Globex Mining Enterprises has Substantial Upside Potential

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Summary

- Globex Mining Enterprises offers junior resource investors a unique, complementary risk/reward profile to its peers.
- Valuation is underpinned by royalty cash flow, with significant optionality potential.
- Globex is among the largest land-holders in the Abitibi Greenstone Belt in Quebec/Ontario, one of the most prolific gold-producing regions in the world.
- Globex, though not the share price, has benefited from the recent rise in zinc prices, and is well positioned in that attractive market.

Note: Regarding currency references here, Globex reports its financials and makes announcements using Canadian dollars. When citing this info, I've used Canadian dollar figures and represented them with C$. Otherwise, I used U.S. dollar figures ($). The assumed exchange rate is CADUSD = 0.80. Globex shares are thinly traded on the OTC markets in the U.S. Investors who have access to the TSX should consider buying the shares on that exchange (TSX:GMX). This page provides a list of all of Globex's properties and is extremely useful when researching the company.

Overview of the Business Model

Globex Mining Enterprises (OTCQX:GLBXF) is a self-described "mineral property bank": the company holds over 150 resource properties, joint ventures and royalties, which it has acquired over a period of more than three decades. While it does exploration work it does little relative to its numerous assets. Instead it relies on partner companies to carry out the bulk of this work. They pay Globex for the privilege in exchange for the right to earn outright ownership of a property minus a royalty payable to Globex.

According to CEO Jack Stoch, Globex will make any deal that its management believes will make money for shareholders. However, there is a loose formula whereby Globex acquires a property that it believes has resource potential, does some work on it (specifics here depend on the project), and then options the project out in exchange for cash, shares, a promise to do a minimum amount of work, and a royalty.

It is useful to look at one of the company's recent deals: the option agreementon the Montalembert Property with Enforcer Gold (OTC:EFRGF) (formerly Natan Resources).

Under the terms of the agreement, Natan shall pay $2,700,000 and issue 8,500,000 Natan shares to Globex and undertake $15,000,000 in exploration to earn 100 % interest in the property subject to a Gross Metal Royalty (GMR) as follows.

	Cash	Shares	Work Requirement
On Signing	$300,000	1,500,000	$1,000,000 (within first 12 month period)
First Anniversary	$300,000	2,000,000	$1,000,000 (within second 12 month period)
Second Anniversary	$600,000	2,000,000	$4,000,000 (within third 12 month period)
Third Anniversary	$1,500,000	3,000,000	$4,000,000 (within fourth 12 month period)
Fourth Anniversary	$50,000 GMR	n/a	$5,000,000 (within fifth 12 month period)

The cash, share and work requirements of the first two years are firm commitments.

Natan shall have the option depending upon market conditions to delay once, for a one year period, any of either the third, fourth or fifth year work commitments due to specific market conditions by paying Globex $150,000 and 1,000,000 million shares.

Commencing at the 4th anniversary, Natan shall pay Globex an annual $50,000 advance GMR Royalty payment, recoupable from first production from the property.

Globex shall receive a 6% GMR (9,000 ounces) of the first 150,000 ounces of precious metals (Au, Ag) recovered from the property and a 3.5% GMR from all production beyond the initial 150,000 ounces of recovered precious metals.

Due to the high grade nature of the observed gold on the property, high grade mineralization will be collected during the Natan earn in period and shall remain the property of Globex with Globex retaining the option of selling or requesting delivery of 50% of the high grade samples and retaining the income there from. Should Natan not earn 100% interest in the property, all high grade gold samples shall be delivered to Globex. Once Natan has earned 100% interest in the property, 25% of high grade gold samples collected thereafter shall be deliverable to Globex in addition to Globex's retained 3.5% GMR. Any properties acquired by Natan within 3 km of the current outside boundary of the property shall have a royalty payable to Globex of 3% GMR with Globex retaining 20% of any high grade gold samples recovered there from.

Should Globex acquire any cells within 10 km of the current external boundary of the property within the next 3 years, Globex must offer the cells at cost to Natan with Globex retaining a 3% GMR on production from said cells and 20% of high grade gold samples there from. Seventy two cells currently staked by Globex adjoining the property fall within 10 km of the current external boundary of the Montalembert property and will fall under the terms of this agreement.

(Note that this is presented as an example only and that some of the terms of this deal have recently been amended.)

Apart from Globex claiming ownership of samples and the unusually high royalty rate on early production (the cap is typically 3%), this deal structure is a good template for what Globex deals look like (and it will become evident below why Globex decided to add these clauses for this particular project).

This approach is unusual for a junior resource company, and I suspect that this unusual model is, at least in part, why Globex shares are undervalued. Ironically, a simple analysis of this model reveals that it is highly attractive vis-à-vis other junior resource models given that Globex emphasizes cash flow generation (from option payments and royalty income) over cash depletion through project development and promotion. While the latter has certainly led to many success stories and plenty of value-creation, asset values of resource projects at early stages can vary widely and are in large part contingent upon investor sentiment. This can be a double-edged sword-it has recently worked out very well for Novo Resources (OTCQX:NSRPF) but was devastating a couple years back to Pretium Resources (PVG): both companies saw wild price action on the back of bulk sampling programs, the implications from which were grossly exaggerated by speculators (see here for Pretium details and here for Novo details). Junior resource investors effectively try to game this potential for radical shifts in investor sentiment.

This isn't necessarily a bad strategy. However, for resource investors looking to put money into solid businesses that have value in virtue of generating cash flow Globex offers a compelling alternative.

Furthermore, Globex is a vehicle that complements traditional junior resource investing risks in a diversified speculative resource portfolio. The distinction between the typical junior resource company and Globex is not unlike that between the buyer of out-of-the-money call options and the seller of covered out-of-the-money call options. The buyer is taking a speculative risk that is likely to lose, while the seller can, at worst, profit less than he otherwise would have had he not sold the option. While the analogy works in many ways it actually sells Globex short, since Globex retains a royalty interest on every property it options to its partners, even when the latter successfully earns 100% ownership in a given property.

While most resource investments require that management efficiently demonstrate the presence of a mineable resource-a rarity in the broader scheme of things-all Globex has to do is generate more option cash flow (and this could include stock issued by the optioning company to Globex) than the money it has put into a given project (the purchase price + claim fees + exploration costs + opportunity costs).

Once the property is optioned there are three possibilities. The outcomes for both Globex and its junior resource company partners are expressed on the following table.

Outcome of exploration program.	Outcome for Globex	Outcome for Globex's partner.
Failure to find a sign of a significant deposit.	Globex gets option payments, gets the property back, gains data that might be useful.	Failure, loss of option payments and capital put into the ground.
Successful project development but the optioning company can't make payments or fulfill exploration obligations.	Globex gets option payments, it gets the property back with valuable data and can option to another company at a steeper cost.	Failure, loss of option payments and capital put into the ground.
Successful discovery of a deposit that turns into a mine.	Globex gets option payments, typically holds stock in the optioning company, holds a royalty.	100% owner of an operating mine or high-quality late-stage deposit.

Again, unless Globex spends more on a given project than the value of the proceeds it receives from optioning it, it is a winner in the transaction. Note also that when Globex options a project that the optioning company is responsible for maintaining claims, and while this cost is minimal it can add up across several properties and impact Globex's bottom line.

Readers may be surprised to see the second outcome, namely successful project development with a failure on the part of the optioning company to meet its obligations, as one would assume that successful project development would improve the optioning company's access to capital. However, the highly cyclical nature of commodity prices has made the second outcome not only possible, but a common occurrence. The most noteworthy example is Globex's 50% owned Duquesne West Project (Globex CEO Jack Stoch owns the other 50%, which he acquired years before joining Globex)-the bulk of the project's ~850,000-ounce delineated gold resource was developed through the work of 6 option partners over the years, described here.

Ironically, such phenomena enable Globex to benefit from down-cycles, even if this fact isn't reflected in the company's share price during, say the period between 2011 and 2015. Rather, this benefit is unlocked potential, as the next time Duquesne West is optioned the project will come with greater economic potential and more data than what was available to the previous partner. This means Globex can increase the size of the option payments and minimal exploration work that the optioning company must carry out. It also means that the project will attract stronger partners (note that it has already attracted Kinross Gold (KGC), which optioned the property from 2002-3).

Finally, data that optioning companies provide to Globex can be useful to the company even if there's no discovery, or even if Globex cedes the property to the optioning company. Globex owns several properties that are close to one another-particularly in the highly prospective areas around Val d'Or and Rouyn Noranda-and data from one property could be useful in making assessments about another (geology doesn't recognize property boundaries). The company is also among the most richly endowed junior resource company in terms of data given its proclivity for choosing projects that come with historical data, and given the breadth of its portfolio, particularly in the Abitibi Greenstone Belt.

The Management Team

Jack Stoch is the CEO of Globex and it is effectively his brain-child. He has been running the company for more than 30 years and, along with his wife, owns ~8% of the outstanding shares on a diluted basis. His interests are further aligned with the company's given that he owns 50% of Duquesne, which is one of the key assets in Globex's portfolio and was acquired by him prior to his involvement in Globex.

A notable director is Ian Atkinson, who was CEO of Centerra Gold (OTCPK:CAGDF) until recently and is currently a director of Kinross (KGC) and Hans van Hoof who has held senior positions at various European financial institutions, including PVF Pension Funds, Paribas Capital Markets and Bankers Trust. His roles during the past 22 years include senior Portfolio Manager, senior Risk Manager, Deputy Head of global equity derivatives, Managing Director responsible for M&A arbitrage, derivatives arbitrage and venture capital investments as well as Chairman and Senior Executive Officer of Soros Funds Limited in London.

Other Attractive Aspects of Globex's Strategy and Management Team

Globex is extremely careful in designing its deals, and as a result it will avoid pitfalls that have hurt other companies in similar businesses (i.e., JVs and royalties).

I've already referenced the company's deal with Enforcer Gold, which has a clause specifying which party owns valuable specimens that are found prior to the mine achieving commercial production. The reason for the exceptional measures is that rocks with phenomenal grades are being found at/near surface. I took this picture of Enforcer's CEO Steve Roebuck holding one of the company's findings at a resource conference in January, 2017:

While rocks such as these holding substantial amounts of gold are rare, there's a heightened probability that more specimens like this will be found on the Montalembert Property, and if ownership isn't settled there can be issues in the future. For example, investors might recall a similar dispute between Patriot Gold (OTCQB:PGOL) and Northern Vertex Mining (OTCPK:NHVCF). Patriot optioned the Moss Project to Northern Vertex, which ran a bulk sampling program where, Patriot argues, there were profits from sample processing. This could have easily been avoided by couple of specifications such as those found in the Globex/Enforcer agreement.

Perhaps more important is the way that Globex structures its royalties. Investors tend to be familiar with the net smelter return royalty (a "NSR"), but Globex's royalty arrangements are either gross overriding royalties ("GOR") or gross metal royalties ("GMR"). The difference is subtle, but crucial. A net smelter return royalty pays out a percentage of the amount paid by the smelter to the mining company. This amount is less than the contained metal value in the concentrate, even after deducting value for an imperfect recovery rate. The mining company pays a smelting fee, transport, insurance, and so forth, and all of this is subtracted from the contained metal value. The mining company may also pay penalties if its concentrate contains deleterious impurities (i.e., things that are difficult to remove or that require special disposal), or is low grade. For base metal concentrates especially, the differential can be quite substantial. So not only does a X% GOR/GMR pay more than a X% NSR, but there is the potential for disputes, especially when the mining company owns the smelter and can easily hide the break-down of costs between the two business segments. Investors will remember this exact dispute between Vale (VALE) and Royal Gold (RGLD), and keep in mind that no such dispute will arise with Globex's royalties. Note that there is one 'GMR' in the portfolio that only pays out on 'payable metal' and not contained metal, and that is the Mid Tennessee Mines royalty, which I discuss below.

Finally, Globex ensures that it has access to all relevant data pertaining to its optioned properties, even when the optioning companies have completed the earn-in. Globex employees also have access to these properties upon the company's request. Investors might recall that lack of access to data is an issue for junior royalty company Terraco Gold (OTCPK:TCEGF), which owns a royalty on Waterton's Spring Valley Project. Because Waterton is private Terraco's management and investors can't access data beyond what is available in the public domain going back to when the project was owned by public companies nearly two years ago. Globex will not face this issue.

Globex's Peer Group

Before looking at specific properties I should distinguish between Globex and more traditional prospect generators. No doubt there is overlap: the latter operate using a similar formula to the former whereby they each find partners to do most of the work on properties in exchange for a stake in the project. Globex emphasizes structuring deals that, in the aggregate, generate cash flow regardless of the outcome. Generators stress various other aspects of the deal structure, though generally deals are structured so that the generator retains more of an interest in a given project at the expense of up-front and option payments.

Most generators who successfully option projects do receive cash/share option payments, though these are minimal relative to these companies' respective operating costs. By partnering with well-known companies, and by leveraging their access to capital, generators are able to promote stronger projects than they otherwise would have been able to. The name of the game is still cash-depletion in exchange for project development and promotion. In this sense generators are much more similar to traditional explorers than to Globex.

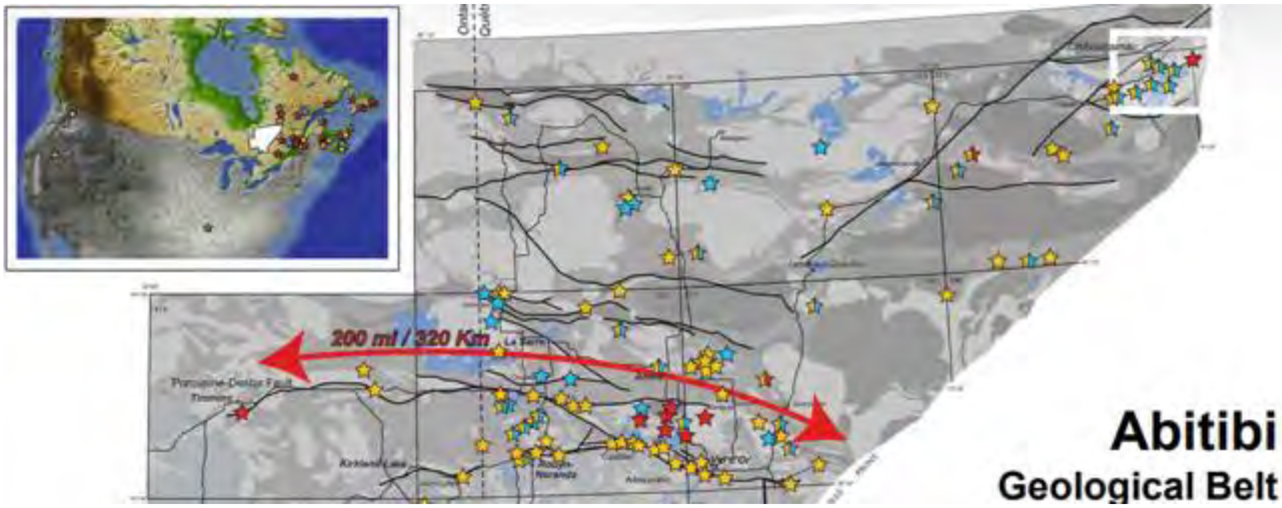
That being the case there are companies that operate similarly to Globex.

- Ely Gold Royalties (OTCPK:ELYGF): this is a Nevada-focused company that has made deals similar to the loose Globex model. For instance, its last dealwith Coeur Mining (CDE) differs from a Globex deal only in that there is no work requirement and the royalty is a NSR and not a GOR. This is not the place to discuss Ely, but I will say that those who appreciate the Globex model should take a look at Ely as a smaller version of Globex with a more speculative property portfolio and no significant royalty cash flow stream.
- Silver Range Resources (OTC:SLRRF): Silver Range is a new generative company focused on Nevada, Northwest Territory, and Nunavut. This dealwith Rover Metals (private) gives Rover the right to earn 100% of the NWT-based Up Town Project minus a NSR royalty, in exchange for cash, shares, and a work commitment. Silver Range is also more speculative than Globex given the relatively early stage of its projects and given that it isn't generating substantial cash flow relative to its valuation.
- EMX Royalty (EMX): EMX Royalty's management describes the company as a royalty generator, and royalties are excellent cash flow generators even if the model differs from Globex's in that the deals emphasize future royalty cash flow instead of generating an up-front cash return on investment. I included it in this section because management makes a big deal about its cash flow being able to finance exploration efforts (see p. 30 of their presentation).

These all interesting companies, but of the peer group only Globex both emphasizes near-term cash returns on its investments while currently generating cash flows that easily exceed its expenses, thanks to the aforementioned zinc royalty.

Property Overview

I will get to some of Globex's properties in a moment, but first I will make some generalities. Globex has properties throughout eastern Canada, and to a lesser extent in the United States (and now one in Germany). Many are in the Abitibi Greenstone Belt region, which spans across the far eastern part of Ontario and the western part of southern Quebec,



(See Globex's Presentation, p.9)

Both provinces are low-risk mining jurisdictions where quality projects command a premium valuation (e.g., consider the recent takeovers of Integra Gold and Richmont Mines (RIC)).

Here is a generalized map of the company's North American properties. (Note: Globex recently acquired and vended 5 silica properties in Newfoundland: not shown.)

(Here's an interactive version)

The Abitibi Greenstone Belt ("AGB") is one of the most heavily mineralized zones in the world, having produced more than 180 million ounces of gold and currently hosting major deposits such as that at Canadian Malartic-one of the largest gold mines in Canada. Just recently Goldcorp (GG) closed its Timmins-based (the Western end of the AGB) Dome Mine, which the company claims produced more than 67 million ounces in its 107-year life. As this is a greenstone belt deposits in the region are typically orogenic. These deposits can occur in clusters and can get to be very big. This, combined with the fact that Canada is a very favorable exploration/mining jurisdiction makes exploration property in the region quite valuable and attractive to the world's top explorers. Serious players, such as...

- Osisko Mining (OSKFF) (800,000 meter drill program at Windfall)
- McEwen Mining (MUX) (acquired Lexam VG),
- Agnico Eagle (AEM) (producing at Canadian Malartic and Goldex),
- Hecla Mining (HL) (producing at Casa Berardi), and
- Eldorado Gold (EGO) (acquired Integra Gold)

...are very active in the region.

Globex will only consider acquiring a property if it sees some tangible sign that it might contain economic mineralization. Generally, this means there is some data on the property based on past exploration and production work (and note that the reliance on/accumulation of data is a recurring theme with Globex).

Globex has properties suited for exploring all sorts of commodities (here is a breakdown of Globex's properties by commodity). Given its extensive AGB holdings it's natural that most of the company's properties would be gold, with VMS-associated base metals such as copper and zinc secondary. Nevertheless, Globex has exposure to the other precious metals-silver and PGMs-base metals such as nickel and cobalt, plus specialty metals and industrial minerals such as lithium, rare earths, manganese, magnesite and talc.

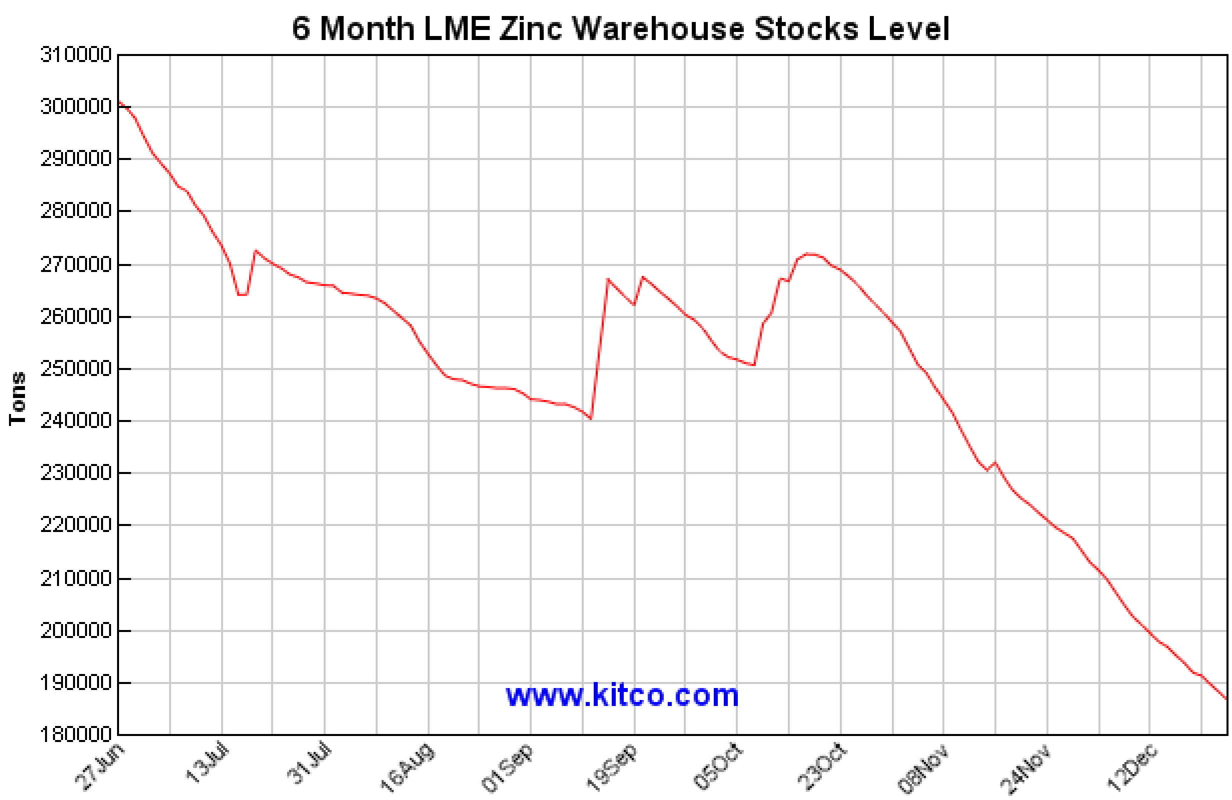
Here are a few of the company's key assets. Note that the company's websitecatalogs each of the company's properties and that each property webpage links to all technical documents and company news releases specific to that property.

The Mid-Tennessee Mines Royalty: Globex owns a sliding scale royalty (1.4% at the current zinc price) on Nyrstar's Mid-Tennessee Mines in Tennessee. This is arguably Globex's most valuable asset and is the company's only royalty on a currently producing asset. The mine shut down due to low zinc prices in December, 2015, though it was restarted in May last this year, with Nyrstar already making royalty payments to Globex. According to Globex's August 14th press release, the mine will produce 50,000 tonnes of zinc concentrate per year (~42,500 payable tonnes of zinc). The project has a large enough inferred resource to last for decades at this mining rate, even if the reserves are limited to a few years of mine life. The zinc price is currently ~$1.50/lb. or ~$3,325/tonne, meaning Globex's 1.4% GMR will generate at least $2 million per year.

As a side note this royalty was one of the earliest negotiated by the company, and one with a large counterparty, and as a result the "GMR," which typically pays on all metal in the concentrate regardless of penalties, only pays on "payable" metal from the smelter.

Another side note: the market values producing royalties and cash flow generating royalty companies at a healthy multiple. Large diversified royalty companies can trade at >20X operating cashflow. According to Wheaton Precious Metal's (WPM) corporate presentation, p. 25, Franco Nevada (FNV) shares trade at some 35X operating cash flow, Royal Gold (RGLD) trades at 23X operating cash flow, and Wheaton trades at 15X operating cash flow. Thus it is not unreasonable to suggest that Globex's ~$16 million market capitalization or its ~$13 million enterprise value is fair when considering only this royalty and ascribing no value to the rest of the company.

Finally note that Globex is an excellent way to play the strong zinc market. Zinc has traded to a multi-year high on supply concerns that have yet to be abated. The 5-year chart of LME zinc stockpiles illustrates these concerns.



(Source: Kitco)

Globex has been one of the primary beneficiaries of the zinc bull market on a valuation-adjusted basis, yet this fact is not reflected in the company's share price.

Magusi: Magusi has an established, underground copper/zinc VMS deposit with significant gold and silver credits and is located within the AGB. Mag Copper optioned the property in 2011, which reverted back to Globex after Mag Copper ran into financial trouble and failed to meet its obligations to Globex. Mag Copper did extensive work on the project, including the release of a resource estimate in 2012.

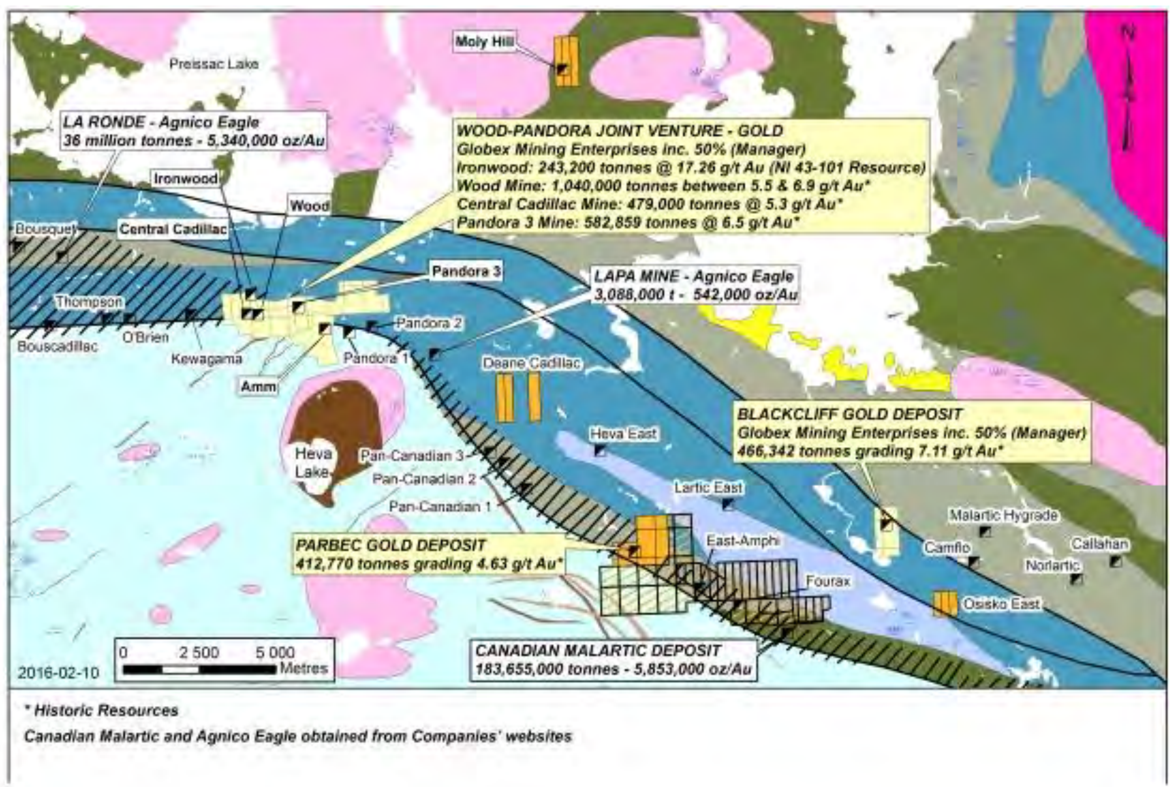
TABLE 1-1 MINERAL RESOURCES AS OF MARCH 21, 2012
Mag Copper Ltd. – Magusi Project

Zone	Ore Type	Tonnes	Cu %	Zn %	Ag g/t	Au g/t	$NSR/t
Indicated							
Main	High Grade Cu (Cu > 1.5%)	729,000	3.26	0.58	43.4	0.41	183
Main	High Grade Zn (Zn > 4.0%)	580,000	0.39	8.57	42.1	2.34	174
Total Indicated		**1,309,000**	**1.99**	**4.12**	**42.8**	**1.27**	**179**
Inferred							
Main	High Grade Cu (Cu > 1.5%)	355,000	3.41	0.39	24.2	0.26	182
Main	High Grade Zn (Zn > 4.0%)	-	-	-	-	-	-
Main	HG Mixed Ore Cu > 1.5% and Zn > 4.0%	-	-	-	-	-	-
Main	LG Mixed Ore Cu < 1.5% and Zn < 4.0%	-	-	-	-	-	-
Total Inferred		**355,000**	**3.41**	**0.39**	**24.2**	**0.26**	**182**

Notes:
1. CIM definitions were followed for Mineral Resources.
2. Mineral Resources are estimated at a cut-off grade of $110 NSR/tonne.
3. Mineral Resources are estimated using an average long-term copper price of US$3.50 per pound, a zinc price of US$0.95 per pound, a gold price of US$1,300 per ounce, a silver price of US$21.00 per ounce, and a US$/C$ exchange rate of 1.00 to 1.00.
4. Grade interpolation was carried out with inverse distance squared (ID^2) method.
5. Mag provided RPA with NSR multipliers per metal unit. The NSR multipliers, which vary with head grades and metal recoveries, are based on SGS Lakefield metallurgical tests. The NSR values were calculated for each assay as well as each block in the model.
6. Minimum underground mining width of two metres was used.
7. The East Zone resources were also included in the estimation but did not meet the cut-off criteria.

While the resource was calculated using a $3.50/lb. copper it uses only $0.95/lb. zinc, which is extremely conservative in this price environment. Also note that the exchange rate has improved dramatically from the 1:1 CADUSD rate used in the estimate. As a result, the resource, which varies with NSR/t cut-off changes (see tables 14.11-14.14 and figures 14.4, 14.5 in the above-linked technical report), would grow meaningfully-particularly for the zinc-rich zones-if a similar NSR cut-off value were used today as was used in 2012. There is also exploration potential, as Globex believes the orebody may extend laterally and/or to depth.

Pandora Wood: Pandora Wood is a joint venture between Globex (50%) and Canadian Malartic (50%) (aka 50% Yamana Gold (AUY) and 50% Agnico Eagle Mines (AEM)) with Globex acting as project manager. Note that Agnico recently announced that it would be purchasing Canadian Malartic's exploration portfolio, meaning Globex's partner will be Agnico Eagle). The project contains, among other larger historical resources, a small, near surface, Ni 43-101 compliant high-grade 240,000 tonne, 17.2 g/t Au resource near the massive Canadian Malartic Mine.



The total Ironwood deposit is 136,000 oz. (68,000 oz. attributable).

Note that this isn't the only project that Globex has in the area, with the others being Parbec (optioned to Renforth Resources with a >500,000 oz. resource) and Blackcliff (50/50 JV with Altai Resources (OTC:ARSEF)). The above map shows other resources that are on the property.

Timmins Talc and Magnesite: This is one of the largest and most advanced projects in Globex's portfolio. The project is located near Timmins, Ontario on the western end of the AGB. According to the April, 2012 PEA the project contains a >35 million tonne talc and magnesite deposit

Table 1.1
Estimated Mineral Resources for the Timmins Talc-Magnesite Deposit

Category	Tonnes	Sol MgO (%)	Sol Ca (%)	Magnesite (%)	Talc (%)
A Zone Core					
Indicated	12,728,000	20.0	0.21	52.1	35.4
Inferred	18,778,000	20.9	0.26	53.1	31.7
A Zone Fringe					
Inferred	5,003,000	17.6	2.82	34.2	33.4

Furthermore, it shows robust economics.

Table 1.9
Base Case Cash Flow Evaluation

$ million	LOM Total	Discounted at 8%/y	Discounted at 10%/y	Discounted at 12%/y	IRR (%)
Gross Sales	2,578,530	1,164,507	989,551	851,005	
Less royalties	38,678	17,468	14,843	12,765	
Less selling expenses	2,250	1,023	871	750	
Net Sales Revenue	**2,537,602**	**1,146,017**	**973,837**	**837,489**	
Mining costs	152,879	66,799	56,318	48,085	
Processing costs	690,230	314,365	267,749	230,804	
G&A costs	143,374	65,170	55,483	47,809	
Total cash operating costs	**986,483**	**446,334**	**379,549**	**326,698**	
Net cash operating margin	1,551,119	699,683	594,288	510,792	
Initial capital	266,361	255,015	252,437	249,950	
Sustaining capital, closure	66,879	37,743	33,543	30,065	
Changes in w. capital	-	10,532	11,053	11,266	
Net cash flow before tax	**1,217,879**	**403,792**	**305,145**	**227,661**	**23%**
Taxation payable	377,338	145,839	118,513	97,310	
Net cash flow after tax	**840,541**	**257,953**	**186,631**	**130,351**	**20%**

Globex emphasizes that substantial work has been done since then that makes the project more attractive than the PEA describes. The following is excerpted from the company website:

In 2013, a talc variability study was initiated in which a total of 35 samples of quartered core, representing 1,680 m of drilling in mineralized material, were collected to cover the extent of the A Zone. Individual in-hole sample lengths for ranged from 26 m to 70 m (average length of 48 m) based on an initial nominal collection target of 60 m of representative talc-magnesite for a particular target depth. The talc variability study looked to establish the potential variations throughout the deposit as well as assess the chemical and physical qualities of the high-grade talc material. It was also meant to determine the final projected steady-state talc concentrate grade and recovery factors from ore composites using locked cycle testing. This information will be used to inform further engineering and economic modelling. CTMP in Thetford Mines was selected to undertake the variability study, having the necessary research facilities and having demonstrated experience to make the required talc quality determinations. SGS-Lakefield and Activation Laboratories provided QEMSCAN mineralogical and chemical analyses. The test work program to produce talc flotation concentrate samples for quality measurements was completed in mid-2013 including talc product micronization and preliminary brightness measurements.

In 2014, limited renewed funding for the TTM project was used to advance test work on talc quality and production, including an expanded CTMP testing program, locked cycle tests and Bond Work Index determination. Additionally, an enhanced range of physical quality assessments was conducted on compounded talc-polypropylene formulations produced in a CTMP plastics research facility. Results for these tests are pending at the end of 2014. Based on budget constraints, Globex has deferred consideration of additional detailed engineering or pre-feasibility studies until 2015. Globex continues to seek senior level financing to advance development of the TTM project.

During 2015, work continued to develop a range of project scenarios and alternate structures which could allow partners to participate in, or acquire, the project. A dedicated consultant has been recently engaged to identify potential parties with related industry knowledge. Discussions at this time are challenging considering the uncertainties in the financial markets and economic outlook.

Renewed metallurgical test work and an updated resource estimate have been budgeted for 2016.

Note: Globex has made significant progress since publishing the PEA. In particular, among many things, we have an alternate plan for the MgO which is projected to significantly reduce the capital cost, shorten the time periods to reach specific goals and eliminate project metallurgical risks. These changes are a work in progress and may be provided to potential project investors, subject to signature of a Confidentiality and Standstill Agreement.

(Globex's emphasis)

Talc is an industrial mineral. Each deposit host a slightly different material that is appropriate for different applications, and a talc company will have to process its material to special order for its clients. It is for this reason that Globex is testing its material for things such as "consistency" and "material quality." Talc has many applications but is especially prevalent in the auto industry, where it is used in rubber tires, polypropylene, ceramics and paint. While there are several applications Timmins Talc is *high brightness talc*. High brightness talc is, for the most part, currently imported from China, and is an essential component in plastics especially in automobile components. Magnesium oxide (aka 'magnesia') is used in refractories, water and gas filtration, animal feed, and a variety of chemical compounds. It is also being used to replace gypsum in wallboard used in construction.

The project is extremely valuable on paper relative to Globex's valuation, though note that industrial minerals companies often trade at small fractions of the NPV estimates of their projects given the added difficulties of getting these projects off the ground (e.g., there is a product marketing and qualification component that one doesn't face when producing base or precious metals).

Duquesne: Duquesne is a joint venture owned 50% by Globex and 50% by Globex CEO Jack Stoch. The project is located in the Abitibi Greenstone Belt with an orogenic gold deposit. As mentioned above, this project has been optioned several times, and this has led to the development of a resource exceeding 850,000 ounces (425,000 attributable). The following was compiled by the last partner-Xmet:

TABLE 8.
CATEGORIZED MINERAL RESOURCE ESTIMATE FOR MAIN DUQUESNE-OTTOMAN ZONES
(Cutoff of 3.0 g Au/t)

Category	Zone	Tonnage ('000 tonnes)	Au (capped) (g/t)	Contained Au (capped) ('000 oz)	Au (uncapped) (g/t)	Contained Au (uncapped) ('000 oz)	Average Horizontal Width (m)
Inferred	Fox	921	7.43	220	9.54	282	5.43
	Liz	1,343	4.64	200	4.64	200	7.26
	Nip-nord	361	5.92	69	6.13	71	5.79
	Shaft	468	4.51	68	4.51	68	2.82
	20-20	422	4.80	65	4.80	65	6.23
	Stinger	365	3.90	46	3.90	46	5.87
	South Shaft	162	6.08	32	6.29	33	3.14
	Nip-sud	129	6.51	27	21.13	88	2.86
	Total	**4,171**	**5.42**	**727**	**6.36**	**853**	**5.71**

The resource was conservatively derived using a $960/oz. gold price (3-year trailing average at the time) and a Canadian dollar at US$0.95.

Note that the resource estimate provides us with data that is often lacking in such reports, namely the average vein width (wider veins make for easier, more efficient mining) and the capped vs. uncapped grade/resource (meaning assays that are abnormally high grade are limited to a ceiling amount so that the data isn't positively skewed by outliers).

This list of projects can go on. Recall that Enforcer has to do some C$10 million worth of work and pay Globex another C$2.4 million over the next 3 years and a C$50,000 pre-production annual royalty if it wants to hold onto the Montalembert project. Enforcer has already raised >C$7 million and has been aggressively exploring. Then there is the Devil's Pike prospect, which is one of the few projects that Globex has recently explored itself, the Francoeur Arntfield Mines complex, to which Globex is adding property, which has a small resource and infrastructure and upon which Globex recently made a significant gold discovery by stripping of 9.52g/t Au over 7.1 m including 15.4 g/t Au over 4.1 m.

Even seemingly minor properties in the portfolio-given their proximity to major projects at all stages of development-can bring value to Globex shareholders. The company's latest transaction-also mentioned in the above-linked Francoeur-Arntfield PR-was a sale of the Donalda Property (seemingly low-priority given the advanced stage of the above-listed projects) to Falco Resources (OTCPK:FPRGF) for C$300,000 cash, a royalty, the property addition mentioned above, and 350,000 "units" each consisting of a common Falco share and a full five-year purchase warrant at C$1.15/share (the price of the stock at the time of the transaction). This comes to some US$500,000 (~C$720,000) even if we assume no value for the property addition, the warrants or the royalty.

Falco is a highly regarded exploration/development company in the area with Sean Roosen from the Osisko group of companies as its chairman and with Osisko Gold Royalties (OR) being the company's largest shareholder. As I was working on finishing this article Falco announced an C$8.5 million financing for this year's exploration program, most of which will be spent on Donalda.

Valuation

Globex is difficult to value. There are two reasons for this. First, the market will ascribe little value to a project that is idle vs. one that is being developed, the reason being that in the latter case investors perceive an increased probability that the asset's value will increase. Meanwhile, Globex only creates a small amount of value per property, albeit while passing on the risk that capital will be squandered in a failed exploration effort. On top of this, a project in development can be discounted forward by a specific amount, whereas there is no way to project future cash flow in time for an idle project because we don't know how far out to discount cash flow, rendering discounted cash flow models relatively worthless for Globex's properties.

The second is that we can't really predict future option cash flow. Sure, there are option agreements in place (like that with Enforcer Gold) that stipulate that Globex is to receive specified amounts of cash and shares, but there is no guarantee that Enforcer will make these payments. In fact, as we've seen, it may be better for Globex that Enforcer and other optioning companies *don't*make these payments so that Globex gets properties like Montalembert back after a significant work program. There are also deals-particularly on less important projects-where the option payment is a one-off rather than a recurring payment (e.g., the Johan Beetz Feldspar Project). In this regard we can, at best, assume that option payments should correlate roughly with commodity cycles; and that if exploration efforts are successful beyond a certain threshold, and if Globex is opportunistic in its buying and selling of assets with cycles, that Globex's option payments can grow over multiple cycles.

These two factors make it very difficult for investors to appreciate value in Globex, especially when there are numerous resource companies that have late-stage projects and that have compiled economic studies: the data in these studies enable investors to ascribe tangible valuations to resource projects.

Nevertheless, it is critical to keep in mind that for all of these companies value is perceived, and there is nothing tangible such as cash flow to underpin the value of these stocks. A company with an economic assessment showing a project valuation of $250 million can trade for $25 million or $1 billion, depending on a myriad of factors, many of which are qualitative. A typical analyst might crudely evaluate a project with an economic assessment by looking at a company's economic model, adjusting it to fit his own assumptions, and argue that a company's shares should trade at a given multiple of the project value. This obscures the value of these studies and their various data points with respect to their utility in determining equity valuations.

Further obscuring the value of these studies is the cash-burning nature of even late-stage resource exploration/development companies and the added necessity of having to factor in cost-of-capital assumptions. Finally, while excessively precise in some areas, most economic assessments carried out by juniors overlook basic, yet material costs: for instance one rarely sees the cost of a pre-feasibility study in its PEA cash flow model (despite the fact that many PEAs will include cost estimates), though it is material and imminent relative to the capital positions of most junior companies.

Globex, meanwhile, has a royalty underpinning its value via ~$2 million in annual cash flow at $1.50/lb. zinc. The company's EV is at a ~7.5X multiple to this cash flow, and keep in mind that royalty cash flow is ultra-high margin and requires no capital input for its upkeep.

Globex generated C$1.3 million in option payments (includes pre-production royalty payments) in 2016 vs. C$1 million in operating expenses and generated C$900,000 in option payments (excludes the zinc royalty) through September, 2017, with operating expenses at C$1.1 million (higher expenses are attributable to higher salaries and professional fees as the company invests more as the market picks up). Based on expected payments Globex's 2017 option payments should exceed those from 2016, excluding the zinc royalty or the income from selling Donalda to Falco.

The fact that Globex can generate positive cash flow going forward eliminates the capital requirement variable (although Globex does tap the equity marketsfrom time-to-time) and enables investors to focus on valuing Globex based on its expected cash flow and ascribing an appropriate multiple to this figure. As mentioned already royalty cash flow is particularly valuable, especially given that it is not subject to potentially high/volatile operating costs or to upkeep via capital expenditures (both are risks to mining companies). Even if we ascribe no value to the option cash flow potential (e.g., we assume option cash flow equals the company's operating costs, which we've seen is conservative looking at 2016 during the trough of the commodity cycle) shares should reflect the value of this royalty plus the company's cash/marketable securities (~$3 million) (the company has no debt), so shares should trade at ~$0.45 based on a 10 multiple on the royalty cash flow.

On top of this, Globex has properties that are sufficiently valuable so that we can anticipate that they can generate sizable, relative to Globex's valuation, option payments in the event that they are optioned. So that you have an idea of this potential, keep in mind that next year Enforcer Gold owes Globex C$500,000 (reduced by C$100,000 in the aforementioned amendment to this agreement) in cash and 2 million shares (worth ~C$190,000) and can easily afford the payment in addition to the exploration expense requirement of C$1 million, and that this property has no delineated resource. We've seen that several of the company's projects are far more advanced, so that we can anticipate the potential for even larger option payments from these properties, should they be optioned. Thus it is not difficult to imagine Globex generating significantly more option income should one or two of these larger projects move forward.

Finally, Globex has some 50 royalties, and if its option partners complete their earn-ins this portfolio will grow. Most are on small, early-stage exploration properties but others are on later-stage projects. While there is no guarantee that these will generate any cash flow, they cost nothing to hold and can only increase in value as underlying projects are brought towards production. A great example of this was today's (cited above) announcement that Falco will heavily explore the Donalda property, which Globex just sold and on which it holds a royalty.

Balance Sheet

Looking at Globex's most recent financial statement as of 9/30/2017 the company had ~C$2.5 million in working capital and no debt. Given the company is "banking payments" (~C$1.5 million announced in this press release estimated for Q4 assuming consistent production at the Mid Tennessee Mine where production is expected to grow) and given the recent C$550,000 financing minus the company's typical quarterly cash operating expense of ~C$400,000) the company likely has working capital of $3 million, and probably a little more.

Downside Risk Factors

The following downside risk factors should be considered.

- Globex may not option enough projects, or more generally, generate sufficient income to cover its operating expenses. This risk is now mitigated with the income that should come in from the Mid Tennessee zinc royalty. Globex had cash operating expenses of ~C$1 million in 2016 and that figure should be exceeded in 2017. For now option and royalty income easily exceed this, but option income isn't predictable and the royalty is vulnerable to a falling zinc price and fails to pay out if the zinc price falls below $0.90/lb (>40% downside from current prices). Note that operating expenses can be cut in a lean environment and that they can grow as the company works to generate more deals in an optimistic commodity price environment.
- Globex will never realize the "full value" of its properties (as compared with those of "typical" juniors and generators) given its passive approach towards exploration.
- While Globex has many strong partners, as mentioned above, several of its partners are financially weak. This isn't necessarily bad (remember, Globex can and does get properties back after weak partners do some work on them), but it can turn investors away towards prospect generators that consistently have strong partners (e.g., Mirasol Resources (OTCPK:MRZLF), which commands a premium valuation in part because it has consistently strong partners).
- Globex has numerous properties that consist of just a handful of claims with minimal economic prospects at this point in time, making them difficult to value. As we've seen with Donalda--which is such a small block--they can be incredibly valuable relative to their respective sizes, but we can't project tangible value from this without speculating.
- Globex's ability to option properties and generate royalty income will be subject to commodity price fluctuations.
- Globex does not have a clear-cut investment time-frame, which I will discuss in the next section.

Investment Timeline/Strategy

One of the good things about more traditional resource exploration stocks, meaning those developing one or two flagship properties, is that there is typically a very clear-cut time-frame for holding the stock insofar as catalysts are well defined (e.g., discovery, resource delineation, project economic assessment, permitting, financing...etc.). It is very easy to see an opportunity to hold a stock while a company brings its flagship project through one or several of these stages. In this sense Globex investors are at a disadvantage in that (1) Globex has too many properties for a significant development for one to significantly move the needle for investors (there are a few exceptions to this, refer to the projects discussed above), and (2) we don't know when these projects will meet specific development milestones.

At the same time, Globex has developed a business that generates consistent cash flow from royalties at current metal prices, and even from option payments insofar as the company's package of 150+ projects has been able to consistently generate revenues, even if this isn't the case on a project-by-project basis. In other words, the portfolio is large enough so that the irregular option payments from any given project is smoothed over. With this in mind I would describe Globex as "buy and hold" stock in the sense that Coca-Cola (KO) is a "buy and hold" stock for Warren Buffett--the company is consistently generating cash flow and operates in such a way that won't necessarily propel shares higher in the near-term (6-18 months) but which will be substantially more valuable in maybe 10-20 years.

The caveat here is, of course, commodity-price cyclicality--despite Globex benefiting from a commodity bear market (as described above) this will not be reflected in the market as the down cycle ensues (the value created by Globex during the down-cycle isn't unlike potential energy, which is stored up but whose existence must be inferred rather than observed directly). Nevertheless, we can see from a long-term chart--beginning in January, 1999--that Globex can create value over multiple cycles:

GMX data by YCharts
(Note this is Canadian dollar data.)

Furthermore, it is evident that commodity cycles have offered excellent intermediate-term trading opportunities in Globex shares, which have historically responded very strongly to movements in both directions. Given that there appears to be a new up-cycle in commodity prices, and in metals in particular, it is fair to say that we can see significant value appreciation in the shares as Globex completes more option agreements, as its current partners improve its properties (and by extension the value of Globex's royalty portfolio; and as investors anticipate that more of Globex's properties will be optioned/developed.

Thus there are three scenarios/timelines that investors should consider:

- Shares should trade at at least $0.45 given current cash flow from the royalty and assuming option cash flow equals the company's total operating expenses (a conservative estimate for 2017).
- Shares have appreciated over multiple commodity cycles, despite steep corrections, and given the model, can be viewed as a solid, albeit volatile, long-term investment.
- Globex shares have historically reacted very strongly in both up and down cycles, meaning those investors who see a commodity bull market, as we've been experiencing since the end of

2015, can gain leveraged exposure to this through Globex shares, knowing that the current valuation is underpinned by cash flow.

Summary: Investment Thesis for Globex Shares

Investors should take away the following points:

- Globex is unique among junior resource companies given its business model. This model itself is attractive insofar as the goal of any business is to generate cash flow, and Globex has devised an effective means of doing this, while at the same time delivering a valuable service to the industry in identifying overlooked resource prospects and bringing them to exploration companies.
- Globex owns a lot of land, particularly in the highly desirable Abitibi Greenstone Belt region, where we are seeing extensive investment throughout all stages of the mine-development cycle. A pretty comprehensive list of recognizable companies with projects in/exposure to this area includes Goldcorp (GG), Iamgold (IAG), Sumitomo, Agnico Eagle, Yamana Gold, Eldorado Gold, Osisko Mining, Detour Gold (OTCPK:DRGDF), Franco Nevada (FNV), Osisko Gold Royalties (OR), McEwen Mining, Sandstorm Gold (SAND), Alamos Gold (AGI), Abitibi Royalties (OTCPK:ATBYF), and Tahoe Resources (TAHO). Globex stands to be a beneficiary of these investments, the general attention that has been drawn to the region given the extent of the recent deal-flow (e.g., buyouts of Richmont and Integra, JV between Iamgold and Sumitomo), and more generally the ongoing consolidation of the area into fewer, stronger hands.
- Despite its small size Globex has some large partners, illustrative of management's technical and negotiating abilities. These partners include Canadian Malartic (a joint venture between Agnico Eagle and Yamana Gold), Nyrstar (although Globex didn't negotiate with Nyrstar), and Falco (connected to the Osisko group of companies).
- Globex benefits from commodity cycles. It tends to option more properties at the top of the market when there is more capital available, and during the downturn Globex gets properties back after work has been done on them while acquiring new, out-of-favor assets. Magusi and Duquesne are better projects going into this upcycle than into the previous one, and Globex was paid in the process. This phenomenon is hidden by the down cycle as projects in development stop being developed and as the values of Globex's share holdings in partner companies (typically not a large factor in Globex option agreements) decline, but it should be recognized in the next commodity up-cycle.

- Globex has been a beneficiary of the recent zinc boom, yet this fundamental development has not been reflected in the company's share price. The royalty it holds on Nyrstar's Mid-Tennessee Mine should generate some $2 million in cash flow for Globex per year, which in itself can command a price north of Globex's market valuation. Globex's Magusi Project is also far more attractive today given the strong zinc price performance.

Disclosure: I am/we are long GLBXF, SAND.

I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.