



Ian Spence, resources analyst at Peloton Capital, reveals what gold stocks the firm is currently behind

GOLD MINING

KAISER REEF LIMITED (ASX: KAU)

KAU has recently completed the acquisition of what we believe to be a very exciting portfolio of gold assets in central Victoria. Centre stage to the acquisition is the high grade operating A1 Gold Mine and Maldon gold processing plant.

The acquisition was a very rare opportunity for a company like KAU and we at Peloton have viewed the near "perfect fit" very favourably with substantial upside potential. We believe the portfolio to be highly prospective, instantly elevating the Company's status from "Explorer" to "Producer".

A1 Gold Mine is a well known, high grade, operating gold mine, located in the Walhalla – Woods Point Goldfield, 120km west of Melbourne, which has operated for 159 years with >620koz gold produced to date. With the last 2 years of operation under the direction of an administrator, starved of capital, the mine has still consistently and profitably produced circa 10,000oz per annum on a substantially reduced production basis, with ore processed through the Porcupine Flat mill located 320km away at Maldon at a head grade of ~11gpt.

Whilst the mineralisation at A1 certainly has a significant component recognised as classic Victorian structurally controlled quartz reef style mineralisation, I acknowledge the importance of the mine's diorite host units. Noting the most recent big stories and successes in Victoria such as

Fosterville are now gold deposits recognised as being hosted in diorite or similar units. These are able to host bulk tonnage targets rather than the classic saddle-reef gold targets which have historically dominated the Victorian Goldfields in the likes of Bendigo and Ballarat. This line of thinking can also be applied to the Company's Maldon Goldfield.

From first hand experience, mining underground narrow vein shear hosted deposits, I note a surprisingly significant portion of the mineralisation at A1 has sizeable widths and strike extents which is amenable to mechanised longhole stoping (as opposed to small tonnage manual airleg stoping), which is able to provide significant tonnages. This observation is highly encouraging to me in that it indicates that the mine has a strong potential capability of producing a sizable increased volume of ore beyond what is currently being produced. Put that potential with a mill that is massively underutilised currently and we have a very strong recipe for potential near term increases in ounces produced.

Commenting on the Maldon mill, noting the now immense difficulties mining companies now face when trying to attain permits to construct new cyanide treatment plants, I place a considerable amount of value on a strategically located operating plant like Porcupine Flat and note that the Company is in a very strong position to consider approaches from third parties for toll treatment of their ore,



or even approaching those companies to potentially acquire those companies "stranded" resources.

Porcupine Flat has an official nameplate throughput capacity of 150,000tpa. However, current throughput from A1 stands at <80,000tpa with circa 6,000tpm planned by August. It is therefore very obvious that if any additional ore to treat becomes available through A1 production increases or by toll treatment opportunities, the facility will comfortably be able to accommodate this for negligible cost.

Importantly, we also note that historically, for some prolonged periods of time, the plant has comfortably operated at an increased throughput of up to 180,000tpa. We are therefore confident that assuming A1 will deliver ore on an increased production basis and toll treating third party ore (both scenarios very likely), there still remains significant potential capacity for some additional supplementary ore feed from the Company's Maldon assets (Union Hill or Nuggety mines) in the medium term.

Taking into consideration a likely 7 year planning application time, the intangible value of a cyanide treatment licence, purchasing the land and the milling facility as well as construction of the mill and tailings facility and commissioning, we estimate the replacement cost of the facility to be circa \$20 million. When considering the acquisition cost for the entire Victorian portfolio was only \$17.5m inclusive of costs, we simply point out the outstanding value the transaction was for KAU.

KAU has a current EV of \$38m, underpinned with modest, but consistent high grade production. There is real near term potential to see a substantial increase in ounces produced from A1 initially, then Maldon. The Company is already starting to release a steady strong flow of good news this year, as KAU beds down the Victorian portfolio acquisition. It is also starting to look for additional efficiency improvements to ramp up production as well as undertaking its own in-mine and brownfields exploration of which we have already seen some outstanding intercepts.

GOLD EXPLORERS

KINGWEST RESOURCES LIMITED (ASX: KWR)

Since acquiring the historic high grade Menzies Gold Project (MGP) and Goongarrie Gold Project (GGP), located 120km and 90km north of the Kalgoorlie Super Pit respectively, in late 2019, KWR has undertaken several thousand metres of drilling, mainly at MGP initially targeting extensions to known mineralisation beneath existing historical high-grade workings.

More recently KWR has been targeting along strike near surface extensions to known historical resources and unmined deposits, with the intent to rapidly add incremental shallow ounces to the then historical resource base. Both strategies in a short time have proven very fruitful with significant exploration success on several MGP prospects with the company releasing in early March 2021, a new 446,200 oz resource estimate and within three weeks of this a very positive Scoping Study assessing a 31 month mining campaign, surface mining and toll treating at nearby mills for a strong near term cash flow.

So why do I get so excited about KWR and its projects you may ask? Quite simple really...

Quite simple really. Firstly, MGP and in particular GGP are considered by us as two of the last chronically under explored parts of the 90Moz Bardoc Tectonic Zone BTZ, the projects are both underlain by the same contact structure and rock types that host the Super Pit and Paddington and a number of other commercially significant deposits and new discoveries along the BTZ.

Secondly, with the projects so advantageously located close to the sealed highway, power and water, the shallow depth and high-grade nature of the mineralisation and the choice of multiple (at least six we know of) toll treatment options in the project's area, which we consider is better than the majority of gold projects on the WA goldfields, makes even a small resource delineation significant for potential exploitation and early cashflow. Consider it a bit like having an insurance policy or fallback position if the multi-million ounce discovery(s) eludes the company for the time being, there is still plenty of revenue to be had from the shallow mineable ounces now defined.

Whilst MGP has largely taken all of the limelight to date, worthy of mention is the company's sister project Goongarrie Gold Project (GGP). Following an absence of any significant exploration activity for circa 10 years and production for over 30 years, first pass aircore drilling testing new gold-in-soil anomalies and following up historical previous drilling intercepts has intersected a wide zone of strong new mineralisation previously unknown.

Results from this new discovery include 6.0m grading 17.2gpt Au from 94m within 38m grading 3.1gpt Au from 62m with the hole ending in mineralisation. Whilst it is still early days, this to us is nothing short of a fantastic result for a first pass reconnaissance aircore programme.

The mineralisation is located only 2km NNW from Ardea Resources' 2020 Gold discovery at Aphrodite North and approximately 7km north of Bardoc Gold Limited's Aphrodite Gold Deposit (22.9Mt grading 2.3gpt for 1.66Moz). The early discovery success bolsters our firm belief that the GGP which covers one of the least tested parts of the prolifically well-endowed Bardoc Tectonic Zone (BTZ) is highly prospective for one or more multi-million ounce discoveries.





PROSPECH LIMITED (ASX: PRS) BOLNISI GOLD NL MARK II ?

Recently listed just before Christmas and a little bit unloved at the moment due simply to a lull in drilling activities coming out of the European Alpine winter, this is a company, whose potential should not be underestimated. Prospech has actually been in existence for over 6 years, quietly exploring with considerable success on its lead Slovakian project Hodrusa-Hamre.

Hodrusa-Hamre is an under explored, low sulphidation epithermal gold-silver system – of which circa 90% of the goldfield is now held by the Company – located within the largest extinct strato volcanic caldera in the region. The first thing I noticed when I was introduced to the project was the mineralisation has scale, with a very similar area footprint to the likes of Lihir (PNG) and Emperor gold mines (Fiji). The currently producing goldfield, despite historical production >2.4Moz gold and 120Moz silver is largely unknown on the global stage despite its very strategic European location situated at the northern end of the prolifically well endowed Tethyan Mineral Belt and historically supplying the majority of the silver for the coins of the old Hapsburg Empire Treasury.

Complementing what I believe to be a high quality exploration portfolio, I view PRS to be in experienced hands with key members of the board having an outstanding exploration and development success track record in discovery & development of globally significant epithermal deposits. Over recent years, this includes Bolnisi Mine (Georgia) & Palmarejo Mine (Mexico) culminating with Bolnisi Gold N.L. holding Palmarejo at the time of being taken over by Coeur D'Alene in 2007 for \$1.3 billion. Missed by the markets, we understand that PRS management have observed Hodrusa-Hamre as having very similar early comparables to what Palmarejo had in the early days of exploration.

With over 90 holes planned to be drill tested for multiple targets in the coming weeks commencing early March, we are expecting a positive flow of news over the coming quarter. Could this Company

be the long awaited "Bolnisi Gold Mk II"? Only time and future drilling results will tell. Certainly the potential of Hodrusa-Hamre to be another Palmarejo is present.

For the silver bugs amongst you, PRS provides considerable exposure to silver.

CHALLENGER EXPLORATION LIMITED (ASX: CEL)

Having an opportunity to provide some stock tips, it would be a "challenge" at the moment to walk past Challenger Exploration Limited without making comment.

Challenger is an exciting aggressive explorer we are very closely following and I wouldn't have any doubt that the majors are keeping an eye on it too. The Company holds two very large gold and base metal projects in Argentina and Ecuador. Current focus is the Hualilan Gold Project in Argentina.

Hualilan located in the San Juan Province is an advanced gold project with substantial historical drilling and historical underground mine development. The project has a shallow (currently non JORC) skarn hosted high grade resource of 627koz grading 13.7gpt, which remains open in all directions.

Subject of a commercial dispute for 15 years prior to CEL's acquisition in 2019, the project had not seen modern exploration prior to CEL's arrival.

The company is now circa 30,000m into a 45,000m drilling program at Hualilan which has initially tested areas believed to host extensions to the high grade skarn mineralisation with tremendous success now demonstrating high grade mineralisation to extend over a 2km strike length. One of numerous high grade intercepts the company has reported within the skarn outside of the current resource boundaries is 6.1m grading 34.6gpt Au, 21.9gpt Ag and 2.9% Zn.

However, the story doesn't end there. Most recent drilling has tested beneath the skarn mineralisation and has demonstrated the presence of a very large intrusion related gold system in the underlying porphyry dacites with a number of standout >200m intercepts including 227.0m grading 1.0gpt AuEq from 139m, 209.0m grading 1.1gpt AuEq from 59.0m and 207.5m grading 0.8gpt AuEq from 80m all with the deepest intercept which certainly hasn't closed off the mineralisation currently down to 500m.

The discovery and confirmation of a large gold system underlying the high grade skarn resource is a game changer for the project, potentially adding many years of minelife to what is starting to look like the makings of a multi million ounce project. The Company can even now look at the concept of the high grade skarn resource providing an excellent "starter pit" for early project payback, prior to large scale open cut, mining the lower grade intrusion related mineralisation.

The company's second project, El Guayabo Gold-Copper Project located in Ecuador, is a big one. Last drilled by Newmont in 1997 targeting only one part (the breccia part) of the gold copper system the project has demonstrated outstanding early prospectivity including 156m grading 2.6gpt Au, 9.7gpt Ag and 0.2% Cu and 112m grading 0.6% Cu, 0.7gpt Au 14.7gpt Ag, both intercepts the Company is keen to point out have never been followed up.

What is very exciting to me is the potential sheer size of the mineralising system which has multiple targets defined within the breccia zone – a flat lying late stage vein system as well as the underlying porphyry system. Putting all this in the context of the project's location in the southern end of Ecuador's prospective porphyry corridor, this in my view appears to be a very exciting project prospective for major discoveries.



ABOUT THE AUTHOR

Ian Spence has 27 years of domestic and international experience in the resources sector, having held numerous senior management and directorship roles in open cut and underground mining, resource development and exploration projects spanning multiple commodities.

Complementing his extensive "hands on" resources career, Ian has over 10 years experience in mining analytics and corporate advisory which he has undertaken for a number of domestic and international capital firms, merchant banks and resource companies.

He has had substantial exposure to project due diligence & risk identification, M&A, scoping and feasibility studies, capital raisings, and IPO's, many of which he played an instrumental part in early recognition of those companies assets and management which went on to become very successful businesses.

Ian graduated with a joint Honours degree in Geology & Petroleum Geology from the University of Aberdeen in 1993, holds a Master's Degree in Mineral Exploration & Mining Geology from the University of Leicester (1994) and an MBA from the University of Western Australia (2002).



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