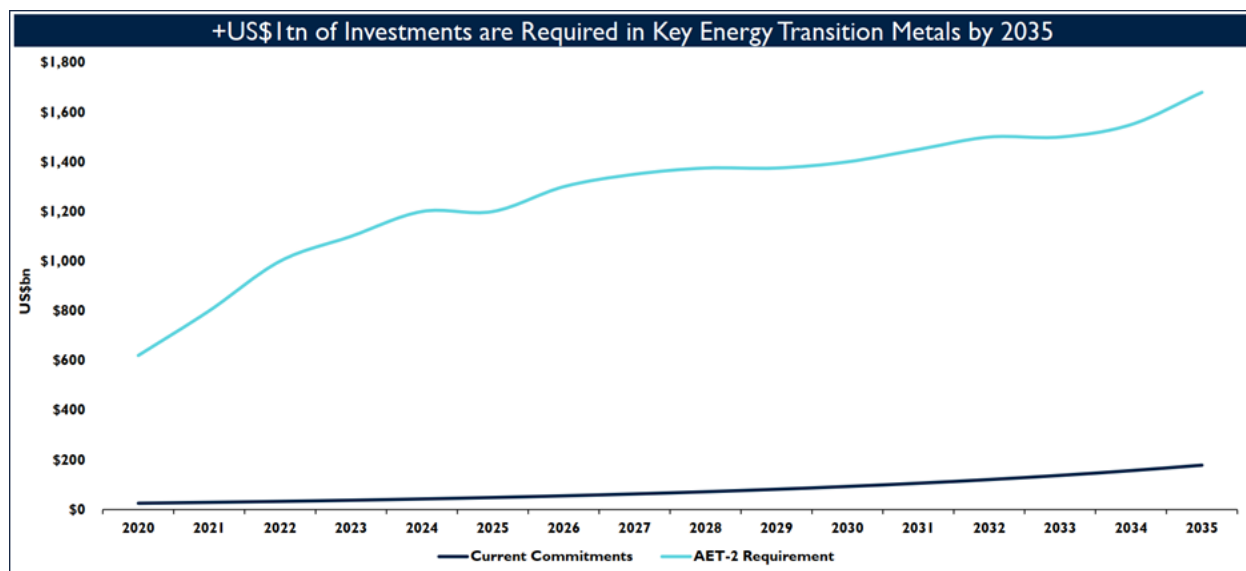
Strategic Minerals

Over the past few years, investors have been attracted to this area as it has become clear that western-based supply chains are needed to provide minerals crucial to decarbonization. The US government codified the effort through the Inflation Reduction Act, and their Critical Materials List. While China controlled most strategic mineral markets, many of these specialty minerals suffered decades of under-investment in mines and the required advanced processing technologies and facilities.

Wood Mackenzie estimates that over the next 2 decades, almost a trillion dollars of investments are required.

We believe that this process will build excesses in the form of mini-bubbles such as recently experienced in lithium, and also in speculation for new technologies promising the next best thing. The inevitable boom/bust will also create opportunities to pick up globally significant deposits on the cheap, and to fund opportunistic rounds for those companies with the real goods in processing.

Figure 8. Energy Transition Metals funding gap



Source: Wood Mackenzie, internal estimates

We continue to covet and cover the following opportunities - the mine-side rare earths and uranium sectors, lithium with unique processing advantages and/or low costs, and rare high-grade small impact copper and base metal producers.

We see a special opportunity in silver, a sector previously dominated by uber-bulls which has been largely abandoned by investors. Silver demand is finally turning the corner with new applications in photovoltaics and other crucial decarbonization technologies, it has been labeled as a strategic mineral, and new silver mines are extremely difficult to develop. Silver always moves more than gold as investment demand

swamps the market. Silver prices are vulnerable to short-covering now due to massive short positions, and should piggy-back and then exceed gold's percentage gains. We will issue a specialized report on silver shortly. Silver producers are largely being evaluated on discounts to the spot silver price, which is a forecasting deficiency unique to the precious metals area. Meanwhile those rare high-quality silver development projects are trading at substantial discounts to spot price-based net asset values.

Summary

While other sectors rejoice in a strong year-end rally, it seems we have a unique opportunity in minerals investment in 2024 and beyond. Selective stock picking in this beaten-up sector should produce healthy returns from this point onwards. Precious metal investors should continue to slowly build positions as a defensive stalwart against out-of-control government spending and debt. Specialty minerals investors have the wind at their back but need to be extra vigilant about their valuation and technical analysis.

Most importantly, best wishes for a healthy and happy 2024. May the force be with you.

Peter Grosskopf

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