

Challenger Gold has been overlooked by the market

Last week I said that there was a significant improvement in sentiment. There was, but you have to remember that instant gratification is not normal in the market. Sentiment can improve strongly, and then there is a pause and often a pullback while recent movements are digested. Thinking investors prefer to be disciplined. Rather than keep chasing stocks that have already moved, they will wait to see if any sellers move in to take advantage of the recent rises. Further buying will come along once the dust has settled. That is how rational markets work.

Challenger Gold intends to get some traction

Challenger Gold (CEL) is a mid-sized small cap gold company capitalised at around \$76m. It has useful assets in Argentina that have for some reason not been fully embraced by the market, notwithstanding the apparent value. Let's have a closer look to understand why.

Last week it brought out an ASX release concerning a toll treating agreement for its 100%-owned Hualilan Gold Project in Argentina, and a \$6.6m private placement. That is intended to facilitate production from a high-grade component comprising 478,000 t at 5.8 gpt Au and 32 gpt Ag (85,550 oz Au) as a precursor to the larger scale, stand-alone development of the Hualilan gold mine that could produce 100-140,000 oz AuEq p.a. (including silver and zinc).

Funding just organised

The placee of the \$6.6m raising at 4.5¢ was Dolphin Real Assets Fund SPC, part of the Elsttain Group. This will be supplemented with a \$1m SPP that will result in the Company having an \$8m cash balance.

One of the conditions of the above placement was the CEL achieves a Canadian listing. This process is well underway, with listing expected before the end of 2024.

First, a high grade operation for three years

The Toll Milling Agreement has been announced, in principle, but there are still a number of agreements, approvals and preliminary matters to be completed including due diligence, metallurgical work and pit designs. Nevertheless, CEL expects these matters to be finalised by the end of November, enabling production by mid-2025.

Starting from a Scoping Study that identified 1.4 Mt at 3.6 gpt in three pits, the Company has identified four low strip high-grade starter pits that give a potential mining inventory of 478,000 tonnes at 5.8 gpt - only 3% of the total Hualinan resource of 2.8 Moz AuEq. This is mostly oxide, skarn ore with waste:ore ratios of less than 4:1.

Early work suggests gold recoveries of 83-84% using gravity and cyanide leaching and a 106 µm grind size. While this recovery rate is lower than for many other

oxidised gold operations, it is not surprising given that skarn-style mineralisation often has more complex metallurgy.

The treatment rate will be 150,000 tpa. Contract mining costs are expected to be US\$9 pt, trucking will be US\$15 pt and toll treatment cost will be in the order of US\$75 pt. The high grade enables an operating margin of US\$175 pt with EBITDA estimates of US\$70-80m (A\$100-A\$120m) on a U\$2,300/oz gold price, over a three year period. That exceeds the current market capitalisation.

Next, a larger development - flotation and heap leach

Challenger has a Mineral Resource of 60 Mt at 1.1 gpt gold, 6 gpt silver, 0.4% zinc and 0.6% Pb. Converting to gold this works out as 1.4 gpt AuEq, hosting 2.8 Moz AuEq. (NB: The three year high-grade resource has to be deducted).

The current thinking is that the primary ore will be treated through a 1.5 tpa flotation circuit. Open pit feed comprises 12.5 Mt at 2.3 gpt AuEq, with another 3.3 Mt to come from underground workings with a head grade of 3 gpt Au, 14.7 gpt Ag and 1.7% Zn. The higher grade underground ore will kick in in Years 4-5. The orebody is open at depth.

The complex metallurgy requires initial grinding to 75 µm to achieve a gold/silver concentrate with a 10% mass pull. This is to be re-ground to 30 µm and then a reduced mass pull of 5% will be re-ground to 15 µm prior to recovering the precious metal in a dorè.

The low-grade component will be treated in a 5 Mtpa heap leaching exercise with a head grade of 0.4 gpt AuEq, commencing in Year 3.

Gold production from the flotation circuit is expected to be 110-120,000 oz p.a., while the heap leach could contribute another 35,000 oz p.a. based on a 65% recovery rate.

All-up capital costs are estimated to be around US\$300m, including mining fleet and underground development. However, this won't all be required up front. The \$80m for the heap leach won't be needed until years 2-3, and the underground development capital will be required progressively over the life of the mine. Thus there will be an element of self funding, especially when you count the cash flow from the earlier, high-grade tolling exercise.

The Bottom Line

Challenger is not expensive at these levels. The high-grade exercise alone more than accounts for the market capitalisation today. Proceeds from this will make a good contribution to the capex for the larger scale development but additional funding of around +/- \$100m will be required when the time comes to push the button. CEL expects this will come from a mix of traditional project debt and royalty funding.

In the opening paragraph we said that the Company had not yet been fully embraced by the market. The reason may

be because of the complexity of the larger development and the funding required. It may be because of the location in Argentina, though it should be acknowledged that Argentina is looking much better from the geopolitical standpoint due to the new President.

The share price fell from 9¢ in April to hit a low of 4¢ in August at the same time as the gold price was performing strongly. Thus there has been a disconnection. The price has recovered a little over the last month, but there is room for further improvement as the high grade scenario becomes more immediately tangible. It is difficult to see anything but upside from these levels, particularly if the gold price keeps rising.

Agua reveals high-grade copper/gold project

Last Monday Agua gave its El Dovio Project its first public outing with a rather technical release that went deeply into the geology. The previous owners of the project, Canadian-listed Newrange Gold, had interpreted El Dovio as a VMS-type system. However, on deeper analysis, it appears to be an orogenic lode gold style of mineralisation with the later injection of copper and zinc mineralisation.

Geologists may revel in the detail of the release, but for the average investor all you need to know is on the first page. There have been 34 drill holes to date with some of the better intercepts being;

- 2.1m at 15.60 gpt Au, 20.3 gpt Ag, 2.24% Cu & 2.1% Zn
- 6.85m at 5.68 gpt Au, 5.89% Cu & 1.3% Zn
- 2.60m at 9.36 gpt Au, 5.16% Cu, 30 gpt Ag & 0.5% Cu

The orebody has been exposed via an adit that returned channel sampling results of;

- 21m at 9.18 gpt Au, 2.45% Cu, 15.1 gpt Ag & 2.0% Zn.

Trenching near the tunnel portal returned true widths of;

- 6m at 13 gpt, 5.9% Cu, 43 gpt Ag and 1.4% Zn, and
- 45m at 5.6 gpt Au, 0.5% Cu, 6.8 gpt Ag and 0.4% Zn.

Metallurgical test work on a 53 kg bulk sample has shown excellent recoveries of 96.4% for the gold, 97.8% copper, 91.1% silver and 96.8% zinc. These would report to a concentrate.

The significance of the news

While the assays are from historical drilling and sampling, this is all new information to the Australian market. It had not been released previously by Agua. The project was acquired as part of the Andean Mining portfolio that came with the takeover of that company. It has taken some time to come up with the verification of historical results, to the satisfaction of the ASX, but it is now compliant with Chapter 5 of the ASX Listing Rules.

Agua has been concentrating on getting the Santa Barbara Gold Project up and running as it is the lowest cost and fastest route to securing a cash flow. El Dovio is a larger project requiring much more time and money. The 34 drill holes give confidence that we are dealing with a high-grade polymetallic system, but there needs to be many more holes drilled before we can draw numbers around it.

Nevertheless, looking beyond the higher grades reported we can say the grades could potentially be 3% Cu and 5 gpt Au (subject to a lot more work). There is a strong feeling that we are looking at something similar to De Grussa orebody that took Sandfire to a \$2bn market capitalisation. To say that this is a second string project would almost be an insult, given its potential, but you can say it is the second cab off the rank in Colombia.

How should the market react?

The market will react to news flow in many different ways depending upon many different factors, so direct comparison of one project to another isn't necessarily advisable, but it can be interesting.

Let's look at the El Dovio numbers and compare them with the drill results from Australian Copper and Gold at its Cobar Project. Back in May AGC reported these intercepts.

Hole # 30 - 5m at 16.9 gpt Au and 1,473 gpt Ag, from 112m

Hole # 32 - 8m at 1.0 gpt Au and 502 gpt Ag, from 131m,

Hole # 31 - 4m at 0.17 gpt Au and 545 gpt Ag, from 123m.

It was written up as a great discovery. The market reacted very strongly, taking the share price from 12¢ to 61¢ in short order and the market capitalisation to \$135m. The turnover in the market in each of the two days subsequent to the news was almost \$4m.

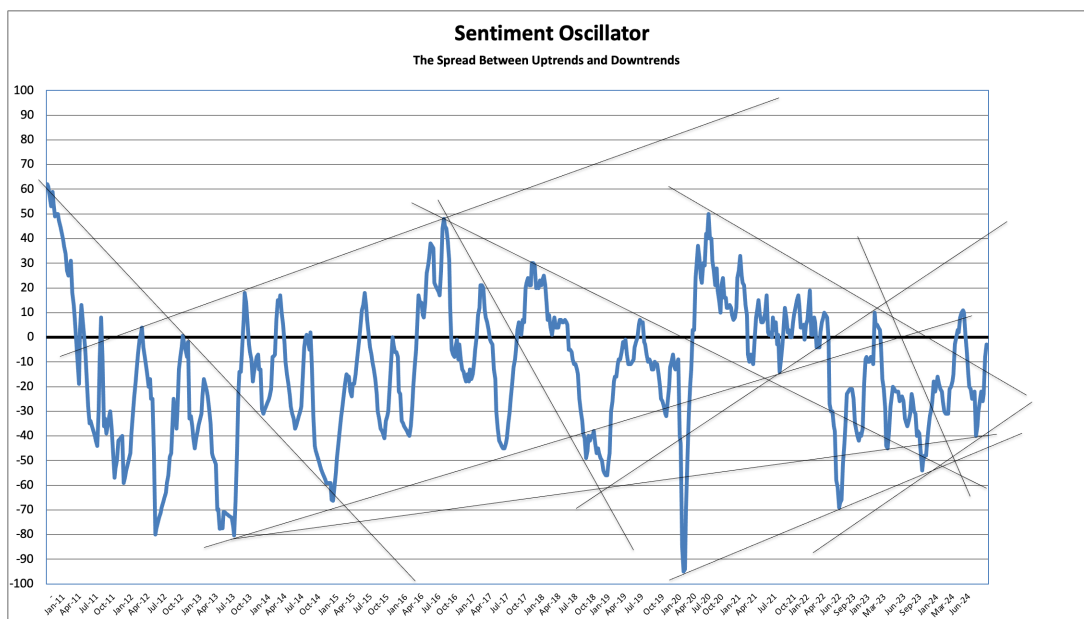
Contrast this performance with that of Agua on the El Dovio release. The shares rose a modest 5% on the day, on turnover of about \$85,000. That suggests it is still flying under the radar with a market capitalisation of only \$53m ... and other, more advanced projects.

Disclosure: Interests associated with the author own shares and options in Agua Resources and he is the Exec. Chairman.

Hydrogen hype was just rubbish

The rats are abandoning the hydrogen ship. FFI wound back its expectation a while ago, sacking 700 workers. Last week Origin Energy also jumped ship. The Prime Minister is left with egg on his face and is now paying the price for being seduced into saying that hydrogen was the way to go. Of course, the more sensible people in the world knew that it was just attention grabbing, self-interested hype with no commercial foundation.

It is obvious that the Federal Government has no idea what it is doing on the energy front, so why should we believe its criticism of nuclear energy? Australia stands out like a shag on a rock in not embracing the most reliable, cleanest source of base-load power available.



Sentiment Oscillator: More downtrends lost momentum during the week with a number of charts moving sideways out of downtrends. That doesn't mean that they are about to rise, but it does show that the selling has abated, and this has to happen before there can be a return to favour. Sentiment continued to improve. There were 34% (32%) of stocks in uptrend and 37% (40%) in downtrend at the close of the week. We are nearly back to equilibrium.

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	new high	
Metals and Mining	XMM	very strongly higher	
Energy	XEJ	strong rally	
Information Technology	XIJ	new high	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Agua Resources	AGR	new high	phosphate, gold
Alkane Resources	ALK	testing downtrend	gold
Alicanto Minerals	AQI	new low	base metals, silver, gold
Alligator Energy	AGE	breached steepest downtrend	uranium
Almonty Industries	All	rising	tungsten
Alpha HPA	A4N	rising again	HPA
Altech Chemical	ATC	spike through resistance line	HPA, anodes
Alto Metals	AME	new high	gold
American Rare Earths	ARR	sideways breach of downtrend	rare earths
Anax Metals	ANX	breaching downtrend	copper
Andean Silver	ASL	new highs	silver
Anteotech	ADO	struggling at lows	silicon anodes, biotech

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Arafura Resources	ARU		pullback	rare earths
Ardea Resources	ARL		down	nickel
Arizona Lithium	AZL		strong rally	lithium
Astral Resources	AAR		consolidating after placement	gold
Auric Mining	AWJ		rising	gold
Averina	AEV		rising	phosphate
Aurora Energy Metals	1AE		strongly higher but still in LT downtrend	uranium
Aurelia Metals	AMI		breaching uptrend	copper + base metals
Australian Gold and Copper	AGC		weaker	base metals, silver, gold
Australian Rare Earths	AR3		surge through downtrend	rare earths
Australian Strategic Materials	ASM		new uptrend breached	rare earths
BHP	BHP		surged higher	diversified, iron ore
Barton Gold	BGD		testing downtrend	gold exploration
Beach Energy	BPT		new low	oil and gas
Bellevue Gold	BGL		testing downtrend	gold
Besra Gold	BEZ		still down	gold
Black Cat Syndicate	BC8		new high	gold
Boab Metals	BML		sideways at lows	silver/lead
Brazil Critical Minerals	BCM		new low	rare earths
Brazilian Rare Earths	BRE		surge through downtrend	rare earths
Brightstar Resources	BTR		sideways	gold
Caravel Minerals	CVV		testing downtrend	copper
Carnaby Resources	CNB		breached downtrend	copper
Castile Resources	CST		testing downtrend	gold/copper/cobalt
Catalyst Metals	CYL		surge to new high	gold
Cazaly Resources	CAZ		breached new downtrend	rare earths
Celsius Resources	CLA		sideways	copper
Challenger Gold	CEL		rising off lows	gold
Cobalt Blue	COB		new low	cobalt
Critica. (was Venture)	CRI		down	tin
Cyprium Metals	CYM		testing downtrend	copper
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		breached uptrend	gas
EQ Resources	EQR		rising	tungsten
Evolution Energy	EV1		breached downtrend	graphite
Evolution Mining	EVN		rising	gold
First Graphene	FGR		down	graphene
Fortescue Metals	FMG		breaking downtrend	iron ore
Genesis Minerals	GMD		rising	gold
Globe Metals and Mining	GBE		down	niobium
Gold 50	G50		falling	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration
Group 6 Metals	G6M		back to lows	tungsten
Hamelin Gold	HMG		down	gold exploration

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Hastings Technology Metals	HAS	■	back in downtrend	rare earths
Heavy Minerals	HVY	■	testing brief, sharp uptrend	garnet
Hillgrove Resources	HGO	■	testing downtrend	copper
Iltani Resources	ILT	■	breached downtrend	antimony
Iluka Resources	ILU	■	rising again	mineral sands
ioneer (was Global Geoscience)	INR	■	rising	lithium
Ionic Rare Earths	IXR	■	new low	rare earths
Jindalee Lithium	JLL	■	new low	lithium
Jupiter Mines	JSM	■	new low	manganese
Kaiser Reef	KAU	■	improving	gold
Kalina Power	KPO	■	breaching steep uptrend	carbon sequestration
Krakatoa Resources	KTA	■	back to lows	rare earths
Larvotto Resources	LRV	■	steep rise	gold, antimony
Lindian Resources	LIN	■	sideways at lows	rare earths + bauxite
Li-S Energy	LIS	■	new low	Lithium sulphur battery technology
LCL Resources	LCL	■	new low	gold/nickel exploration
Lotus Resources	LOT	■	testing downtrend	uranium
Lucapa Diamond	LOM	■	collapsing due to institution dumping shares	diamonds
Lunnon Metals	LM8	■	breached downtrend	nickel
Lynas Corp.	LYC	■	rising	rare earths
Marmota	MEU	■	gently lower	gold/uranium exploration
Mayur Resources	MRL	■	stronger	renewables, cement
Meeka Gold	MEK	■	uptrend	gold
MetalsX	MLX	■	rising	tin, nickel
Meteoric Resources	MEI	■	new low	rare earths
Metro Mining	MMI	■	breached downtrend	bauxite
Midas Minerals	MM1	■	strongly higher	lithium
Nagambie Resources	NAG	■	returning to downtrend	gold, antimony
Neometals	NMT	■	surge higher - on gold	lithium
Newfield Resources	NWF	■	rallying	diamonds
Nexgen Energy	NXG	■	testing downtrend	uranium
Northern Star Res.	NST	■	rising again	gold
Nova Minerals	NVA	■	down	gold exploration
Novo Resources	NVO	■	down	gold exploration
Pacific Gold	PGO	■	breached downtrend	gold exploration
Paladin Energy	PDN	■	new uptrend	uranium
Pantoro	PNR	■	rising again	gold
Patriot Battery Metals	PMT	■	collapse to a new low	lithium
Peninsula Energy	PEN	■	new low	uranium
Perseus Mining	PRU	■	correcting lower	gold
Provaris Energy	PV1	■	new low	hydrogen
QMines	QML	■	rising	copper
Queensland Pacific Metals	QPM	■	testing downtrend	nickel/cobalt/HPA
RareX	REE	■	sideways at the bottom of a downtrend	phosphate, rare earths

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Regis Resources	RRL		new uptrend	gold
Regergen	RLT		surge on production news	gas, helium
Richmond Vanadium	RVT		bounced from lows	vanadium
RIO	RIO		pullback	diversified, iron ore
RTG Mining	RTG		rising again	copper
Rumble Resources	RTR		breached downtrend	zinc exploration
S2 Resources	S2R		down	gold exploration
Sandfire Resources	SFR		rising again - new high	copper
Santos	STO		down	oil/gas
Sarytogan Graphite	SGA		new low on project update	graphite
Siren Gold	SNG		testing downtrend	gold exploration
Southern Cross Gold	SXG		surging on antimony	gold exploration
Southern Palladium	SPD		rising again	PGMs
Stanmore Coal	SMR		risen to meet resistance line	coal
St George Mining	SGQ		breached downtrend	rare earths, niobium
Stellar Resources	SRZ		breaching downtrend	tin
Summit Resources	SUM		rising again	niobium, rare earths
Sun Silver	SS1		rising	silver
Suvo Strategic Minerals	SUV		sideways through uptrend	kaolin
Talga Resources	TLG		slump	graphite
Tamboran Resources	TBN		down	gas
Terra Uranium	T92		down	uranium
Theta Gold Mines	TGM		rising again	gold
Toro Energy	TOE		breached downtrend	uranium
Torque Metals	TOR		back to lows	gold exploration + lithium
Vanadium Resources	VR8		breached downtrend	vanadium
Vintage Energy	VEN		sideways at lows	gas
Vertex Minerals	VTX		steeply higher	gold
Walkabout Resources	WKT		sideways	graphite
Warriedar Resources	WA8		testing uptrend after placement	gold exploration
West Cobar	WC1		spike on antimony news	rare earth + lithium
Westgold Resources	WGX		falling	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		strong rally	coal
Totals	34%	45	Uptrend	
	37%	49	Downtrend	
		134	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, sometimes 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	25	18.7%	
Rare Earths	16	11.9%	
Gold Exploration	14	10.4%	
Copper	11	8.2%	
Uranium	9	6.7%	
Lithium	6	4.5%	
Oil/Gas/Hydrogen	7	5.2%	
Graphite/graphene	5	3.7%	
Iron Ore/Manganese	4	3.0%	
Nickel	3	2.2%	
HPA/Kaolin	3	2.2%	
Tungsten	3	2.2%	
Tin	3	2.2%	
Silver	3	2.2%	
Antimony	3	2.2%	
Potash/Phosphate	2	1.5%	
Coal	2	1.5%	
Diamonds	2	1.5%	
Niobium	1	0.7%	
Vanadium	2	40.0%	
Zinc/Lead	1	0.7%	
PGMs	1	0.7%	
Mineral Sands	1	0.7%	
Bauxite	1	0.7%	
Cobalt	1	0.7%	
Other	5	3.7%	
Total	134		

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