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Resource Opportunities
FOR SUBSCRIBERS ONLY
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Dear subscribers,

This year is not like other years, and gold is a key part of the narrative. Donald Trump, a big fan of the yellow metal, is running for U.S. President. The world’s best athletes competed for gold in Rio. And gold’s strong seasonal performance in 2016 -- which diverges from multi-decade trends -- suggests that it’s different this time. At least compared to the last four or so years.

First came the blistering 17% gain in the first three months of 2016 that took gold from US$1,060 an ounce to $1,237. Then the contrarian seasonal strength during the summer, typically a period of weakness. The decisive move from just above $1,200 at the beginning of June to the current $1,350 bodes well for the fall, when gold usually makes a big move.

With zero interest rate policies (ZIRP) proliferating globally -- and even negative interest rates (NIRP) appearing in Europe and Japan -- there's no reason to think this gold bull market is finished just yet. Central banks are out of bullets and have resorted to money printing in a bid to kick-start inflation. The stakes are high, so I expect the monetary and financial experimentation to continue. That bodes well for gold.

A major knock on the yellow metal is its lack of income-producing potential and yield -- Warren Buffett’s “gold has no utility” -- but the criticism rings hollow in a deflationary ZIRP or NIRP
world. And many of Buffett's peers -- legendary investors such as Bill Gross, George Soros and Stan Druckenmiller -- have gone long gold for some of these reasons.

Here's how Druckenmiller put it in a May presentation at the Sohn investment conference in New York:

> At the 2005 Ira Sohn Conference, looking at a more muted but similar deviation, I argued that the Greenspan Fed was sowing the seeds of an historical housing bubble fed by reckless sub-prime borrowing that would end very badly. Those policy excesses pale in comparison to the duration and extent of today’s monetary experiment

U.S. gold bug James Rickards (who joined me for a photo, right, after the Sprott show in Vancouver) is calling for US$10,000/oz gold. That's based on both his belief that gold = money and his (rather-apocalyptic) expectation of an impending collapse of the world financial system. On the former point, even the metal composition of the Olympic medals has been debased. The gold medal is actually 99% silver with a thin gold plating, and the medal is worth approximately US$548 based on current metals prices, according to Visual Capitalist (Silver medals are pure silver and worth US$292).

I don't know at what price gold will finish 2016, or where this all ends. And that's not a prerequisite to making money in junior resource speculation. Our challenge as speculators is to befriend the trend and find value among junior exploration companies. It's a task made more challenging by the extraordinary run-ups experienced by some junior mining companies this year, even pre-drill plays that have yet to release assays.

Many money managers can't invest in the junior mining space because it's so small and illiquid. They'll have to settle for exposure to gold through bullion, gold ETFs or the shares of companies that mine it. But some will head to the volatile junior gold space, and it's already happening. Positioning yourself in the highest-quality names before the big money lands can be very profitable.

To some extent, the rising golden tide has lifted all boats, even those with slow leaks. Consider: the bellwether S&P/TSX Venture Composite Index -- which includes the good, the bad and the
ugly of junior miners -- has risen to 840 points after bottoming below 500 early this year. It’s one of the world’s best-performing stock markets year to date.

But for perspective on where we’ve been and where we could be going, check out the 5-year chart of the Venture index, below. These are early days in what appears to be a nascent gold bull market. That said, keep your wits about you:

- Don’t be afraid to take some profits if a junior gold stock you own has been on a tear. These overshoot on the upside but can correct severely on down days.
- Lower your cost base by purchasing shares on days that precious metals prices are moving against you.

If the flow of institutional and generalist money into junior explorecos puts a kind of floor on share prices and by extension the sector, the arrival of gold majors with dollars or M&A paper
remains the holy grail for a junior exploration company. It played out for Kaminak Gold earlier this year when Goldcorp bought the junior developer and its 5-million-ounce Coffee gold deposit in the Yukon for more than $520 million in stock.

I recently returned to the Yukon and the change in sentiment from a year ago was striking. The main factors behind the sentiment shift, of course, were gold’s revival and Goldcorp’s takeover of Kaminak, which was announced on May 12 and has sparked a renewal of interest in Yukon gold plays. This year’s week-long tour of Yukon mining projects included a Coffee stop right around the time Goldcorp’s purchase closed.

At Coffee, Goldcorp Executive Vice-President, Corporate Affairs and Sustainability Brent Bergeron made it clear that Goldcorp’s purchase of Kaminak Gold was an investment in a gold district, not just a deposit. We talked a bit of hockey during the site visit -- Bergeron comes from a hockey family and Boston Bruins star Patrice Bergeron is his cousin. In hockey terms, it appears to be still early in the first period for Goldcorp and the Yukon.

Bergeron’s district comments also fit in with his company’s purchase some weeks prior of 19.99% of the outstanding shares of Independence Gold (IGO-V), a Resource Opportunities portfolio company. Goldcorp also picked up a right-of-first-refusal on any sale of IGO’s Boulevard property, located on Coffee’s western boundary.

Goldcorp’s takeover was the desired outcome for Kaminak Gold, whose shares traded below 50 cents in late 2013 -- the height of the bear market doldrums. And the possibility that Goldcorp’s purchase of Coffee is the gold miner’s first -- not final -- foray in the Yukon has fuelled stock gains for nearby gold plays.

**Independence Gold (IGO-V)**

Shares of Coffee neighbour Independence Gold have surged more than 550% since opening 2016 at 6 cents. They hit 50 cents in early August but have since drifted down into the .30s. IGO was an August 2015 Resource Opportunities pick at 8 cents but I’m holding onto my shares. With just 55.5 million shares out, Independence Gold’s valuation is still barely above $20 million despite this year’s run. That would be a bite-sized acquisition for Goldcorp if the gold miner ever decided to expand its land position in the Coffee gold district. The right-of-first refusal agreement on Boulevard shows they’re already interested.

Independence just wrapped up its exploration program at Boulevard and the company ended up drilling (reverse circulation) 1,000 more metres than the planned 2,000-metre program. Samples from the 30 drill holes in four target zones have been submitted to the lab and CEO Randy Turner told me he expects assays in mid-September. A follow-up drill program at Boulevard is possible, he said, although that window closes by about mid-October due to weather. Independence remains well-financed with about $6 million left in the treasury.
Another 1,500 metres of rotary air blast (RAB) drilling is underway at Rosebute, a White Gold property that is further north and was optioned from Taku Gold. Rosebute hosts three separate gold-in-soil anomalies that are each more than 1 kilometre long and 150 metres wide. The property is in close proximity to Goldcorp’s northern road route between Coffee and Dawson, underscoring the significance of Goldcorp’s entry to the Yukon.

Independence is cashed-up, has a prime property position in a highly prospective gold belt and boasts strong management. CEO Turner is a canny and experienced operator who has previously sold companies to De Beers and New Gold. The track record illustrates how to extract value for shareholders. That said, the stock may continue to drift down until drill results are released, which could present buying opportunities.

**Independence Gold**

**Price:** .37

**Shares outstanding:** 55.5 million

**Market cap:** $20.5 million

**Treasury:** $6 million

Gold is etched into the consciousness of the Yukon, which only emerged as a Canadian territory in 1898 after tens of thousands of prospectors showed up, gold pans in hand. Mining remains the lifeblood of the Yukon economy, even if it’s virtually all placer mining, with just one bedrock mine still open (Capstone’s Minto). It’s among the most mining-friendly jurisdictions in North America, thanks to an extremely supportive government, geological prospectivity and settled First Nations land claims.

After the August 1896 discovery of gold nuggets by George Carmack, Skookum Jim Mason and Dawson Charlie at Bonanza Creek in the Klondike gold fields, the rest of the waterway was quickly staked. But fortune followed for prospectors such as Anton Stander who refused to give up and instead directed their attention to nearby tributary Eldorado Creek. I touched on Stander in a Flash Update on Klondike Gold (KG-V) sent to subscribers on July 27. He became one of the richest men to come out of the Klondike and Eldorado Creek turned out to be a richer source of placer gold than even Bonanza Creek.

Owning shares of Klondike Gold -- which holds the bedrock claims above Eldorado Creek -- has not turned out to be a quick path to riches. The July 27 flash update was sent out with the stock at 33.5 cents and it subsequently ran above 40 cents, hitting a 52-week high of 45 cents on Aug. 5. But the stock came crashing down recently when Klondike announced that 17 holes at Violet Ridge, one of three targets on its Lone Star property, had come up empty. I took the opportunity to add to my position.

**Klondike Gold (KG-V)**

I initiated coverage after a Yukon site visit with CEO Peter Tallman at the company’s Dawson-area properties. Klondike has a large package of claims directly above some of the
richest placer mining creeks that continue to yield gold. Tallman is looking for high-grade gold in economic quantities in quartz veins, some of which outcrop at surface. Early drill results from Klondike’s Nugget Zone had included promising hits, including an intercept of 5.1 g/t gold over 14.34 metres.

This is speculation, folks, and the drill bit gives as well as takes away. On Aug. 10 Klondike reported that Violet Ridge assays contained no economic grades or widths. It was a reminder of the hit-and-miss nature of drill plays -- the drill core from Violet Ridge even contained visible gold. The stock reacted violently, falling to below 30 cents on heavy volume -- where it remains. While Klondike Gold has some powerful major shareholders -- including billionaires Frank Giustra and Roberto Aquilini -- this drop was driven by retail penny players. I used the drop to add to my position.

I spoke to Tallman by phone after the Violet Ridge results, and he was as frustrated by the results as other shareholders (he owns 2.8% of the stock). The Violet Ridge targets were based on orthophotos and historic workings along outcrops in a mineralized system that runs at least 2.5 kilometres long. In part, the results illustrate Tallman’s challenge: targeted exploration on a very large land package that contains high-grade gold but has seen little systematic exploration over the years.

The fallout from the news release illustrates the perils of running a drill play. That's what Klondike Gold remains, although Tallman’s vision is to develop it into something much more. I like his odds. But the path from here to there is a winding one. It started with a corporate overhaul of the old Klondike Gold when he took over and continues with drilling shallow targets based on limited geological intel -- and the accompanying hits and misses.

After I sent out the flash update and two days before the Violet Ridge clunker, Klondike announced news that went largely unnoticed but bodes well for the company’s long-term prospects. The company bought a large property package from Gimlex Enterprises -- for $500,000 and 3 million shares -- that takes Klondike’s land position to 527 square kilometres. Gimlex is a privately held company operated by James Christie and his family that has been active in the Klondike since 1984. It’s one of the larger and more successful Yukon placer miners.

As part of the deal, Tara Christie will be joining Klondike’s board of directors. Christie is a well-connected Yukon mining executive who recently took over as president and CEO of Banyan Gold (BYN-V), an eastern Yukon exploreco. She is married to John McConnell, CEO of Victoria Gold (VIT-V), which has been reeling in big dollars (most recently in a $25-million bought-deal financing) to develop its multi-million-ounce Eagle gold project in the Yukon.
Atop Tallman’s wish list is a big-picture survey of Klondike’s entire exploration district, above right. He told me he’d like to run an airborne magnetics survey and radiometrics in order to better identify targets. That requires money, and the most prospective sources of exploration money are the institutions that like gold again and have been injecting dollars into other Yukon mining plays. Klondike recently announced a $1-million private placement financing of 30-cent units, part of which is slated for just that type of district-wide exploration.

I believe Klondike Gold shares offer good speculative upside at these levels, with both short-term and longer-term catalysts. There are assay results pending from both the Nugget Zone -- where 5.1 g/t Au over 14.34 metres was intersected -- on the Lone Star property as well as from the Hunker target, on the Dominion property.

Longer-term, the type of district-scale exploration survey that Tallman plans for the large, expanded property package will help narrow down drill targets. Having Tara Christie on board should help on both the financing and operational fronts. Finally, Goldcorp’s northern road route runs directly through Klondike’s Dominion property -- there’s even a photo of the Hunker area on the Kaminak road map. Goldcorp’s purchase of Kaminak was validation for the Yukon both geologically and as a mining jurisdiction. Klondike Gold stands to benefit indirectly -- and potentially directly -- from Goldcorp’s commitment to the territory.
The proximity of Klondike’s properties to Dawson give the company an infrastructure edge in a remote territory where geography remains a major obstacle for many mining projects. Klondike Gold shares remain a speculative proposition, as shown by recent stock gyrations. But at a market capitalization just above $12 million, there remains plenty of upside.

**Klondike Gold**

Price: .27  
Shares outstanding: 46 million  
Market cap: $12.4 million  
Treasury: $500,000

**Strategic Metals (SMD-V)**

I’m pleased to welcome Strategic Metals as a new Resource Opportunities sponsor, and will be working with the project generator to get their message out. I initiated coverage at 27.5 cents in the Sept. 22, 2015 newsletter following my first visit to the Yukon.

At the time, sentiment was in the dumps and junior gold share prices reflected it. Strategic Metals shares were trading well under working capital. Shares of Strategic Metals are doing what they do in a gold bull market -- rising. The stock now trades in the .70s, but there’s plenty of upside if this gold bull continues to run.
Strategic is the largest claims holder in the Yukon and owns large stakes in several public companies focused largely -- although not exclusively -- on the Yukon. These include:

- 8.3% stake in ATAC Resources (worth about $7 million)
- 41.4% stake in Rockhaven Resources ($12 million)
- 23.9% interest in Precipitate Gold ($4.5 million)
- 16.5% stake in Silver Range Resources (worth $1.6 million)

Strategic’s CEO is Doug Eaton, who runs geological consultancy Archer Cathro and has worked in the Yukon for many decades. Archer Cathro has been involved in the discovery of many of the largest deposits in the Yukon, including Western Copper’s Casino, Wellgreen Platinum’s project, Rockhaven’s Klaza and ATAC’s Osiris and Tiger.

Strategic’s management of working capital illustrates the savviness of its management. The company was buying back shares throughout 2014 and 2015, when the stock was trading below the value of its cash and shareholdings. With shares rising on the back of an increasing gold price this year, the company has been completing flow-through financings at a premium to its share price.

An active drill program should be one upcoming catalyst for Strategic shares. Drilling has already started at Hartless Joe near Whitehorse, part of about 5,000 metres of drilling at some of its most promising projects. The program at Hartless Joe is open-ended and can be expanded if results merit.

Drilling will explore downdip of trenches at the King and Queen showings, where chip samples collected earlier this summer graded 44.3 g/t gold across 2.10 m and 462 g/t gold across 0.4 m, respectively.

Strategic also plans to drill the Hopper and Mars properties. The primary target at Hopper, located along the Aishihik road in southwestern Yukon, is the updip projection of a gold-rich skarn horizon that was intercepted in two drill holes last year. The intercepts are 350 metres apart and graded 43.6 g/t gold over 1 m and 12.15 g/t gold over 2.65 m. The skarn horizon is believed to have a shallow dip and mineralization is open in all directions.

Drilling at the Mars property, 40 km north of Hartless Joe, will test along strike and downdip of a 2004 drill intercept that averaged 6.44 g/t gold over 4.57 metres. No other holes have been drilled near the 2004 discovery.

**Price:** .73  
**Shares outstanding:** 88.5 million  
**Market cap:** $64.6 million  
**Working capital:** $51.5 million
NexGen Energy (NXE-T)
NexGen’s Arrow is a whale of a deposit, measuring 201.9 million pounds of high-grade uranium (Inferred) at the time of the March 2016 maiden resource estimate. That number is by now hopelessly out of date: it does not include any 2016 drilling. The company has drilled tens of thousands of metres this year, including the two most mineralized holes to date. That should make the updated resource estimate -- expected late this year or early next -- and the market’s reaction very interesting indeed.

Now the company has nailed yet another target at Rook 1 with its Harpoon discovery 4.7 kilometres northeast of Arrow. Drill hole HP-16-08 intersected 17 metres of continuous uranium mineralization starting at 220 metres, including 4.5 metres of off-scale radioactivity. Like Arrow, Harpoon is land-based. Unlike Arrow, there are encumbrances -- a 2% NSR (1% can be repurchased by NexGen for $1M) and a 10% net production interest held by Rio Tinto. Rio must pay 10% of pro rata costs since June 2005 to trigger its claim on 10% of the production.

Significantly, NexGen has traced uranium occurrences between Arrow and along the Patterson Lake corridor northeast to Harpoon over a mineralized strike length of 5.6 kilometres. As VP Exploration Garrett Ainsworth put it in a conference call after the discovery, “it’s all connected.” He described Arrow, Harpoon and the Bow and Cannon discoveries between Arrow and Harpoon as classic Basin “pearls on a string” -- areas of high-grade zones within the same vast mineralized structure.

Interestingly, Harpoon is near NexGen’s property boundary and a few hundred metres from Hook Lake, a high-grade uranium discovery being developed by a joint venture of Cameco (39.5%), AREVA (39.5%) and Purepoint Uranium (21%). Given Rio’s underlying interest in NexGen’s Harpoon discovery, it puts NexGen squarely on the radar for three of the world’s largest uranium producers. It also illustrates the regional exploration potential that exists within NexGen.

During the call, CEO Leigh Curyer described the Patterson corridor that hosts Arrow mineralization as still “relatively underdrilled.” He said at least one drill rig would stay at Harpoon and the company is looking at adding to the 35,000-metre summer drill program. But he added that NexGen won’t compromise its focus on bulking up the Arrow resource as well as exploring the mineralized zone 180 metres southwest of Arrow and points in between. The area between the 180 zone and the main Arrow deposit is a key one in order for NexGen to expand the Arrow deposit beyond its current footprint, Curyer noted.

The discovery of Harpoon highlights the regional exploration potential that exists on Rook 1, beyond even the Patterson corridor that hosts Arrow, the 180 zone, Cannon, Bow and now Harpoon. Patterson is one of several exploration corridors that run through Rook 1. The others have seen little to no work. In addition, the company has laid the groundwork to transfer its extensive portfolio of non-core Basin properties -- including Radio and Thorburn Lake in the eastern Basin -- into spincos.
If NexGen’s news could be plotted on a chart where a move to the top right represents company progress, the line representing news flow would look considerably different than NexGen’s stock performance. In the months since the maiden resource estimate, NexGen has steadily increased the envelope of mineralization at Arrow as well as the number of high-grade zones. There are now four vertical parallel high-grade shears, and an intercept of 58.5 metres of 1.26% uranium southeast of the A4 shear could represent a fifth. Along the way there have been new discoveries both southwest and northeast of Arrow, important new hires on the development front and a strategic US$60-million debenture investment from CEF Holdings, which is 50% owned by Hong Kong billionaire Li Ka-shing and CIBC.

The stock, on the other hand, has been subject to Mr. Market’s manic-depressive swings. Shares surged from under a dollar before the March resource estimate landed to $2.75 by mid-April. It’s since traded mostly in a fairly tight band between $2.20 and $2.60. For the past year, NexGen has reported assays that consistently rank among the best globally, across all metals. It’s easy to lose sight of that fact, however, given the frequency of spectacular results. For perspective, converting the size and grade of NexGen’s maiden resource to gold based on
current spot prices yields a 5.1-million-oz gold-equivalent resource at 46 g/t Au, according to Cantor Fitzgerald analyst Rob Chang.

This quiet period for the stock reminds me of the months leading up to the March 3 maiden resource estimate, when NexGen was steadily adding value even if the stock price didn’t reflect it. The 201-million-pound inferred resource shocked virtually everybody in the mining world, particularly those who weren’t following the story closely. The stock played catch-up, tripling in a short period of time.

A similar dynamic may take place when NexGen updates the Arrow resource, although at a current enterprise value of about $650 million, the move may be a rerating rather than a triple. Mind you, the $650-million figure is about what it took for Rio Tinto to outbid Cameco on Hathor Exploration’s Roughrider deposit in 2011, post-Fukushima. Roughrider had less than 60 million pounds, Indicated and Inferred, when it was bought out.

NexGen shareholders will benefit, too, from the company’s moves to crystallize value in the non-core properties. That should start with Iso Energy, a spinco that will house the original flagship Radio property and Thorburn Lake, both in the eastern Basin. Iso Energy will be led by Craig Parry, a NexGen director and geologist who was formerly with Rio Tinto.

Price: $2.37
Shares outstanding: 303 million
Market cap: $718 million
Treasury: $91 million

Stornoway Diamond (SWY-T)
Stornoway’s road-accessible Renard diamond mine in northern Quebec has been built ahead of schedule and below cost estimates. On July 15, the company said it had begun to process ore from a 1-million-tonne stockpile -- an announcement that came just 2 years and 5 days after groundbreaking for mine construction.

Renard will start as an open-pit operation before transitioning to underground mining, and the company appears to have ironed out some water issues that hampered underground development late last year. Construction has been an execution success story made possible in part because Stornoway built the mine through a down cycle that increased the availability of the best contractors and lowered prices for supplies -- as CEO Matt Manson is quick to admit. That said, management deserves kudos because in the mining industry, a company that gets a mine build ahead of schedule and under budget is an outlier.

Stornoway’s July 15 declaration that ramp-up to commercial production had begun also gave Renard bragging rights on the Canadian diamond scene. Renard beat Gahcho Kue, the other new Canadian diamond mine, out of the gate. It wasn’t until Aug. 4 that 49% partner Mountain
Province Diamonds announced the Northwest Territories diamond mine had begun ramp-up to commercial production. Gahcho Kue is a joint venture between MPV and De Beers (51%).

Commercial production at Gahcho Kue is projected for the first quarter of 2017; at Renard, by the end of December 2016. Depending on the progress of the ramp-up, Stornoway could have sufficient rough for a diamond tender before the end of the year, with increasing operating cash flow in 2017. Both mines will play an important role in filling a global supply gap that is expected to increase in coming years, even though rough diamond prices have been under pressure of late because of oversupply.

Gahcho Kue vs. Renard is not an apples-to-apples comparison. Gahcho Kue is a much larger mine, producing an average of more than 4.5 million carats annually over the next 12 years -- compared to Renard’s 1.5 to 2 million carats annually over the next 10. Mountain Province’s share will average more than 2.5 million carats a year. Diamond mines typically throw off a lot of free cash flow and Gahcho Kue will also have higher margins than Renard, although not by much (80% plus, compared to Renard’s 65% plus), according to Macquarie.

The market capitalizations also diverge. With 159 million shares out, Mountain Province is trading at a valuation of just over $1 billion. Stornoway is valued at a market cap about $200 million lower. Both SWY and MPV have returned about 55% year-to-date.

However, Stornoway has an edge that should boost economics and is not factored into the mine’s economic models: large diamonds. On that front, Gahcho Kue was first off the mark, announcing (on Aug. 4) the recovery of a 24.65-carat rock and a 12.10-carat stone.

Renard has a small population of very large diamonds and the mine was the world’s first diamond mine built with a large-diamond recovery XRT system out of the gate. It’s the type of technology that has allowed Lucara Diamond (LUC-T) to pull out whoppers from its Karowe mine in Botswana, including the 1,109-carat “Lesedi La Rona” and the 813-carat “Constellation.” The latter sold for US$63 million, the highest price ever paid for a rough diamond.

Giant stones of that size aren't expected to emerge out of Renard. But distribution in Renard 2, one of the main kimberlites, predicts three to six 50-100 carat stones and one or two 100+ carat stones per 100,000 carats. Diamond prices increase exponentially the larger the stone. And diamond sales and marketing is a specialty for CEO Manson, who was VP Marketing for Aber Diamond (renamed Harry Winston Diamond Corp.) for many years.

Rare is the junior that has navigated the transition from exploreco to producing miner. Stornoway’s success at pulling it off is reflected in the rather bloated share structure as well as the transition from largely retail share ownership to mostly institutional. However, the company is entering the sweet spot of the Lassonde curve illustrated below, where the dry development period gives way to production and cash flow, and the stock is rerated accordingly.
In recent days Stornoway hosted about 45 analysts, on both the buy- and sell-side, for a site visit that should help boost the company’s profile. On Aug. 17 RBC Capital Markets slapped an Outperform (speculative risk) rating on Stornoway shares.

Resource Opportunities initiated coverage on May 29 with the stock at 98 cents. For me, buying back into Stornoway required getting over an emotional aversion to the stock. That’s because I was a shareholder of Ashton Mining, the company that discovered and developed Renard as an exploration project. Ashton was swallowed by Stornoway – which already had a large share structure back then – in a hostile takeover that I wrote about in April 2013 on my now-defunct World of Mining blog.

The 14% advance since May is relatively modest by the standards of some of the other stock moves, particularly in the precious metals space. But there is value embedded in Stornoway that has yet to surface in the stock, including a very promising exploration project along the road to Renard.

In the spring, Stornoway intersected kimberlite in 18 of 78 RC drill holes at its Adamantin project, representing 11 discrete kimberlite bodies. Results at three of the geophysical anomalies suggests there is a single, near-surface gently dipping kimberlite body about 10 metres thick, with a minimum strike length of at least 260 metres and open in all directions. Diamond recovery results for the 18 holes are still pending.

I also like to see insider buying by chief financial officers – who know more about company finances than anybody else – so was encouraged to see insider buys by Stornoway’s new CFO. Robert Chausse picked up 100,000 shares at $1.00 on May 12 and followed that up with another 100,000-share purchase at 98 cents on June 24.
Lucara Diamond (LUC-T)
Any Lucara shareholders feeling discouraged by the auction bust of the 1,109-carat Lesedi La Rona likely got a lift on July 19. That’s when Lucara announced a special dividend of 45 cents, payable Sept. 15 to shareholders of record Sept. 2. It’s a hefty dividend in addition to Lucara’s regular 1.5-cent quarterly dividend, working out to an annualized yield of about 12%. The company followed that up with a strong second quarter.

The special dividend -- it amounts to US$172 million, or much of the company’s treasury -- telegraphs to investors that things are just fine at the company that cranks out large specials at Karowe, its Botswana mine. Sept. 2 is the “special divvy date” so it will be interesting to see if Lucara releases any news to bolster the share price and avoid a sell-off. CEO Lamb has previously talked about how the company wants to avoid the gyrations of short-term investors trading the stock around dividend dates. It’s one of the reasons Lucara shifted from a twice-yearly dividend to a quarterly payout.

Author Matthew Hart recently wrote a great piece for Vanity Fair that sheds some light on why Lucara’s gigantic diamond didn’t sell at the Sotheby’s auction. The surprising outcome had more to do with Lucara’s disruption of the old order in a very traditional business. Lucara had recently sold the 813-carat Constellation diamond for US$63.1 million, a new per-carat record for a rough stone. I would be surprised if an eventual private sale of Lesedi La Rona doesn’t shatter that high-water mark.

Westhaven Ventures (WHN-V)
Westhaven released drill results from its 1,177-metre Shovelnose drill program and didn’t get much love from the market, despite promising sniffs of high-grade gold. Hole SN16-02 hit 16.7 g/t Au and 29.9 g/t Ag over .5 metres as well as 4.95 g/t Au and 43.7 g/t Ag over .6 metres. Those intercepts occurred within a larger interval of .27 g/t over 119.6 metres, starting at bedrock.
Shovelnose is a low-sulphidation epithermal gold system. The highlight hole, drilled in the new Alpine zone, contained the longest interval drilled on the property to date. CEO Gren Thomas believes the mineralization is part of a larger, higher-grade mineralized system at depth. Westhaven has identified a 50-metre-thick cap of lower-grade gold near-surface, and the company is trying to identify the vein plumbing system that delivered the gold through the volcanic rocks.

It’s a difficult, maybe impossible, task with the type of limited drill programs undertaken to date at Shovelnose, a 19,000-hectare property. What the project needs is a larger drill program with a heavyweight JV partner helping pay the bills. As CFO Shaun Pollard puts it, “we’re elephant hunting with a .22.” Nevertheless, a follow-up drill program is planned for later this year.

A key point on Shovelnose – it’s located just off the Coquihalla Highway about two hours outside of Vancouver. That decreases drilling costs and lowers the threshold for what makes an economic deposit.

The muted reaction to Westhaven’s Shovelnose news didn’t seem to faze CEO Thomas, who has since purchased an additional 415,500 shares at prices ranging from 12-14 cents. He now owns more than 30.5% of Westhaven’s outstanding shares.

Westhaven could get more joy from Prospect Valley, its other project outside of Merritt, British Columbia (also relatively close to Vancouver). The company has been soil sampling, prospecting and mapping at Prospect Valley in preparation for a September drill program. Ed Balon, who discovered the Spences Bridge gold belt that includes both Westhaven projects, has been involved in the exploration work.

Prospect Valley hosts a low-grade epithermal gold deposit with an NI 43-101 compliant Inferred resource of 166,000 ounces grading .511 g/t Au in two zones, Discovery South and Discovery North. However, exploration has been sporadic at the road-accessible property, which Westhaven picked up from a defunct junior last year during the bear market doldrums. There has been about 8,800 metres of drilling at the property and holes have only gone to 250 metres depth. Again, Westhaven is looking for the deeper, higher-grade ore shoots.

Prospect Valley has a better chance of producing larger intersections of higher-grade material. A 2006 hole included an intercept of 45.7 metres of 1.57 g/t Au within 76.2 metres of 0.92 g/t Au and 5.36 g/t Ag. That’s a very solid hole, starting from near-surface, and more assays such as that should grab the market’s attention in a hurry (Other 2006-08 hits included 6.71 metres of
3.62 g/t and 68.69 metres of 0.89 g/t). Targets have been identified and Westhaven is waiting on drill permits, which are expected soon.

**Westhaven Ventures**

*Price:* .13  
*Shares outstanding:* 44.7 million  
*Market cap:* $5.8 million  
*Treasury:* $200,000


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