

EIGHT ELEPHANTS

“At the start of the bull market we have all the paper and they have all the money. At the end of the bull market we have all the money and they have all the paper”. Anon



XSR (Small Resources Index) 10 year chart: Source Iress

The chart above not only provides a harrowing look back in history, but more importantly could show just how far a sustained recovery could take us in the junior resource stocks. Sentiment since early 2011 has been most negative (the XSR lot 72.5% to June 25 2013) and the gold sector in particular has come in for some extreme selling pressure with even producers replicating or even exceeding the falls suffered in the XSR.

Regardless of the negativity and paranoia surrounding the junior resource sector, there will still be companies graduating through the ranks to the mid-caps, and even though they are as rare as a “Three Star” Adam Sandler movie we are still going to see the spectacular discoveries similar to those made by Sandfire (SFR), Sirius (SIR), and the old Minotaur Gold with Prominent Hill.

From my experience in speculation and 12 years as an advisor, it is those that are able to build positions in quality juniors during bear markets that are more likely to not only “survive” but thrive once fundamentals are finally recognised. Chasing the daytrading frenzy now engulfing the bio/tech sector, would not be dissimilar to being one of those hyperventilating teenage girls at a One Direction concert, or turning up to a party well after the police had removed the iPod deck.

As much as it hurts to watch others make money and boast about it all over social media, you should never mistake a bull market for brains and think that yesterday’s price action is a decent guide to what could happen tomorrow.

The “Eight Elephants” in this report are all about backing the right people and projects at the right price.

Ramelius Resources Ltd (RMS) 12c



BUY	ACCUMULATE	HOLD	REDUCE
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- WA based gold producer that has been heavily sold off due to gold price weakness, and rampant fund selling.
- Was one of the strongest performing gold juniors in 2007, following the high-grade Wattle Dam gold discovery. (Over 50x from June 2004 lows of 6c > \$3.00 equivalent including bonus options)
- Wattle Dam was one of Australia's highest grade gold mines. (Ceased production and now owned by TYK)
- Purchased the Mt Magnet gold mine (June 2010) for \$40m (including \$4.7m in replacement bonds) out of existing cash holdings. Acquisition price of \$12 AUD per ounce in-ground resource.
- Investors now buying the "bad news", following a ball mill motor failure at Mt Magnet and pit wall collapse at Western Queen South. Share price touched a low of 8.7c in December 2013.
- \$16m gold pre-pay facility drawn down. Will be repaid by delivery of 1492 ounces per month from January-August 2014.
- Targeted production for December 2013 quarter was 16,000 ounces from Mt Magnet and 5,000 ounces for Coogee (See ASX release 9 December 2013). December 2013 quarterly report to be released prior to COB 31 January 2014.
- Market capitalisation of \$43.8m (12c) yet had >\$30m in cash at the end of the September 2013 quarter.

Ramelius (RMS) has struggled post Wattle Dam, and has been prone to heavy fund selling and bouts of negative perception based on high total cash costs at Mt Magnet. The downside pressure has been exacerbated following a ball mill motor failure and a pit wall collapse, however there is significant upside potential once these issues are resolved and production starts to meet guidance. Drilling results have been very promising at the recently acquired Vivien Gold Project, and with no major corporate debt (\$16m pre pay facility in place), RMS is in a very strong position not only for a share price recovery but also to embark on its next growth phase. Appears to be hideously undervalued at 12c.

Minotaur Exploration Ltd (MEP) 12.5c



BUY	ACCUMULATE	HOLD	REDUCE
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- Strong management team and geological talent. Dr Tony Belperio was involved in the discovery of Prominent Hill (Oz Minerals), and MEP has assembled an outstanding team of geologists and geophysicists.
- **I consider MEP to be one of the highest quality exploration companies on the ASX and a "core" holding for subscribers.**
- MEP lost considerable momentum during the recommended takeover of Breakaway Resources (BRW), and with this now complete, MEP are now focussing on target generation, followed by high-impact drilling.
- Aircore drilling currently on-going at Leinster (gold) to refine targets for future RC drilling.
- Recent VTEM survey at the Eloise JV has identified a whopping 30 high-priority copper targets. (33 second tier targets). The VTEM was also flown over known resources and the process and analyses has been validated. Ground EM has been completed to refine priority targets for drilling following the wet season.
- Ability to generate an on-going flow of "elephant targets" that offer multiple upside potential. The "Powerball" remains Catch Dam (Border JV) that is still subject to an ongoing native title process.

The VTEM results from the Eloise JV in Queensland are extremely exciting and could provide MEP with a major copper discovery/discoveries. Although the share price has recovered from an all-time low of 9c, little value has been ascribed to MEP based on the potential for “transformational” discovery and/or corporate transaction. Following the takeover of Breakaway Resources (justified on the VTEM results) MEP is still only capped around \$19m and maintains the Poochera Kaolin/Gypsum assets, Mutooroo Magnetite and the Catch Dam “Powerball target” , which if mineralised is likely to provide multiple share price upside. MEP has the people, the projects and around 12c-13c the right price to be one of my strongest speculative suggestions on the ASX.

Wild Acre Metals (WAC) 4.2c



BUY	ACCUMULATE	HOLD	REDUCE
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- My most recent speculative suggestion based on multi-million ounce potential at the Colpayoc Gold Project in Northern Peru. (WAC option to acquire 100% of the porphyry gold project). The current gold resource at Colpayoc is 313,000 ounces (19.28 Million Tonnes @ 0.5 grams per tonne gold) JORC compliant Inferred Gold Resource open in 3 directions and amenable to a surface heap leach operation.
- Major scale exploration upside includes well defined, untested geophysical targets within a 3 kilometre diameter porphyry system (Copper-Gold-Molybdenum) delineated by previous ground magnetics.
- **Colpayoc Project is located in the Yanacocha District, 15 kilometres from South America’s largest gold mine, the Newmont-Buenaventura operated Yanacocha Mine. (>26m ounces)**
- Peru rated a very respectable 7th place in the RESOURCESTOCKS World Risk Survey. (1: United States 2: Canada 3: Mexico 4: Botswana 5: Chile 6: Australia 7: Peru 8: Burkina Faso 9: Brazil 10: Namibia)
- Experienced South American Board and management team, Rick Brown (Amarillo Gold), Phil Anderson (Ex Canadian Shield), Phil Snowden (Founder of Snowden Mining Industry Consultants)
- IOCG projects with regional scale mag targets near to world class IOCG deposits of Mina Justa and Marcona. Only one project drill tested (Sept 2013) displaying IOCG style mineralisation (copper and iron)
- High grade silver project in southern Peru with neighbours BHP, Teck and Anglo American. Targets for drilling in second half of 2014.

WAC has an extremely tight capital structure and at 4.2c is only capped at \$2.75m. The stock trades almost “via appointment” with only 137,500 shares changing hands so far this month. Whilst the major focus is on the Peruvian assets, WAC has a large strategic landholding in the Western Australian goldfields with a small established resource and exploration targets. From a very low base, WAC has significant upside potential from its existing projects and establishing a profile amongst speculators.

Tellus Resources (TLU) 7.3c



BUY	ACCUMULATE	HOLD	REDUCE
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- I am backing TLU for its Managing Director Carl Dorsch and the potential to transform TLU from a minnow into a serious conventional/unconventional energy play.
- Carl was one of the pioneers of the shale gas industry in Australia, through Adelaide Energy ADE and its JV’s with Beach Petroleum (BPT), leading up to BPT’s successful 20c cash takeover for ADE.
- Despite the takeover (with the benefit of hindsight) perhaps robbing ADE shareholders of the bulk of their upside potential, in a terrible market the 20c offer price was reasonable.

- TLU has secured the right to acquire an 83% participating interest and Operatorship in an exciting high reserve, conventional oil play named the Covenant Mondo Project (“CMP”), Utah.
- CMP is located in a proven basin for conventional plays and has the potential to deliver large oil reserves. Based on the Company’s estimates the **upper success case** has 413 MMstb oil initially in place (OIIIP) with an estimated recovery of **165.2MMstb**. The **downside success case** has 19 MMstb OIIIP with an estimated recovery of **7.6MMstb**
- The leases are located on the well- known ‘hingeline’ over thrust structure in current oil production areas with the nearby Covenant field operated by Wolverine Gas & Oil Corp. currently producing ~6,400 BOPD and 17.3 million barrels of oil from 23 wells to date.
- TLU have another “free carried” well (PEL 105 Cooper Basin SA) to be drilled by Senex Energy (SXY).
- Market capitalisation of only \$9m.

From my previous association with Carl Dorsch and successful outcome with Adelaide Energy, I have no reservations at current prices in backing Carl to do it again with TLU. Oil and gas is one of the most difficult sectors for speculators based on a high number of wells plugged and abandoned (P&A’s), however based on Carl’s experience, success and industry links it is a matter of backing the “right people and projects at the right price”. The announcement of the CMP opportunity in Utah emphasises TLU’s growth potential through conventional oil production with massive exploration upside. Likely to be one of the most volatile stocks I cover but the risk/reward profile is extremely attractive sub 8c.

Chesser Resources (CHZ) 11.5c



BUY	ACCUMULATE	HOLD	REDUCE
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- Emerging Turkish gold producer that has reported a 703,000 ounce JORC resource at 2.15 g/t gold with an in-pit resource of 625,000 ounces at 2.71 g/t gold. (Kestanelik Project in NW Turkey)
- Robust updated scoping study delivered with a pre-feasibility study underway. Targeting a production rate of 63,000 ounces pa at a LOM cash cost (C1) of \$415 US ounce. Higher production rates and other options are being considered.
- **Modest capex of \$88m US (including a 30% contingency)**
- Phase 1 of a two phase resource upgrade drilling program almost complete (12,000m). The second phase of 9,000m drilling is awaiting approval.
- Reported results to date have been very encouraging, which have largely confirmed or even exceeded the block model estimates.
- With around 15% of the Kestanelik field drilled out to date, there is significant scope for a major resource increase should the favourable exploration results continue.
- **Cannacord Genuity released a research report on CHZ following a site visit to Kestanelik on 16 December 2013 with a 50c share price target and a Speculative Buy rating. Link below**
http://www.chesserresources.com.au/files/Analyst%20Reports/CGAU_CHZ_16122013.pdf

CHZ is one of my preferred emerging gold producers based on the quality of the Kestanelik Project in NW Turkey and the potential for significant resource growth once further drilling is carried out. Following a robust scoping study with attractive metrics, CHZ are now working towards releasing a PFS that should re-iterate the “value proposition”. The share price has suffered in-line with the broader gold sector, and a recent 11c capital raising, however this is an outstanding opportunity when you consider the downside support generated by a project that appears robust even in a low gold price environment.

Tychean Resources (TYK) 0.003c



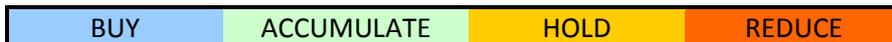
BUY	ACCUMULATE	HOLD	REDUCE
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- Trading at 0.003c (3/10’s of 1 cent) the potential and quality of TYK is not reflected in the share price. The company recently completed a rights issue and with the placing of the shortfall raised \$1.6m.

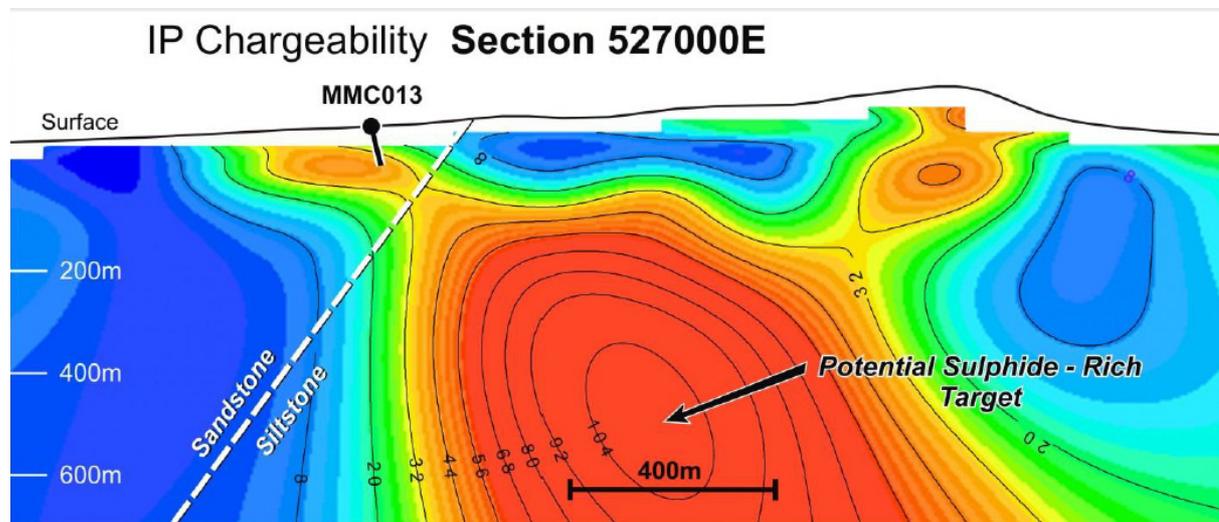
- Former Managing Director of Ramelius Resources (RMS), Joe Houldsworth has been lured out of semi-retirement and has taken on the Managing Directors position at TYK.
- RMS became a “market darling” following the discovery of the Wattle Dam gold deposit which saw its share price move from 6c in June 2004 to highs >\$3.00 equiv in mid-late 2007.
- TYK acquired the Spargoville Gold Project from RMS and settled through the issue of 133,333,334 shares in TYK (\$400,000 value at 0.003c).
- Reported a high-grade RAB hit at the Core Farm prospect of **4m @ 22 g/t gold 400m northeast of the Wattle Dam gold mine.**
- Drilling to commence at a number of exciting prospects over the next two weeks. Core Farm has become a high-priority drilling target along with the Fugitive and Déjà vu prospects.
- Extremely attractive risk/reward profile from Houldsworth’s 30 years of gold industry experience, prospective tenements and location. It should be noted that Houldsworth has a background of running his companies “lean and mean”, and this is the type of junior that could deliver some of the “romance” back to speculation.

Very STRONG speculative buy at 0.003c (3/10’s of a cent) for exposure to an emerging gold exploration story led by one of the great “old timers” in the industry, Joe Houldsworth. Based on the rights issue price of 0.003c there has been some selling pressure, however based on strong on-market buying support accumulators may have to pay up to 0.004c. With major drilling programs set to commence in the near-term and 1.354 billion shares on issue, TYK has the potential to develop into a heavily traded junior from a low market cap of \$4m. Houldsworth is keen to do it all again, however Wattle Dam was an absolute freak of gold mineralisation but there has been some sniffs in the area and it is always better to buy growth companies at/or near the bottom rather than chasing the “hot” money.

Silver City Minerals (SCI) 8.4c



- High quality junior explorer that floated on the back of a number of projects in the mineral rich Broken Hill District. (Zinc-lead-silver targets)
- Major IPO project of Razorback West with SCI looking for a continuation of the Broken Hill line of lode. Results to date have been encouraging but no significant intersections have been reported.
- SCI’s focus for early 2014 is the Sellheim Gold Project in North Queensland.
- Sellheim is an intrusion-related gold target (IRGS) in an historic alluvial gold producing region (1860’s).
- IP survey has revealed **large and strong chargeability anomalies in excess of 100m V/V suggesting significant sulphides at depth.**



SCI are set to drill one heck of a gold target at Sellheim in March-April 2014. Whilst the share price has recovered of its lows, there is the potential for further buying support to emerge leading into the

drilling program. With the shares tightly held this could provide a handy percentage increase for those with the patience to buy in a little earlier than the crowd. SCI is only capped at \$8.2m with a last reported cash position of \$4.1m so the valuation leading into the drilling is far from demanding.

Chinalco Yunnan Copper Resources Ltd (CYU) 3.7c



BUY	ACCUMULATE	HOLD	REDUCE
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- Copper focussed junior that had a very strong share price rally in late 2010-early 2011 during the rare earths bubble. (>40c)
- Substantial financial backing through China Yunnan Copper (Australia) Investment Development Co (YCI) holding 47.65% of CYU's issued capital. (As at 11 December 2013). Aluminium Corp of China (Chinalco) acquired a 58% holding in YCI in 2012.
- Corporate objective of becoming a "significant mining company" over the next 2-3 years, with growth through acquisition a likely strategy.
- CYU have drilled a number of high risk/high reward targets in Chile with encouragement but no significant intersections.
- Have undergone a change in management and have appointed a new exploration manager.
- JORC resource at the Elaine Project in north-west Queensland (CYU 70%/GSE 30%) of 27mt grading 0.53% copper and 0.008 g/t gold for contained metal content of 147,000t of copper and 75,000 oz gold.
- CYU have created a large and contiguous area of exploration ground in the Mt Isa region across some highly prospective tenements. **A new and potential large system has been identified at the Millenium Project.**
- The process of consolidating CYU's international projects has been on-going with a renewed focus now on the Australian copper projects.
- Market capitalisation of \$10.3m.

After a stellar performance in early 2011, CYU's share price has suffered in-line with the junior resource sector malaise and a lack of exploration success at a number of high risk/high reward projects. Now looking to build a major presence in the copper-rich Mt Isa region of Queensland, along with on-going project evaluation CYU could represent a major turnaround situation from an extremely low base.

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