

Jury Report 2022 CDFund Discovery Award

CDFUND.COM

Terence van der Hout
Jury CDFund 2022 Discovery Award



Jury Report 2022

CDFund Discovery Award

The jury has compiled a shortlist of six mining companies that are eligible for the prize this year.

The nominees, in random order, are:

- Filo Mining
- Predictive Discovery
- Banyan Gold
- Reunion Gold
- Antipa Minerals
- New Found Gold

The final shortlist and selection of the winner was done following the criteria we use for managing positions in our fund: the winner fits our Discovery Investing model perfectly. In essence, this amounts to the quality of the discovery hole, the subsequent confirmation of the discovery in follow up drilling, exploration pointing towards a world class deposit, a producer as partner with an interest and capability in moving the project towards production, a very probable outlook on a takeover, and, most importantly, value creation for our portfolio.

Nominees:

Filo Mining

Filo is developing the massive tier 1 Filo del Sol copper gold porphyry in Argentina, close to the Chilean border. With a total resource of almost 9 mil oz of gold, 300m oz of silver, and 4.3b lbs of copper, this is an incredibly large metal deposit. About two fifths of this is in oxides that are amenable to heap leaching, and this portion has been subject of a PFS that shows an NPV of \$1.28b, IRR of 23%, and annual gold production of 160k oz, 8.6m oz of silver, and 67kt of copper. Although the project was discovered way back in 1999, the stock got into discovery overdrive with a 13th May 2021 hole of 858m @ 1.8% Cu eq. This ran the company valuation up from a share price of \$4 to a peak of \$26.50, a year later.

The company is operated by a team with close ties to the Lundin Mining group, and BHP owns 5% of the company. Access to water in this region is often an issue, but Filo can source this from aquifers. A project this size is inevitably burdened with a large capex, and given the run up in valuation to \$2.3b, it will be a stretch to see a double from here: the discovery phase has very much run its course. However, exploration upside in the sulphides is still massive, and we believe they will be producing at Filo del Sol for decades.

Predictive Discovery

Australian based Predictive Discovery has discovered a large gold deposit at surface in Guinea, Western Africa. The speed of resource expansion has been unprecedented: from an April 2020 discovery hole of 46m @ 6.58 g/t Au, Predictive has defined an open pit resource of 3.9m oz @ 1.65 g/t Au at NE Bankan alone, drilling 80,000m over the period.

The company is still drilling with 9 drills currently, and we should easily expect a total resource exceeding 5 mil oz in the near future, given the exploration upside of the properties. Already, significant mineralization is being found below the pit outline, and the company has a further 12 targets to test along the trend. The stock ran up from around 1c pre-discovery to around 20c currently, and the company value now sits at around \$370m. There is still upside in this valuation. There are a few hurdles to get over. Stripping ratio will not be low, economics are unknown, and importantly the project sits in a buffer zone of a nature reserve that will require negotiations with the central government to pay off in a likely NSR (as has been the case elsewhere in the country), although this may overhang the stock until resolved at a more advanced stage. In general, Guinea is largely an unknown factor in mining to the investment community. When all is said and done, we are confident total resources on Predictive's Guinea property may reach a size similar to Fekola.

Banyan Gold

Banyan is exploring at their AurMac property, in The Yukon, Canada. The project is in close proximity to Victoria Gold's operating mine, and has similarities in terms of geology, mineralization and grades. Although exploration has been going on for a while, recent activity has ramped up exploration quickly, with a total of 100,000m drilled, and the combined resources on the project have reached a swift 4 mil oz at 0.6 g/t Au, with an outlook on an additional 2-3 mil oz. Although the grade should be deemed low, the deposits are of a positively boring consistency and continuity, starting from surface, and Victoria has shown that heap leaching these grades can be done profitably in this environment.

Amazingly, only 3km of the total 16km resistivity strike has been explored. A PEA is still far out, such that we won't have a definitive handle on the economics for a while. Production may not get done within the next five years or even more. However, given the proximity of Yukon first mover Victoria, and the willingness of major producers to gain a foothold in a safe jurisdiction, the project quality pretty much ensures a takeover somewhere down the road, and not at the current market cap of \$100m.

Antipa Minerals

Antipa is developing its 100% owned Minyari Dome deposit, in the Paterson, Australia. A recent maiden resource estimate shows 1.8m oz at 1.6 g/t gold, which is a good start with more to come, of particular importance since the neighbouring Telfer mine, operated by Newcrest, has just a few more years of production left.

The Paterson is getting a lot of love since Rio Tinto discovered the massive Winu deposit some years ago, as well as the development of the Havieron deposit by last year's award winner Greatland Gold, in a joint venture with Newcrest. Importantly, both these deposits are burdened by a thick layer of cover that impacts mining economics and speed of exploration and development. As an early mover into the region, Antipa carefully staked most of the ground with very little cover, and this land package strategy is likely to be Antipa's call to future fame. Besides Minyari, a potential tier 1 project by itself, Antipa has a joint venture with Rio, and both Newcrest and IGO are earning in on two other projects, implying Antipa is very much on the radar of local producing companies. Although it is still early days for Antipa, there are so many moving parts with blue sky for the company, that the current A\$80m market cap will be seen as a bargain once the regional producers start making their moves.

Reunion Gold

Reunion is earning into the Oko West project in Guyana, South America, a project where a total of 44,000m has been drilled since first pass drilling as recent as Q1 2020. Although the discovery hole was anything but spectacular (20m @ 1.54 g/t Au), follow up results kept hitting similar intercepts with every step out over good widths. Mineralization starts at surface, and the softer saprolite runs to a depth of about 50-80m, along a current strike at Kairuni of 2.5km. Sprott estimates that this area alone could account for roughly 3.5m – 4m oz at around 1.5 g/t Au. Then there is a further 3.5km strike extension to work with immediately south at Takutu, a further parallel zone Carol, as well as the more westerly Bryan zone.

We haven't even begun to talk about the depth potential, such that we are very comfortable in seeing a world class tier 1 open pit mine further down the road. Infrastructure in Guyana is a fair bit more of a challenge than in many other jurisdictions, and we don't yet know a lot about the metallurgy, particularly if the fresher rock may be harder to process than the saprolite. However, Barrick is already a JV partner on another Reunion project, and other majors have also caught onto the huge underexplored gold potential in Guyana. Reunion has close ties with G-Mining, and management have an excellent Guyana track record. Although \$400m MC for a junior without a resource appears pricey, we are quite confident that a takeover will come at a much higher value.

New Found Gold

New Found Gold is developing the high grade Queensway discovery in Newfoundland, Canada. With an August 2019 discovery hole of 19m @ 93 g/t gold, New Found became the market darling for over a year after the 2020 listing, rising almost tenfold before pulling back on exhaustion of the discovery hype and the onset of a gold bear market. New Found are striking bonanza grades seemingly all over their vast land package, and it is difficult to show the property's full potential in such a short period of time. On a deposit that has similarities to the famed Fosterville deposit, in Australia, multiple zones are now being followed up along a 9km trend. Once that has been delineated, a parallel 5km trend is next, after which the southern 90km of trend must be explored.

It is the type of project where only a massive annual drilling programme will do justice to the potential scale, something the company is taking to heart, as they now plan to achieve 400km of drilling by the upcoming programme. As yet, there is no resource estimate, and given the non-linear nature of the mineralization, it is hard to model a deposit size at this point. Despite coming off a lot, the valuation at a current \$830m, is still steep, testimony of market awareness of the project quality, but also of the tightly held share structure as a consequence of large shareholders in the form of Eric Sprott and Palisades. It has been almost 15 years since the last high grade >10 mil oz gold deposit was discovered by Aurelian (Fruta del Norte), but when all is said and done, New Found Gold is a prime candidate for the next big one.

Conclusion:

All six companies, to varying degrees, bear the hallmarks of an outstanding discovery:

- Either a blockbuster hole, or large collection of high-quality holes
- Outlook on a world class deposit, a Tier 1 project that would be of interest to a large producer
- Very rapid exploration progress
- Outstanding performance in the CDFund portfolio
- Further potential for value expansion

The winner of this year's Discovery Award has certainly gained in value rapidly over the last two years, after a succession of world class drill holes. There is involvement in the project by a miner, and the deposit is by no means delineated. But the one defining factor this year is the size and quality of the deposit. This is a project that is a company maker by itself, or will provide a large and long-lasting production pillar even for a major. Even on just a portion of its deposit, the project becomes hugely profitable. It is this combination of project size, quality and level of advancement that sets it slightly apart from the other nominees.

The winner of the 2022 Discovery Award is Filo Mining.

Terence van der Hout
Jury CDFund 2022 Discovery Award

Disclaimer: CD Fund owns shares in all mentioned companies and often trades in and out our current holdings. This is not a buy or sell advice. We must note that, although the companies pay a representation fee, they have been selected by us to present, because they fit well in our discovery investing concept. We therefore own shares in all of the presenting companies.