

Drilling and cash the key to picking the next junior gold explorer break out

In early September, 2021 I wrote an article on the merits of potentially investing in gold, more specifically the gold miners, as they had been underperforming the underlying commodity price. Did the trade work out? It depends on when you bought and if/when you sold. Frankly, I'm not overly concerned because I'm not an investment advisor and I'm not qualified to provide anyone with investment recommendations. I'm simply trying to present ideas to readers that they can evaluate on their own and decide if it's a good idea for them in the context of their risk/reward profile. With that said, I will take another stab at trying to make a case for the potential to invest in junior gold explorers in the context of the current market.

As I noted in the first article, I'm not a gold bug, I'm just an investor. I have no vested interest in talking up gold or any of the underlying equities. However, because I write about a lot of junior mining stocks, many of them being gold explorers or at least companies having some precious metal exposure, I've noticed of late that a lot of them are trading at or near 52-week lows. This got me wondering if there was a legit reason for this or if the junior sector was simply getting crushed by a massive "risk-off" trade. Of note, I'm specifically looking at explorers this time around, not producers. Producers have been facing their own set of challenges with rapidly increasing costs, like Equinox Gold Corp. (TSX: EQX | AMEX: EQX) or geopolitical risks like Kinross Gold Corp. (TSX: K | NYSE: KGC). Check out how Equinox performed at the end of April when they guided much higher with their AISC (all in sustaining cost) than the market was expecting. And they aren't alone in this issue, so I figured

I'd stick to the segment of the market that is purely driven by drilling results and optimism around gold prices.

As for the price of gold, if I had a dollar for every "expert" on the business news channels over the last 6 months that got the call on gold prices correct, I wouldn't have very much money right now. Back in September I simply stated that the price of gold looked OK but not outstanding. A 1-year chart had support levels at \$1,770 and \$1,675 with upside to potentially test \$2,000 but if the price rallied back above \$1,850 for a couple of days I would change my tune. Gold got down to \$1,740 in late September, made a "head fake" break out above \$1,850 for 2 weeks in November, retested \$1,775 in December then went on a great run up to \$2,000 in March. I could argue I was right, and someone could just as easily argue I was wrong. Timing is everything and everything changes with time.

Fast forward 8 months and not much has changed from a technical perspective. I still see support around \$1,750 with an upside to \$2,050 but it would have to trade above \$1,910 for me to get excited right now, which seems to be an interesting resistance level, as well it would get you above the 200 day moving average. Of note, it appears that gold is pretty safe to sell if the RSI (relative strength index at the top of the chart) gets above 70 and potentially a buy when the RSI touches 30.



Source: Stockcharts.com

What I didn't do last time, but will endeavor to undertake this time, is some macro comments on why gold the commodity may be poised to finally break out. Generally speaking, gold tends to have a negative correlation to the US Dollar, which recently hit all time highs relative to virtually every major currency. The US Dollar is overbought and appears to be starting to roll over. This could result in some bullish sentiment returning to gold. Another macro observation is that gold seemed to be fighting for investing interest with the crypto universe. Cryptocurrencies were being billed as the new gold. At least for the time being, that doesn't seem to be the case as crypto investors appear to be running for the exits. Will gold benefit from this? We may never know but it likely doesn't hurt gold's popularity. Lastly, gold is sometimes considered an inflation hedge and if you've put gas in your car or been grocery shopping you know inflation is taking its toll. Right now funds flow appears to be chasing oil stocks as the inflation hedge but once portfolio managers hit a certain threshold of oil exposure they will look elsewhere. Perhaps

that could be a tailwind for gold, but this is the factor I have the least confidence in.

So what does it all mean? Putting a bunch of mixed and random thoughts together has led me to believe that junior gold mining explorers may be getting unduly punished right now by a market full of uncertainty bordering on fear. However, the opportunity is not broad based. You want to look at companies with cash to fund future drilling because if they don't have the money right now, you don't want to be out raising capital at 52-week lows. Preferably you want to find companies with active drilling underway so you don't have to wait too long for news to come along but having cash is the #1 priority.

Here are a couple of ideas in no particular order, including Troilus Gold Corp. (TSX: TLG | OTCQX: CHXMF) and Westward Gold Inc. (CSE: WG | OTCQB: WGLIF), that meet the criteria of cashed up and drilling like mad.

| <u>Name</u> | <u>Ticker Symbol</u> | <u>Yesterday Close</u> | <u>52 Week</u> | | <u>Estimated Capital C\$ M</u> | <u>Market Cap C\$ M</u> |
|--|--------------------------|------------------------|----------------|-------------|--------------------------------|-------------------------|
| | | | <u>Low</u> | <u>High</u> | | |
| Sokoman Minerals Corp. <i>Note: Halfway through 100,000 m drilling program</i> | TSXV: SIC OTCQB: SICNF | \$ 0.31 | \$ 0.24 | \$ 0.78 | \$13.0 | \$70.0 |
| Troilus Gold Corp. <i>Note: PFS due mid-2022, actively drilling</i> | TSX: TLG OTCQX: CHXMF | \$ 0.69 | \$ 0.60 | \$ 1.31 | \$30.0 | \$155.0 |
| Westward Gold Inc. <i>Note: 12-15 hole, 4,000 m drilling campaign to begin in June</i> | CSE: WG OTCQB: WGLIF | \$ 0.15 | \$ 0.095 | \$ 0.33 | \$2.5 | \$10.0 |
| Viscount Mining Corp. <i>Note: 15 hole, 4,200 m drill program to be completed July 1</i> | TSXV: VML OTCQX: VLMGF | \$ 0.31 | \$ 0.265 | \$ 0.55 | \$1.6 | \$26.0 |