

Wednesday, 1 April 2020

St George Mining (SGQ)

What lies beneath

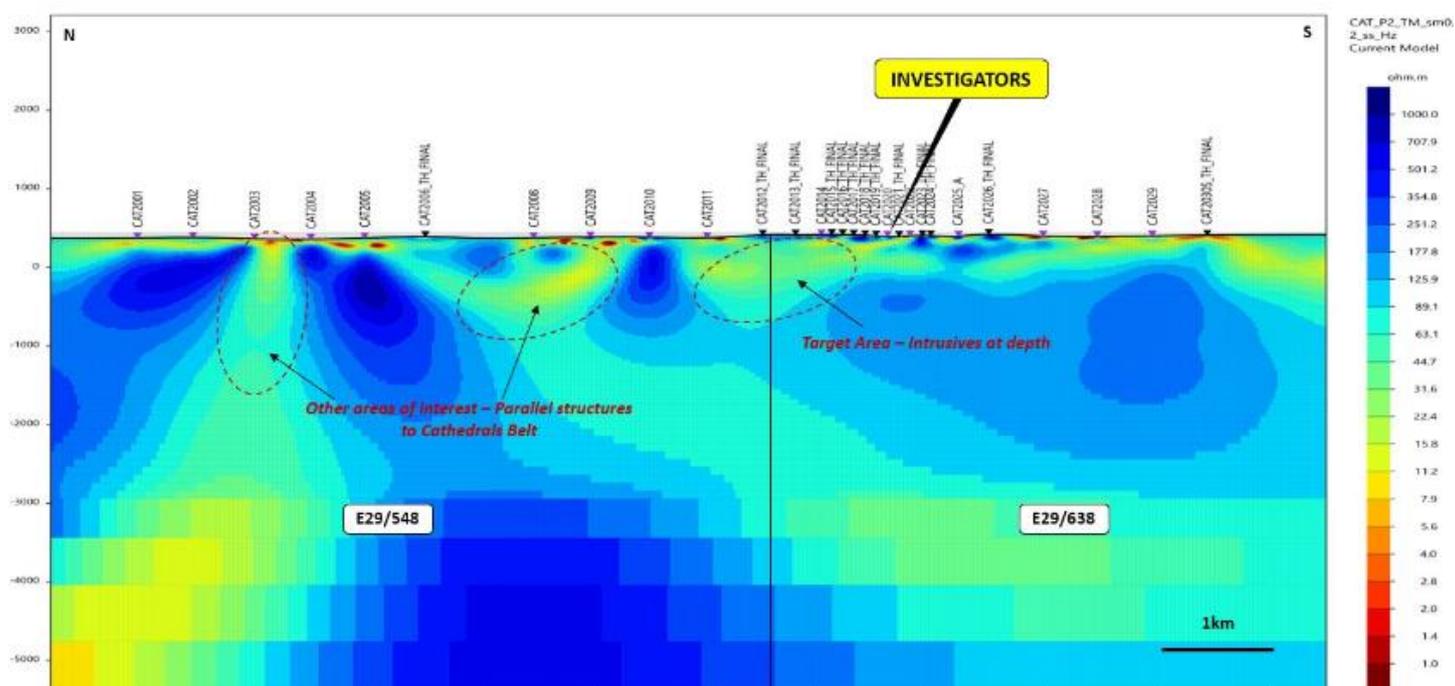
Analyst: Matthew Keane

Stock	SGQ
Recommendation	SPEC BUY
Current Price	\$0.08
Market Cap	\$26m

Event and First Take | Geophysical surveys – positive for target generation

Mantle tapping faults defined: St George Mining (SGQ) recently completed a Magnetotelluric (MT) and Audio-magnetotelluric (AMT) survey at the Mt Alexander Project. The survey was designed to map structures and conductive rock types to define further Ni/Cu targets. Subsequently, SGQ has interpreted structures and conductive stratigraphy down to a depth of more than 3,000m. At this depth, structures have the potential to tap into magmatic fluids from the earth’s mantle (mantle structures). Such structures are known to host some of the most prolific mineral fields globally. Figure 1 below shows the regional north-south MT/AMT survey running through the Investigators Prospect. On this figure, the deep blue is interpreted to be granitic geology, the yellow/green as mafic/ultramafic and the red as ultramafic/mineralised sulphides. Importantly, the breaks in the blue show geological contacts / structures propagating well below 3,000m. A discouraging result would have been continuous granite (blue) below the ultramafic/sulphides zones, which is clearly not the case. Most interesting, there is potential for repeated structures to the north of Investigators (delineated by dashed ellipsoids).

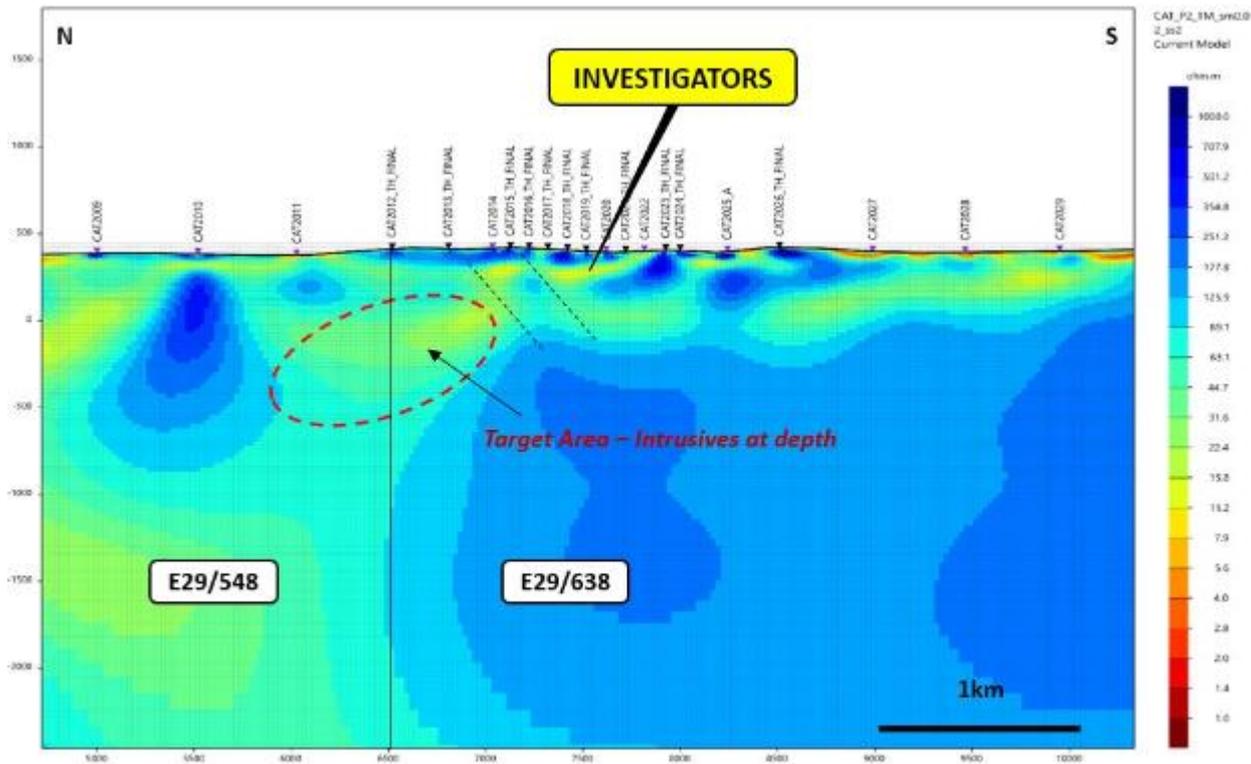
Figure 1: North-south cross section of the Cathedrals Belt (looking east) showing MT/AMT 2D conductivity data. The section is centred on the Investigators Prospect



Source: SGQ

New targets defined: New conductive features have been identified at depth within the Investigators, West End and Fairbridge prospects. Argonaut is particularly encouraged by the deeper electromagnetic anomaly below Investigators. In Figure 2 below, SGQ has interpreted near surface massive sulphide mineralisation to be truncated by faults (dashed lines) then reappearing at depth, as shown by the bright yellow anomaly on the MT/AMT survey. We have always considered the potential for large scale deposits at Mt Alexander to be more probable at depth.

Figure 2: High resolution MT/AMT 2D conductivity section of Investigators looking east and showing interpreted faults

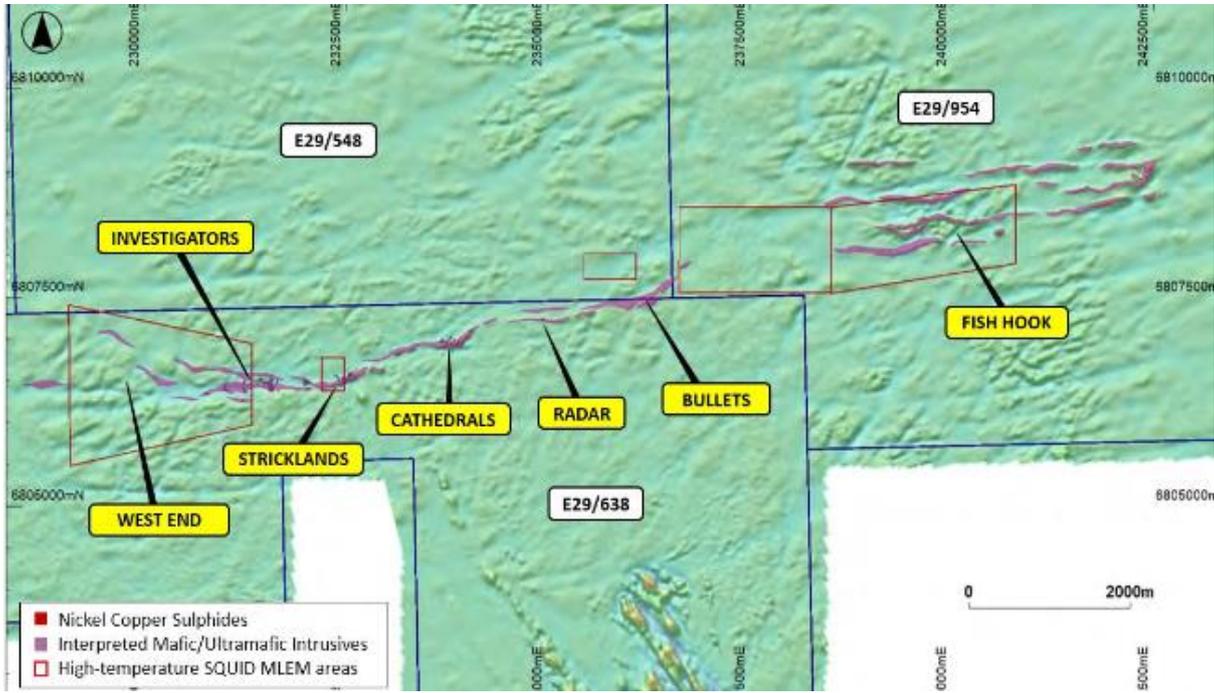


Source: SGQ

Many outstanding targets to be tested: More than 30 Electromagnetic (EM) targets identified in 2019 are yet to be tested. We note that all EM targets tested to date in the Cathedrals Belt have returned nickel/copper sulphide mineralisation. This includes untested SQUID, MLEM, EM anomalies identified at the Fish Hook Prospect to the far east of the project, which are coincident with the strongest soil geochemical anomalies. To the far west of the belt, the West End Prospect also has a number of SQUID, MLEM anomalies to be drilled. In addition, there are a number of off hole EM conductors down-plunge of defined massive Ni/Cu mineralisation at Investigators. SGQ has near surface, high tenor Ni/Cu mineralisation over a 5.5km strike length of the Cathedrals Belt. If the Company has success at West End and Fish Hook, this could be extended to ~16km.

Scoping Study and maiden Mineral Resource: SGQ has appointed Entech as its external geological consultant to estimate a maiden Mineral Resource at the Mt Alexander Project. This will lead into a Scoping Study which will focus on shallow, open pitmineralisation. While there are a number of existing nickel concentrator plants within trucking distance to the project, we believe the study will focus on the construction of a small on-site concentrator plant. This is because regional plants have little capability to separate the significant by-product metals present at Mt Alexander's mineralisation, including copper, cobalt, PGEs and rhodium. A small, 200-400ktpa flotation plant would require minimum upfront capital, but could generate significant cash flow to advance further exploration and development of a larger scale operation (pending further exploration success).

Figure 3: Map of the Cathedrals Belt, part of the Mt Alexander Project, showing key prospect areas



Source: SGQ

Recommendation

Argonaut maintains a SPEC BUY recommendation. SGQ had \$4,3m cash at the end of December, which should negate the need for near term equity capital amidst the COVID-19 market slump. We believe the Company will re-commence drilling in the coming months, but will limit the scale of any program to maintain a safe cash balance.

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