

Australian Equity Research

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Canaccord Genuity (Australia) Ltd.

Reg Spencer | Analyst - +61.2.9263.2701
reg.spencer@canaccord.com.au

Tim McCormack | Analyst - +61.8.6216.2088
tim.mccormack@canaccord.com.au

Larry Hill | Analyst - +61.2.9263.2745
larry.hill@canaccord.com.au

Henry Renshaw | Associate Analyst -
henry.renshaw@canaccord.com.au

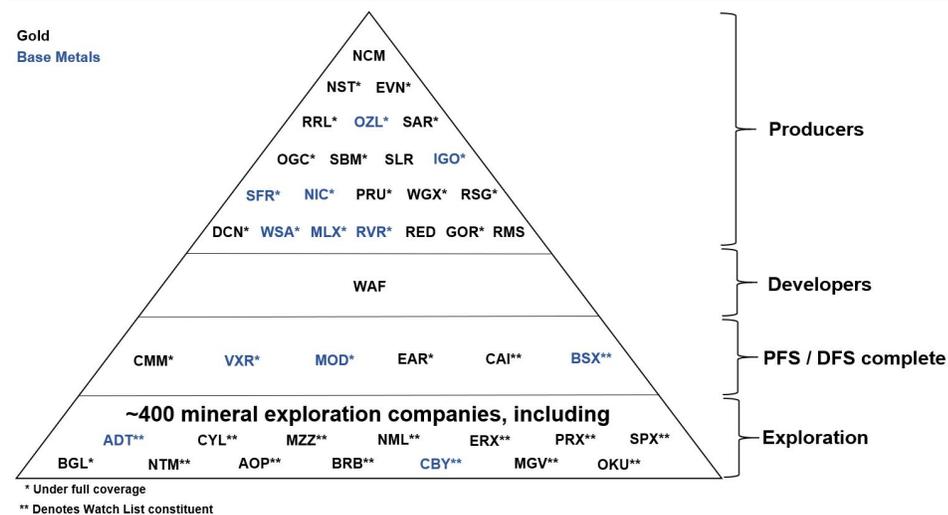
Explorer Watch List

This report introduces the inaugural Canaccord Genuity (Australia) Explorer Watch List, which is designed to highlight speculative, un-rated companies with active exploration programs on quality gold and base metal exploration and/or development projects.

We do not provide a rating, estimates or a target price for Watch List constituents.

Development pipeline looking thin: Our research highlights a relative dearth of developers among ASX-listed gold and base metal companies. We anticipate rising gold prices to lead to increased capital flows into earlier-stage explorers, in turn resulting in increased exploration activity, a "filling-out" of the development pipeline, and potentially leading to M&A activity from established producers.

Figure 1: ASX gold/base metals development pipeline



Source: Canaccord Genuity

Rising gold prices leading to increasing interest in explorers: Our Watch List constituents (16 companies across gold and base metals, ranging from pre-resource to feasibility, Figure 2) have returned an average 52% and 174% over three and six months respectively, versus the ASX Gold Index at 28% and 35%. With A\$ gold prices at record highs, we note that increases in market valuations for larger, more established gold producers has slowed (Figure 3). In our view, this in part reflects stretched valuations, but also a recognition of the thin development pipeline and greater upside potential that might be offered by smaller-cap producers and explorers.

Increasing activity = increased news flow: With expectations for rising exploration activity, companies in our Watch List have the potential to offer solid news flow over the coming 6-9 months, with potential catalysts coming in the form of drilling results, resource estimates and feasibility studies.

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Explorer Watch List (Gold/Base metals edition)

- The Canaccord Genuity Australia Explorer Watch List is designed to highlight speculative, un-rated (i.e. not under formal research) companies with active programs on gold/base metal exploration and/or development projects.
- The goal is to identify companies that offer intriguing prospects based on discovery, successful project advancement and development. We do not provide rating, estimates or target prices for companies in our Watch List. A summary of the companies outlined in this note is shown in Figure 2.

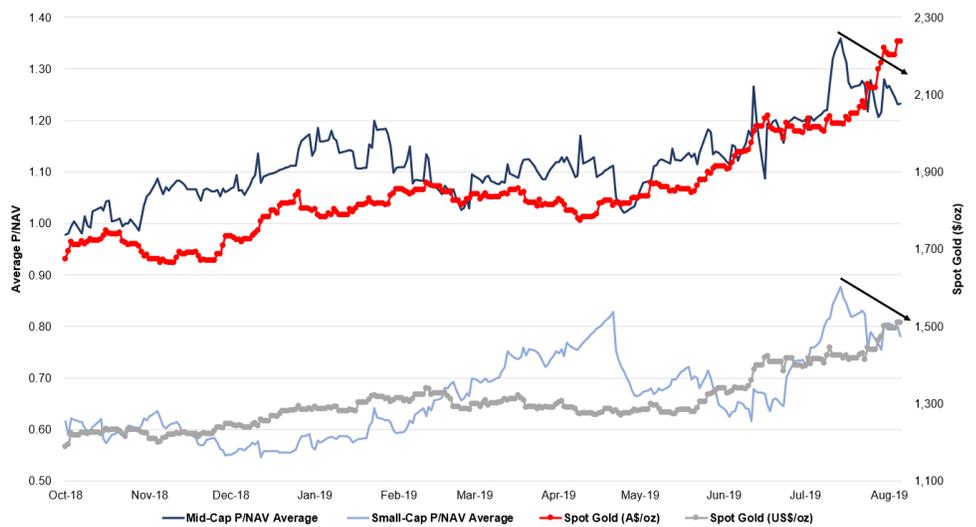
Figure 2: CG explorers Watch List

Company	Ticker	Current Share Price	Shares OS (ms)	Market Cap (A\$m)	Cash (A\$m)	EV (A\$m)	Primary Commodity	Country (main asset)	3 Month % Change	6 Month % Change	12 Month % Change
Adriatic Metals Plc	ADT	\$0.96	1513	\$145	\$9.9	\$135	Base Metals	Bosnia	10%	21%	113%
Apollo Consolidated Ltd	AOP	\$0.28	2215	\$62	\$10.2	\$52	Gold	Australia (WA)	40%	51%	58%
Blackstone Minerals Ltd	BSX	\$0.11	153.0	\$17	\$18	\$15	Base Metals	Vietnam	59%	24%	-12%
Breaker Resources NL	BRB	\$0.38	203.7	\$77	\$3.9	\$74	Gold	Australia (WA)	9%	-4%	38%
Calidus Resources Ltd	CAI	\$0.04	1858.9	\$72	\$13.1	\$59	Gold	Australia (WA)	56%	39%	11%
Canterbury Resources Ltd	CBY	\$0.26	817	\$21	\$2.8	\$18	Base Metals	Papua New Guinea	-5%	-	-
Carnaby Resources Ltd	CNB	\$0.12	96.0	\$11	\$4.7	\$6	Gold + Copper	Australia (QLD)	-15%	53%	5%
Catalyst Metals Ltd	CYL	\$2.60	78.9	\$205	\$15.9	\$189	Gold	Australia (VIC)	42%	68%	82%
Exore Resources Ltd	ERX	\$0.08	465.5	\$38	\$12.4	\$26	Gold	Africa (Cote d'Ivoire)	12%	22%	64%
Matador Mining Ltd	MZZ	\$0.32	98.6	\$32	\$2.9	\$29	Gold	Canada (NFL)	60%	88%	-9%
Musgrave Minerals Ltd	MGV	\$0.08	386.8	\$32	\$3.5	\$28	Gold	Australia (WA)	39%	-2%	26%
Navarre Minerals Ltd	NML	\$0.09	435.0	\$38	\$6.0	\$32	Gold	Australia (VIC)	21%	28%	71%
NTM Gold Ltd	NTM	\$0.05	511.8	\$24	\$4.3	\$19	Gold	Australia (WA)	18%	21%	18%
Oklo Resources Ltd	OKU	\$0.16	354.9	\$57	\$9.9	\$47	Gold	Africa (Mali)	-14%	-33%	-46%
Prodigy Gold NL	PRX	\$0.15	480.6	\$70	\$6.4	\$63	Gold	Australia (NT)	73%	130%	77%
Spectrum Metals Ltd	SPX	\$0.11	1385.5	\$152	\$11.5	\$141	Gold	Australia (WA)	424%	2100%	1733%
Average									52%	174%	149%

Source: Company reports, FactSet. Past performance does not predict future results.

- We observe that our Watch List constituents have returned an average 52% and 174% over three and six months respectively (27% and 36% excluding Spectrum Metals), vs the ASX Gold Index at 28% and 35%. More recently, with gold prices reaching all-time highs in A\$ terms (~A\$2,200/oz at the time of writing), we expect increased speculative interest in earlier-stage companies.
- Figure 3 below shows that despite gold prices continuing to rise, market valuations (represented below as P/NAV multiples) for larger, more established gold producers have started to contract. This may be temporary, but in our view could reflect the recognition that valuations for larger-cap gold producers are stretched (average P/NAV ~1.3x), with capital now looking for greater potential in smaller-cap producers or earlier-stage developers/explorers.

Figure 3: Average P/NAV for gold producers vs gold price (market cap weighted, no multiple)



Source: FactSet, Canaccord Genuity. Past performance does not predict future results.

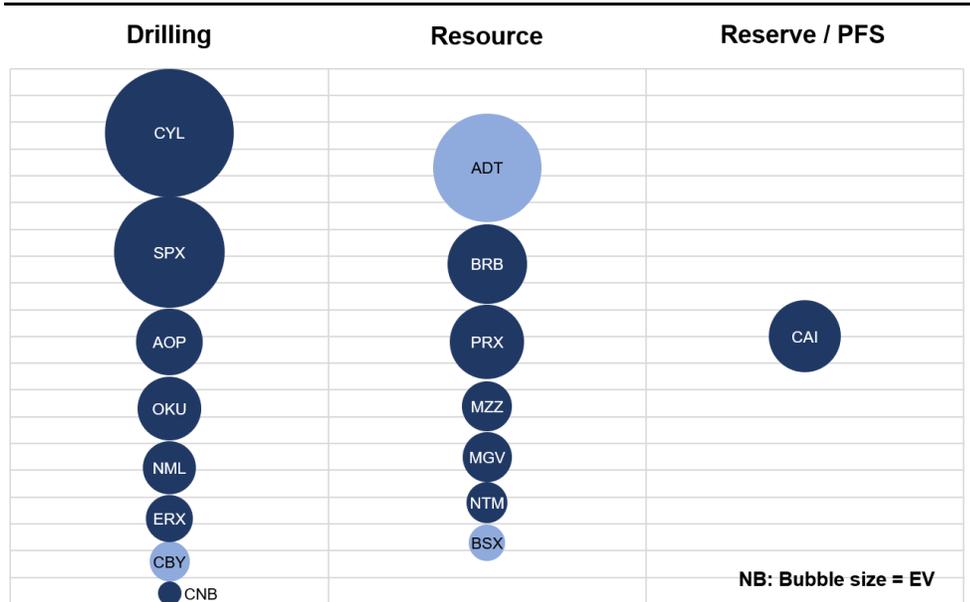
Finding the next Bellevue Gold

- A standout exploration company over the last 12 months (+220% share price accretion), and our top pick for early-stage developers is Bellevue Gold (BGL : ASX : A\$0.58 | SPEC BUY | PT A\$1.00 | Analyst: Tim McCormack). BGL has grown its [Resource base to 1.8Moz at +11g/t.](#), which excludes the recently discovered Deacon lode at depth. Our modelling assumptions supporting our A\$1.00/sh TP are detailed in a recent note [Resource update expected, big picture improving.](#)

Watch List constituents by development stage

- We observe a wide range of EVs when breaking out our Watch List constituents by development stage, (bubble size = EV). Typically, market valuations rise in line with exploration success, resource delineation and feasibility, but as shown in Figure 4, some companies are already seeing much success priced in despite being in the pre-resource stage. We acknowledge that this is arguably a crude comparison as this fails to adequately capture the “quality” of an exploration prospect/deposit (size, grade, location etc). Nevertheless, this highlights the significant upside opportunities as companies move through the exploration and discovery phases.

Figure 4: Watch List constituents by development stage

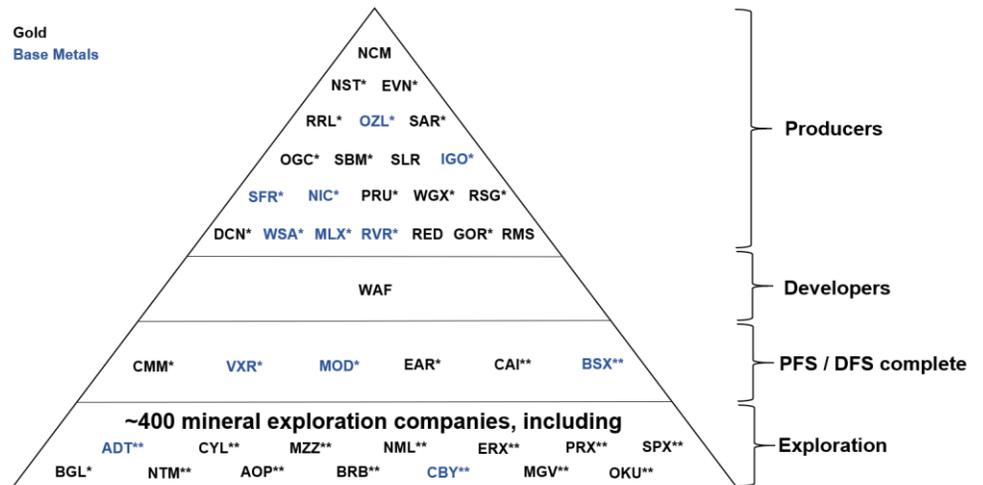


Source: Company reports, FactSet

Development pipeline looking thin

- Our research highlights a dearth of developers among ASX-listed gold companies with only one company currently in construction (West African Resources, San Brado Gold project [WAF:ASX | Not rated]). The situation is even more stark for base metals companies. With this notable “gap” in the project development pipeline, we are seeing increased opportunity for earlier-stage explorers to advance projects as more capital becomes available, with increased exploration expenditure potentially leading to more discoveries, filling out the pipeline and possibly leading to M&A activity from established producers.

Figure 5: Gold/base metal developer pipeline looking thin



* Under full coverage
** Denotes Watch List constituent
Source: Company reports

Increasing news flow on back of increased activity – upcoming potential catalysts

Resource and studies

- [Apollo Consolidated Ltd](#) – Maiden Resource for Lake Rebecca, by end of CY19e.
- [Breaker Resources NL](#) – Resource update and PFS, DecQ'19e.
- [Adriatic Metals](#) – Scoping study for Veovaca and Rupice, H2'19e.
- [Exore Resources Ltd](#) – Maiden resource at Antoinette, SepQ'19e
- [Calidus Resources Ltd](#) – Resource update, MarQ'20 | DFS SepQ'19e.
- [Blackstone Minerals Ltd](#) – Maiden resource for Ban Phuc, H1'20e.
- [Matador Mining Ltd](#) – Updated resource, DecQ'19e.
- [Oklo Resources Ltd](#) – Maiden oxide resource, MarQ'20

Drilling results

- [Carnaby Resources Ltd](#) – Tick Hill surrounds and follow-up drilling at Mt. Birnie.
- [Canterbury Resources Ltd](#) – Assays for EK004 (Ekuti), initial Briggs & Mannersley drilling.
- [Musgrave Minerals Ltd](#) – Lake Austin and Lena depths (below Resource).
- [NTM Gold Ltd](#) – Hub drill results (high grade)

Capital structure and major shareholders: ERX currently has 465.5m ordinary shares on issue and an additional 26.2m options at varying strike prices and expiry dates, including:

- 9.0m options @ A\$0.001/sh expiring 1st February 2023.
- 17.2m options @ A\$0.001/sh expiring 8th October 2022.

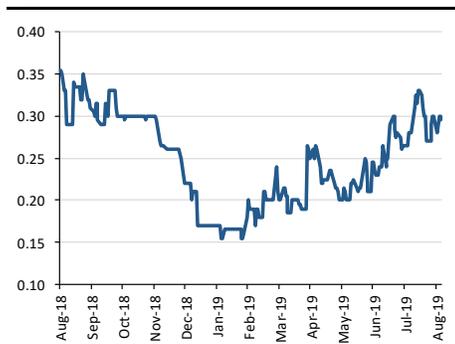
Major shareholders include (as of May'19);

- Management – 9%

An analyst has not visited the properties held by Exore Resources.

Matador Mining Ltd

Figure 78: MZZ: ASX



Source: FactSet

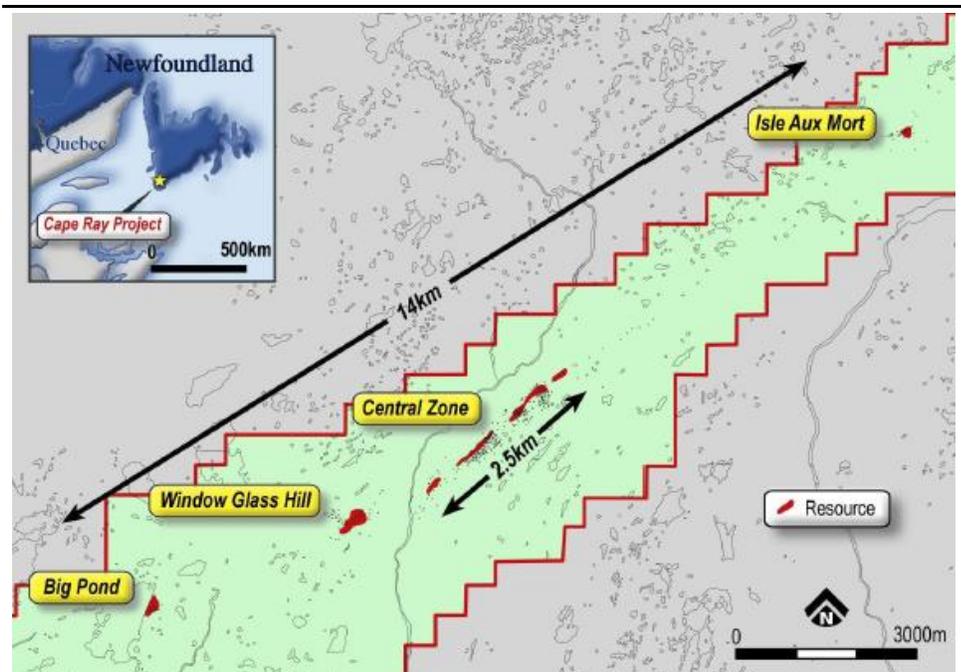
(MZZ:ASX: A\$0.32/sh | M/Cap: A\$32m | Cash: A\$2.9m | Not Rated)

Contact: Tim McCormack (tim.mccormack@canaccord.com.au) +61 8 6216 2088

We do not provide a rating, estimates, or a target price for Matador Mining

1Moz in the bag, plenty more to come: MZZ's Cape Ray gold project is located in the south of Newfoundland, Canada, approximately 25km from the nearest coastal town of Port aux Basques. Gold mineralisation in Newfoundland is concentrated along a regional scale geological feature called the Cape Ray shear, with the largest deposit being Marathon Gold's (MOZ.TSX :C\$1.30 | SPEC BUY | PT C\$2.00 | Analyst: Eric Zaunserb) 4.2Moz Valentine Lake project. The area is underexplored and MZZ has done an impressive job of consolidating the southern portion of the regional structure, with its project area currently covering ~65km of potential strike, and with Resources already defined over ~14kms.

Figure 79: Cape Ray project



Source: Company reports

During 2018, MZZ completed a review of the historic data at its project, together with a drill program that culminated in a 1.02Moz at 2.2g/t JORC Resource being defined in early 2019, with 65% being in the Indicated Resource category. The bulk of the current Resource is hosted in second-order structures and splays off the main Cape Ray shear within four areas for a total strike ~14km. The Central Zone is a single large system (previously modelled as numerous small projects) and hosts most of the ounces (810koz at 2.6g/t), over a 2.5km strike length, and <200m deep. MZZ has also completed metallurgical test work on its Cape Ray project, with results demonstrating gold recoveries from both cyanide (~96%) and floatation (~90%), offering simple and proven processing solutions should the project reach production.

Figure 80: Cape Ray Resource

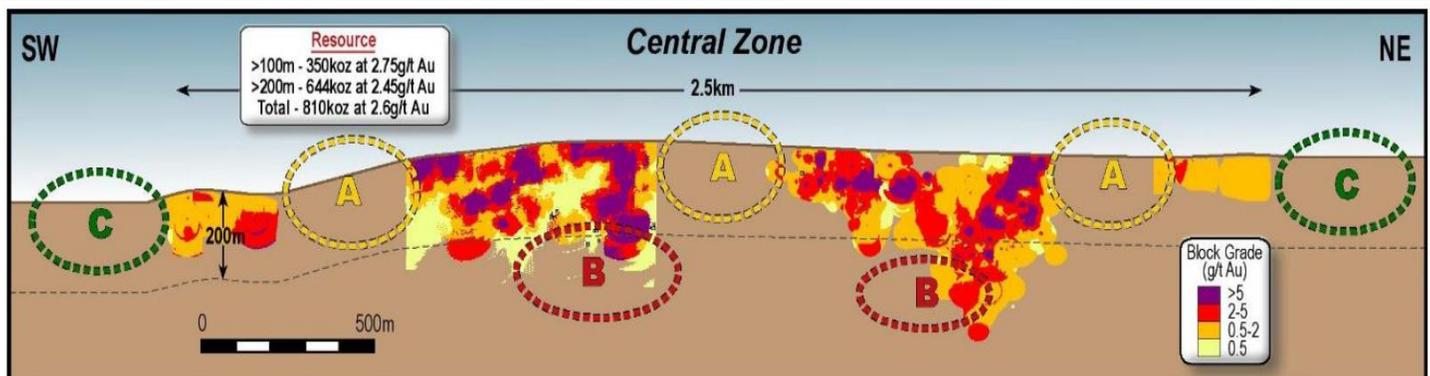
	Indicated			Inferred			Total		
	MT	Au(g/t)	Koz(Au)	Mt	Au(g/t)	Koz(Au)	Mt	Au(g/t)	Koz(Au)
Central Zone	7.6g	2.7	660	2.03	2.3	150	9.72	2.6	810
Isle Aux Mort	-	-	-	0.78	2.4	60	0.78	2.4	60
Big Pond	-	-	-	0.11	5.3	18	0.11	5.3	18
WGH	-	-	-	3.64	1.2	134	3.64	1.2	134
Total	7.6g	2.7	660	6.56	1.7	360	14.25	2.2	1,020

Source: Company reports

All the deposits comprising the Resource are open along strike and at depth that offers good potential for further Resource growth, and MZZ has recently commenced an aggressive 12,000m drill program testing for extensions to the known mineralisation. The company should be well funded with A\$5m in cash, and the key targets of the program are highlighted below:

- Central Zone – 9,000m of RC and diamond drilling is planned, which is to include infill targets between the current deposits, potential trend extents of multiple interpreted open high-grade sub-lodes, and extensions at depth as well as testing geochemical targets along strike. Priority targets are highlighted below.

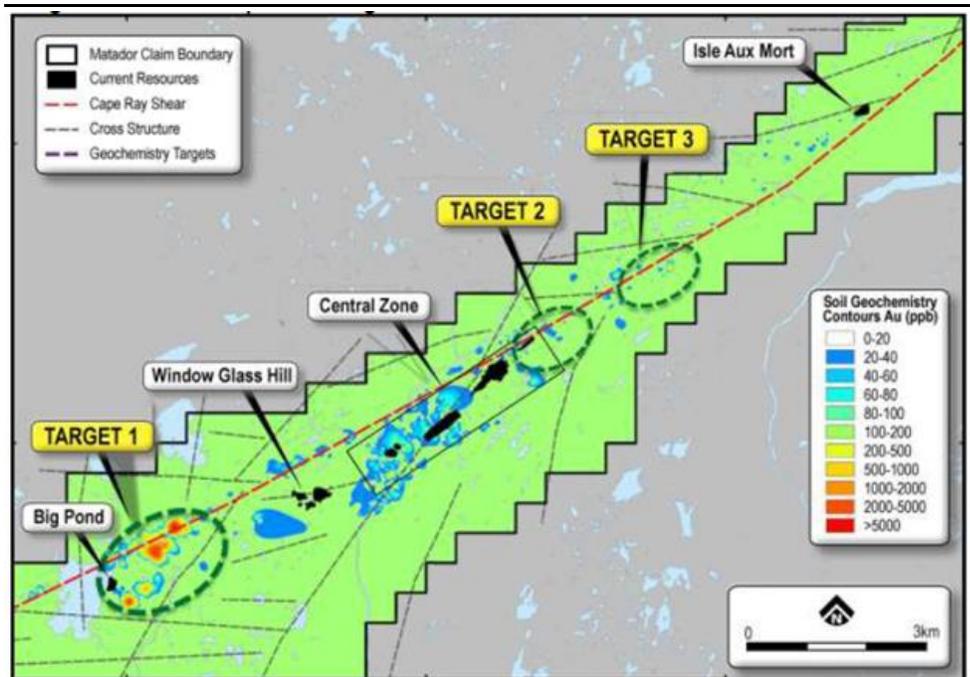
Figure 81: Cape Ray long section



Source: Company reports

- Window Glass Hill (WGH) – ~1,500m of drilling is planned at WGH, targeting extensions to the current Resource (134koz at 1.2g/t) and testing for potential lode repeats. Unlike the Central Zone, where mineralisation is hosted along the Cape Ray shear zone or its secondary structures, mineralisation at WGH is hosted within a large granitic intrusion, similar to 4.2Moz Valentine Lake project. Extension of the WGH granite is located to the north and parallel to the main lode-style mineralisation at Central Zone and only a small portion along strike has been drilled, with ~2.5km of prospective strike remaining untested.
- Greenfields – a minimum of 1,500m of drilling is planned for greenfield exploration targets defined by mapping and soils/rock geochemistry. The major focus will be at Target 1, where significant geochemistry results have been recorded to the north-east of the current Resource at Big Pond.

Figure 82: Cape Ray plan view showing three additional targets



Source: Company reports

With exploration well underway, we expect to see steady news flow going forward, which could be a potential positive catalyst for the stock, and should continue to demonstrate the scale of the cornerstone asset. Later in the 2H of 2019, results expected from the WGH and greenfields programs are also potentially high impact, both in terms of resource expansion and new discoveries.

Capital structure and major shareholders: MZZ currently has 98.6m ordinary shares on issue and an additional 77.1m options at varying strike prices and expiry dates, including:

- 15.9m options @ A\$0.20/sh expiring 30th August 2020.
- 7.25m options @ A\$0.20/sh expiring 7th November 2019.
- 0.833m options @ A\$0.30/sh expiring 3rd July 2020.
- 1.0m options @ A\$0.416/sh expiring 3rd July 2020.

- 0.666m options @ A\$0.48/sh expiring 6th July 2020.
- 3.0m options @ A\$0.40/sh expiring 6th July 2021.
- 3.0m options @ A\$0.55/sh expiring 6th July 2021.
- 3.0m options @ A\$0.70/sh expiring 6th July 2021.
- 2.5m options @ A\$0.40/sh expiring 26th July 2020.
- 1.7m options @ A\$0.40/sh expiring 2nd July 2022.
- 31.25m options @ A\$0.23/sh expiring 2nd July 2022.
- 0.987m options @ zero exercise price expiring 1st July 2022.
- 1.053m options @ zero exercise price expiring 1st July 2024.
- 1.25m options @ A\$0.35/sh expiring 1st July 2022.
- 1.25m options @ A\$0.40/sh expiring 1st July 2022.
- 1.25m options @ A\$0.45/sh expiring 1st July 2022.
- 1.25m options @ A\$0.50/sh expiring 1st July 2022.

Major shareholders include:

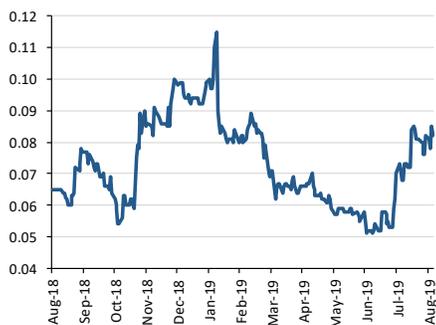
- Grant Davey (NED) – 18.8%
- Brenton Resources Inc – 8%

An analyst has not visited the properties held by Matador Mining.

The authoring analyst, a member of the authoring analyst's household, or any individual directly involved in the preparation of this investment research, has a long position in MZZ shares or derivatives, or has any other financial interest in the relevant issuer, the value of which increases as the value of the underlying equity increases.

Musgrave Minerals Ltd

Figure 83: MGV: ASX



Source: FactSet

(MGV:ASX: A\$0.08/sh | M/Cap: A\$32m | Cash: A\$3.5m | Not Rated)

Canaccord Genuity (Australia) Limited has received fees as a Joint Lead Manager to the placement of 59.8 million shares at A\$0.092 per share to raise A\$5.5 million in December 2019.

Contact: Tim McCormack (tim.mccormack@canaccord.com.au) +61 8 6216 2088

We do not provide a rating, estimates, or a target price for Musgrave Minerals

Musgrave Minerals is an ASX-listed Australia-based gold-copper explorer with its primary focus on its 100% owned Cue Project located in the Murchison Province of Western Australia. The company is funded to complete its planned exploration program over the next ~3-6 months following a placement of A\$5.5m completed in the DecQ'18 (estimated burn rate of ~A\$1.5m per qtr). MGV also hold exploration tenements in the Gawler Craton region (Corunna project) and Musgrave region (Musgrave project) located in South Australia; see Figure 84.

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Investment Recommendation

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Rating	Coverage Universe		IB Clients
	#	%	%
Buy	510	58.35%	51.18%
Hold	206	23.57%	35.92%
Sell	28	3.20%	17.86%
Speculative Buy	130	14.87%	74.62%
	874*	100.0%	

*Total includes stocks that are Under Review

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