

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

written by InvestorNews | May 27, 2022

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.



Is it time to invest in Gold, or maybe just in Gold Miners?

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It seems like nowadays when we start a conversation about investing in gold one has to also include commentary on [Bitcoin](#). There's no doubt some investment funds that traditionally found safe haven in gold have drifted over to the much more volatile domain of [cryptocurrencies](#). That's just part of the evolution of the market and, as an investor, one has to adapt. Nevertheless, I will argue that whatever the reason you have for putting a portion of your portfolio into gold or cryptocurrency, you definitely need to have a strong stomach to manage the day-to-day gyrations in Bitcoin, Ethereum, for example, and the like. Not that gold doesn't have its moments, like the weekend of August 6th when it essentially plummeted 7% over the weekend, but that was relatively short lived. Arguably gold has traded in a range from \$1,700 to \$1,950 for the last year. Bitcoin on the other hand has a one year range of roughly \$10,000 to \$63,000. I dare say a bit of a difference.

Now before you start complaining and telling me to go get my walker, because I'm a dinosaur and haven't kept up with the times, I need to point out that this isn't an article about the merits of gold versus crypto. This is solely an article about exploring the potential of investing in gold currently and that's it. The commentary on crypto is simply to highlight that

gold may not be the “go-to” alternative investment it once was. Perhaps Bitcoin et al are attracting some of the same investment dollars meaning that maybe gold doesn’t have the same upside it could have had in a different time...or maybe it does, we’ll have to wait and see how that plays out.

Another topic I’m not going to delve into is the merits of having gold in your portfolio as a safe haven investment or hedge against inflation or whatever. I’m not a gold bug. I’m just an investor. And as such it’s good to know things like: gold tends to have a negative correlation to the US Dollar; generally speaking, it usually doesn’t go down as much as equities in times of crisis or market meltdown (although that’s debatable in more recent times); and that as a finite resource it cannot be printed like a fiat currency. But ultimately, for something like gold, I’m simply looking at charts and momentum and the like because it’s tough to review the fundamentals of most of the above items that tend to affect the price of gold in order to come up with an investment thesis other than technical analysis. Gold miners on the other hand are a completely different story but we’ll get to that.

At present, I would suggest gold looks OK. Not outstanding, not screaming “buy me”, just OK. If we look at the 1-year chart below we see support levels at \$1,770 and \$1,675 with upside to potentially test \$2,000. Depending on your risk tolerance you could buy it now, put in a stop loss around \$1,750ish and have a decent risk-reward trade. On a bullish note, it recently broke above both the 50 day and the 200 day moving average, but is struggling to sustain those thresholds. So I’d give it another day or two to see how that plays out. If the price can rally back above \$1,850 for a couple of days I would change my tune and say now we’re talking about something a lot better than just OK. In the meantime, it has piqued my interest as it appears to be a trade with more upside than downside.



Source: StockCharts.com

Having a strategy for the underlying commodity now allows us to look at the miners for additional opportunities. In my opinion, here is where things get interesting. The two charts below show the commodity price (red line) versus the gold miners (blue line) represented by the VanEck [GDX ETF](#) and the junior gold miners (green line) represented by the VanEck [GDXJ ETF](#). Albeit, what the GDXJ ETF considers “junior” miners and what I consider junior miners may differ, you’ll still get the point.

The first chart is a one year comparison of the three in terms of relative performance, as in they all start at 0% return on day 1. The second chart shows what has happened since the start of June, when gold tested \$1,900 but couldn’t decisively break above. As you can see both the miners and the junior miners have significantly underperformed the underlying price of gold over the last year, primarily in the last 3+ months.



Is this underperformance a result of the miners leading the gold price and should one anticipate gold to drop significantly? Or is it an opportunity to get long the miners right now because they have been unfairly punished relative to the price of gold?

What I do know is that almost all gold producers are making money hand over fist with gold over \$1,750. One would think that as balance sheets get cleaned up with all that cash generation, as long as the sector as a whole doesn’t revert back to old habits of overpaying for acquisitions when the coffers are full, we could start to see more share buybacks or dividends or a whole bunch of drilling to expand existing resources or define

new ones. All of which should be quite bullish.

Ultimately an investor can play this however they like. I know I'm taking a lot closer look at the junior gold producers right now as I think there could be an opportunity there.

A potential gold star is born along the Ring of Fire, aptly named Kalo Gold

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Some of the best gold discoveries have been made along the so-called "Ring of Fire", such as the world's second-largest gold mine, Grasberg in Indonesia. In fact, the majority of Earth's porphyry copper-gold deposits and several epithermal gold deposits occur along the Ring of Fire. This is because the Ring of Fire is a region around much of the rim of the Pacific Ocean where many volcanic eruptions and earthquakes occur. It is this activity that brings the huge gold deposits towards the Earth's surface.

One company has a gold project along the prolific Ring of Fire, located in Fiji, a beautiful Pacific Island. The company is [Kalo Gold Holdings Corp.](#) (TSXV: KALO) ("Kalo Gold").

Interestingly, in the Fijian language "Kalo Kalo" means "star". Kalo believes that they may have a star mineral property in the making and perhaps a star mineral district for Fiji.

Kalo Gold's Vatu Aurum Project is located in Fiji and

strategically along the Pacific Ring of Fire – The Pacific Ring of Fire is known for its many huge gold deposits



Source: [Company spotlight presentation](#)

Kalo Gold's Vatu Aurum Gold Project

Kalo Gold is focused on their 100% owned high-grade Vatu Aurum Gold Project on Fiji's north island of Vanua Levu. Kalo Gold holds two mineral exploration licenses covering over 36,700 hectares.

The Project has a [Historical Resource of 158,831 oz Au](#) (not to be relied upon) as well as some high-grade gold in drill core intercepts such as hole KCD17 with **10m @ 27.18g/t Au** (including 1m @ 120g/t Au) and hole KCD18 with **6m @ 15.88g/t Au**.

Historical work included 9,479m of diamond drilling, 50% was done by Placer Pacific, concentrated in the resource area at Qiriyaga Hill. The area needs further drilling to better define the Resource. Exploration is done with an in-house drill which results in low costs and greater efficiency. To date, only 2% of the land has been explored leaving large potential for district-scale discovery.

[Announced](#) in March 2021, the first two drilling results at the Qiriyaga Zone on the Vatu Aurum Gold Project results were impressive with results including:

- "First hole drilled, KGD-01, recorded multiple thick, near surface gold intersections, over an interval of **101m averaging 0.94 g/t Au, starting at surface.**
- KGD-01 intersected multiple higher-grade intersections, including **2m at 6.00 g/t Au** at 8m depth, **16m at 2.08 g/t Au** at 69m depth including **2m at 5.36 g/t Au** at 69m depth."

[Announced](#) on May 26, 2021, Kalo Gold reported high-grade gold-silver-copper mineralization at Mouta Prospect on the Vatu Aurum Gold Project, results including:

- “**2 g/t Au**, 645 g/t Ag and 3.12% Cu (19.3 g/t AuEq) from rock chip outcrop sampling and **3.06 g/t Au**, 819 g/t Ag and 1.63% Cu (16.6 g/t AuEq) from historical stockpile grab sample.”

Kalo Gold’s Vatu Aurum Project has 7 historic and 7 new targets spread along a 25 km belt



Source: [Company spotlight presentation](#)

The Project region has good infrastructure and access for active exploration and mining. Fiji has a long history of mining operations including the Vatukoula Mine which has been producing gold for over 75 years, with over 7 million ounces of gold produced. Fiji is a prolific, proven, and growing mining jurisdiction.

Kalo Gold has proven management with [~30% share ownership](#), so good skin in the game. Director & CEO, Technical Lead, Fred Tejada, P.Geol has over 35 years of international mineral industry experience with both major and junior companies.

Closing remarks

Kalo Gold Holdings trades on a market cap of C\$16 million reflecting the early exploration stage of the company. The Historical Resource of 158,831 oz Au is not to be relied upon but is a useful rough guide of what has been found to date. Drill results announced in March 2021 were very encouraging and the potential of the region looks very exciting.

As with all junior miners, there is exploration risk and sovereign risk, but in this case, there is also the chance at big reward given the Ring of Fire location. Just maybe a 'star' will be born as the name *kalo kalo* suggests. Stay tuned for further exploration results in 2021.

Will 2021 be the year of M&A in the gold industry?

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2021 looks like being a record year for monetary stimulus, and this should mean a strong year for gold prices. Given the difficulty and cost in finding new gold discoveries and the potential for higher gold prices a year from now, it looks likely that 2021 will see plenty of action in the mergers and acquisition (M&A) space for gold companies.

Flush with cash and while interest rates remain low, mid-tier and large-tier gold miners will be looking to boost their gold reserves/resources by acquiring promising junior gold miners. Today I look at some of the junior gold miners that have significant gold resources that would be ripe for takeover.

[Troilus Gold Corp.](#) (TSX: TLG | OTCQB: CHXMF)

Troilus Gold has a market cap of just C\$163 million (US\$128 million) and has [one of the largest undeveloped gold resources in Canada](#). The Troilus Project, located in Quebec Canada, has an Indicated Resource of [4.96 million ounces of contained AuEq @ 0.87g/t AuEq](#) and an Inferred Resource of **3.15 million** ounces of

contained AuEq @0.84g/t. Valuable by-products include copper and silver. At gold US\$1,950 the PEA post-tax NPV5% is US\$1.156 billion and the Project has US\$350 million worth of existing infrastructure in place. I could definitely see some gold companies taking a look at Troilus Gold in 2021. You can read more [here](#).

[Euro Sun Mining Inc.](#) (TSX: ESM)

Euro Sun Mining is developing their large 100% owned gold-copper porphyry Rovina Valley Project in Romania. The Project has a M&I Resource of [7.05 million gold ounces and 1.39 billion copper pounds](#), a completed positive 2019 PEA, and a 20 year renewable Romanian Mining Licence. The Rovina Valley Project intends to be a large-scale bulk tonnage open pit mine for gold and copper production. On a market cap of C\$55 million (US\$42 million) Euro Sun Mining could attract considerable interest from larger gold miners comfortable with the Romanian sovereign risk. You can read more [here](#).

The Rovina Valley Project is comprised of three main deposits less than 3kms apart – Rovina, Colnic, & Ciresata (combined M&I 7M ozs gold & 1.39B lbs copper)



[Source](#)

[Ascot Resources Ltd.](#) (TSX: AOT | OTCQX: AOTVF)

Ascot Resources has a market cap of C\$401 million (US\$316 million) and a M&I Resource of 7.3Mt @ 7.85g/t & Inferred 5.5Mt @ 7.11g/t (containing ~ **3.1 Mozs of gold & 11.6 Mozs of silver**), noting this includes only 48% of the resource that was included in the [2020 Feasibility Study \(FS\)](#). The FS post-tax NPV 5% is C\$341 million (at US\$1,400/oz Au), with a post tax 51% IRR. An

initial low CapEx of C\$147 million is also favorable, as is the low forecast All In Sustaining Cost (AISC) of US\$769/oz. Assuming a spot gold price of US\$1,710 per ounce and spot CAD to US exchange rate of 0.71, the project economics increase to an post-tax [NPV5% of C\\$602 million](#) and IRR of 78%.



[Source](#)

Closing remarks

It is looking very likely we will have a stronger gold price in 2021 as the Biden administration looks to boost stimulus monies into the US economy. The COVID-19 stimulus checks and a possible 2 trillion green infrastructure plan will likely be just the beginning of stimulus in the Biden era. For investors this means well valued gold junior miners can do very well in 2021. Those that become takeover targets can do even better.

All three gold juniors discussed above are strong takeover candidates in 2021, or at the very least should benefit if gold price rises in 2021. This is because they all have very significant amounts of gold but their market caps are still not too high.

InvestorIntel would be happy to hear from any gold juniors that think they are undervalued and possible takeover targets in 2021, as well as investor's thoughts on any attractive gold juniors.

Further reading

- [Will 2021 be a golden year for gold investors?](#)

Disclosure: The author is long Troilus Gold Corp. (TSX: TLG)