

RESOURCE OPPORTUNITIES

Independent Research for Junior Mining Profits

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For Subscribers Only

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Whoever said “bigger is better” didn’t meet this 5-year bear market in mining and junior resource shares. And I hope they didn’t own shares in the world’s biggest mining companies, which have been clobbered until recently along with the juniors.

Bright spots on the golf front, however: the yellow metal has been rising on some rare tailwinds as the crowded King Dollar trade suffers a setback. Gold is trading in the range of US\$1,150/oz, the highest it’s been since late October. There have even been bullish articles popping up in the mainstream media, something that hasn’t happened in years as gold moved from the “ignored” to “ridiculed” stage during the long slide down from US\$1,900/oz.

Gold’s 9% gain to start the year has provided some lift across the gold spectrum, from the juniors through to the mid-tiers and the majors. **True Gold Mining (TGM-V)**, Mark O’Dea’s Burkina Faso gold play, has basked in the warmth of gold’s move. The stock ended the year at 22.5 cents and has since surged to 33 cents, a nice 47% gain for patient shareholders who have watched the stock flatline for much of the past year. With True Gold on the verge of production, shares could move some more if Burkina Faso can regain some stability and the company can execute on the ground.

One of the majors was also a player in a recent deal that signalled signs of life in the junior mining game. Goldcorp invested \$16.1 million on Feb. 1 to secure a 9.9% stake in Gold Standard Ventures (GSV-V), which is developing gold projects in Nevada’s Carlin Trend.

It's significant, however, that the few transactions Goldcorp has negotiated since its failed \$3.6-billion bid for Osisko Mining in 2014 have been relative minnows: the \$526-million purchase of Probe Mines a year ago and paying \$90 million for New Gold's 30% stake to consolidate ownership of the El Morro gold mine in Chile.

So "small is beautiful" is an investment theme that works in the junior mining space during troubled times.

It's worked for portfolio company **Sabina Gold & Silver (SBB-V)**, which released a downsized "initial project" feasibility study on its Back River high-grade gold project in September 2015 and has seen its stock almost double since. It helps that the smaller FS scenario includes mining open pits that are among the highest-grade in the Americas.

Sabina CEO Bruce McLeod is steering Back River through environmental assessment, with a final technical review and public hearings scheduled for April. A project recommendation and minister's decision could come as early as the second half of this year.

A spring exploration program could also deliver catalysts for Sabina. A 2,500-metre initial program will drill-test Kogoyok, a newly discovered prospect, and drilling and field work are also planned at the Hivogani and Convergence target areas. The company believes each prospect has good potential to deliver more near-surface gold mineralization.

Of course, it's the existing high-grade resource - 5.3 million ounces, measured and indicated, and 1.85 million ounces inferred - that gives Sabina shares great leverage to any run in the gold price. Gold in Canadian dollar terms has been steadily rising since the summer of 2013, boosting the economics of Canadian development projects such as Sabina's Back River.

Price: 0.68

Shares outstanding: 197 million

Market cap: \$133.9 million

Cash: \$18.4 million (as of Dec. 31)

Sabina Gold & Silver will be presenting at CEO.CA's Subscriber Investment Summit in Toronto on March 5, and if you're attending PDAC, you should check it out. It's the strongest lineup I've seen yet and includes several other Resource Opportunities portfolio companies, including Morien Resources, NexGen Energy, Arena Minerals and Lithium X Energy Corp.

Morien Resources (MOX-V)

"Special situations" can also be beautiful, and I would put Morien in that category. The junior owns royalties on the Donkin coal mine -- which is on the verge of producing -- and the Black Point aggregate deposit. Both are long-life, high-quality assets located in Nova Scotia. Morien is

cash-rich, open to further opportunistic acquisitions, and buying back shares rather than issuing them.

Morien has renewed its share buyback program, which saw the company cancel more than 4.5 million shares in the last year at an average price of 22 cents. Nova Scotia business legend Bill Ritchie recently joined the board, and I was encouraged to see the opening balance on his initial shareholder filing: 1.125 million shares, more than 2% of the total.

Morien should have a minimum of \$2.8 million in milestone payments landing in the first half of the year. That's a good chunk of change for a company sporting a market cap of about \$14 million and an enterprise value of about \$11 million. There's also the strong possibility of royalty payments later this year -- payments are projected to hit about \$5 million annually (mid-case scenario) once Donkin reaches full production.

Morien is under the radar. Visibility is not helped by the fact their flagship royalty is on an asset owned by a low-profile private U.S. company. However, volume has been picking up, so has the share price but it remains cheap. Morien is presenting at a March 5 Subscriber Investment Summit sponsored by CEO.CA and that can only help showcase its merits.

Price: 0.25

Shares outstanding: 55.1 million

Market cap: \$13.9 million

Cash: \$2.9 million (as of Sept. 30)

North Arrow Minerals (NAR-V)

There was nothing "special" about the share price tumble North Arrow took last year, but the diamond exploreco is in a rather unique situation. The company is cashed up - with about \$4.5 million in the treasury - as the result of a flow-through financing last year and the sale of a royalty on its Redemption project in Lac de Gras, Northwest Territories. So North Arrow has cash, as well as two imminent drill programs.

At Redemption in Nunavut, the goal is to identify the bedrock source of the South Coppermine kimberlite indicator mineral (KIM) train. Ekati is 32 kilometres to the northeast and Diavik is 47 kilometres east. Seven targets drilled in the summer of 2014 did not hit kimberlite, but an industry-funded exploration program by the Northwest Territories Geological Survey helped narrow down targets that North Arrow will drill starting in mid-March. North Arrow is earning-in to a 55% interest in Redemption from Arctic Star.

Drilling is also planned at Pikoo, North Arrow's Saskatchewan diamond discovery, beginning in mid-February. Pikoo hosts at least four diamondiferous kimberlites and the main target is PK150, the largest kimberlite, which had good initial diamond counts and remains open at depth and along strike to the east. Additional targets include PK311 and PK312, in addition to targets identified through heli-borne magnetic surveys from October. These are early days, but the

exceptional infrastructure lowers the bar for any economic deposit that may emerge. Power and roads are located within about 10 kilometres of Pikoo's southern boundary, north of Deschambault Lake.

It's North Arrow's fancy yellow diamond story, however, that continues to capture my imagination. After last year's disappointing diamond valuation results from a very small sample of Q1-4 diamonds from Qilalugaq, CEO Ken Armstrong had mused about cutting and polishing some of the stones. The idea was to get a snapshot of wholesale polished prices for the finished product, then get a sense of what size stones would be required to generate those types of gems, sample sizes, etc. Qilalugaq is an 80% JV with Stornoway Diamonds (SWY-T) that is located on tidewater near Repulse Bay, Nunavut.



The company followed through on the cut-and-polish plans and Armstrong brought two diamonds to Roundup, AME-BC's annual mining show. I stopped by North Arrow's booth to check them out -- the orange-hued stones are eye-catching and beautiful. The gems were 0.14 and 0.13 carats, cut from .46 and .47 carat stones, respectively. The .14-carat stone was classified a "fancy deep orangey yellow" and the .13-carat diamond was graded "fancy intense orangey yellow." Those aren't descriptions cooked up in a backroom at company headquarters

-- the stones were colour-certified by Canadian Gemological Laboratory, experts in coloured diamonds.

It's hard to draw many conclusions from two polished stones, even beauties. Except for this: exceptional single stones have a significant upward skewing effect on carat values. It's something Lucara has demonstrated with the large gem-quality diamonds it's pulling out of its Karowe mine in Botswana. In the diamond business, scarcity matters.

To mix metaphors: Qilalugaq is not dead in the water, even if it's on the back shelf for now. It's an intriguing call option on a stock that could be driven by positive drill results from Redemption or Pikoo. There's been some upward skewing in North Arrow's share price too, which closed out 2015 at 18 cents.

Price: 0.27

Shares outstanding: 54.2 million

Market cap: \$14.6 million

Cash: \$4.5 million

NexGen Energy (NXE-V)

The Arrow deposit at NexGen's Rook I property is a special one. Where to start? How about with hole AR-15-62, the final assay result from the summer drill program at Arrow, NexGen's land-based high-grade uranium project in the eastern Athabasca Basin of Saskatchewan.

The hole returned an interval of 78 metres at 10% uranium, which included 12 metres at 38.29% in the higher-grade A2 shear sub-zone. It was the best angled hole drilled into basement-hosted mineralization ever reported in the Athabasca Basin, home to the world's richest uranium grades -- by a wide margin. NexGen also has another two holes in the Basin's Top 5.

How to continue? Let's go with AR-16-64c2, one of the first holes drilled in the 30,000-metre winter program. While assays aren't in, NexGen reported on Feb. 2 that the hole intersected nearly continuous off-scale radioactivity over 27.2 metres -- the strongest radioactivity results to date.

The 72 metres of mineralization in AR-15-62 had a grade well over 100X the global average, which illustrates why majors are likely watching Arrow's trajectory. It's rapidly becoming a world-class uranium deposit that would be an exceptional development project for Cameco. But Cameco would be hard-pressed to secure the asset if giants such as BHP, Rio Tinto or others come to the table in a bidding war, a scenario that would not surprise me.

A maiden resource estimate is scheduled for the first half of 2016 and could come as soon as early March, prior to the PDAC mining convention in Toronto. The six drill rigs on site should provide plenty of news flow both before and after the resource estimate, which has the potential

to dwarf Fission Uranium's Triple R deposit. Triple R, at 80 million lbs Indicated and 26 million lbs Inferred, is currently the largest undeveloped uranium deposit in the Basin.

NexGen's share price has steadily risen, including a 23% increase since the Dec. 30 newsletter. Its market capitalization is now within about \$70 million of Fission's. But the stock has still not enjoyed the kind of parabolic trajectory that has accompanied other world-class mineral discoveries in recent decades. Could NexGen's maiden resource estimate provide one of the sparks that drives off this bear? I wouldn't rule it out.

Price: 0.84

Shares outstanding: 287 million

Market cap: \$241 million

Cash: \$33 million

Columbus Gold (CGT-T)

When I talked to Robert Giustra in September 2015, his company was running low on funds but the CEO expressed a strong aversion to shareholder dilution.

Gold producer Nordgold is earning in to a 50.01% stake in Columbus's Paul Isnard gold project in French Guiana, by spending at least US\$30 million to produce a bankable feasibility study by March 2017.

Nordgold, which operates 9 gold mines in 4 countries and has grown rapidly through acquisitions, is funding all work and pays Columbus operator fees.

The solution to Columbus's cash crunch took a while. But on Jan. 13, Giustra announced a creative deal that sees Columbus sell another 5% of its Paul Isnard gold project to Nordgold for US\$6 million. That keeps Columbus funded through 2016 and avoids the paralyzing dilution that has suppressed share prices and prevented so many junior explorecos from raising money.

The financing deal with Nordgold values the Montagne d'Or gold deposit at Paul Isnard at US\$120 million, or Columbus's 49.99% share at about US\$60 million, or \$86 million Canadian. The market currently values Columbus - which also has the Eastside gold project in Nevada - at about \$50 million Canadian.

Columbus Gold was last mentioned in the letter on Nov. 3, with the share price at about 45 cents and the treasury at \$1.7 million. Columbus is now cashed-up for 2016 and the stock is trading 10 cents lower - more than a 20% decline. The price of an ounce of gold has dropped less than 3% in that time frame. Go figure.

Columbus recently moved its listing from the Venture to the Toronto Stock Exchange, a shift that should improve visibility and, eventually, institutional interest.

Columbus Gold remains a cheap call option on gold that could experience a significant re-rating in the event of a bullish move in the yellow metal.

Price: 0.35

Shares outstanding: 141.7 million

Market cap: \$49.6 million

Cash: \$8.7 million

Disclosure: Author owns shares of Sabina Gold and Silver, NexGen Energy, North Arrow Minerals and Morien Resources. Pacific Website Company Inc, CEO.ca's parent company, has a business relationship with Sabina Gold & Silver and North Arrow Minerals. Author is a consultant to CEO.CA.

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