



22 December 2021



# VSA Morning Miner

## This Morning's News

### Caracal Gold (GCAT LN)<sup>#</sup>

**Caracal Gold (GCAT LN)** has provided an operational update primarily in relation to the assets in Kenya where the ramp up at Kilimapesa is ongoing and exploration work on the wider exploration licenses has begun.

On the mining license a 16 hole, 3,000m diamond drill programme is underway to confirm down dip mineralisation continuity from the current underground mining operations. Drill targets have been identified by surface mapping, trenching, channel sampling as well as mapping and geochemical sampling. As with many companies across the industry assay turnaround times are slow and results are not expected until the end of Q1 2022, however, this should be the period with the longest lag given the other follow up exploration both in Kenya and subsequently at the recently acquired Tanzanian assets, which increased the group's resources to 1.7mnoz Au. This indicates a catalyst heavy 2022 once the first assays begin to be returned on top of updates from the operating mine.

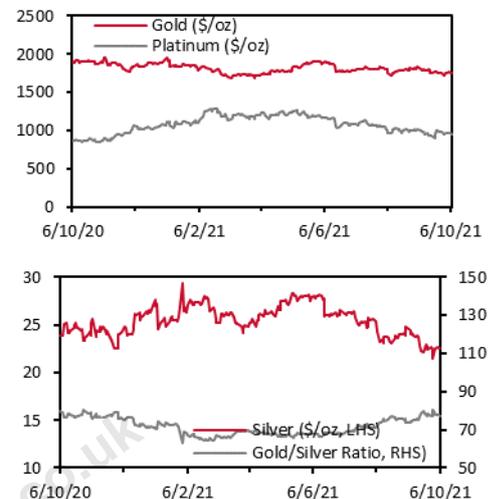
In the wider exploration licenses which have been little explored by modern techniques a 10,000m reverse circulation programme is being conducted. This programme is largely on the Southern Mineralised Zone where the company recently reported strong trenching results including 40m at 4.85g/t Au and where until now Colonial and artisanal workings have been the best indication of gold mineralisation. This regional drilling programme is being conducted systematically across areas of known mineralisation as indicated by mapping, sampling and trenching. These techniques for drill targeting are ongoing across the broader license area to identify new zones of mineralisation.

**We reiterate our Buy recommendation and 4.2p/sh. target price.**

### Guanajuato Silver (GSVR CN)<sup>#</sup>

**Guanajuato Silver (GSVR CN)** has announced strong drilling results from both El Cubo and El Pinguico which we believe provide a clear demonstration of the investment case and opportunity which management identified when they moved to restart production earlier this year. GSVR has shifted to a more selective approach to mining with greater grade control than the previous operator (Endeavour Silver, EDR CN) who focused on wider veins, typically 4m plus, that could be exploited by larger machinery. The existing resource of 27.5mnoz AgEq reflects a cut off grade appropriate for the previous approach to mining. Higher grades and lower tonnage which can be mined economically by more selective mining will unlock considerable value, in our view, and these drilling results begin to confirm the mine life extension potential beyond the published compliant resources.

#### One-Year Charts



LME prices (US\$/lb)	Last Close	Day % Chg	-1 Year % Chg
Aluminium	2,905	0.3%	67.0%
Copper	9,177	-0.9%	40.9%
Lead	2,195	0.3%	24.6%
Nickel	18,133	1.2%	25.2%
Zinc	3,034	1.0%	29.5%

**NOTE:** #Indicates VSA house stock.  
**SOURCE:** FactSet, as of last close.

**Oliver O'Donnell, CFA, Natural Resources**

+44 (0)20 3617 5180 | oodonnell@vsacapital.com

**Paul Renken, Senior Geologist**

+44 (0)20 3005 5011 | prenken@vsacapital.com

This research brochure is a **MARKETING COMMUNICATION**. It is not investment research and has not been prepared in accordance with legal requirements designed to promote investment research independence and is also not subject to any prohibition on dealing ahead of dissemination of investment research.

Prepared solely for St Brides. Not to be distributed anywhere. Strictly for personal use.

GSVR's most recent underground drilling has focused on two areas; Villalpando and Cebolletas. Villalpando was previously drilled from surface by EDR although not developed and only partially incorporated into the current compliant resources. Cebolletas was not part of the current resources and both demonstrate the type of mineralisation suitable for GSVR's new approach. Furthermore, they confirm the expansion of the mineralised footprint and that the latest resource and short mine plan based off the PEA, which we believe is still driving the valuation is an outdated way of looking at the development. Our base case DCF valuation, based on a 15 year mine, indicates a C\$227m unrisks valuation indicating considerable upside from the current share price.

Highlights from El Cubo drilling include;

- 2.7m (estimated true width, 2.0m) from 58.8m at 166g/t AgEq including **0.4m (etw) at 277g/t AgEq**
- 0.6m (etw, 0.45m) at **538g/t AgEq** from 6.95m.
- **25.85m (etw, 3.87m) from 74.7m at 235g/t AgEq**, including 0.12m (etw) at **1,069g/t Ag**, 0.10m (etw) at 1,025g/t AgEq and 2.61m (etw) at 327 AgEq

This last highlighted hole was drilled obliquely in the Cebolletas zone since it was from an underground drilling station although this result does help to give a sense of the style of mineralisation, with excellent continuity, and how this lends itself to the mining method. Around 800m of development drilling has been undertaken in this zone and will be mined in Q1 2022, again highlighting how GSVR can go beyond the PEA to unlock additional value.

Furthermore, our DCF only includes stockpile processing from El Pinguico and with drilling for the maiden resource underway this offers further upside potential, in our view. This is the first modern drilling campaign with the mine having been last operated in the early twentieth century. The programme has demonstrated some encouraging results including;

- P21-003 which intercepted mineralisation three times with **0.5m at 118g/t AgEq** from 87.9m, 4.05m at 116g/t AgEq from 97.95m including 1m at 242g/t AgEq and 0.55m at 674g/t AgEq.
- P21-008 which intercepted mineralisation four times with 1.65m at 321g/t AgEq from 102.25m, 7.95m at 147g/t AgEq, 0.75m at 913g/t AgEq and 1m at 177g/t AgEq.
- 8.1m at 173g/t AgEq from 107.55m including 0.9m at 953g/t AgEq.

Some technical drilling difficulties hampered this programme along with slow turnarounds in assay times, however, these initial results are in line with our expectations that the El Pinguico property has a strong vein system with mineable silver grades. 2022 will see the start of drilling to test the extension of the infamous Veta Madre into the El Pinguico license area.

On the back of the recent upsized placing of C\$9.5m, which was well supported by major shareholders (including the vendors, EDR) a 24,000m drilling programme has been confirmed for 2022 which will cover development drilling at El Cubo; to improve grade control and increase confidence through infill drilling along with expansion drilling and exploration drilling. Around 70% of the drilling will be conducted at El Cubo although we highlight the potential for exploration in addition and that it is not simply development drilling.

**We reiterate our Buy recommendation and C\$1.10/sh. target price.**

## Stock Information

Stock	BBG TKR	Exchange/ Currency	Mkt Cap (m)	Last Close (Curr)	Rec	TP	Date of Recommendation
Caracal Gold	GCAT LN	LSE (£/p)	17	1.1	BUY	4.2	22/11/21
Guanajuato Silver	GSVR CN	TSX-V (C\$/c)	107	50	BUY	110	28/10/21

**NOTE:** #VSA house stock. **SOURCE:** FactSet data, VSA Capital estimates. Pricing as of last close.

## Disclaimer

### Investment Analyst Certification

In our roles as Research Analysts for VSA Capital Limited, we hereby certify that the views about the companies and their securities discussed in this report are accurately expressed and that we have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

### Non-Independent Research

This is a marketing communication. It is non-independent research as it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

### Important Disclosures

This research report has been prepared by VSA Capital Limited, which is party to an agreement to be paid a fee as corporate finance advisors and arrangers with, or has provided investment banking services to, Caracal Gold and G Silver, or has been party to such an agreement within the last twelve months, and is solely for, and directed at, persons who are Professional Clients as defined under Annex II of the Markets in Financial Instruments Directive, Directive 2004/39/EC, or as defined in the FCA Handbook. Persons who do not fall within the above category should return this research report to VSA Capital Limited, Park House, 16-18 Finsbury Circus, London, EC2M 7EB, immediately.

VSA Capital may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US Institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. If you are a US person, you must fulfil the requirements of a major US institutional investor as defined by the Securities Exchange Act 1934 and subsequent guidance from the SEC to receive this research report. Any failure to comply with this restriction may constitute a violation of US law for which VSA Capital Limited does not accept responsibility.

The information in this report is not intended to be published or made available to any person in any jurisdiction where to do so would result in contravention of any applicable laws or regulations. Accordingly, if it is prohibited to make such information available in your jurisdiction or to you (by reason of your nationality, residence or otherwise) it is not directed at you.

This research report is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. It is being supplied to you solely for your information and may not be reproduced, forwarded to any other person or published, in whole or in part, for any purpose, without our prior written consent.

Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities.

The information and opinions contained in this research report have been compiled or arrived at by VSA Capital Limited from sources believed to be reliable and in good faith but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. All opinions and estimates contained in the research report constitute the Company's judgments as of the date of the report and are subject to change without notice. The information contained in the report is published for the assistance of those persons defined above but it is not to be relied upon as authoritative or taken in substitution for the exercise of the judgment of any reader.

The Company accepts no liability whatsoever for any direct or consequential loss arising from any use of the information contained herein. The company does not make any representation to any reader of the research report as to the suitability of any investment made in connection with this report and readers must satisfy themselves of the suitability in light of their own understanding, appraisal of risk and reward, objectives, experience and financial and operational resources.

The value of any companies or securities referred to in this research report may rise as well as fall and sums recovered may be less than those originally invested. Any references to past performance of any companies or investments referred to in this research report are not indicative of their future performance. The Company and/or its directors and/or employees may have long or short positions in the securities mentioned herein, or in options, futures and other derivative instruments based on these securities or commodities.

Not all of the products recommended or discussed in this research report may be regulated by the Financial Services and Markets Act 2000, as amended by The Financial Services and Markets Act 2012, and the rules made for the protection of investors by that Act will not apply to them. If you are in any doubt about the investment to which this report relates, you should consult a person authorised and regulated by the Financial Conduct Authority who specialises in advising on securities of the kind described.

The Company does and seeks to do business with the companies covered in its research reports. Thus, investors should be aware that the Company may have a conflict of interest that may affect the objectivity of this report. To view our policy on conflicts of interest and connected companies, please go to: <http://www.vsacapital.com/policies/conflict-of-interest-policy>.

VSA Capital acts as Corporate Adviser/Broker to Caracal Gold and G Silver, and is therefore classed as a connected company.

Investors should consider this report as only a single factor in making their investment decision.

### Definition of Ratings

VSA Capital Limited is Authorised and Regulated by the Financial Conduct Authority  
Park House 16-18 Finsbury Circus, London, EC2M 7EB | +44 (0)20 3005 5000 | [www.vsacapital.com](http://www.vsacapital.com)  
VSA Capital Limited is a member of the London Stock Exchange

© VSA Capital Limited, 2020, all rights reserved  
Registered in England: No. 02405923

VSA Capital Limited uses the following stock rating system to describe its equity recommendations. Investors should carefully read the definitions of all ratings used in each research report. In addition, since the research report contains more complete information concerning the analyst's views, investors should carefully read the entire research report and not infer its contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock or investment fund should depend on individual circumstances and other considerations.

VSA Capital Limited's recommendations are defined as follows:

**BUY:** The stock is expected to increase by in excess of 10% in absolute terms over the next twelve months.

**HOLD:** The price of the stock is expected to move in a range between -10% and +10% in absolute terms over the next twelve months.

**SELL:** The stock is expected to decrease by in excess of 10% in absolute terms over the next twelve months.

In addition, on occasion, if the stock has the potential to increase by in excess of 10%, but on qualitative grounds rather than quantitative, a **SPECULATIVE BUY** may be used.

## Distribution of VSA Capital Limited's Equities Recommendations

VSA Capital Limited must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "BUY", "HOLD", or "SELL" rating, and also the proportion of relevant investments in each category issued by the issuers to which the firm supplied investment banking services during the previous twelve months. The said ratings are updated on a quarterly basis.

Equities breakdown: 31 August 2020	Spec. BUY	BUY	HOLD	SELL
Overall equities coverage	10.0%	90.0%	0.0%	0.0%
Companies to which VSA has supplied investment banking services	100%	100%	0.0%	0.0%

stbrides @ stbridespartners.co.uk