

RESOURCE OPPORTUNITIES

Independent Research for Junior Mining Profits

November 3, 2015

FOR SUBSCRIBERS ONLY

by James Kwantes, Editor

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First things first: The publishing schedule since I took over as Editor of Resource Opportunities has been erratic, and all subscribers deserve better. To that end, I will ensure going forward that a newsletter is sent out each month by the 15th (including Nov. 15), at a minimum, with a target of at least 18 newsletters per year.

I didn't plan a Halloween theme, but it seems somehow appropriate for this edition of Resource Opportunities. Many of the junior exploration companies on the TSX Venture are in "zombie" mode, cash-poor and barely alive. Even many of the companies with solid management, money in the till and quality projects have not experienced much of a lift. With the Venture trading far below levels seen at the height of the 2008 financial crisis, there's plenty of blood on Howe Street.

Yet I'm positive on these markets because it feels more and more like this could be a once-in-a-lifetime buying opportunity. Yes, it's frustrating to see the disconnect between value in a company and pricing of its stock. That gap might get even larger as tax-loss selling season approaches and if gold can't get a bid. However, in markets such as these, patience and dry powder are your friends.

It's high time that I provided updates on many of the companies covered since I took over the newsletter on March 29 of this year. I'll also provide a couple of new ideas. First, the updates, beginning with royalty play Morien Resources, which I wrote about on Feb. 16, 2015 (before formally taking over the letter).

Morien operates in the royalty space, which has become something of a darling recently as the rest of the junior mining complex struggles to gain traction. It's a small company that does not get a lot of buzz or generate much publicity. Behind the scenes, however, important progress is being made and shareholder value is being created. It should eventually be reflected in the stock price. I've built a position in Morien recently in the low .20s. It's a thinly traded stock, so if you decide to buy some, patience may be required. Don't chase.

I would encourage all of you to check out and sign up for the free CEO chat feature, www.chat.ceo.ca. It's a great way to track your investments, monitor sentiment and insider trades, and tap into some sharp insight by a group of dedicated speculators and market pros. The chat has developed into a great tool for high-quality crowdsourced intelligence about the markets and individual junior resource stocks, which is why we've dubbed it the "investment conference in your pocket."

Morien Resources (MOX-V)

Sometimes the best investment ideas aren't new ones, but old ones whose value remains unrealized. Morien's stock was trading at 21 cents when featured and its 52-week range is 12-28 cents. An aggressive buyback program has taken the share count from 60 million down to 56 million and the stock last closed at 22 cents.

In the case of Morien, the company driving value creation on the flagship Donkin coal asset is privately held (albeit run by a billionaire). It's owned by U.S. coal tycoon Chris Cline, who made his fortune buying up U.S. coal assets nobody else was interested in and grinding out profits through efficiency and mechanization. Cline's private company bought Glencore's 75% stake and Morien's 25% stake in the mothballed Donkin coal mine on the coast of Cape Breton, Nova Scotia.

Morien got \$5.5 million and a royalty for its 25% stake, and \$2 million of that has already been paid. A second \$2-million payment is due at first production (of 10,000 tonnes) or the second anniversary of closing, February 2017. The final \$1.5 million is due at third anniversary or first coal export. Depending on production levels, Morien's sliding 2-4% production royalty could generate anywhere from \$4-6 million in royalty payments annually.

The Donkin royalty depends on production, of course, and it appears to be full steam ahead for the Cline Group's work on the site. I've spoken to reporters in Cape Breton and they say the Cline Group appears very serious about taking Donkin into production. Cline's point man on Donkin, Paul Vining, gave an update at the Coal Association of Canada's convention in Vancouver in September.

According to the presentation, which is posted on Morien's website, Cline is staffing up, bringing in equipment and building a 25-km high-voltage power line connecting the site to the power

utility. Next steps include building a surface substation, coal sampling and testing, installation of equipment and workforce training.

The province of Nova Scotia is spending \$1.8 million to upgrade 6 kilometres of the Donkin Highway, and a provincial cabinet minister told the Cape Breton Post newspaper recently that coal could start coming out of the mine in February. Cline's guidance targets initial production in the first quarter of 2016. The mine is fully permitted.

<http://www.capebretonpost.com/News/Local/2015-10-16/article-4312464/Minister-expects-first-coal-to-come-out-of-Donkin-Mine-in-February/1>

If the \$2M milestone payment on Donkin lands in the first quarter, it will take Morien's working capital to more than 40% of its market capitalization. Morien could also receive an \$800,000 payment related to its second royalty, on the Black Point aggregate project in Nova Scotia, as early as the first quarter. The latter payment will be triggered by successful environmental permitting of Black Point, which Morien is helping owner Vulcan Aggregates to advance. Vulcan, listed on the New York Stock Exchange, is the largest producer of construction aggregates in the United States.

The Donkin mine contains 227 million tonnes indicated and another 254 million tonnes inferred, enough thermal and metallurgical coal for a minimum 30-year mine life. One likely customer is Nova Scotia Power, which operates nearby plants powered by coal imported from Colombia. Black Point has a 50-year mine life, with first production anticipated between 2018 and 2021. Both projects enjoy strong local support .

Donkin was too "small potatoes" for Glencore, but it's a valuable asset in the hands of the right operator. In fact, the Donkin royalty would be a prized cash flow machine in the portfolio of any number of royalty companies. At its June AGM, Morien shareholders adopted a shareholder rights plan that gives shareholders a measure of protection and the company time to respond to any hostile takeover bid.

One potential acquirer is the Cline group itself, which owns 10.6% of shares -- a majority of them purchased at 30 cents in a \$1M private placement late last year. Swallowing Morien would remove a hefty future financial obligation.

However, Morien CEO John Budreski is an investment banker with plenty of experience in the royalty space. Any takeover, by Cline or another company, should occur at a share price substantially higher than the current one. In the meantime, Morien's strong treasury offers downside protection as well as the possibility of additions to the company's royalty portfolio.

Price: 0.22

Shares outstanding: 55.9 million

Fully diluted: 61.7 million

Market cap: \$12.3 million

Working capital: \$3 million
Company phone: 902-466-7255
Email: info@morienres.com
www.morienres.com

Sabina Gold and Silver (SBB-T)

There's a Glencore angle to the Sabina story as well. Formerly called Sabina Silver, the company's flagship asset was the Hackett River zinc-silver deposit in Nunavut. That was sold to Xstrata in 2011 for \$50 million and a silver production royalty, putting it in Glencore's hands when Glencore and Xstrata merged.

The cash pile was a valuable buffer as Sabina switched focus to the Back River gold project and systematically built a deposit that now sits at 5.3 million ounces measured and indicated and a further 1.9M oz inferred. The stock was trading at 39 cents on May 18 when we wrote about the company's plan for an "initial project" feasibility study. It has since been re-rated to the 60-cent level after Sabina released a feasibility study featuring a scalable mine plan with digestible capex and a focus on initial production from open pits.

The re-rating suggests the market is valuing Sabina less as an exploration company and more as an intermediate gold play, a category with more leverage to the gold price. Is there still upside? CEO Bruce McLeod seems to think so. He's been a heavy buyer since taking the helm early this year, both in the public market and in an insider-only private placement of flow-through shares. He's also purchased stock since the run-up. Since Oct. 15, McLeod has spent more than \$27,000 at prices ranging from 50 to 56 cents.

It's a rare but welcome phenomenon in this junior resource market to see a CEO purchasing stock in the public market even as share prices hit new 52-week highs. Sabina's Back River is one of the largest and highest-grade gold projects in the Americas not owned by a major. With its initial-project FS, the company has addressed the perception that it's not possible to run a profitable mine in Canada's North. Agnico Eagle is also correcting that perception with its Meadowbank mine in Nunavut, one of its most profitable operations.

There is vast exploration potential at Back River and it was illustrated on Oct. 13 when Sabina released preliminary assays from a new drill target at the Goose property. Grab samples returned gold values including 33.86 g/t, 28.1 g/t and 18.23 g/t.

Sabina shares were obviously a better buy in the .30s than they are at 60 cents, but I haven't taken any money off the table. Accumulate on weakness, especially if gold experiences another leg down.

Price: 0.61
Shares outstanding: 197 million
Fully diluted: 215 million

Market cap: \$120 million
Working capital: \$22 million (as of June 30)
Company phone: 1-888-648-4218
Email: info@sabinagoldsilver.com
www.sabinagoldsilver.com

Columbus Gold (CGT-V)

Investors looking for an ounces-in-the-ground play on gold should also check out Columbus Gold for its Paul Isnard project in French Guiana.

The Montagne d'Or deposit at Paul Isnard hosts an in-pit resource of 3.9 million ounces indicated, 1.1 million ounces inferred at grades of about 1.5 g/t gold. Miner Nordgold is spending a minimum US\$30 million to produce a bankable feasibility study and earn a 51% interest in Montagne d'Or. Nordgold has spent about US\$21 million to date on Montagne d'Or, and on Oct. 16, Columbus announced a feasibility study expected to land by Q4 2016.

A PEA released on Paul Isnard in July showed initial capital costs of US\$366M and an after-tax IRR of 23% based on US\$1200/oz gold. All-in sustaining costs came in at \$711/oz and average annual gold production for the first 10 years would be 273,000 oz.

Columbus Gold's Nevada project, Eastside, is an interesting secondary project where initial drill results yielded plenty of oxide gold mineralization. Forty-six of 51 drill holes (12,300m) hit gold, including 152m of 0.71 g/t, 64m of 1.2 g/t and 24m of 2.7 g/t. The deeper the drill hole, the higher the gold grade: 17 of the holes bottomed in gold. That was a bit of a curve-ball so Eastside is conserving its treasury as it studies the drill results and plans a follow-up deep core drilling program. Eastside holds district-scale exploration potential and is located near major highways, power lines and water. It's also the right neighbourhood for heap-leach mines - Round Mountain, 50% owned by Barrick and Kinross, is a large, open-pit operation that has been mined for decades.

Nordgold is a Russian-based producer that operates 9 low-cost mines (in Russia, Kazakhstan, Burkina Faso and Guinea) and has grown rapidly, primarily by acquisition. The company is a likely buyer of the remaining 49% of the project that it doesn't already own, and Eastside would be a logical spinco asset.

Price: 0.455
Shares outstanding: 141.7 million
Fully diluted: 155 million
Market cap: \$64.5 million
Working capital: \$1.7 million (as of Sept. 1)
Company phone: 1-888-818-1364
Email: info@columbusgoldcorp.com

North Arrow Minerals (NAR-V)

It's been a disappointing year for North Arrow Minerals. I was high on the story because of the potential of North Arrow's fancy yellow diamond story at Qilalugaq in Nunavut. The stock rode high for a while, too, before cratering in June when the diamond parcel valuation turned out to be oh-so-not-fancy. I haven't given up on North Arrow, or Qilalugaq for that matter, but did sell some shares the day of the plunge because the fundamentals changed substantially.

North Arrow's other flagship project, the 80% owned Pikoo, is a grassroots discovery that hosts four diamondiferous kimberlites. The company recently wrapped up its 2015 Pikoo exploration program, which advanced the project but didn't deliver news that moved the needle. Two of the four kimberlites, PK311 and 312, returned diamonds in small sample sizes (both under 15 kg) and will require more drilling.

Pikoo's best initial diamond counts, in the PK150 kimberlite, were exceptional - 1,232 stones above the .106 mm sieve size. However, a 476-kg sample from the PK314 kimberlite - which CEO Ken Armstrong had been quite excited about because of promising kimberlite indicator minerals - returned just 23 stones. That's a disappointment, and the focus shifts back to PK150, which is an estimated 15-20 metres wide, at least 199m deep (open at depth) and has a 150m strike length.

Size matters at Pikoo and a major focus of 2016 activities will be further drilling of PK150 to define its outer limits. North Arrow has also entered option agreements to acquire 70% interests in properties to the northeast - up-ice from Pikoo's diamondiferous kimberlites - held by three separate companies. North Arrow has already completed a fixed-wing magnetic survey of the properties to identify new targets for the next drilling campaign.

North Arrow is well-financed thanks to a \$4-million flow-through financing completed earlier this year. A market cap of just \$12.2 million and \$5 million in the treasury as of July 31 - probably closer to \$4M now - leaves an enterprise value of just \$8 million or so. That seems very low for one of Canada's premier diamond exploration outfits, backed by a diamond mine finder (chairman Gren Thomas) and with its largest shareholders a Lundin family trust.

Unfortunately, there don't seem to be many catalysts on the horizon for North Arrow, which also has active, early-stage exploration projects in Lac de Gras (the Northwest Territories), Nunavut and Ontario.

Price: 0.225

Shares outstanding: 54.2 million

Fully diluted: 59.5 million

Market cap: \$12.2 million

Working capital: \$5 million (as of July 31)

Company phone: 1-604-668-8355
Email: nthomas@northarrowminerals.com
www.northarrowminerals.com

NexGen Energy (NXE-V)

NexGen Energy is a bright spot on a rather dismal 2015 junior exploration landscape. An aggressive 33,000-metre summer drill program is defining NexGen's Arrow project as the premier uranium deposit in the western Athabasca Basin. That distinction previously belonged to Fission Uranium, which early this year announced a maiden resource estimate of about 80M lbs indicated and 26M lbs inferred - larger than many expected - and followed that up with a positive PEA in early September (albeit at a US\$65/lb uranium price, \$30 higher than spot).

But in between the resource estimate and PEA was a merger with Lukas Lundin's Denison Mines that got shot down by shareholders, and Fission's share price has been in a downward trend for most of the year. Unhappy retail shareholders were responsible for the defeat of the merger (two-thirds approval from Fission shareholders was required). With Fission CEO Dev Randhawa defiant on both the pricing of and rationale behind the deal, the final act could take place at Fission's AGM on Dec. 15 in Vancouver.

While the Fission drama plays out, NexGen has been quietly building a monster deposit that is shaping up to dwarf Fission's Triple R. NexGen drills have consistently hit high-grade uranium mineralization and some of them have ranked among the best in the entire Athabasca Basin. The Basin itself has been called the "Persian Gulf of uranium," with freakishly high grades that are multiples of global averages.

NexGen continues to tap into this bounty as assays come in from the lab. The latest results, released just this morning, include hits in a high-grade sub-zone of the A2 shear of 27.5 metres at 10.09% uranium, including 12m at 20.01% and 2.5m at 51.16%. For perspective, the average uranium grade being mined globally is .01%.

Analyst projections for the maiden resource estimate, expected to land in the first half of 2016, range from 100M lbs on the low end to 200M lbs and much higher. With \$18 million in the treasury, NexGen is well-funded as it builds out the deposit. And it's not just Arrow: NexGen's Bow discovery is about 3.7 km away and NXE also has a large land position in the eastern Basin.

NexGen is building something special at Arrow and I believe the stock still has room to run. I've recently added to my position at 72 cents.

For a good read about a Toronto hedge fund manager who made a small fortune shorting Bre-X and is now long NexGen, go to CEO.CA and search "NexGen."

Price: 0.68
Shares outstanding: 254 million

Market cap: \$173 million
Working capital: \$18 million
Company phone: 1-888-684-6730
Email: nxe@kincommunications.com
www.nexgenenergy.ca

Platinum Group Metals (PTM-T)

The company was out with a major update on Monday and it was a good news/bad news kind of press release.

Platinum Group Metals is ramping up toward production at the world's next platinum mine, the Western Bushveld Joint Venture (WBJV) Project 1 mine in South Africa's Bushveld. Cold commissioning of the plant is in progress and the mine will begin to produce platinum and palladium concentrates in the coming weeks, for delivery to a nearby smelter in January.

PTM also announced that it would tap into a US\$40-million Sprott loan facility - which was expected - as well as an additional US\$40-million loan facility with Liberty Metals & Mining, which wasn't. Liberty extracted a relatively high price for the financial assistance: the loan includes a life-of-mine production payment of 1.5% of gross proceeds on concentrate sales. Liberty is the company's largest shareholder, with a 19%-plus stake.

The company had previously said it was fully financed for production, so the extra financing is a disappointment, especially this late in the game. It's a rare hiccup from a strong operating team led by Platinum Group Metals CEO and cofounder Mike Jones, who began working on the project 13 years ago.

The WBJV Project 1 mine will have cash costs of about US\$625 per 4E ounce (platinum, palladium, gold and rhenium), which is in the lowest cost quartile of South African PGM mines. After a two-year ramp-up, the mine will produce about 275,000 ounces of the precious metals annually.

The WBJV resource is a gently sloping, 1-metre-thick slab of rock measuring 2.5 by 5 kilometres (1.5 X 3.1 miles) that contains reserves of 4.7 million ounces 4E in a resource estimated at about 8.2 million ounces. PTM has an 83% interest in the project.

But it's the company's Waterberg joint venture that could prove to be the real prize. Waterberg is a primary palladium deposit contained in a 13-storey structure that resembles a highrise rather than a tabletop. The deposit is amenable to bulk mechanized mining, which is cheaper and much safer than the labour-intensive mining that goes on today in South African platinum and palladium operations.

Platinum Group Metals has an effective 58% stake in Waterberg, which is at the northern end of the Bushveld's Northern Limb. PTM's JV partner JOGMEC, the Japanese conglomerate, owns a

28% interest in Waterberg and will fund the entire \$8-million budget this year, as well as the first \$6 million in each of 2016 and 2017.

There are plenty of catalysts for PTM in the coming weeks, including an update on drilling and engineering at Waterberg. A resource update and prefeasibility study for Waterberg are expected to land in the first quarter of 2016. Waterberg has an existing resource of 12.6M 3E (palladium, platinum and gold) oz indicated and 25.6M oz inferred.

The additional \$40-million financing is an unwelcome development, but debt is still preferable to further dilution of shareholders. The finish line is in sight for a mine that has been developed through a bear market characterized by mine closures rather than openings. There may be a few more hiccups ahead but I believe Platinum Group Metals shares offer compelling upside, especially at these levels. I've recently purchased the stock at prices in the high and mid-30s.

Price: 0.33

Shares outstanding: 769 million

Market cap: \$254 million

Working capital: \$20 million (as of Oct. 13)

Company phone: 1-866-899-6730

Email: info@platinumgroupmetals.net

www.platinumgroupmetals.net

New ideas: Arena Minerals (AN-V) and NovaCopper (NCQ-T)

Arena Minerals (AN-V) is a prospect generator with a prime property and blue-chip JV partners in Chile's copper country. NovaCopper (NCQ-T) is developing a high-grade copper/zinc deposit in Alaska. Both companies are long-term plays on copper, which remains a vital civilization metal despite the current doldrums.

Arena Minerals is earning an 80% interest in the Atacama Copper Project, a 150,000-hectare land package in the heart of Chile's Antofagasta copper mining district. With more than 600,000 tonnes of copper production annually within a 15-km radius, it's elephant country for the red metal. The infrastructure could not be better.

Arena optioned the land package in 2013 from Sociedad Quimica y Minera de Chile, which owned it for more than 70 years but is focused on industrial metals (nitrate and iodine). Arena has in turn optioned projects within the Atacama land package to JOGMEC, B2Gold and most recently, Teck. The Teck deal will see the Vancouver-based coal and copper producer spend US\$19.5-million over 6 years to earn a 60% interest in two of Arena's claim blocks.

On Monday, Arena closed a \$1.135-million private placement that was vacuumed up by Teck and mining entrepreneur Ross Beaty, who own stakes of 4.6% and 12%, respectively. Beaty is quite familiar with the neighbourhood: last year he sold his Lumina Copper and its Taca Taca copper-gold deposit to First Quantum Minerals for \$470 million.

Price: 0.275
Shares outstanding: 79.5 million
Fully diluted: 96.7 million
Market cap: \$21.9 million
Working capital: \$2 million
Company phone: 1-416-818-8711
Email: wrandall@arenaminerals.com (CEO William Randall)
www.arenaminerals.com

NovaCopper (NCQ-T)

NovaCopper is a pick for patient investors who want exposure to one of North America's highest-grade undeveloped copper/zinc assets but are willing to wait a few years to make some money. Retirement account, anyone?

NovaCopper's Upper Kobuk Mineral Projects in Alaska's Ambler mining district host the Arctic and Bornite deposits, high-grade copper treasures with significant zinc endowments as well. Recent intercepts from the company's 3,000-metre infill drilling program at Arctic were exceptional, including:

- **22 meters of 3.86% copper, 0.86 g/t gold, 71.0 g/t silver, 1.15% lead, and 5.36% zinc**
- **32 meters of 3.08% copper, 1.56 g/t gold, 45.9 g/t silver, 0.18% lead, and 2.72% zinc**
- **18 meters of 4.93% copper, 0.74 g/t gold, 102.0 g/t silver, 0.94% lead, and 5.11% zinc.**

NovaCopper does not make a lot of noise, and is stuck in the development stage of the project lifecycle, which can be painful for shareholders. With copper in the tank as growth in China slows and economic growth globally grinds to a halt, there isn't a lot of demand for shares of copper juniors. That's true for NovaCopper, which is trading near 52-week lows.

But the company is quietly ticking off all the necessary boxes on the remote project ahead of a prefeasibility study expected next year. It has a deal in place with the pro-business NANA Regional Corporation, an Alaska Native Corporation.

A road connecting the project to a major highway is a big-ticket cost that runs into the hundreds of millions of dollars. But a division of the Alaska state government wants to build it as a toll road (similar to Teck's model at the Red Dog zinc mine in Alaska), and the state just launched the permitting process.

NovaCopper is cashed up for the next two years, and may actually be in a sweet spot to play a rebound in copper prices. Many analysts are calling for rising copper prices toward 2020 as supply shortfalls kick in. There is also huge exploration upside on NovaCopper's 143,000-hectare land package, but that will have to wait for a market that rewards exploration.

Related: Check out NovaCopper CEO Rick Van Nieuwenhuysen's presentation at the recent Subscriber Investment Summit in Vancouver. [Link here](#).

Price: 0.49

Shares outstanding: 105 million

Market cap: \$51.5 million

Working capital: \$18.4 million (as of Aug. 31)

Company phone: 1-855-638-8088

Email: info@novacopper.com

www.novacopper.com

Disclosure: I own shares of Morien Resources, Sabina Gold and Silver, North Arrow Minerals, NexGen Energy, Platinum Group Metals and Arena Minerals. Author is a consultant to CEO.CA and NovaCopper is a CEO.CA sponsor.

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