MGX Minerals Accelerates Towards Production

MGX Minerals Inc. published 4 press releases during the last 7 days. A major milestone to speed up the way to production was achieved by securing a large mill complex and industrial park for future processing of magnesium oxide from its flagship project, the Driftwood Creek Magnesite Deposit in the East Kootenay region of British Columbia, Canada. MGX also provided updates on the phase 2 drilling, including initial assays from 4 world-class holes.

Drilling started on August 30 and 10 holes were completed so far. Mineralization at Driftwood Creek occurs along a 2km strike length spanning 2 zones (Eastern and Western). Phase 2 drilling is designed to confirm the continuity of grades and thicknesses within the Western Zone as well as extending mineralization along strike.

In the Western Zone, a mineralized area of approximately 600x150m has been delineated, whereas the depth is approximately 150m and remains open. Under the hypothetical assumption of mineralization being continuous and using the specific gravity for magnesite of 3, a rough and unreliable calculation would result in around 40 million tonnes.

Company Details

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Shares Issued & Outstanding: 30,589,685

Canadian Symbol (CSE): XMG
Current Price: $0.58 CAD (Oct. 5, 2015)
Market Capitalization: $18 million CAD

German Symbol / WKN: 1MG / A12E3P
Market Capitalization: €12 million EUR

*A Closer Look at Magnesium*
(Fundamental analysis of the magnesium market by Chris Berry, August 10, 2015)
The processing of the magnesite to saleable magnesium oxide (MgO) reduces tonnage by approximately 50% and the current market price for mid-grade MgO is $375-$400 USD per tonne. According to the September 29 press release, Driftwood Creek's maiden NI43-101 resource estimate is underway and Rockstone expects the publication of it in around 6-8 weeks.

Yesterday on October 5, MGX released initial results from the first 4 holes, with reported assays indicating interval lengths of 37-98m of magnesite-bearing mineralization (all 4 holes have ended in magnesite mineralization and thus remain open; see table 1).

The initial assays indicate continuity of high-grade MgO in the Western Zone, akin to the high-grade mineralization reported from the 2014 drill program in the Eastern Zone and the 2015 re-assays of historic drill cores. 98m of 44% MgO is world-class as anything starting from 38% MgO is generally considered economic.

Environmental baseline and engineering studies are underway, initial field work will focus on surface and ground hydrology with other studies to follow. Current engineering work includes open-pit modeling and upcoming geo-technical drilling to confirm the stability of pit walls. MGX reported on October 2 to have received permit to conduct an archaeological impact assessment on Driftwood Creek. While these upcoming studies and resource estimates should turn out positive without major surprises, MGX is already active on a different major front getting ready for the future:

According to a second press release disclosed on September 29, MGX entered into a Definitive Agreement with Tembec Inc. (TSX: TMB) to acquire an industrial site to be used for the processing of its magnesium bearing ore, representing a critical next step in MGX’s path to production. The mill site is located in in Cranbrook, BC. This 38 hectares large mill complex includes major infrastructure including buildings and a wood processing plant. The site is being acquired for $3.7 million CAD and includes a fully serviced industrial location with natural gas, water, power, and rail access.

In the industrial minerals sector, the key for success not only lies in owning a large and high-grade resource but more importantly having a near-by processing facility. CAPEX for the construction of new processing plants are typically in the tens of million dollars, whereas +100 million dollars are not uncommon in remote areas. Having the chance to acquire a fully serviced industrial park for $3.7 million CAD appears like a bargain and perfect match for MGX moving forward to put Driftwood into production for 100 years.

MGX is currently in discussions regarding financing as well as sale of unused equipment. Certainly, MGX would need to upgrade the processing plant for magnesium ore from Driftwood, yet MGX makes the sound impression of thinking ahead and planning diligently to make it happen big time. With 30 million shares issued and outstanding, currently trading at $0.58 CAD per share (+137% YTD), MGX is one of the largest and best performing stocks on the Canadian Securities Exchange this year. MGX is also quite advanced in terms of getting support from the community and region, or as Lee Pratt, Cranbrook’s Mayor, commented:

“This is exciting news for the city and surrounding region. MGX Minerals will be a great fit in Cranbrook helping diversify our industrial sector, one of our key economic priorities, and creating new employment opportunities. There are strong synergies between MGX and the community, and I look forward to working with MGX as they advance their development.”
Pictures of high-grade MgO intersects from the ongoing phase 2 drilling campaign at the Eastern Zone of the Driftwood Creek Magnesite Deposit in the East Kootenay region of British Columbia, Canada.
On August 11, 2015, Kal Kotecha from the Junior Gold Report published an analysis on the magnesium market and MGX Minerals, which is reprinted below.

Within the junior mining space, a range of mineral deposits are tapped and locations explored in order to extract valuable natural resources for production processes that benefit industries and consumers. MGX Minerals Inc. (CSE: XMG), “the Company”, is carving a niche within the junior mining field by directing their efforts toward magnesite (MgCO3) extraction through their Driftwood Creek mining deposit located in southeastern British Columbia, Canada. A diversified Canadian mining company, MGX is engaged in the acquisition and development of industrial mineral deposits in western Canada. The Company has focused on deposits that offer near-term production potential, minimal barriers to entry, and low initial capital expenditures – all of which represent valuable strategic pillars that allow investors to feel confident about returns. With an emphasis on high-grade magnesium oxide (94%+) production accompanied by a global market that is fluctuating toward magnesium demand, MGX presents a strong opportunity for investors who are pursuing reliable junior mining companies spearheaded by strategic, sensible, and environmentally conscious executive management.

Corporate Highlights

In recent months, MGX Minerals Inc. has experienced a rapidly rising share price on the Canadian Stock Exchange, having improved from $0.26 on May 3, 2015 to a very impressive $0.62 as of July 31, 2015 (Canadian Stock Exchange, 2015). From our perspective, this success can be at least partially attributed to the philosophy of MGX’s senior management team led by their dynamic CEO, Jared Lazerson. In a recent podcast interview with Chris Parry of Stockhouse.com, Lazerson highlighted the fact that, as the CEO, he is heavily focused on the operations side of the company, stating that he possesses a strong prospecting background and noting that he ensures that MGX remains an exploration and development company at its core as opposed to a finance and legal entity (Stockhouse.com, 2015). The benefits of this, according to Lazerson, are decreased overhead costs from being able to complete many of the key mining functions in-house as opposed to outsourcing the processes to different organizations, and maintaining control over the quality and...
specificity of exploration and development activities to ensure positive outcomes. From a strategic planning perspective, upholding critical mining functions in-house demonstrates high level business acumen and judgment, showcasing MGX’s strong potential for future growth through its corporate mission. The Company has a solid corporate structure with a closely held 32M share outstanding fully diluted.

**Magnesite – Technical Overview**

As a deposit, magnesite is slightly off the beaten path in the junior mining industry, an industrial mineral as opposed to the more obvious and commonly explored gold, silver and copper deposits. Often referred to as the “lightest useful metal,” magnesium metal, is 75% lighter than steel and 33% lighter than aluminum (Berry, 2015) and is a highly valuable resource. Magnesium oxide (“MgO”) which MGX initially aims to produce is both a primary input for magnesium metal and is utilized on its own in the production processes in many industries. End uses for magnesium oxide include abrasives, animal feed supplements, chemicals, coatings, construction, electrical, fertilizers, foundries, glass manufacture, insulation, lubricating oils, pharmaceuticals, plastics manufacture, refractory and ceramics, rubber compounding, steel industry, sugar refining, sulfite wood pulping, and wastewater treatment. MGX’s Driftwood Creek deposit in British Columbia will yield two variations of saleable magnesia including Caustic Calcined Magnesia (CCM) and Dead Burned Magnesia (DBM). CCM has diverse applications and is used in products and processes that require a reactive version of magnesia, with environmental applications being most prevalent including wastewater treatment for balancing PH levels and as an ingredient in agricultural products such as fertilizer. DBM is an inert version of magnesia, making it most prevalent to consumers involved in steel-making processes, including lining furnaces and refractories, and other high temperature applications like cement and glass production. Magnesite extraction involves comparatively low environmental impact, as there are virtually no tailings associated with the extraction and the quarry is amenable to open-pit extraction, reducing the physical imprint on the region with limited processing required to produce saleable MgO.

**Market Analysis**

The current market environment that surrounds magnesium production and distribution is advantageous for MGX’s operation for three key reasons. Firstly, demand for magnesium compounds has grown steadily at a compound annual growth rate (CAGR) of slightly under 6% with demand growing slightly faster than the production pace (Berry, 2015). As such, MGX’s Driftwood Creek deposit entering as a player in the market will be supported by current demand figures. Secondly, MGX may be able to carve a niche within the magnesium demand market in North America as a result of its location and magnesite grade quality. Currently, China is the largest producer of MgO globally being responsible for between 70%-80% of production (Berry, 2015) and the United States imports the majority of its MgO from China. MGX can achieve success within the market and gain a niche by leveraging their location advantage, which can help them to secure industrial and agri-business customers in North America that prefer to source MgO from regions closer to their production facilities. China’s magnesite is typically of a lower grade than what is offered by MGX’s Driftwood Creek deposit, helping to secure an attainable market for the product by consumers that require high-grade magnesia for their processes and goods. In recent years, the Chinese government has implemented export restrictions on magnesite to meet growing domestic demand and phase out smaller, less efficient producers. MGX has an opportunity to fill the potential magnesite gap in North America, as the company intends to produce 100,000 tonnes of DMB annually, looking to take a fair percentage of the 350,000-450,000 tonnes of DBM magnesite demanded annually by the United States. Thirdly, it is reasonable to forecast that demand for magnesium metal will improve in the long-term, as the mineral can be used to produce lightweight steel, which is becoming preferable in various consumer products including automobiles in order to achieve better performance, fuel economy and to meet requirements posed by environmental legislation related to material usage. As noted by Berry, there is an ample opportunity for additional magnesium usage in automobiles as a substitute for heavier metals (Berry, 2015). Current estimates cited from a report by the United States Automotive Materials Partnership stating that “by 2020, 250 pounds of magnesium will replace 500 pounds of...
steel and 90 pounds of magnesium will replace 130 pounds of aluminum per vehicle, resulting in an overall 15% weight reduction” (Berry, 2015) compared to the 10-12 total pounds of magnesium used in a vehicle now. Beyond the automotive application, environmental (ie. waste water management) and agricultural (ie. fertilizer) applications promise significant growth, as environmental assessments along with reactive and proactive policies become enacted, requiring the greater use of MgO as a substitute for unsustainable materials currently in use.

**Competitive Advantages**

Looking beyond the market and into MGX Mineral Inc.’s internal advantages, we can identify three primary categories that house the competitive position that is unique to the company and its Driftwood Creek property. MGX’s first identifiable advantage is the strategic partnerships it has established with Eaton Corporation (NYSE: ETN ) (“Eaton”) and Highbury Energy (“Highbury”). Secondly, MGX possesses strong value chain management capabilities presented inherently in the location and geology of Driftwood Creek and with the functional mining expertise held by the executive management team. Finally, the business model being deployed by MGX demonstrates forward-thinking and strong planning to overcome potential concerns in a sluggish economy plagued by financial uncertainty globally. Each of these competitive advantages will be outlined below.

**Strategic Partnerships**

MGX has established partnerships with Eaton and Highbury with intent to secure long-term financing support, engineering expertise and low-cost energy solutions. Eaton Corp. is an international power management company that provides energy-efficient solutions to effectively manage electrical, hydraulic and mechanical power more efficiently and sustainably. Eaton will provide engineering services to MGX for construction of the mine and an associated processing plant at Driftwood Creek and will offer sustainable financing options for primary equipment and engineering. Highbury has developed a patent pending next generation dual-bed steam gasification technology that converts organic matter into high-grade synthesis biogas. Essentially, Highbury will provide a clean, low-cost energy source of syngas for the Driftwood Creek magnesite property, reducing both the environmental footprint and production costs incurred by MGX. The company has stated that beyond Driftwood Creek, it will maintain its partnerships with Eaton and Highbury to work toward developing 7-10 additional industrial mineral projects using a similar business model to the one employed in Driftwood. MGX’s partnership agreements leverage the core competencies of companies that are stakeholders within the mining space, enabling MGX to focus on its key strengths of exploration and development. The partnerships also support MGX’s ability to maintain a stronghold on value chain management of its Driftwood Creek magnesite property.

**Value Chain Management**

Perhaps MGX’s most important competitive advantage is its command of the value chain of extraction, processing and distribution of the magnesite from the Driftwood Creek deposit. As noted above, the company’s executive management team led by Lazerson possesses strong capabilities and ample experience in functional mining operations, which supports the extraction and processing of available magnesite. The expertise of the management team will be clearly demonstrated as they fully capitalize on the natural factors offered by the Driftwood Creek property. The property is surrounded by excellent infrastructure with access to rails within 20km, road, highly skilled labour, electricity, and currently existing industrial facilities within 150km that can be transformed into a processing plant – all packed into an established mining district whose population is accepting of the practice. As noted by CEO Lazerson in an interview with Equities.com, another major advantage of the southeastern British Columbia location is easy access to Alberta’s natural gas, which offers some of the lowest prices in the world (Equities.com, 2015), ultimately delivering a significant cost advantage to the company. Finally, the property’s location in North America delivers amazing potential to secure American consumers of MgO that desire a mid-high grade product with minimal shipping costs and logistical challenges. With an average price of $400US per tonne for high grade material and $60 per tonne in shipping costs from China, MGX’s geographically close location to the United States presents a major transportation cost advantage for potential buyers, making distribution a critical part of the company’s value chain. With MGX’s intent to fully produce the deposit by extracting magnesite as opposed to selling the property to a major, the company’s emphasis on strategic
value chain management makes it highly competitive in the global market.

**Business Model**

MGX Minerals Inc.’s business model demonstrates advanced planning and holistic thinking with regards to the effective extraction and processing of magnesite from the Driftwood Creek site. The potential yields of Driftwood Creek are relatively low in comparison with other sites available in the junior mining space, however, the company prides itself on operating high potential and near-term production properties. Driftwood Creek offers near-term cash flow with low initial capital expenditures, helping to ensure financial projections are successfully achieved and reducing some of the investment risk that is inherent in longer-term projects. The comparatively small size of the mine has led to streamlined permit applications and processing and minimal environmental damage, which is favourable to the communities located in the region of Driftwood Creek. MGX has positive relationships with the British Columbia government and Aboriginal populations, which is critical in the mining space, as environmental concerns can hamper once-perceived high potential sites. The site is projected to remain viable for a century, showcasing great long-term potential for investors.

**Investment Timeframe**

MGX is in a position where it is ready to advance toward mining operations in the near future. The follow table highlights the timeline for production of the Driftwood Creek site:

<table>
<thead>
<tr>
<th>Milestone</th>
<th>Timeframe</th>
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<tbody>
<tr>
<td>Mine Plan and Operating Permit Application</td>
<td>September 2015</td>
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<tr>
<td>Additional Financing for Processing Plant</td>
<td>Fall 2015</td>
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<tr>
<td>Construction Permit Application</td>
<td>Winter 2015</td>
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<tr>
<td>Equipment Orders</td>
<td>Winter 2015</td>
</tr>
<tr>
<td>Construction and Assembly</td>
<td>Summer 2016</td>
</tr>
<tr>
<td>Commence Mining Operations</td>
<td>Fall 2016</td>
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With MGX Minerals Inc. (CSE: XMG) moving rapidly toward mineral extraction, we recommend investors add the high potential industrial mineral producer to their portfolio quickly. With a briskly improving share price, the company offers huge upside to investors while delivering corporate responsibility with their environmental considerations.

**Works Cited**


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**About MGX Minerals Inc.**

MGX Minerals Inc. is a diversified Canadian mining company engaged in the acquisition and development of industrial mineral deposits that offer near-term production potential, minimal barriers to entry and low initial capital expenditures. MGX’s flagship property is the Driftwood Creek Magnesium Deposit, which is being rapidly advanced towards production. MGX has also consolidated key mining claims throughout the Driftwood district and now controls the majority of known magnesium occurrences in British Columbia, Canada.

- Located in historic Brisco-Driftwood District of southeastern British Columbia;
- Land package spanning 326 contiguous hectares across 3 mineral tenures;
- Mineralization traced over strike length of 1,900m; remains open in both directions and at depth;
- 2 high-grade mineralized zones (“Eastern” and “Western”) delineated to date;
- Excellent infrastructure including access to roads, road, labor and electricity;
- Potentially amenable to low-cost, open pit mining methods.

The Driftwood Creek project is hosted by the Precambrian-aged Mount Nelson Formation. This sedimentary formation is approximately 1,300 meters thick and intruded by younger felsic and mafic igneous dykes. Magnesite mineralization occurs in the upper half of the formation and is well exposed at surface along an isolated topographic ridge. Mineralization is stratigraphically associated with red to purple dolomites, cherty dolomites,stromatolitic dolomites, dissolution breccias and other sedimentary rock units containing dolomite pseudomorphs. Stromatolitic textures are preserved locally within magnesite-bearing rocks.

**Analyst Coverage:**

Research #1 “MGX Minerals Plans To Enter The Magnesium Market In 2016”

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Stephan Bogner studied at the International School of Management (Dortmund, Germany), the European Business School (London, UK) and the University of Queensland (Brisbane, Australia). Under supervision of Prof. Dr. Hans J. Bockey Stephan completed his thesis (“Gold In A Macroeconomic Context With Special Consideration Of The Price Formation Process”) in 2002. A year later, he marketed and translated into German Ferdinand Lips’ bestseller (“Gold Wars”). After working in Dubai for 5 years, he now lives in Switzerland and is the CEO of Elementium International AG specialized in duty-free storage of gold and silver bullion in a high-security vaulting facility within the St. Gotthard Mountain Massif in central Switzerland.

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