

Emerald Resources is shaping up as a real gem

After an exceptionally good year in 2020, our stock market seems to be settling back to what you would call a “normal” mose. Money continues to move around but the emphasis has been on profit taking and protecting those profits. Equity issues are being supported but without the subsequent on-market buying. The various themes that were pursued previously don't seem to carry as much weight so the trends are less pronounced. Gold price sentiment is still anaemic but there has recently been better optimism in some situations, with some downtrends being breached. Maybe we are at a turning point. Generally, it is very much a stock pickers market, requiring more analysis and thought.

We are now more sceptical on Chinese data

Once upon a time, if China announced spectacular growth rates, our equity markets would surge in anticipation of what it meant for us. However, we are over that now. Maybe it is because anything that is released by the Chinese Communist Party is always contrived. Truth is a foreign concept to the CCP. The latest numbers show that Chinese industrial production rose 35% in Jan-Feb compared to a year earlier and retail sales climbed 33.8%. Fixed asset investment rose 35% over the same periods. Finished steel output rose 23.6%. While these figures look very good you need to consider that 2020 was affected by virus-related shutdowns ... and you still need to believe the CCP if you are going to act on them.

Emerald has been one of the better gold stocks

The gold sector has been in decline, along with the gold price, since August last year. Yet not all gold stocks have been trending down. A notable exception has been Emerald Resources (EMR), the company developing the 100%-owned Okvau Gold Project in Cambodia. Why is that?

Emerald is an emerging gold producer about to commission its first gold mine, being a 2 Mtpa, 110,000 oz p.a. mine. There has been strong institutional buying of the shares as knowledgeable fund managers have been buying in anticipation of success, as opposed to just following sector money flows. They are backing the management.

Placing development and commissioning risk in perspective

I frequently remind investors that development and commissioning risks can offer a clear and present danger to companies developing their first mines. I am comfortable with exploration risk and the high risk-high reward profile but commissioning risk often has more downside than upside potential. That is when expectations come face to face with reality and you find out just how good management is. If a share price has run hard in anticipation of a good mine it is often wise to sell and watch from a distance as a slip up during commissioning can really hurt the share price.

However, for every rule there is an exception and Emerald is one of the best examples of such an exception. Emerald is headed up by Morgan Hart, a geologist who was a key member of Nick Giorgetta's team that has successfully developed a series of gold projects over the years. The latest, most successful company that he was involved with was Regis Resources. Morgan and his ex-Regis team have developed projects such as Bonikro Gold Mine in Côte d'Ivoire (2.2 Mtpa), Moolart Well in WA (2 Mtpa), Garden Well (WA) (4 Mtpa) and Rosemont (1.5 Mtpa).

A few years back I took my apprentice mining analyst at Canaccord, Reg Spencer, along to meet Nick Giorgetta, who is in my opinion the doyen of the Australian gold sector. The purpose was to give Reg some insight into why Nick's team had such an impressive track record of developing successful gold projects.

It was quite simple really - they do most of the work in house rather than handing over management and control of the project development to external consultants. Of course they engage engineering firms but they keep a tight reign on them. Management takes responsibility for the processes, relying on past experience and intimacy with the project at hand. They have an enviable track record.

The respect for the Giorgetta team management skills was also demonstrated in the premium the market gave to shares in Capricorn Metals, a \$545m company developing the Karlawinda Gold Project in WA, a 4.5 Mtpa project aiming to produce 110-125,000 oz of gold from ore grading only 0.9 gpt. The first gold pour is not expected until Q2 this year.

A series of ownership changes

Finding a gold deposit is only the first step in the development of a gold mine. Often you will see a series of companies getting involved over time until finally one comes along with the skills, the funding and the determination to develop a mine. There is never a truer statement than “*mines are not found, they are built*”.

Oz Minerals (previously Oxiana) discovered Okvau more than 20 years ago, being led to the deposit by workings of artisanal miners. It subsequently sold the project to Renaissance Minerals for \$17.8m in cash and shares in June 2012, along with contingency payments of \$22.5m on passing of milestones - but these were subsequently renegotiated due to changing circumstances.

Needing a strong partner, Renaissance entered into a joint venture deal with Emerald Resources in February 2016, whereby that company could earn up to 51% of Okvau by sole funding a DFS and conducting US\$3m worth of exploration. It didn't take long before Emerald consolidated 100% control of Okvau in late 2016, when it completed a takeover of Renaissance. That is when the development cycle started in earnest.

Geology and Resources

Okvau is an intrusion-related gold deposit with gold hosted by a complex array of arsenopyrite-rich sulphide veins dipping at shallow to modest angles. Mineralisation is structurally controlled. Shears zones are generally 10-50m wide. There is a shallow oxidised zone, less than 10m from the surface.

The JORC Resources is 17.68 Mt at 2.01 gpt for 1.14 Moz of gold. The Probably Ore Reserve is 14.26 Mt at 1.98 gpt. The average depth of the proposed pit floor is 280m and the grade averages 2 gpt throughout. There is plenty of potential for depth extensions as the mineralisation is open. There is considerable exploration potential adjacent to the mine development and on other locations within the licences, so you should look at this development as the start of an open ended story; more on the exploration upside later.

Treatment plant and Metallurgy

The nominal capacity for the project is 2 Mtpa, though don't be surprised if it reaches 2.5 Mtpa with a bit of tweaking post commissioning. At the moment the project construction is 80% complete and well within the US\$98m budget. Commissioning is scheduled for May this year, with the first gold pour expected by the end of June.

The sulphides require a fine grind down to 10 μ m. Some companies choose to float a concentrate and only fine grind that smaller tonnage before intense cyanidation, but Emerald has opted to fine grind the entire throughput.

Operating costs are estimated at US\$17.80 pt, or US\$731/oz (AISC), giving a strong operating margin. Production of 110,000 oz p.a. is likely to provide after tax profits of around \$100m p.a. in the early years, placing the company on a PE multiple of around 4x. That leaves plenty of room for share price appreciation when the company can demonstrate the reality of these figures.

Value for money?

You can decide whether the shares are going higher based on the charts, on expectations of the gold price or an expanding information curve. Serious investors will often tell you that management accounts for 80% of the equation as good management can steer a company through all sorts of issues.

Prospective fundamentals continue to look attractive at these levels. The project seems to be designed on numbers that have good inbuilt conservatism e.g. the oil price used for the DFS was 25% higher than it is today. I'd expect that the share price will continue to rise (gold price willing).

Magnetic Resources is an interesting company.

Last week the 121 Mining Conference was held in Hong Kong - virtually. One of the companies I listened to was Magnetic Resources (MAU), a company with no declared resource but which is nevertheless capitalised at about \$370m. This is rather unusual.

Magnetic is run by veteran entrepreneurial geologist, George Sakalidis. George has had a string of successes over the years so there is no questioning his ability, but he thinks outside of the mainstream (which can sometimes be good). He is very confident that there is a huge amount of gold in Magnetic's projects near Laverton in WA, but he seems to be in no hurry to bring a JORC resource to the market. That makes it harder for institutional investors to tick this box, but that doesn't bother George.

The most advanced prospects are Hawkes Nest 9 and Lady Julie. There has been plenty of drilling but the average vertical depth of the holes is only about 55m. So why does George say that there is a truckload of gold in the system that goes down to a depth of 2,000m?

Magnetic has utilised a tool that is not often used in mining; seismic. The 2D images show up to nine stacked lenses that correspond with the shallow drill results at Hawkes Nest 9 and Lady Julie. The next step will be to carry out deep drilling to intersect these structures. A shallower program of 20,000m is planned initially, then the 8,000m of deep drilling.

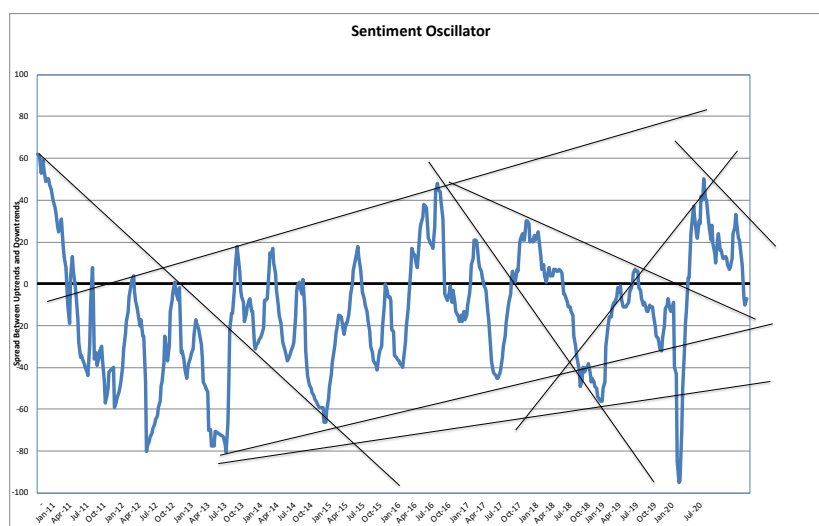
The zone of prospectively is 3-4 km long and up to 250m wide. The thrust structures are about 5m thick. So far three of these thrusts have demonstrated gold, but there could be up to nine if they are all mineralised. Each thrust could hold 200-400,000 oz depending on whether the grade is 1 gpt or 2 gpt, with a 3 km strike length. If there are five thrusts you can extend this to 1-2 Moz, and so on. It would seem that the market has already done the numbers. Hence the \$370m market capitalisation.

The region already hosts big gold orebodies such as Wallaby with 7 Moz and Sunrise Dam with 10 Moz. So there are precedents to follow. However, when stock prices factor in very large orebodies based on back-of-the-envelope numbers, investors are almost always disappointed when a company announces its first JORC resource. When the rigours of the Code are applied it can often disappoint the enthusiasts, so bear this in mind with Magnetic.

The share register is tightly held with the top 20 holding almost 80% of the issued capital. Chinese and Singaporean investors are well represented but there are no notable Australian institutions on the register. It will be interesting to follow this story.

We have dropped a number of charts under coverage and replaced them with stocks that are likely to be more interesting going toward. These companies recently presented at the 121 Conference in Hong Kong; Kairos Minerals, Magnetic Resources, Matador Mining and Zenith Minerals. We have deleted Alliance Resources, Aeon Metals, Beacon Mining, Central Petroleum, Dacian Gold, NTM Gold (following a takeover), Sky Metals and Vango Mining.

Sentiment Oscillator: Sentiment improved slightly. There were 33% (34%) of the charts in uptrend and 40% (44%) in downtrend on Friday's close.



Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code	Trend Comment	
All Ordinaries	XAO	testing downtrend	
Metals and Mining	XMM	down	
Energy	XEJ	risen to resistance line	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	down	zinc, polymetallic
Alkane Resources	ALK	breached uptrend, heading down	gold, zirconia
Alicanto Minerals	AQI	sideways	base metals, silver, gold
Alto Metals	AME	down	gold exploration
American Rare Earths (was BPL)	ARR	testing uptrend	rare earths
Apollo Consolidated	AOP	down	gold exploration
Arafura Resources	ARU	pullback	rare earths
Ardea Resources	ARD	uptrend, fallen back to support	nickel
Aurelia Metals	AMI	down	gold + base metals
Australian Potash	APC	holding shallower uptrend	potash
Auteco Minerals	AUT	down	gold exploration
BHP	BHP	aggressive downtrend	diversified, iron ore
Base Resources	BSE	near highs	mineral sands
Beach Energy	BPT	LT downtrend continuing	oil and gas
Bellevue Gold	BGL	strong rally	gold exploration
Blue Star Helium	BNL	down	gas, helium
Boab Metals	BML	down	silver/lead
Breaker Resources	BRB	sideways	gold exploration
Buru Energy	BRU	breached downtrend	oil
Calidus Resources	CAI	down	gold
Capricorn Metals	CMM	down	gold















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Capricorn Metals	CMM		down	gold
Caravel Minerals	CVV		recovering	copper
Celsius Resources	CLA		down	uptrend
Chalice Gold	CHN		testing support line	nickel, copper, PGMs, gold exploration
Chase Mining	CML		back to lows	nickel/copper/PGE
Chesser Resources	CHZ		down now	gold exploration
Cobalt Blue	COB		new high	cobalt
Cyprium Metals	CYM		back to highs	copper
Danakali	DNK		steeply higher	potash
Davenport Resources	DAV		rising again	potash
De Grey	DEG		breached downtrend	gold
E2 Metals	E2M		correcting lower, ST downtrend	gold exploration
Ecograf (was Kibaran)	EGR		heavy pullback	graphite
Element 25	E25		pullback	manganese
Emerald Resources	EMR		coming back to support line	gold
Euro Manganese	EMN		down	manganese
Evolution Mining	EVN		down	gold
Firefinch	FFX		strongly higher	gold
First Graphene	FGR		consolidating	graphene
Fortescue Metals	FMG		pullback - uptrend breached	iron ore
Galaxy Resources	GXY		testing downtrend	lithium
Galena Mining	G1A		at recent highs	lead
Galilee Energy	GLL		pullback	oil and gas, CBM
Genesis Minerals	GMD		down	gold
Gold Road	GOR		breaching downtrend	gold
Hastings Technology Metals	HAS		breached uptrend	rare earths
Hazer Group	HZR		down	hydrogen
Highfield Resources	HFR		rising	potash
Hillgrove Resources	HGO		breached downtrend	copper
Iluka Resources	ILU		testing uptrend	mineral sands
Image Resources	IMA		testing support	mineral sands
Independence Group	IGO		pullback	gold
ioneer (was Global Geoscience)	INR		new high	lithium
Ionic Rare Earths (Oro Verde)	IXR		at highs	rare earths
Jervois Mining	JVR		rising again	nickel/cobalt
Jindalee Resources	JRL		correcting lower	lithium
Kairos Minerals	KAI		downtrend	gold exploration
Kin Mining	KIN		downtrend	gold
Kingston Resources	KSN		down	gold
Kingwest Resources	KWR		breached support line	gold
Legend Mining	LEG		turned down at resistance line	nickel exploration
Lepidico	LPD		breached downtrend	lithium
Lindian Resources	LIN		softer	bauxite
Lithium Australia	LIT		pullback	lithium

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Los Cerros	LCL		rallying	gold exploration
Lotus Resources	LOT		new high	uranium
Lucapa Diamond	LOM		breaking downtrend	diamonds
Lynas Corp.	LYC		pullback	rare earths
Magnetic Resources	MAU		uptrend	gold exploration
Mako Gold	MKG		down again	gold exploration
Manhattan Corp	MHC		down	gold exploration
Marmota	MEU		still down	gold exploration
Marvel Gold	MVL		off its lows	gold exploration
MetalTech	MTC		strong rally	gold
Meteoric Resources	MEI		drifting lower	gold exploration
MetalsX	MLX		near highs	tin, nickel
Metro Mining	MMI		down again	bauxite
Mincor Resources	MCR		down	gold/nickel
Musgrave Minerals	MGV		rallying	gold exploration
Myanmar Minerals	MYL		breaching downtrend	lead, zinc, silver
Nelson Resources	NES		new high	gold exploration
Neometals	NMT		near high	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		down	gold
Oceana Gold	OGC		down	gold
Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		down	gold development
Orocobre	ORE		testing downtrend	lithium
Oz Minerals	OZL		new high	copper
Pacific American Holdings	PAK		sideways	coal
Pantoro	PNR		breached support line	gold
Panoramic Res	PAN		breaching uptrend	nickel
Peak Minerals	PUA		down	copper exploration
Peak Resources	PEK		correcting lower	rare earths
Peel Mining	PEX		off its highs, on support line	copper
Peninsula Energy	PEN		rallying	uranium
Poseidon Nickel	POS		sideways	nickel
Perseus Mining	PRU		down	gold
Pilbara Minerals	PLS		pullback	lithium
Polarex	PXX		down	polymetallic exploration
Queensland Pacific Metals	QPM		new high	nickel/cobalt/HPA
Ramelius Resources	RMS		rallying	gold production
Red5	RED		down	gold
Red River Resources	RVR		breached uptrend	zinc
Regis Resources	RRL		down	gold
Regergen	RLT		rising	gas, helium
Resolution Minerals	RML		new low	gold exploration
Resolute Mining	RSG		down	gold

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RIO	RIO		steeply lower	diversified, iron ore
Rumble Resources	RTR		back in downtrend	gold exploration
Salt Lake Potash	SO4		down	potash
St Barbara	SBM		secondary downtrend	gold
Sandfire Resources	SFR		breached downtrend	copper
Santos	STO		strongly higher	oil/gas
Saturn Metals	STN		forming a base	gold exploration
Sheffield Resources	SFX		rising	mineral sands
St George Mining	SGQ		down	nickel
Silex Systems	SLX		testing downtrend	uranium enrichment technology
Silver Mines	SVL		testing downtrend	silver
Sipa Resources	SRI		down	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		breached steepest downtrend	coal
Strandline Resources	STA		rising	mineral sands
Sunstone Metals	STM		down again	
Talga Resources	TLG		breached support line, down	graphite
Technology Metals	TMT		sideways	vanadium
Tesoro Resources	TSO		down	gold exploration
Theta Gold Mines	TGM		on support	gold
Thor Mining	THR		lower	gold exploration
Tietto Minerals	TIE		rallying	gold
Titan Minerals	TTM		sideways	gold
Venturex	VXR		surge on funding	zinc
Vimy Resources	VMY		steeply higher	uranium
West African Resources	WAF		breached downtrend	gold
Westgold Resources	WGX		breached downtrend	gold
West Wits Mining	WWI		off its highs	gold
Western Areas	WSA		down	nickel
Whitehaven Coal	WHC		on support line	coal
Wiluna Mining	WMX		down	gold
Yandal Resources	YRL		rising again	gold exploration
Zenith Minerals	ZNC		sideways	gold exploration
Zinc Mines of Ireland	ZMI		rising	zinc
Totals	33%	47	Uptrend	
	40%	57	Downtrend	
		142	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.

- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	32	22.5%	
Gold Exploration	25	17.6%	
Nickel	12	8.5%	
Copper	9	6.3%	
Oil/Gas	6	4.2%	
Lithium	8	5.6%	
Zinc/Lead	7	4.9%	
Rare Earths	7	4.9%	
Mineral Sands	5	3.5%	
Iron Ore/Manganese	5	3.5%	
Potash/Phosphate	5	3.5%	
Coal	4	2.8%	
Uranium	4	2.8%	
Graphite	2	1.4%	
Bauxite	2	1.4%	
Silver	2	1.4%	
Cobalt	1	0.7%	
Tin	1	0.7%	
Diamonds	1	0.7%	
Other	4		
Total	142		

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