



## Digging Through The Dirt

January 2014



| Index/Commodity   | Jan. 31 <sup>st</sup> | Performance This Month |
|-------------------|-----------------------|------------------------|
| S&P/TSX Venture   | 951.32                | + 19.35                |
| S&P/TSX Composite | 13,694.94             | + 73.39                |
| S&P 500           | 1,782.59              | - 58.48                |
| Dow Jones         | 15,698.85             | -877.66                |
| Nasdaq Composite  | 4,103.88              | - 72.71                |
| Gold (US\$/oz)    | \$ 1,245.90           | + \$ 40.40             |
| Silver (US\$/oz)  | \$ 19.17              | - \$ 0.26              |
| Copper (US\$/lb)  | \$ 3.21               | - \$ 0.15              |
| Nickel (US\$/lb)  | \$ 6.29               | - \$ 0.03              |
| Oil (US\$/barrel) | \$ 97.49              | - \$ 0.68              |

### Updates

We started this newsletter with several objectives in mind; to provide updates on companies that are widely held amongst our clients, deliver our expectations for the weeks to follow of these various companies, and present new investment opportunities. Some of the companies we have covered in previous issues are issuers we have been shareholders of for some time, others are interesting to us but we have sat on the sideline. Nonetheless we feel that after seven months it would be appropriate to see how well some of our investment ideas have fared. Keep in mind we did not provide "buy" recommendations to our clients on all of the companies listed below. Rather this list should provide a general sense of how some of our investment ideas and those on our radar have performed.

| In The Crosshairs           | Jan.31 <sup>st</sup> | Performance This Month |
|-----------------------------|----------------------|------------------------|
| True Gold Mining (TGM-V)    | \$ 0.39              | - \$ 0.01              |
| Roxgold Inc (ROG-V)         | \$ 0.60              | + \$ 0.155             |
| Macro Enterprises (MCR-V)   | \$ 5.50              | - \$ 0.85              |
| New Zealand Energy (NZ-V)   | \$ 0.275             | - \$ 0.04              |
| Cayden Resources (CYD-V)    | \$ 1.29              | + \$ 0.29              |
| East West Petroleum (EW-V)  | \$ 0.415             | - \$ 0.035             |
| Desert Star Res. (DSR-V)    | \$ 0.17              | - \$ 0.03              |
| Brilliant Resources (BLT-V) | \$ 0.06              | - \$ 0.005             |

### Heads Up!

Congratulations are again in order for Dr. Adam Simmons. Adam was a recipient of the 2014 "Spud" Huestis Award for excellence in prospecting and mineral exploration. This award was presented to him for his integral role in Kaminak Gold Corp.'s exploration and development of the Coffee Gold Project. Adam held the title of project manager with Kaminak Gold from late 2009 to April 2011.

This award was established by the Association for Mineral Exploration British Columbia (AME BC) to recognize and honour the achievements and contributions made by individuals in the mining industry. Past recipients include Mark Baknes, Lawrence Barry, John Robins and Shawn Ryan.

| Issuer   | Price when first mentioned in DTD | Issue first mentioned | Closing Price Jan. 31 <sup>st</sup> | Performance since mentioned in DTD |
|--|-----------------------------------|-----------------------|-------------------------------------|------------------------------------|
| TSX V Index  | 917.34 pts                        | N/A                   | 951.32 pts                          | + 3.7%                             |
| Gold Spot  | \$ 1,322.04 / oz                  | N/A                   | \$ 1,245.90                         | - 5.8%                             |
| TGM-V  | \$ 0.30                           | July 2013             | \$ 0.39                             | + 30.0%                            |
| ROG-V  | \$ 0.45                           | July 2013             | \$ 0.60                             | + 33.3%                            |
| MCR-V  | \$ 4.40                           | July 2013             | \$ 5.50                             | + 25.0%                            |
| NZ-V   | \$ 0.32                           | July 2013             | \$ 0.275                            | - 14.1%                            |
| EW-V   | \$ 0.265                          | July 2013             | \$ 0.415                            | + 56.6%                            |
| BLT-V  | \$ 0.07                           | July 2013             | \$ 0.06                             | -14.3%                             |
| AMW-V  | \$ 5.39                           | July 2013             | * \$ 7.36                           | + 36.5%                            |
| FCU-V  | \$ 0.97                           | July 2013             | * \$ 1.23 + \$ 0.17                 | + 44.2%                            |
| CYD-V  | \$ 1.05                           | July 2013             | \$ 1.29                             | + 22.8%                            |
| MUN-V  | \$ 0.315                          | July 2013             | \$ 0.235                            | - 25.4%                            |
| LIO-V  | \$ 0.38                           | July 2013             | \$ 0.29                             | - 23.7%                            |
| CZI-AU   | \$ 0.135 AUD                      | July 2013             | \$ 0.035 AUD                        | - 74.1%                            |
| KXM-V  | \$ 0.52                           | July 2013             | \$ 0.60                             | + 15.4%                            |
| DSR-V  | \$ 0.15                           | Aug. 2013             | \$ 0.17                             | + 13.3%                            |
| BG-V   | \$ 0.35                           | Nov. 2013             | \$ 0.235                            | - 32.9%                            |
| CDB-V  | \$ 0.52                           | Nov. 2013             | \$ 0.60                             | + 15.4%                            |
| Average share price performance since mentioned in DTD |                                   |                       |                                     | + 6.75%                            |

\* takes the amalgamation between AMW & FCU and resulting spin out shares into consideration



In recent news, on January 13th, Goldcorp (G-T) announced a \$2.6 billion USD bid for Osisko Mining (OSK-T). This unsolicited offer represented a premium of 28% over Osisko's previous 20-day volume weighted average share price. Is this a sign that things are improving in the mining industry? Though we would be foolish to call one particular event a "market bottom" it can be taken as a sign that better times are indeed ahead. Here is our thesis:

According to [Bloomberg](#), there was \$10.1 billion dollars of M&A transactions involving gold producers in 2013, the lowest since 2004. The price of gold in 2004 was between \$375 - \$450 USD/ oz, the TSX Global Gold Index hovered between 166–238 points. Fast forward three years to 2006-2007, the recent top of global mining M&A. According to [Price Waterhouse Cooper](#), 2006 saw +\$150 billion USD in mining M&A activity and 2007 was just shy of \$150 billion USD. The TSX Global Gold Index at this time was anywhere between 240–370 points. The performance of the TSX-V index also reflects this volatility in M&A activity, acting as a barometer of the mining sector. The Venture index moving from a low of ~1,500 points in July 2004 to an all time high of 3,369 points by May 2007. Where does this leave us today and why does it matter?

If mining M&A activity can be thought of as a measure of optimism/pessimism of various mining companies' management and the TSX-V index is the investing community's level of optimism/pessimism I believe it would be safe to say that 2013 was as pessimistic as it gets (excluding 2008). The recent Goldcorp bid for Osisko, which by the way was rejected by Osisko's board, equals ~25% of gold M&A transactions in 2013 and we are only one month into the new year. If this first transaction is an indication of what to expect for the year then we should be in for a good one, or so we hope. We have discussed in a previous issue (August 2013) that the major gold producers in particular were paying for their previous sins. They have been working diligently at "cutting the fat" from their balance sheets, riding themselves of higher cost, lower margin assets. What has not changed however is their need to replace reserves. Since mining companies are constantly depleting their reserves, it is vital as an on going operation that they find/acquire new ore bodies for future production. The projects/companies that are best suited as take over targets may not necessarily be the largest in terms of scale but rather provide the best economics; low cap-ex and high margins. What we believe we will see in 2014 is a *select few* advanced development projects be put on the "buy list" of the majors and a few well capitalized mid tiers. This of course should translate to greater M&A activity and potentially a more buoyant TSX Venture.

Desert Star Resources      DSR-V      \$0.17

Just before the holidays Desert Star announced a \$1 million non-brokered private placement. Last week they formally closed the over subscribed private placement, raising \$1,051,900. We, with accredited clients, participated in this financing, raising most of the gross proceeds. The proceeds of the private placement will be used for general corporate purposes. Though we understand management is currently working on an outline for an exploration program. Once the program is finalized, in the coming weeks, expect an announcement of such. As it stands Desert Star has put together a portfolio of some of the best copper exploration targets that I have seen in quite some time, within a junior company. Although this is an exploration play, which is somewhat out of favor at the moment, we look forward to the summer program and drilling results that follow from one of the few companies that actually understands how to explore for porphyry copper systems. In the meantime the company is busy meeting with and introducing the projects to the right people and brokers. We know this is the case since it seems the company has recently caught the eye of "Exploration Insights" newsletter writer Brent Cook. Mr. Cook provided a list of what he qualified as his "Expert stock picks for 2014". Though little was provided on any one company or its projects, as he puts it "the common theme is high potential/safe jurisdiction concepts that require deep drilling into almost completely blind targets". He does mention however that Desert Star has "very strong deep drill conceptual plays in the right place".

Macro Enterprises      MCR-V      \$5.54

Very little to update our readers on here. The last material piece of news was the 2013 third quarter financial results (see November issue). What we can expect from Macro over the coming weeks/months is 2013 fourth quarter results. We anticipate these numbers to be released by mid-March. PI Financial analyst Jason Zandberg has the following forecasts for 2013-Q4 financials:

Revenue = \$64.9 million  
EBITDA = \$13.823 million  
Net Profit = \$8.847 million

Investing in resource securities involves financial risk; please consult with either Bill Whitehead, Adam Simmons or Justin Hayek before investing to ensure suitability and risk tolerances have been considered before you invest.



Kaminak Gold Corp                    KAM-V \$0.79

Although I am admittedly bias in favor of Kaminak's Coffee project, it is something that I have been wanting to write about for some time but have had my hands tied on it and have been unable to do so. Recently circumstances have changed and I am once again able to write on this project. I consider the Coffee project to be one that should be on every producing company's list for potential acquisitions. On January 28, 2014, Kaminak released their updated resource. The Coffee project has now grown to 3.434M ounces of gold in the inferred category and an additional 0.719M ounces in the indicated category for a total of 4.153M ounces of gold. Within this resource the total oxide component increased 73% from last years maiden resource estimate. Importantly, within the uppermost 150m, a total of 2.429M ounces are present at an average grade of 1.35g/t, all of which is in oxide facies rocks. Metallurgical results presented over 2013 suggest that the oxidized rocks are highly amenable to heap leaching, with column leach tests of 1inch crushed material coming back at greater than or equal to 90% recoveries over 40 days and including ~81% over the first 10 days. The company has initiated a PEA study using this resource as a basis. Kaminak is also looking into the possibility of a run of mine type operation where the rocks would be put directly onto a leach pad without crushing. To approximate this, the company will be using approximately 6 inch material sampled from the surface at Latte. The results of this test are expected to be completed within the next couple of months. If this test turns out to be positive it will allow for flexibility in their PEA by potentially reducing both OPEX and CAPEX costs due to a lack of crushing required. As the values from the resource update were expected to come in approximately where they did, the market showed little response to the updated resource. In my opinion, one of the major hurdles for the project will be the pit optimization, as the structures that host the gold are locally narrow and therefore the strip ratios may become quite high at depths of 150m. However, in places topography is working for them and where the structures intersect there will be an increased potential to drive the pits deeper. Additionally, and of particular interest to the Supremo area is that the host rocks are nearly flat lying. This orientation to the rocks may allow them to design pits with steeper pit walls than 45 degrees. Nonetheless, it is my view that the uppermost 70-90m could be easily mined with an open pit. The project also should allow for optionality, that is there are portions of the Supremo area that contain significant volumes of rock grading ~4g/t at surface that could be mined in the early days to provide a more rapid payback period. I look forward to the results of the PEA, which I am hoping will be positive and once completed will put some values behind the resource at Coffee. If the results are positive it should make this project one of the highest grade, projected heap leach operations globally that contains greater than 1M ounces.

Roxgold Inc                             ROG-V \$0.60

Roxgold's main asset is the Yaramoko gold project which contains 2.11Mt at 15.35 g/t Au for a total of 1.04M oz of gold at a cutoff of 5 g/t. Results of a PEA, released in September indicate robust economics of the Yaramoko gold deposit. At \$1,100 /oz the project has a \$144M NPV (discounted 5%), a 39.8% IRR and a payback of 1.6 years (pre-tax basis). Although the PEA shows robust economics for the project the biggest problem for the project has been scalability, in that it is still relatively small. The 55 zone appears to have limited upside to expand beyond drilling deeper and other prospective areas on the project have yielded disappointing or inconsistent results. Going forward, the project is likely fully valued and beyond advancing the development of the project the largest upside will come from an additional high grade discovery on the project. With the recent acquisition of XDM Royalty Corp (done largely for the cash position XDM had), Roxgold is well financed to continue its efforts in exploring the Yaramoko project, with approximately \$18M in cash on hand. The company is currently drilling in the South Bagassi area of the Yaramoko project where sporadic results have traditionally been yielded. Hopefully Roxgold management can start putting together a cohesive resource in this area. The results of the 5,000m drill program will go a long ways in determining if this area can yield some consistent and cohesive results.

Fission Uranium Corp.                FCU-V \$1.23

Fission Uranium continues its success at the PLS project in the Athabasca Basin. On January 15 Fission released additional; assay results highlighted by 4.5m of 13.2% U<sub>3</sub>O<sub>8</sub> from zone R390E on line 300E. This hole is internal to the currently defined 255m of strike length at the R390E zone. Fission also announced the commencement of their 90 hole and geophysical winter program at PLS. The first update of this program was provided on January 27. The highlight of this news release was an intercept of 36.72m of composite off-scale mineralization on line 600E in drill hole PLS14-129. Not to get people too excited by this, but this far exceeds drill hole PLS13-75 which yielded 21.65m of off-scale with assays revealing grades of 21.76% U<sub>3</sub>O<sub>8</sub> over 21.5m. This new hole has the potential to exceed the hole 75 intercept and we look forward to reviewing these assays when they are made available. Fission is also conducting a Radon in lake survey as part of this program in order to prioritize an additional ten untested conductors beneath Patterson and Forest Lakes. Any additional targets generated from this survey will provide additional opportunities to potentially expand the deposits at the PLS project. We view this project as one of the world's premier exploration plays regardless of commodity types.

East West Petroleum EW-V\$ 0.415

Early December East West and its partner/operator TAG Oil (40% and 60% respectively) were awarded an exploration permit in the East Coast Basin of New Zealand. The permit covers just over 106,000 acres. The initial 12 month work program will be fully funded by East West and will consist of reprocessing available seismic data. In order for East West to maintain its 40% interest thereafter, they are required to acquire 60 kms of new 2D data and drill one unconventional well to a depth of 2,500 m by April 2017.

The company is quickly moving forward with their drill program on its Cheal-E and Cheal-G sites. Earlier this month East West and TAG Oil provided an operational update on its five well drill program at the Cheal-E site on the Cheal North permit. Cheal-E1 continues to flow naturally and produced 547 boepd (gross) over a period of 44 days in December-January. Cheal-E4 flowed naturally through a 10/64 inch choke, producing 315 boepd (gross) over a 7 day period. Expect the gross production numbers to decline slightly on both Cheal-E1 and Cheal-E4. We are not particularly concerned about anything but rather an observation that the decline rates in NZ tend to be more dramatic in the early stages. It was announced that Cheal-E2 and Cheal-E3 tested oil to surface but would require artificial lift to maximize production, this will happen as soon as a service rig is back on site. Based on the aforementioned successes, the company has decided to tie in the Cheal-E site for permanent production at TAG's Cheal-E site separation facilities. The first well of a three well program at the Cheal-G site started spudding the first week of January. The Cheal-G site sits on the Cheal South permit and is a 50/50 partnership with TAG. As far as we understand, G1 has reached total depth. Just to refresh our readers minds, the partnership terms for EW on the Cheal South permit are similar to those on the Cheal North permit; EW funding the first \$2.5 million and receives the first \$2.5 million in revenue sales while paying 100% of production costs, then goes to 50/50.

Management believes that the market price of the company's shares may not fully reflect the value of its business and future prospects. Since the company is well capitalized with ~\$16 million cash, they have decided to put this capital to work announcing a normal course issuer bid. The bid will be for up to 8.8 million shares (9.5% of issued and outstanding common stock) over a period of one year.

New Zealand Energy NZ-V\$0.275

In early December 2013, the company announced reactivation of the six past producing Tikorangi wells. Four wells flowed from natural reservoir pressure at the time. The average production net to NZEC from these six wells was 151 boepd during the month of December. The company's expectations were set at 120 boepd net, thus surpassing them. However, the market seemed to be disappointed or uninterested. On the back of that news the stock reacted negatively, trading from a previous close of 31 cents to as low as 26 cents the day of the news. As of early January all six wells had a gas lift system installed. NZEC intends to install high-volume electric submersible pumps (ESPs), sometime in Q1-2104, to further increase production rates. We are told that these pumps come at a cost of approximately \$1 million each net to the company. The production rate, from eight wells, over the month of December was 236 bbl/d net and 220 bbl/d net from nine wells over the month of January.

The breakdown of December production rates are as follows; Copper-Moki 1 and Copper-Moki 2 collectively 85 boepd net, six Tikorangi wells collectively 151 boepd net. Copper-Moki 3 was shut in during December for work over activities but has resumed production for the month of January.

NZEC has provided guidance noting that they expect to have five more wells (Waitapu-2, Waihapa-1B, Toko-2B, Waihapa-2 and Waihapa-8) in production over the next four months. As a refresher to our readers; Waitapu-2 was a well drilled in November 2012 targeting the Mt. Messenger formation on the Eltham permit. This well had encountered technical issues but the company now believes they will recommence production on this well this quarter 2014.

Waihapa-1B is testing the production potential from the Tikorangi formation. Flow testing is scheduled for February 2014 and if successful producing for Q1-2014. The company believes there is additional upside from the Mt. Messenger formation at this well.

Toko-2B, as mentioned this Tikorangi formation well was successfully reactivated. An ESP is to be installed on Toko-2B in this first quarter with an increase in production anticipated for April 2014

Waihapa-2 is not a new drill target that was generated by the company but rather is a successful recompletion of uphole access; testing the previously untested two zones within the Mt. Messenger formation. We are aware that the company has recompleted uphole access of





Waihapa-2, flow tested and shut in the well for pressure build up. The well is currently shut in for installation of artificial lift. According to the company, commercial production from Waihapa-2 can be expected in Q2-2014.

Waihapa-8 is a Mt. Messenger formation well. The well is currently shut-in for installation of artificial lift. The company anticipates production in Q2-2014.

As we see it, the production numbers over the coming four months will greatly depend on the following: successful installation of the ESP and production rates from untested Mt. Messenger formation at Waihapa-2.

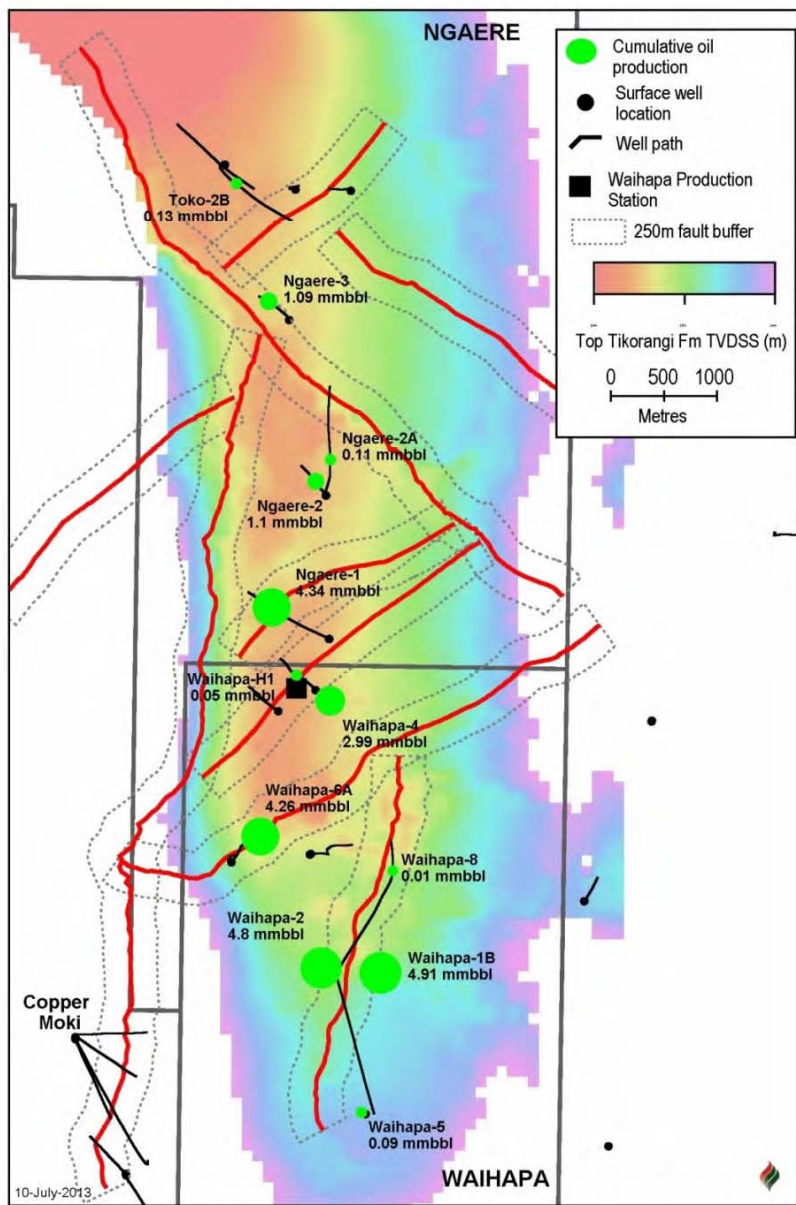


Figure 1: NZEC's TWN permits.



Cayden Resources CYD-V

\$1.29

On December 18, 2013, Cayden received its final payment from Goldcorp for the sale of its Morelos Sur concession adjacent to Goldcorp's Los Filos mine. This final payment totaled \$7.872M, much of which will be used to explore Cayden's other project, the El Barqueno gold project. Cayden owns additional land adjacent to Los Filos which in itself is mineralized but also impacts the mining of the Los Filos ore body. Cayden is expected to be in negotiations with Goldcorp to better determine the value of this land. At this point I am unsure of this land's value, but it should be worth more to Goldcorp than the Morelos Sur concession. At the El Barqueno project a diamond drilling program is ongoing. On December 2, 2013 the company announced results from the first 14 holes at the Azteca target area. Highlights from this new release include 16m at 5.89 g/t Au, 10m at 5.88 g/t Au and 20m at 1.79 g/t Au. Additional results from this area were released on January 9, 2014 and are highlighted by intercepts of 35.5m at 1.62 g/t Au, 214 g/t Ag and 0.66% Cu, 18m at 3.38 g/t Au 10m at 4.4 g/t Au and 27m at 1.16 g/t Au. The first 25 holes at Azteca have tested approximately 1.2km of the 2.2km long interpreted trend. The company's goal is to outline the potential of the property by drill testing as many of the target areas on the property as possible. Further infill drilling will likely be required for increased confidence in a potential resource. However, as they continue to drill I will update my internal model to gauge what we may expect in terms of contained gold ounces and therefore value of the project. Cayden is continuing to drill test several targets at the El Barqueno project.

Reservoir Minerals RMC-V

\$6.15

**First and foremost, I have to state that I love this project and think it is one of the best on a global basis at the moment and it does stand a chance of developing into a giant/super giant porphyry deposit if they can continue to intersect long runs of copper/gold porphyry related mineralization to the NE of their currently defined high sulphidation resource.** However I'm going to take the unpopular stance here, I find myself overwhelmed by the valuation that Reservoir is getting. As a porphyry copper person I am a bit perplexed and I don't mean to trash the project, because I would rank it as one of the best projects out there right now globally. But, it seems to be way ahead of itself and in my estimation they are only approximately 15-18% of the way there by contained copper metal and around 5-7% of the way there by volume to being interesting for a porphyry system. Let's do a little bit of investigation on this valuation and see how it compares globally. Below I will assume that Freeport will earn in to their 75% interest in the project

From the research that I have done and supported for the most part by analysts at other firms, South American porphyry copper deposits are generally purchased at a price of about \$0.06 USD /lb copper, these are by far some of the best assets in the world regardless of commodity and certainly in the copper porphyry world. Looking at North America and Canadian alkaline porphyry deposits in particular the average buy purchase price per pound is in the \$0.12 USD /lb range. You may ask why inferior Canadian porphyry projects fetch a premium on a per pound basis, and this is primarily due to the fact that they contain gold with sub-equal economic importance to copper. I know that there are several analysts and newsletter writers that have generated NPV's based on the recently released maiden resource for Timok (discussed below). While these NPV's seem impressive consider what exactly it is that Freeport is after here, a copper bearing system that can add to their bottom line, which means large and if it is going to be large we will have to consider a large block cave style operation. In other words throw those NPV's out the door, because this project has a long ways to go. I'm going to forgo any talk of NPV here and approach this project from a more simple perspective, the take out price per pound as this tends not to really change all that much. I will also remind readers that RMC will only retain 25% of the project once Freeport has earned in, meeting Freeport size there is no competition to purchase RMC, there is only one buyer. Therefore the likelihood of receiving a premium much beyond the current going rate would seem to be a stretch, in my opinion.

Last week RMC put out their maiden resource on the Timok project which came back at 65.3Mt at 2.6% Cu and 1.5g/t Au (3.5% CuEQ), including 6.8Mt at 9.6% Cu and 5.9g/t Au, all in the inferred category. This roughly gives 3.75 billion lbs of copper metal. Let's discount the values for South American and Canadian porphyry copper deposits to 75% of those values (\$0.045 and \$0.09), as their buy out prices. This would lead to valuation of RMC's portion of their copper to being between \$42.2M and \$84.4M. On a share price basis this is \$1.01 to \$2.02. At RMC's current market capitalization (\$256.8M), they are getting a \$0.274 /lbCu valuation, which seems high to me. Additionally, at the discounted South American and Canadian porphyry buyout prices per pound (see above) RMC is being given credit for between 11.4Blbs to 22.8Blbs of copper. The upper end of this range is starting to approach global top 20 copper porphyry deposits in terms of contained copper, which the western Tethyan belt has not produced. Another important factor for the Timok system is that it is a high-intermediate sulphidation epithermal system that has collapsed onto the top of a porphyry system. To date most of what has been drilled is the high sulphidation portion, which contains notoriously bad copper bearing minerals (e.g. enargite) from a recovery point of view. Admittedly, not all of the

