Trickle Research

Every raging river, every great lake, every deep blue sea starts … with a trickle

1Q-Fiscal 2018 Earnings Update

Report Date: 05/17/2018

12- 24 month Price Target: $.30

Allocation: 5

Closing Stock Price at Initiation (01/18/17): $.115

Closing Stock Price at Allocation Increase (06/19/17): $.115

Stock Price @ Close on 05/16/18: $.18

New Jersey Mining

NEW JERSEY MINING

(Stock Symbol - Other OTC: NJMC)
http://newjerseymining.com/

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Operationally, Q1F18 was a bit of a tough quarter for NJMC. While they were finally able to commence production from the underground operations (a milestone in our view), the benefit of the addition was muted by markedly lower grades from the open pit. The Company notes that the lower grades were largely related to the quarter's open pit production coming from areas "between ore shoots". Unfortunately getting to higher grade ore sometimes requires negotiating lower grade ore first. In addition, north Idaho also had a harsh winter, which we think probably constrained production as well as perhaps transportation to the mill.

Along with the above, they also experienced some maintenance issues at the mill that likely bottle necked some concentrate production and also negatively impacted production. The 746 ounces of gold produced in the quarter was easily the Company's lowest production level of the 4 trailing quarters.

Despite lower production levels, the Company also experienced markedly higher production costs both in dollar terms and in marginal terms. For example, in the preceding December 2017 quarter (ended 12/31/2017), NJMC spent $731,000 in direct production costs producing 825 ounces of gold ($886/ounce), while in this subsequent reporting period (March 2018) they spent $1.03 million producing 746 ounces ($1,374/ounce). Again, we suspect some of elevated costs (along with lower grades) probably included some higher millings costs associated with the maintenance issues. Like we said, it was a comparatively weak quarter from an operating perspective.

On the other hand, there were some positive operating elements to the quarter worth noting. First, as we alluded to, the quarter marked the first production from the underground operations. As some may recall from prior coverage, we anticipated this event a few months ago, and while it took a little longer than we (and we think the Company) planned, the fact that it is now contributing is highly positive. As an adjunct to that, while the underground production was limited, it did yield considerably better grades than we are modeling. That could be a positive development going forward. Second, some may recall from the original coverage that we were having difficulty reconciling some of the tonnage production and ounce sales in the context of provided metrics. Some of our conclusions therein were guided by VP Grant Brackebusch, who noted that the ball mill circuits typically captured some portion of the gold through the process. At the time, our unreconciled math seemed more significant than that explanation might provide. The ball mill maintenance in the quarter provided some clarity as we learned that the circuit had trapped 211 ounces of gold. That number was in line with the missing amounts of our prior reconciliations. To translate, we are happy to have the data point that the ball mill maintenance provided, and, it created an additional 211 ounces of gold to sell for the quarter so that is perhaps the silver (gold) lining.

All of the above said, we are confident that the combination of increasing underground production, improved (more typical) grades from the open pit and the winter thaw should all lead to better operating performance through the balance of 2018. Generally speaking, NJMC's relatively low production profile is more susceptible to overall volatility than those of larger gold producers, so we will probably continue to see some lumpy results from time to time. That said, we are more interested in the trend than single quarter results, although we will continue to monitor both.

We actually thought there were a few other elements of the quarter that were far more interesting than the operating results, some of which they disclosed in the 10Q.

First, the Company continues to expand its holdings in the Murray Gold belt adding a number of acres from various entities over the past few months. In conjunction, they also purchased two diamond drill rigs that will allow them to expand/accelerate their exploration efforts. In our view, these are also highly positive developments, because they provide an opened ended element to the Company that does not exist without them. That is, while we applaud their efforts to grind their way to production and presumably sustainable positive cash flow, as we have seen from the March 2018 results, production has some visibility and finite and valuation constraints to it. We would all like to be able to argue that NJMC can be a $1.00 or $2.00+ stock in the future (as opposed to a $.30 or $.35 stock), but for that to happen, they need to expand, identify and verify a larger resource. Again, if they can establish that, we anticipate providing higher price targets in the future.

Second, the Company closed an equity raise of just over $600,00 subsequent to the end of the quarter. That was on the face good news, as we think the added capital supports our prior notion about expanding the resource. However, that raise included $500,000 from Hecla Silver Valley a wholly owned subsidiary of Hecla Mining CO. (NYSE:HL), and the largest mining operator in the North Idaho district where NJMC also operates. We are not sure what to makes of this, but our sense is that Hecla's endgame with this investment may not be passive. Obviously, having a large industry player (that operates in your back yard) make a sizeable equity investment in the same round and at prices essentially equal to that paid by other investors may be telling. We could be wrong. Perhaps Hecla just viewed this as a promising investment like the rest of us, but we suspect there may be more to this part of the story.

In spite of a sub-par quarter, we remain quite bullish on New Jersey Mining as we think some of the pieces are beginning to fall into place to make this an even more attractive story. We reiterate our 12-24 month price target of $.30 and our allocation of 5. We will look to additional future data points (gold prices included) as a basis for revisiting each.

Projected Operating Model

New Jersey Mining						
Projected Operating Model						
By: Trickle Research LLC						
	(actual)	(estimate)	(estimate)	(estimate)	(estimate)	(estimate)
	03/31/18	**06/30/18**	**09/30/18**	**12/31/18**	**Fiscal 2018**	**Fiscal 2019**
Revenues:						
Gold Sales	$ 1,101,391	$ 1,727,239	$ 2,061,993	$ 2,105,581	$ 6,996,205	$ 9,333,783
Contract services revenue and other					$ -	$ -
Milling revenue	$ -	$ -	$ -	$ -	$ -	$ -
Total revenue	**$ 1,101,391**	**$ 1,727,239**	**$ 2,061,993**	**$ 2,105,581**	$ 6,996,205	$ 9,333,783
Costs and expenses:						
Cost of sales and other direct production costs	$ 1,025,719	$ 1,104,000	$ 1,251,200	$ 1,312,000	$ 4,692,919	$ 6,304,000
Pre-development expenses	$ -	$ -	$ -	$ -	$ -	$ -
Exploration	$ 99,232	$ 88,111	$ 138,179	$ 164,959	$ 490,482	$ 364,338
Net loss (gain) on sale of equipment					$ -	$ -
(Gain) on forfeiture of milling advance					$ -	$ -
Impairment of mineral property					$ -	$ -
Depreciation and amortization	$ 69,061	$ 44,833	$ 49,764	$ 50,193	$ 213,851	$ 217,034
Management	$ 21,802	$ 43,500	$ 43,500	$ 43,500	$ 152,302	$ 228,000
Professional services	$ 66,577	$ 35,000	$ 35,000	$ 35,000	$ 171,577	$ 172,500
General and administrative expenses	$ 51,082	$ 70,772	$ 74,120	$ 74,556	$ 270,530	$ 361,338
Total operating expenses	**$ 1,333,473**	**$ 1,386,217**	**$ 1,591,763**	**$ 1,680,208**	$ 5,991,661	$ 7,647,210
Operating income (loss)	**$ (232,082)**	**$ 341,022**	**$ 470,231**	**$ 425,373**	$ 1,004,544	$ 1,686,574
Other (income) expense:						
Timber revenue	$ -	$ -	$ -	$ -	$ -	$ -
Timber expense	$ -	$ -	$ -	$ -	$ -	$ -
Royalties and other income	$ -	$ -	$ -	$ -	$ -	$ -
Gain on sale of marketable equity security					$ -	$ -
Gain on remeasurement of previously held equity interest					$ -	$ -
Interest income	$ (1,597)	$ (1,384)	$ (3,849)	$ (4,349)	$ (11,179)	$ (23,032)
Interest expense	$ 25,342	$ 7,738	$ 7,096	$ 6,371	$ 46,547	$ 16,356
Amortization of discount	$ -	$ -	$ -	$ -	$ -	$ -
Forward Gold Sales Obligations	$ 10,019	$ 82,500	$ 82,500	$ -	$ 175,019	$ -
Total other (income) expense	$ 33,764	$ 88,853	$ 85,747	$ 2,022	$ 210,386	$ (6,676)
Income tax (provision) benefit	$ -	$ -	$ -	$ -	$ -	$ -
Net loss	$ (265,846)	$ 252,169	$ 384,484	$ 423,351	$ 794,158	$ 1,693,249
Net loss attributable to non-controlling interests	$ (12,607)	$ -	$ -	$ -	$ (12,607)	$ -
Net loss attributable to New Jersey Mining Company	$ (253,239)	$ 252,169	$ 384,484	$ 423,351	$ 806,765	$ 1,693,249
Other comprehensive loss:						
Net loss					$ -	$ -
Unrealized gain (loss) on marketable equity security					$ -	$ -
Reclassification of realized gain on marketable equity security					$ -	$ -
Comprehensive loss					$ -	$ -
Comprehensive loss attributable to non-controlling interests					$ -	$ -
Comprehensive loss attributable to New Jersey Mining Company					$ -	$ -
Net loss per common share-basic	$ (0.002)	$ 0.002	$ 0.003	$ 0.004	$ 0.007	$ 0.014
Net loss per common share-diluted	$ (0.002)	$ 0.002	$ 0.003	$ 0.003	$ 0.007	$ 0.013
Weighted average common shares outstanding-basic	113,018,469	117,633,854	117,633,854	117,633,854	116,480,007	117,633,854
Weighted average common shares outstanding-fully diluted	115,231,597	122,123,172	123,209,536	124,139,971	121,176,069	127,110,612

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Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals $250) and 10 representing 10 investment units or $2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit $25,000 to buying micro-cap stocks, that would assume an investment of $1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at $1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same $250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting $1000 into the position ($250 * 4). If we later raise the allocation to 6, you might consider adding two additional units or $500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Speculative Buy" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.