

Spec Buy

Current Price **\$0.080**

Code:	SGQ	
Sector:	Materials	
Shares on Issue (m):	589	
Market Cap (\$m):	47.1	
Cash est. (\$m)	7.2	
Debt (\$m)	0.0	
Enterprise Value (\$m):	40.0	
52 wk High/Low:	\$0.17	\$0.07
12m Av Daily Vol (m):	0.00	

All values in A\$ unless stated otherwise

Development Stage: Exploration

Key Projects	Location
Mt Alexander (75% SGQ; 25% WSA)	Western Australia
Paterson	Western Australia
Broadview	Western Australia

Directors	
John Prineas	Executive Chairman
John Dawson	Non-Executive Director
Sarah Shipway	Non-Executive Director

Share Price / Volume Graph



Please refer to important disclosures at end of the report (from page 8)

Wednesday, 16 June 2021

St George Mining (SGQ)

Broadening horizons

Analyst | George Ross

Quick Read

The search for economic nickel mineralisation continues at the Mt Alexander project. The modest scale Stricklands deposit may be monetised through a low upfront cost mining and toll treatment arrangement. A maiden campaign of exploration drilling is now also underway in the recently granted Paterson Province tenure.

Main Points

Exploration continues at the Mt Alexander Project:

Nickel exploration continues at the Mt Alexander project. Electromagnetic geophysics with over 240 holes for ~48,000m of drilling completed since 2016, the project is reaching a mature stage of exploration.

Towards development of Stricklands:

Current metal prices may support development of a low-cost mining operation at the Stricklands deposit. Metallurgical studies have confirmed favourable recoveries of nickel and accessory metals including copper and platinum group elements (PGEs) using conventional flotation. We expect future scoping studies may incorporate open pit mining with toll treatment processing at an external site. Otherwise, a modest capital cost leach alternative may be evaluated.

Gearing up in the Paterson Province:

The Paterson province is home to several recent high-profile copper-gold discoveries including Winu, Haveiron and Calibre. SGQ recently commenced a maiden exploration drilling program in the Paterson Province targeting geophysical features.

New Broadview tenure:

The Broadview tenure package was opportunistically acquired following Chalice Mining's (ASX:CHN) Julimar PGE discovery. The tenure is considered prospective for Nickel, PGEs and Copper.

Funded for exploration:

In early May SGQ completed a \$7M institutional and sophisticated capital raising priced at \$0.082 per share. Raised funds will ensure progression of Mt Alexander studies and regional exploration.

Recommendation

We maintain our Spec Buy recommendation based on the following factors:

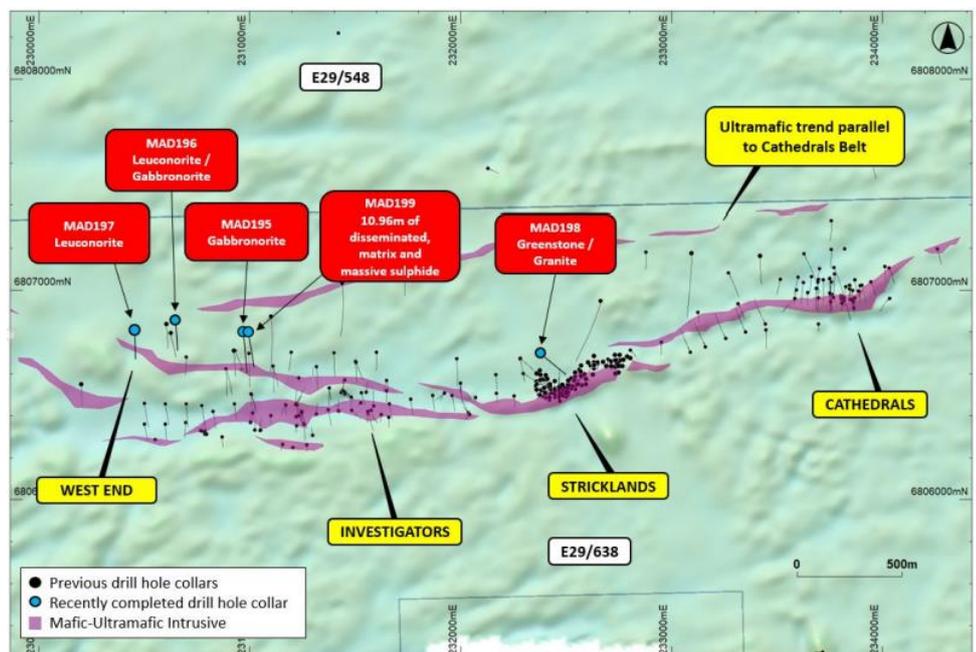
- We remain strongly bullish on companies exposed to nickel sulphide exploration and development. See [here](#) for our recent sector note on Green Nickel.
- Mt Alexander has the potential to yield significant economic mineralisation.
- The Paterson and Broadview tenure packages appear highly prospective.

SGQ is well funded, and we will expect to see progress towards development of the Strickland deposit and/or new discoveries in the next 6-12 months.

Exploration continues at the Mt Alexander Project

For the past five years, the Mt Alexander Project (75% SGQ / 25% WSA) has been the focal point for St George's exploration activities. The project has been subject to over 240 holes completed for in excess of 48,000 metres of RC and diamond drilling since 2016. To date, exploration has focused upon the shallowest 200m of the east-west oriented Cathedral Belt mafic & ultramafic intrusives. Prospectivity remains at depth, although drilling will become increasingly expensive. Additional stacked mafic/ultramafic units occur approximately 2 kilometres east of the Cathedral belt area and remain largely undrilled.

Figure 1: Cathedral Belt with key prospects and recent drilling results.



Source: SGQ

SGQ's exploration strategy has incorporated extensive use of electrical, magnetic and gravity geophysics for both direct, and indirect targeting. Surface electrical geophysics methods such as SQUID-MLEM have repeatedly guided drilling to prospective localities. Meanwhile, downhole EM has proven to be highly effective for direct targeting of massive and semi-massive sulphides accumulates.

Recent drilling at Mt Alexander intersected 11m of variably textured visual nickel-copper sulphide mineralisation in hole MAD199 from 334m downhole. MAD199 targeted a deep-seated EM plate conductor with a 19,320 Siemens response. Subsequent hole MAD201 was drilled as a down plunge step out to MAD199 and intersected 2.4m of sulphide from 435m downhole. Assay results for both holes remain outstanding. These intercepts are the deepest, and western most occurrences of sulphides encountered to date from the Cathedrals Belt. Future planned drilling will target geophysical anomalies and interpreted strike extents of previous encountered mineralisation.

Argonaut's compilation of SGQ Mt Alexander project drilling data includes 241 collars completed since 2016. We acknowledge that this dataset may be incomplete. While many holes have generated nickel assays exceeding 1%, these are frequently related to narrow intervals, and are diluted considerably when rescaled to widths of standard mining units.

We used available data to calculate Nickel Equivalent (NiEq) values for each intercept. Our NiEq figure was calculated using current metal pricing (\$18,000/t Ni, \$9,900/t Cu, \$3,000/oz PGE, \$40,000/t Co & \$1,750/oz Au) and estimated recoveries of 80% for nickel, 80% for copper, 50% for PGEs, 50% for cobalt and 50% for gold.

NiEq values were then also converted to Nickel Equivalent Percent Metres ('NiEq %M') for ranking purposes (Figure 2). This was calculated by multiplying our nickel equivalent value by the interval metreage. Higher NiEq %M values are deemed to be higher quality mineable intercepts.

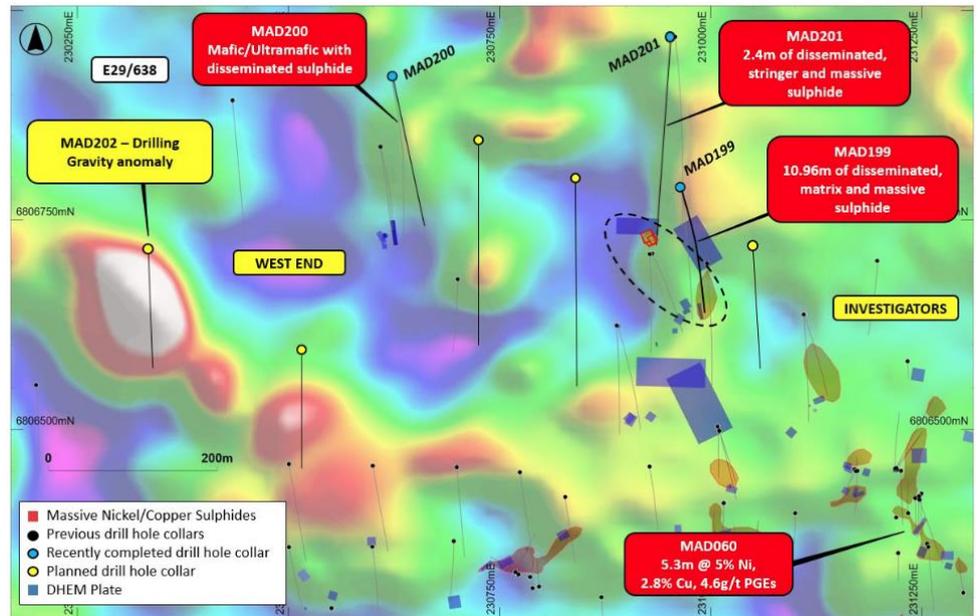
Figure 2: Compiled Mt Alexander drilling significant intercepts above 10 Nickel Equivalent Percent Metres ('NiEq %M').

Hole Id	From	To	Width	Ni %	Cu %	PGE g/t	Co %	Au g/t	NiEq %	Ni %M	NiEq %M
MAD177	182.0	192.5	10.5	4.8	1.7	0.2	2.9	0.0	7.8	50.6	82.1
MAD71	37.5	54.9	17.5	3.0	1.3	1.7	0.1	0.1	3.6	52.5	62.7
MAD127	183.9	192.4	8.5	5.8	2.6	3.6	0.2	0.0	7.0	49.2	59.1
MAD152	46.0	52.0	6.0	2.1	4.7	9.9	1.7	0.6	8.4	12.8	50.7
MAD126	184.0	191.9	7.9	5.7	2.1	2.7	0.2	0.0	6.4	44.8	50.3
MAD177	186.0	190.0	4.0	7.5	2.5	0.2	3.9	0.0	11.5	30.1	46.1
MAD60	157.9	163.2	5.3	5.0	2.8	4.6	0.2	0.3	6.6	26.2	35.1
MAD175	161.3	165.3	3.9	2.9	4.9	12.6	0.4	1.7	8.6	11.4	33.6
MARC118	142.0	152.0	10.0	2.5	1.1	2.5	0.1	0.2	3.2	24.7	32.3
MAD136	148.0	153.1	5.1	3.9	2.4	6.9	0.1	0.0	6.1	19.8	31.3
MAD174	223.5	227.6	4.2	4.2	2.7	6.1	0.1	0.4	6.4	17.6	26.8
MAD71	39.3	44.6	5.3	4.4	1.5	2.1	0.2	0.0	5.0	23.3	26.3
MAD81	41.9	51.1	9.2	1.8	1.2	2.1	0.1	0.2	2.6	16.1	23.8
MAD108	199.0	207.4	8.4	2.0	1.0	2.6	0.1	0.0	2.8	16.8	23.6
MAD26	53.9	58.2	4.3	4.3	2.0	3.2	0.2	0.1	5.4	18.3	23.2
MAD112	116.0	119.6	3.6	4.7	2.3	2.9	0.2	0.2	5.8	16.6	20.5
MAD27	60.1	71.3	11.2	0.5	0.6	1.7	0.0	0.2	1.2	5.8	13.6
MAD38	25.4	28.1	2.7	3.8	1.5	3.9	0.1	0.2	4.8	10.3	13.3
MAD71	50.6	52.6	2.0	5.1	2.0	3.3	0.2	0.1	6.1	10.2	12.2
MAD31	111.7	113.2	1.6	6.3	2.7	4.9	0.2	0.2	7.8	9.8	12.2
MAD40	106.8	108.8	2.0	5.1	2.1	3.5	0.2	0.4	6.2	10.0	12.1
MAD27	71.25	73.3	2.0	4.2	3.1	3.4	0.2	0.2	5.9	8.3	11.7
MAD168	229	233.5	4.5	0.8	1.7	2.7	0.3	0.1	2.5	3.6	11.4
MAD78	65.6	71	5.4	1.5	0.9	1.6	0.1	0.1	2.1	7.9	11.2
MAD144	195.2	198	2.8	1.4	2.0	4.1	0.6	0.1	3.8	3.9	10.7
MAD32	51.6	53.52	1.9	4.6	1.5	3.8	0.1	0.1	5.5	8.8	10.6
MAD173	271	274.2	3.2	1.4	2.7	3.2	0.1	0.3	3.3	4.3	10.6
MAD49	31.8	50.7	18.9	0.4	0.2	0.4	0.0	0.0	0.5	7.9	10.0

Where better NiEq %M intercepts have been encountered, follow up adjacent holes have often disappointed and failed to extend mineralisation continuity. Nickel mineralisation at the Mt Alexander project appears to be dominated by discontinuous, asymmetrical pods with flat or shallow dips. The bulk tonnage and grade of pods encountered to date are unlikely to support underground development, however, may be economically extracted by open cut mining in instances of shallow waste pre-strip.

SGQ's technical team has repeatedly proven the effectiveness of their electromagnetic geophysics driven targeting strategy. Despite ongoing technical successes, discovery of a high-quality deposit remains elusive. Future exploration is expected to include seismic surveying, which should assist with targeting of deeper drilling. The shift to more expensive deeper drilling is probably SGQ's last opportunity to advance Mt Alexander in its own right. Without a material discovery success over the next 12 months, we think it will become difficult to justify ongoing regional exploration.

Figure 3: DHEM plate conductors over SQUID moving loop EM survey results.



Source: SGQ

Towards development of Stricklands

SGQ has reported that scoping studies continue for development of the Stricklands deposit at Mt Alexander. Resource definition drilling was completed late last year, and an updated estimate is underway. Metallurgical consultants XPS are currently completing flotation recovery optimisation tests upon core collected in 2020. Previous preliminary results indicated nickel and copper recoveries of between ~60%-90% are achievable using a conventional flotation circuit. SGQ has indicated this work will underpin pit optimisations for an anticipated 'low-cost, high margin operation' at Stricklands.

Argonaut's preliminary internal modelling indicates the as yet unpublished Strickland's deposit Resource will be of modest scale and grade. Strickland's mineralisation is likely to have a flat lying ribbon geometry measuring ~140m length, 25m width and 10m thickness grading approximately ~1.0% Ni (~1.5% NiEq).

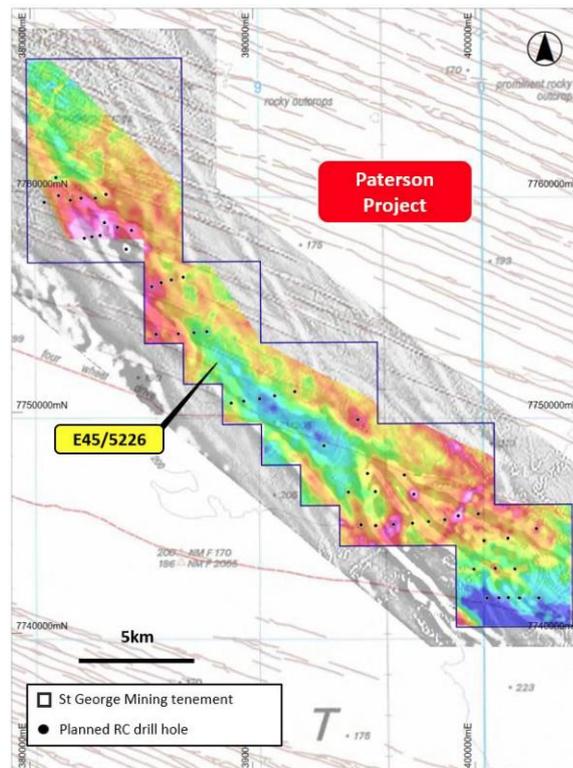
For mining, the deposit will require >30m of pre-strip to reach mineralisation. We anticipate mined ore will then be transported for toll treating at an external processing facility. Opting to toll treat ore at an external plant will eliminate upfront capital requirements for a processing plant build. However, transport and treatment costs are likely to be relatively high per tonne of ore. Our preliminary financial modelling of Stricklands suggests a reasonably profitable open pit mine is possible if operated within a healthy metal pricing environment.

We will complete a detailed valuation following release of a JORC compliant Resource and provision of scoping study parameters.

Gearing up in the Paterson Province

While continuing pursuit of a nickel discovery at Mt Alexander, SGQ recently announced ([08/06/2021](#)) initiation of maiden exploration drilling at the Paterson Project. The main project tenure (E45/5226) is located on the north-eastern extremity of Western Australia's Paterson Province. Drilling will target precious and base metal mineralisation comparable to the Haveiron (Greatland Gold), Winu (Rio Tinto) and Calibre (Antipa Minerals) discoveries. Recent high resolution magnetic and gravity surveys have identified a series of geophysical targets associated with structural and stratigraphic features. Prospective geology is interpreted to be located beneath 100-200m of barren cover. SGQ have exposure to attractive elephant country in the Paterson. Depending on near-term exploration success, SGQ may opt to either continue funding exploration themselves, or engage with a well-funded partner.

Figure 6: Paterson Project exploration lease E45/5226 with planned RC drill holes.



Source: SGQ

New Broadview tenure

SGQ recently [announced](#) the grant of two new exploration licenses in Western Australia's Wheatbelt. The tenements were pegged following Chalice Mining's (CHN) Julimar discovery. The Broadview Project is considered prospective for nickel, copper, PGE and gold mineralisation. Neighbours include Impact minerals and large holder Anglo American, who hold more than 10,000 km² of tenure.

While considered a lower priority target to both the Mt Alexander and Paterson packages, we do expect preliminary exploration activities to commence at Broadview prior to the conclusion of CY2021.

Funded for exploration

An exploration company is nothing without cash in the bank to fund exploration. In early May SGQ completed a \$7M institutional and sophisticated capital raising priced at \$0.082 per share. This injection of funding will underpin drilling programs at Mt Alexander and the Paterson Projects, while also allowing for progression of the Stricklands scoping studies.

Recommendation

We maintain our Spec Buy recommendation. SGQ is well positioned to ride the tail winds of a strong nickel outlook for sulphide producers in an increasingly ESG focussed world. Refer to our [recently published](#) sector piece for our analysis of 'Green Nickel'. While the Mt Alexander project has reached exploration maturity, potential still exists for a high value discovery. We will expect SGQ to generate value through discovery, and/or progress of development studies over the next 6-12 months. The Company holds a portfolio of prospective tenure and is well funded for exploration.

RESEARCH:

Ian Christie | Head of Research
+61 8 9224 6872 ichristie@argonaut.com

John Macdonald | Director, Metals & Mining Research
+61 8 9224 6835 jmacdonald@argonaut.com

George Ross | Analyst, Metals & Mining Research
+61 8 9224 6840 georger@argonaut.com

Royce Haese | Analyst, Metals & Mining Research
+61 8 9224 6869 rhaese@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Institutional Sales
+61 8 9224 6875 cwippl@argonaut.com

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Josh Welch | Institutional Dealer
+61 8 9224 6868 jwelch@argonaut.com

George Ogilvie | Institutional Dealer
+61 8 9224 6871 gogilvie@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Managing Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmclew@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Ben Willoughby | Senior Dealer, Corporate Stockbroking
+61 8 9224 6876 bwiloughby@argonaut.com

Philip Grant | Senior Dealer, Corporate Stockbroking
+61 8 9224 6834, pgrant@argonaut.com

David Keogh | Senior Dealer, Corporate Stockbroking
+61 8 9224 6852, dkeogh@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

Harry Massey | Dealer, Private Clients
+61 8 9224 6829, hmassey@argonaut.com

Reece O'Connell | Provisional Financial Advisor, Private Clients
+61 8 9224 6851, roconnell@argonaut.com

Quinton Meyers | Provisional Financial Advisor, Private Clients
+61 8 9224 6879, qmeyers@argonaut.com

Jonas Dorling | Assoc. Dealer / Prov. Fin. Advisor, Private Clients
+61 8 9224 6837, jdorling@argonaut.com

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St George Mining Ltd (SGQ) Argonaut acted as Joint Lead Manager to the Placement that raised \$7M in April 2021 and a prior raising of \$3.6M in May 2020 and received fees commensurate with this service. Argonaut holds or controls 1,149,651 SGQ shares and 2.5M Options exercisable at \$0.15 on or before 31 July 2022.

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