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Hallgarten & Company

Initiating Coverage

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NGex Resources (TSX: NGQ.to)
Strategy: Neutral

Key Metrics		
Price (CAD)	$	0.69
12-Month Target Price (CAD)	$	0.65
Upside to Target		-6%
12mth hi-low		$0.20-$0.84
Market Cap (CAD mn)	$	92.8
Shares Outstanding (millions)*		134.4

	FY09	FY10e	FY11e
Consensus EPS		n.a	n.a
Hallgarten EPS		n.a	n.a
Actual EPS*	($0.12)		
P/E	n.a	n.a	n.a

*FY ending March 09

NGex Resources

“Lundin Junior”

+ The merger of the three junior companies (CGH with Suramina in April and then with Sanu Resources in August 2009) in the Lundin corporate family created an explorer with a global reach
+ The expanded company thus may be a target to be rolled up into Red Back Mining further along the track or Lundin, or all of the above
+ The company is raising $8.7mn at the current time, which is an expansion from the originally mooted $7.7mn, indicating solid demand
+ This should cover the exploration budget of $6mn for 2010, of which partners will fund half.
+ The company had $2.1mn in debt as at its last financial reporting (Sept 2009).

✘ Some of the Argentine/Chilean prospects are in difficult terrain, literally (at very high elevations) and politically sensitive (stretching across the Argentine/Chilean border).

✘ CGH had working capital of $6.7mn as at the end of December 2008 while Suramina had $6.7mn at its reported results in September 2008. We would thus have expected the merged group to have over $10mn in cash at least. Then there was whatever Sanu brought to the table. However the results for the merged group at the end of September 2009 showed only $6.1mn in cash, which was surprising in view of the rather light exploration effort in recent times.

✘ The company is still distant from any prospect of production, which is a key negative in the current market

✘ The sale of the Caballo Blanco in Mexico to Goldgroup removed one of NGex’s most interesting prospects.

✘ The best prospect is now a toss-up between the Argentine Josemaria property and the Eritrean prospect. The latter is in a country which has worked out for others but is currently attracting opprobrium for an abysmal human rights record.

Cobbling together Lucas’ bits and pieces

The corporate presentation of the company has on its front page the slogan “No guts, no glory”. This might imply that NGex in its latest manifestation is some sort of scrappy up-and-coming mining company. We are yet to see any signs of pugnaciousness yet from the company and certainly some spark might inspire us to give it more than a Neutral rating. It is time to live up to the slogan.

The merger between Canadian Gold Hunter, Suramina and Sanu Resources in the first half of 2009 created a bigger player in the junior explorer space with probably the most varied and most far-flung portfolio. The only comparable name in terms of spread of activities might be Cardero Resources (CDY), a stock that we have classified as takeover material due to its inability to move any project towards fulfillment.

Canadian Gold Hunter’s main claim to fame, Caballo Blanco, is a gold/copper exploration project in Mexico has just been hived of in exchange for a minority stake in an as-yet unlisted entity in the Ridgeway corporate grouping. It also brought a portfolio of copper/gold exploration projects in Canada, including the GJ/Kinaskan project with a NI 43-101 measured and indicated resource of 153.3 million tonnes grading 0.321% copper and 0.369 g/t gold, containing 1.09 billion pounds of copper and 1.82 million ounces of gold (cut-off grade of 0.20% copper). The Suramina properties were primarily Argentina and Chile-based and now NGex stretches the length of the hemisphere. Sanu brought three African exposures, but only one of which has had major work done. As a result the company now mixes base with precious metal prospects.

Expanding further the Lundin reach

The Lundin group was severely battered in the last quarter of 2008 due to the travails of its zinc-focused main vehicle, Lundin Mining (NYSE:LMC). Its abortive merger with Hudbay generated derision and highly negative (and uninformed comments).

Anyone would think that Lundin was in serious financial difficulties rather than just overexposed to a metal that is passing through a weak pricing phase. The uninformed failed to note that the Lundin family is very resourced and that it's other main public vehicle, Red Back Mining, the precious metals company was very well positioned for the rapid rebound in the gold price. In fact Red Back came out of the corner punching which its bid for Moto Mines, that was ultimately checkmated by Randgold (in league with Anglogold). That was a fortuitous escape, in our view, but Red Back has been relatively quiet since being rebuffed. At Lundin Mining itself the stock staged a massively rally (giving us a strong gain on the position in the model portfolio) and HudBay, rather ironically, walked off with a capital gain of over $100mn when it liquidated its remnant position in Lundin that it had built up during the merger process.

We would eventually favour a combination of the various Lundin interests into a new major, but only when all the planets are aligned. The expanded CGN/Suramina/Sanu would be an obvious participant to this grouping process.

The Lundin interests are represented on the CGH board by Lukas Lundin, a well-known figure in mining circles, who has been a director since 1995. He became non-executive Chairman in September 2002. The merger with Suramina highlights Lukas Lundin's relationship with Argentina for, from 1990 to June 1995, he was President of International Musto Exploration and was responsible for Musto's acquisition of the Bajo de la Alumbrera deposit. Bajo de la Alumbrera was the subject of a $500 million takeover by Rio Algom and North Limited and is now one of the largest gold/copper producers in the world (and owned by Xstrata). He was also responsible for Argentina Gold and the discovery of the multi-million ounce Veladero gold deposit. Veladero was the subject of a $300 million takeover by Homestake in 1999. It was for a long while a thorn in the side of Barrick who were grappling with permitting issues for the property that sprawls (like some of Suramina's territory) across the Argentina/Chile border.

The merger with Suramina (SAX.to) and Sanu Resources

On February 13th, 2009 Canadian Gold Hunter and Suramina Resources announced that they had entered into a definitive agreement to merge with the transaction is expected to close in mid-April 2009. To effect this operation Canadian Gold Hunter will acquire all of the issued and outstanding shares of Suramina on the basis of 0.7541 shares of CGH for each Suramina share. All outstanding Suramina options were exchanged for replacement options of CGH. The combined entity had around 110mn shares outstanding. The companies were fairly evenly matched in size thus former shareholders of Suramina will end up with approximately 47.3% of the outstanding shares of Canadian Gold Hunter.

The merger with Sanu came to fruition in August 2009 with Canadian Gold Hunter acquiring all of the issued and outstanding shares of Sanu on the basis of 0.5725 shares of Canadian Gold Hunter for each Sanu share. This took the combined group's share tally up to just over 134mn shares with Sanu shareholders ending up with 17.8% of the enlarged capital.

In justifying the merger, the companies put forward the following arguments:

- In the short term, capital market conditions favour stronger, larger, diversified exploration vehicles. The combined entity will be financed, debt-free, and an active exploration company. As well, the transaction will introduce significant cost efficiencies through reduction of total G&A and other head office costs. This is only true in part, as some of the administration functions are shared by Lundin people already positioned across the two companies.

- In the long term, the combined entity will be well-positioned for the anticipated commodity markets recovery with a diversified roster of gold/copper projects in various stages of advancement. The combined exploration expertise of both companies will ensure best possible shareholder value. Though we would note that gold prices are already recovered (and at records in euro terms). The combined companies need to make a PR push so that some of the reflected glory of gold around $1000 shines back onto them.

At the time of the merger we felt that it would definitely have helped to effect a name change that more accurately the combined company's Latin "flavour". In the end, Sanu was also rolled in and the rather nondescript name of NGex was fashioned for the vehicle.

We would note that despite focusing on Argentine mining more than most Suramina was so "under the radar" that we had never stumbled upon it before. The Canadian component in NGex has that common look of "having a bet both ways" to keep assuaged those Canadian investors who don't feel comfortable without a token project in the Motherland somewhere on the portfolio. As we have noted before if they are that queasy about LatAm then they probably should not be invested in any company with LatAm exposure.

Powerful friends in Japan

In considering the attractions of NGex (in its post-merger form) it is important to note its relationship to Japanese interests. The decline in the markets means that financing has become difficult, to well nigh impossible, for miners to raise money for base metals projects. The one exception, over the interim before base metals get momentum again, is the state-directed enterprises from Asia. Last year saw the ill-timed but well-directed investment by KORES into Baja Mining's El Boleo mine in Mexico. The Japanese though have been subtle to the point of near invisibility. However, they need to have the same access to future metals supplies that the Koreans and Chinese are struggling to get or they risk being third in line in any future metals supply crunch.

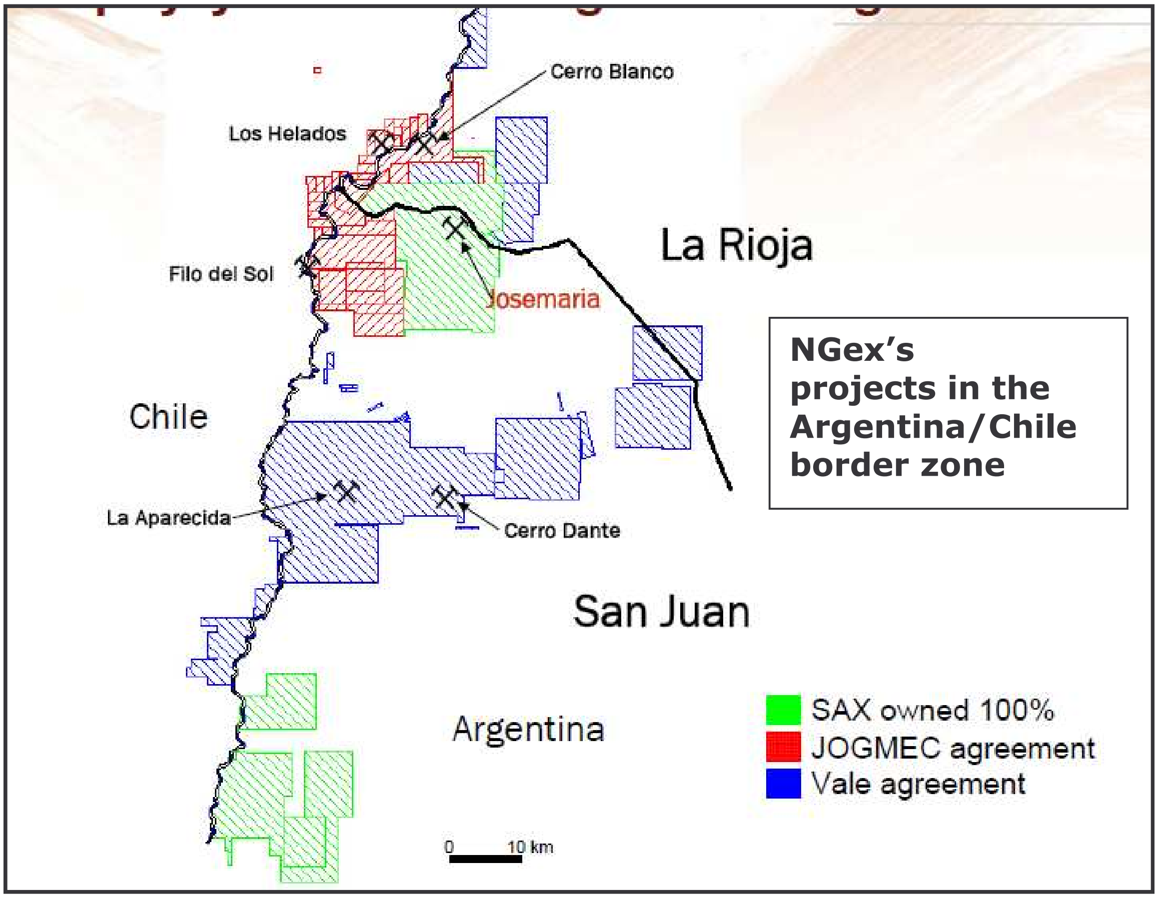
NGex is well-positioned in this respect due to joint exploration agreement with Japan Oil, Gas and Metals National Corporation (JOGMEC) relating to exploration activities at the Vicuna Project properties (and for the development of any ore bodies identified, including commercial mining operations, thereat). NGex will have an initial 60% interest in the JV and will fund its pro rata share of all expenditures. The Vicuna Project properties include the Filo Del Sol copper/gold project in San Juan Province, Argentina.

JOGMEC is a Japanese national oil, gas and metals corporation which, among other major initiatives, provides support for exploration and development of mineral resources ranging from the generation of mineral exploration projects to financing of exploration development projects. JOGMEC has been actively involved in mineral projects in over 55 countries worldwide since 1970, essentially with a goal of providing Japan with a stable supply of mineral resources.

Suramina's contribution

Suramina was originally created via the spinout in 2007 of the South American copper & gold exploration assets of Tenke when it was taken over by Lundin Mining. The merger of CGH with Suramina brought to the combined company a large, diversified copper/gold exploration portfolio in South America. Its land package totals over 804,000 hectares covering prospective ground in Argentina, Chile, Peru and Colombia. The two key projects on which it is currently focused on both in Argentina with the aforementioned Filo del Sol bulk tonnage porphyry target in San Juan province and the Cerro Cuadrado high-grade silver vein system in Santa Cruz province. Both are mining friendly areas in a country where uninformed comment from outside has given mining policy a bad rap.

NGex's LatAm projects range from grass roots to advanced resource definition stage. The map below shows the close proximity of most of the properties. However despite this they cross two Argentine provincial administrations (one very pro-mining and one recently having renounced its anti-mining stance) and then there is the further complication of the properties sprawling across the border into Chile. All of these properties are at very high altitudes. Also notable are the Vale properties in blue-hatched and the red-hatched properties held in the JV with the Japanese.



Josemaria, San Juan (Argentina)

The map on the preceding page shows the location of the Josemaria copper/gold porphyry project. The project has a NI 43-101 inferred resource of 460 million tonnes grading 0.39% copper and 0.30 g/t gold at a 0.3% TCu cut-off, containing 3.9 billion pounds of copper and 4.4 million ounces of gold. The table below shows the resource at various cut-off grades.

An updated NI 43-101 standards mineralized resource was completed during the fourth quarter of 2007 and further scoping evaluations were performed on the Josemaria property during the first quarter of 2008. is pleased to announce the start of its 2009 drill program on the Josemaria copper/gold project located in San Juan Province, Argentina.

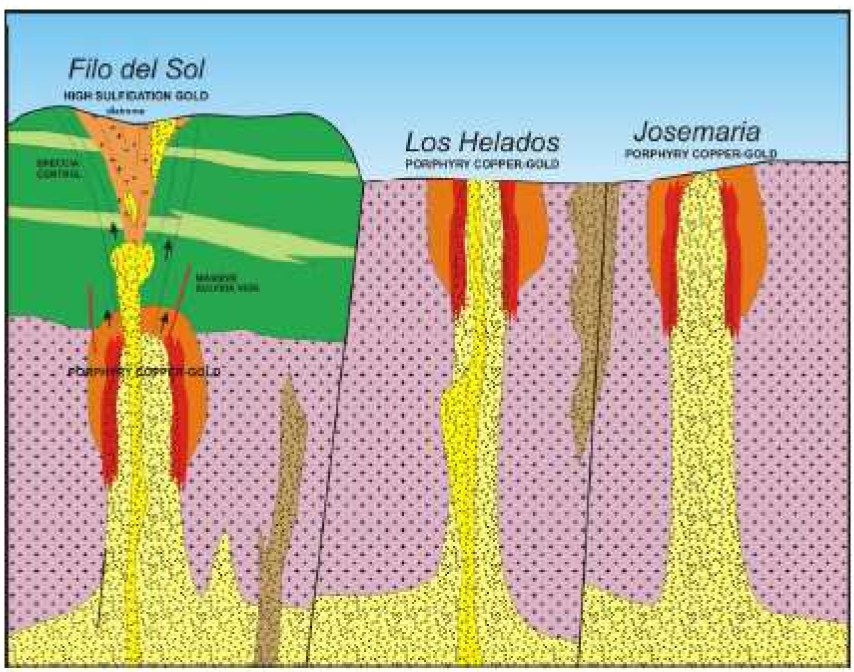
In November 2009 the company ramped up a drill program at this deposit, which was to consist of five to seven diamond drill holes totaling approximately 2000 metres. The objective of the program was to test the potential for a significant expansion of the existing resource to the north, northeast, and southwest. The drilling is targetting extensions of the chargeability anomaly that is coincident with the known mineralization as well as strongly anomalous copper and gold in soils and favorable geology and alteration.

Josemaria Inferred Resources			
TCu Cutoff (%)	**Million tons above TCu cutoff**	**TCu Grade (%)**	**Au Grade (g/t)**
0.2	1,125	0.31	0.22
0.3	460	0.39	0.30
0.4	131	0.51	0.38
0.5	52	0.60	0.43
0.6	20	0.70	0.45
0.7	7	0.80	0.47
0.8	3	0.89	0.48

Drilling at Josemaria is expected to take approximately six weeks after which the drill will move to the nearby Los Helados Project.

Los Helados, Atacama Region (Chile)

This property is in very close proximity (5 kms) to the Cerro Blanco prospect and forms part of the JOGMEC joint venture. During the second quarter of 2008, Suramina completed a second phase drilling program, comprising of two holes totaling 1,037 metres, on the Corporation's staked Los Helados property. A copper/gold porphyry was intersected by both holes. One of the holes returned 530 metres grading 0.306 g/t gold and 0.459% copper including 73 metres grading 0.599 g/t gold and 0.523% copper. The hole ends in mineralization with the last 115 metres grading 0.23 g/t gold and 0.632% copper. The target area is open to the east, south and north with a known area of mineralization delineated over 1,800 square metres to date.



The aforementioned additional drilling has as its first priority two holes totaling 750 metres to test the system at depth. The three deposits look like the image below in the company's estimation.

Filo del Sol, San Juan (Argentina)

The Filo del Sol target located within the Los Caballos I and II properties (within the Vicuña properties subject to the JOGMEC joint venture). The Vicuña project encompasses a large property holding that straddles the Argentine/Chile border between the El Indio and Maricunga metallogenic belts. Widespread, near surface SX-EW amenable copper mineralisation has been identified in previous drilling by Suramina as well as the associated copper-gold porphyry mineralization at depth.

During the first quarter, a reverse circulation drill program, consisting of approximately 2,884 metres was completed at Filo del Sol. A model of near surface copper/gold oxides overlaying deeper porphyry and diatreme targets has been developed at this project (and can be seen above). A technical NI 43-101 mineralized resource estimate on Filo del Sol was said to be in progress in early 2009 by we have not seen any sign of this appearing. At the same time further drilling on Filo del Sol was postponed "until market conditions improve" which surely is the case now.

Las Flechas, San Juan (Argentina)

This property is one in which Vale (RIO) had an option to earn a 52.5% interest in return for funding exploration expenditures of US$7 million by April 18, 2009. Vale surrendered this option in the September quarter of 2008. Vale was the operator and had focused its exploration on three priority targets: Cerro Dante, Cerro Amarillo, and La Aparecida. The first two are porphyry copper targets and La Aparecida is a gold/copper target.

In late March, a 2,350-metre drill program commenced at two different Las Flechas property targets. Drilling has been completed in the second quarter. However assays results have not shown significant copper results.

This property was one in which Suramina was earning a 75% interest from Yamana (AUY) based upon a certain amount of drilling work and investment being done. Curiously, Vale has done all the work and withdrawn (presumably due to international financial stresses plus the indifferent drill results) and, in effect, completed SAX's requirements for the earn-in leaving SAX with 75% of the project. In light of the disappointing drill results from the 2008 campaign, this "prize" may be somewhat illusory.

Cerro Blanco Property, La Rioja (Argentina) and Atacama Region (Chile)

The Cerro Blanco property, which forms part of the JOGMEC joint venture, straddles the Chilean and Argentine border. A first phase drilling program comprising two holes totaling 450 metres of drilling has been planned and budgeted for the Cerro Blanco property for 2008/2009. Drilling is expected to commence once exploration permits are obtained. La Rioja was troublesome mining territory in the past due to the political infighting of the local politicians over division of the spoils, though to outsiders the squabble was dressed up as an "environmental issue". This was laughable. Now the pendulum has swung back towards the Menemistas that traditionally ran this province (under former Federal Secretary of Mining, Angel Mazza) and the province is scurrying to make up for lost time.

Cerro Cuadrado, Santa Cruz (Argentina)

The Cerro Cuadrado target is a polymetallic epithermal vein system discovered by SAX in 2004 during reconnaissance exploration in Santa Cruz province in the Patagonia region of southern Argentina. Santa Cruz (former stamping ground of the Kirchners) is a highly mining friendly jurisdiction.

Recent drilling has confirmed high-grade silver-zinc mineralization along strike and down dip in several zones within the 6 kms of outcropping vein identified to date. A third phase core drilling program comprising 4,334 metres in 24 holes was completed on the high-grade silver/zinc discovery at Cerro Cuadrado during the second quarter ended June 30, 2008. The company thought the results were encouraging and they increased the known extent of the vein system. One hole, cc-25, returned 17.7 metres grading 106 g/t silver, 8.27% zinc, 3.96% lead and 0.37 g/t gold. Currently the multi-vein system is known to extend over 10 kms and remains open in all directions. Several strongly anomalous zones to the north of the system have been recently identified which will be tested for possible continuity in upcoming programs.

In late 2008 Suramina stated that further field exploration/testing on Cerro Cuadrado was being deferred pending improved market conditions and clarification of provincial mineral development policies. Now that La Rioja has gone pro-mining this should not be a consideration but the latest work report for the company states that “the company is actively seeking partners to do further exploration on the project”. So clearly it is not of much interest any more.

Caballo Blanco, Veracruz, Mexico

We originally felt that this property was the key component in the merged group until late November when NGex announced it had reached an agreement with Goldgroup to sell it's 70% earnable interest in the project for CAD$15 million, comprised of staged cash payments totaling $6 million and 9 million shares of Goldgroup at a deemed price of $1.00 per share. Goldgroup, which is the Simon Ridgeway vehicle that encompasses Fortuna Silver (one of our sometime model portfolio constituents), Radius Gold and Focus Ventures. It is not clear how much of each company is owned by Goldgroup. While not currently listed the company attests that it is “seeking to complete a going public event which will result in a listing of its shares”. This sounds like a backdoor listing to us.

After the issuance of the consideration shares, NGex will own 19.6% of Goldgroup's issued shares though this is almost certain to be diluted down on a listing of the entity. In addition NGex will receive a 1.5% net smelter return royalty and, upon the project reaching commercial production, shall receive a one-time advance royalty payment in the amount of CAD$5 million.

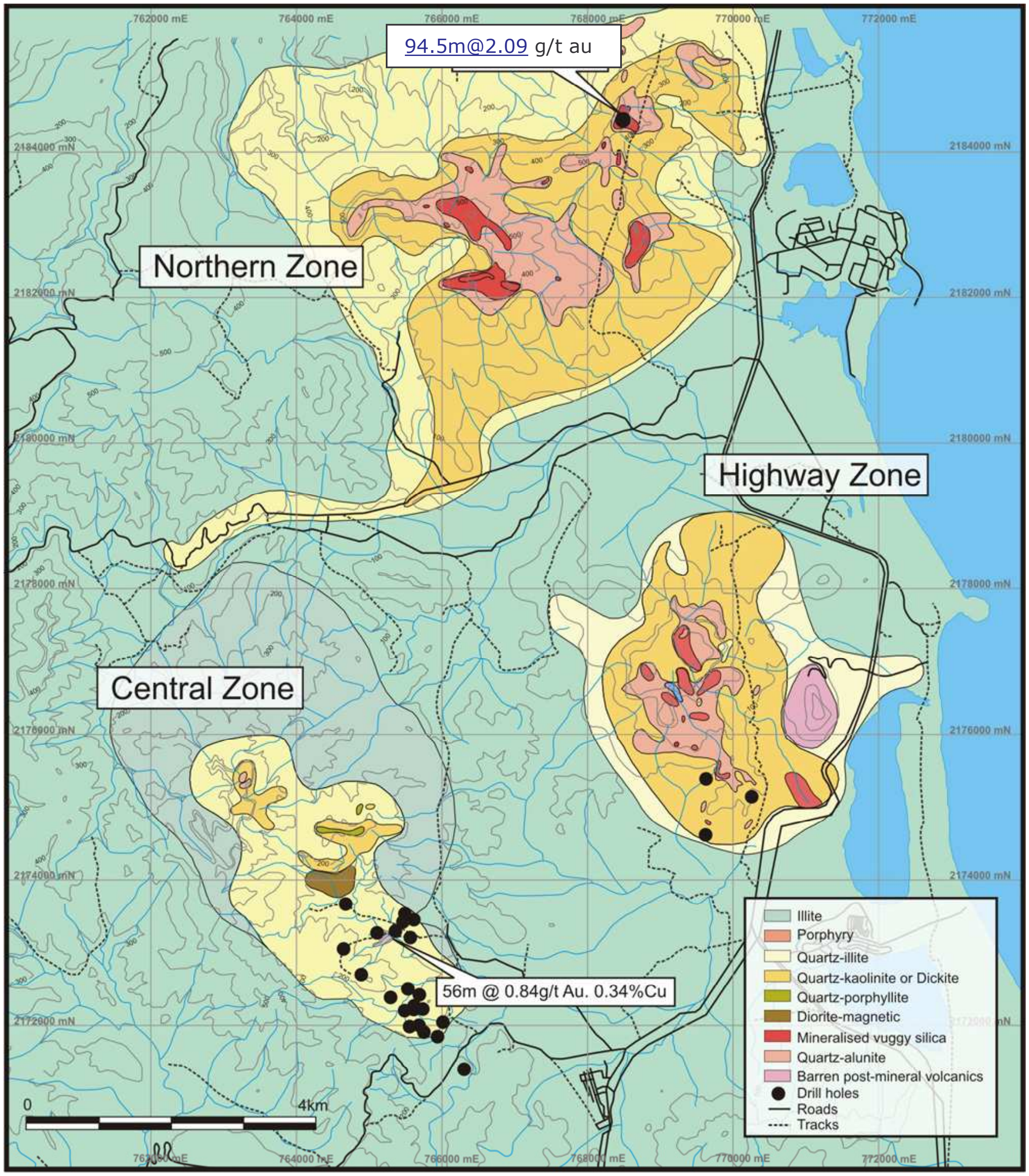
When we first met with CGH in 2008 we were struck by the sheer novelty of the Caballo Blanco project. Virtually all the mining projects we have seen are in the north and center sections of Mexico (with the exception, interestingly, of Fortuna Silver’s Oaxaca project). This means we are almost always looking at the Sierra Madre or parallel systems (even if they may be in Baja California, like Baja Mining’s El Boleo). The Caballo Blanco claims cover approximately 15,000 hectares and are in virgin territory in the state of Veracruz, within spitting distance of the waters of the Gulf of Mexico. The license areas are approximately 70 kilometers north of the port city of Veracruz. Infrastructure is excellent, as the prospective areas are all located within 10 kilometers of the Pan American highway and a power plant.

A glance at the map on the following page shows that it is not a stretch to imagine that the geology of areas like Oaxaca, south of Mexico City might be pertinent to Veracruz.

The property’s exploration is a JV with Almaden Minerals (AMM.to, NYSE: AAU). On May 31, 2007, CGH signed an option agreement with Almaden to acquire a 70% interest in the Caballo Blanco gold property by spending US$12 million on exploration over six years and advancing the project to bankable feasibility. It is this option that is now being flipped to Goldgroup.

This deposit is a large, high-sulphidation epithermal gold system that has seen limited work. The property is highly prospective for two deposit types – high-sulphidation epithermal gold and porphyry copper- gold. Caballo Blanco covers three large mineralized areas known as the Northern Zone, the Highway Zone and the Central Grid Zone. Caballo Blanco is located in the easternmost extension of the Trans Mexican Volcanic Belt (TMVB), which hosts several large precious metal and base-metal deposits. The TMVB is a mid-Miocene-to-Recent (17 million years old up to the present time) volcanic arc built on the southern edge of the North American Plate and comprises a mixed variety of chemical compositions. The geological environment is prospective for high-sulphidation epithermal gold and porphyry copper-gold systems.

The property covers three large mineralized areas known as the Northern Zone (including Cerro la Paila), the Highway Zone and the Central Grid Zone (shown on the map on the preceding page). Since acquiring the property, CGH has carried out extensive geochemical, geophysical and geological mapping surveys over these zones in order to identify targets for drilling. Cerro La Paila has been the main focus thus far. It is one of several gold targets within the much larger Northern Zone, which is defined by a strong alteration system extending over more than 20 square kilometers. Gold at Cerro La Paila is hosted by a large body of complex vuggy silica breccias containing abundant iron oxides partly exposed over a N-S distance of 900 meters and up to 450 meters wide. Gold, silver and several pathfinder metals define a prominent soil anomaly over the exposed parts of the breccias. The northern zone also includes Cerro La Cruz, 700 meters south and Cerro Bandera, three kilometers SW of Cerro La Paila. These show the same exposed massive silica and vuggy silica breccias that are also coincident with strong resistivity anomalies.



Since June 2007, CGH has conducted extensive surface exploration programs to define drill targets. Core drilling was undertaken from late November 2007 to mid-August 2008 with 19 holes (3,464 meters) drilled on the Cerro La Paila gold target, with encouraging results. In the Central Grid, 9 holes (2,469 meters) tested two porphyry targets, Porvenir and Pedrero (the latter being a new discovery). That campaign generated, in the company's opinion, encouraging results with a number of broad intervals that graded over one gram per tonne gold (g/t Au), including drill hole 08CBN-004, which intersected 94.5 meters grading 2.09 g/t Au. In November 2008 it began a 10,000-metre drilling campaign and in February 2009 it announced the first results with core hole 08CBN-029 intersecting 36.58 metres grading 1.13g/t Au on the Cerro la Paila drill site.

Caballo Blanco was, in our opinion, the chief attraction of the merged companies. The lack of a 43-101 hindered broader recognition of this prospect. A further issue is whether Veracruz is a receptive mining jurisdiction. We have no information on how they stand as we have never encountered another miner there. At least the area is not as drug-cartel prone as the northern states are. The sale of the prospect to Goldgroup makes these problems somewhat remote from NGex now.

Eritrea – amassing ground

This country is principally known in mining circles for the successes of Nevsun in the area. Otherwise the country was war torn for decades in its independence struggle against Ethiopia and has more recently been under the not so light-handed administration of a strongman who while relatively benign on the business front is scarcely a paragon of virtue in the eyes of human rights watchers. Eritrea has the dubious distinction of producing the second largest number of refugees in the world in 2009.

NGex's Hambok prohject in Eritrea is a volcanogenic massive sulphide copper/zinc project located in the western lowlands of Eritrea approximately 200km by road west of the capital city of Asmara. The land position covers approximately 100km of favorable stratigraphy northwest and southeast of the Bisha Deposit.

A NI 43-101 report was completed in January 2009 with Indicated resources (at a 0.75% zinc cutoff) estimated at 10.7 million tonnes grading 0.98% copper, 2.25% zinc, 6.84 g/t silver, 0.20 g/t gold containing 231.1 million pounds of copper, 530.7 million pound of zinc, 2.3 million ounces of silver, 68.8 thousand ounces of gold. There is an additional inferred resource (at a 0.75% zinc cutoff) of 17.0 million tonnes of 0.85% copper, 1.74% zinc, 5.89 g/t silver, 0.19 g/t gold containing, 318.5 million pounds of copper, 652.1 million pounds of zinc, 3.2 million ounces of silver, and 103,800 ounces of gold. This is clearly a base metals prospect of substance, but not of interest for its gold content.

The company holds its exploration ground through exploration licenses granted by the Eritrean government. The government retains a 10% carried interest in all discoveries and has the right to acquire an additional, fully-contributing, participatory interest in any discovery. The question now is whether NGex carries this forward itself or passes it, somehow, over to Lundin to move forward as a mine. One might wonder whether Lundin is keeping its distance as it already has a hot potato in the form of Fungurume in the DRC to occupy it at the moment. Nevertheless Eritrea looks relatively easy compared to the DRC.

Republic of Congo – not to be confused with..

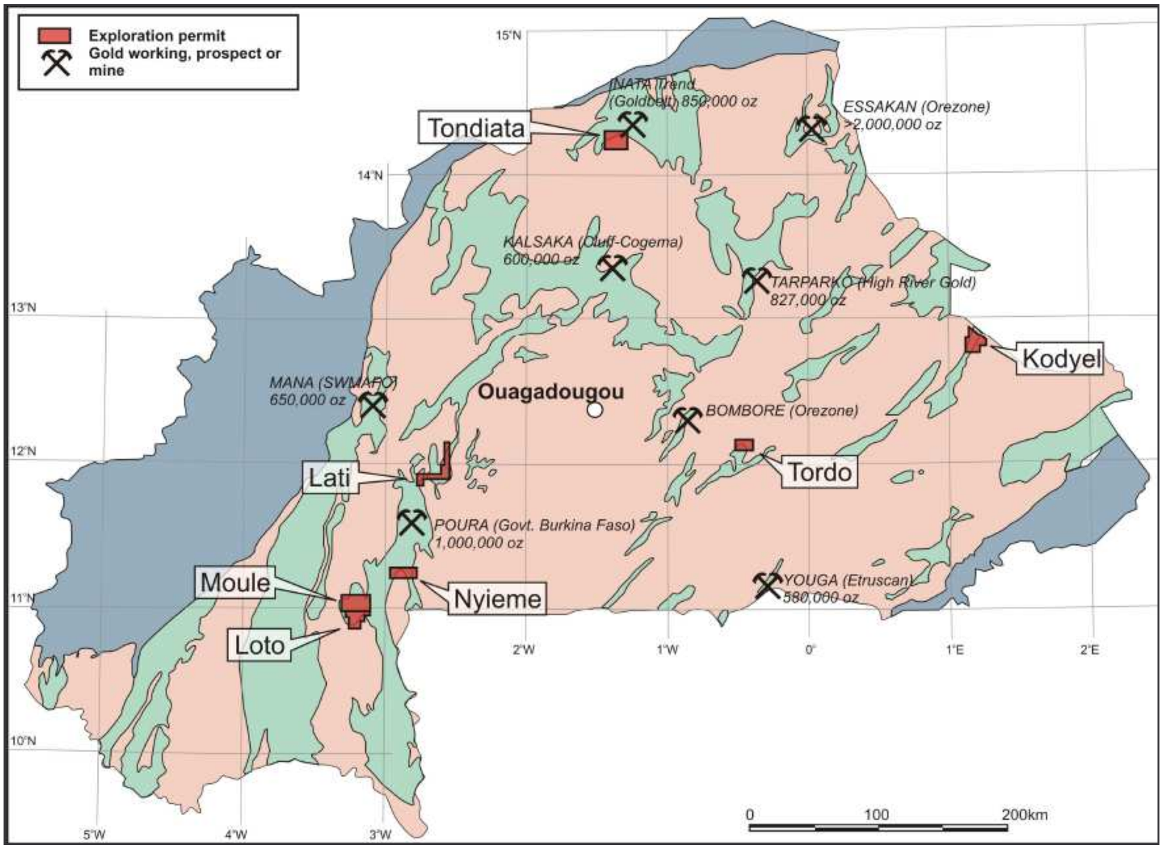
The first thing to mention here is that this is not the much-maligned DRC, but the former French Congo, just to the north of the DRC. While not a high profile location in the mining world it is a more amenable regime than the DRC. In any case the efforts of NGex are still formative and may yet not eventuate into anything of substance. The company's exploration program targets carbonate-hosted copper/lead/zinc mineralization in the Upper Proterozoic rocks of southeastern Congo.

The company has been granted two Prospecting Licenses, which cover the Reneville and Comba prospects and a number of occurrences in between. An application for Exploration Licenses has been approved by the Department of Mines and Geology and is currently being reviewed by the Council of Ministers.

Burkina Faso – our favoured stamping ground

This country is one of our favoured locations in Africa with several stocks we view well operating in the area, most particularly Semafo, IAMgold and Etruscan. NGex holds six exploration licenses totaling 1,214 sq. km in Burkina Faso but as yet has not been moving these forward with any alacrity.

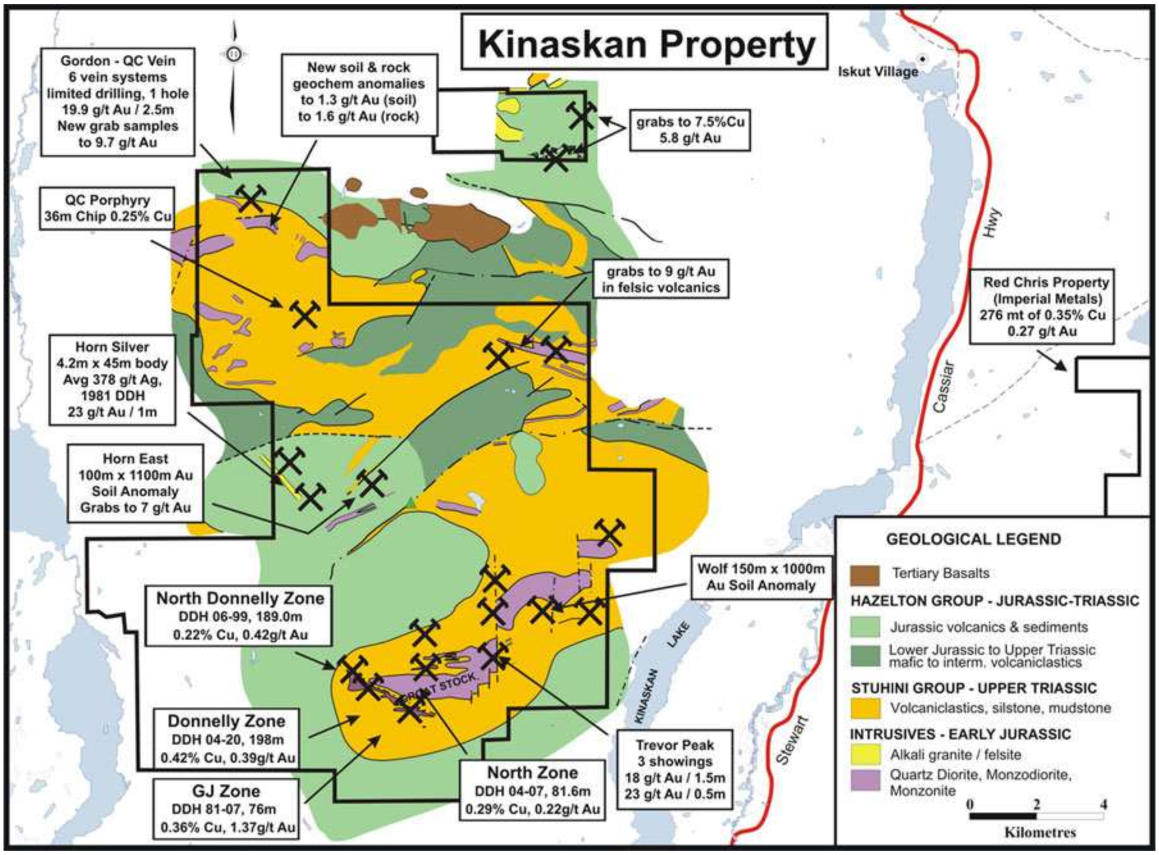
The concessions (shown on the following map) cover what the company claims to be significant greenstone gold targets that are geologically similar to those hosting the major gold deposits in neighboring Ghana and Mali. The Moule and Nyieme properties are held under an option to purchase agreement giving NGex the right to purchase 100% of the property. The other properties are held directly by the company. All of the properties (with the exception of Kodyel) have proximity to meaningful discoveries of other companies. One could make an argument that the four eastern prospects might be in territory that could be seen as a potential northern extension of the prolific Ashanti gold belt. All however remains conjecture as long as NGex keeps the properties in this area on the backburner.



GJ-Kinaskan Lake – too hard?

This copper-gold project was CGH's veteran asset with the company having had an interest here since 1983. It comprises 39 mineral claims covering 20,155 hectares. The project is located on the southern end of the Klastline Plateau in the Stikine River region of NW BC, approximately 200 km north of Stewart and 75 km south of Dease Lake. The property is 100% owned by CGH however it made clear in its latest exploration update that it is desirous of divesting this asset.

The Donnelly-North Donnelly copper-gold porphyry zones are the principal exploration targets within the property. The general area hosts other gold-rich porphyry deposits of note. These include Red Chris (Imperial Metals) shown at the right side of the map below. This contains 446.1 million metric tons grading 0.36% copper and 0.29 g/t gold. The company in the past has made comparisons to Galore Creek (of Nova Gold/Teck Cominco) with its 516.7 million metric tons grading 0.60% copper and 0.36g/t gold, but that is seen as a dubious distinction indeed in many circles and may explain its desire to divest.



The first recorded exploration work on the GJ copper-gold porphyry dates back to 1964. Amoco Canada drilled the GJ prospect in 1970 and 1971. Texasgulf Canada drilled the Donnelly Zone in 1977 and 1980. CGH acquired the GJ claims in 1983 and the Donnelly ground in 1999.

Since 2000, CGH has conducted extensive exploration programs including airborne and ground geophysics, rock and soil geochemical sampling and geological mapping. These surveys defined several large targets for drilling. From 2004 through 2007, CGH completed 208 core holes amounting to 52,978 meters on the Donnelly, North Donnelly, GJ and North zones.

By far, the most success has been achieved in the Donnelly Zone, which has been drilled in detail at 50-meter centers. Overall, the key copper-gold resource areas are the Donnelly and North Donnelly zones. The Donnelly Zone measures 1,670 meters in an E-W direction, is up to 300 meters wide and extends to depths as great as 500 meters. The Donnelly North Zone expands the north-south extent of the mineralized area to about 700 meters. The Donnelly Zone has a number of attractive features, including easy access from the Stewart-Cassiar highway and gentle topography.

In October 2008 CGH completed an updated independent resource estimate on the Donnelly and North Donnelly zones. The resource at the 0.2% Cu cutoff represented a 25% increase over the previous resource estimate.

Main and North Donnelly Measured & Indicated Resource

Cut-off Cu (%)	Tonnes (000,000)	Cu (%)	Au (g/t)	Contained Cu (million lbs)	Contained Au (million ozs)
0.10	293.3	0.238	0.281	1,539	2.65
0.15	217.5	0.277	0.323	1,328	2.26
0.20	153.3	0.321	0.369	1,085	1.82
0.25	103.4	0.367	0.416	837	1.38
0.30	66.3	0.420	0.469	614	1.00

The gold resource is certainly an attractive one and byproduct credits from copper could be attractive in mitigating cost or for stockpiling. As yet though we have not seen a production plan or pre-feasibility as to what the potential costs per oz/lb might be and whether the capital cost would be prohibitive. The fact that it is on the block for sale is interesting as it goes to show that sizeable contained ounces are sometimes not good enough. In theory majors should be lining up to buy this asset and yet no deal, as yet, has been engineered despite gold's recent strong performance. It may be that this is in the "too hard" basket or we could be pleasantly surprised and see this sold for either a large amount of cash or stock to a larger player with the wherewithal to move this forward.

Zymo Copper/Gold

In late May of 2008, CGH signed an option agreement with Eastfield Resources (ETF.v) to earn up to a 75% interest in this property. The 10,250 hectare property is located 40 km west of Smithers, BC and accessed by good quality logging roads. Zymo hosts, at least, two large copper/gold porphyry, or intrusion related, mineralized zones. Historical work, dating primarily from pre-2000, outlined a large geochemical anomaly measuring approximately 1 km by 1 km within which numerous mineral occurrences have been located. This area is now referred to as the main zone.

CGH may earn an initial 60% interest in the property by making cash payments totaling $350,000, issuing 50,000 shares and completing exploration expenditures of $4 million over five years. CGH may earn a further 10% interest by completing a feasibility study and a further 5% by arranging mine financing for Eastfield. A minimum exploration expenditure of $800,000 must be completed in calendar 2008. The program will include extensive geochemical sampling, IP geophysical surveying and diamond drilling.

Previous work by Eastfield in 2007 consisted of a reconnaissance exploration program. In the main zone area chip sampling along a creek exposure returned 0.13% Cu and 0.26 g/t Au. Grab samples in this area had returned up to 1.0% copper. Another new showing was located by prospecting 800 m southeast of the main showing where a grab sample returned a grade of 0.92% copper, 0.26 g/t gold and 4.5 g/t silver.

A new discovery of porphyry style mineralization called the Hobbes zone was made by prospecting approximately 4.5 km west of the main showing. The host rocks are intensely altered intrusives. The Hobbes Zone was discovered by prospecting late in 2007 and consists of copper-gold mineralization associated with magnetite and quartz stockwork. Mineralized outcrops have been observed along the length of a strongly altered intrusion for approximately 800 m. Copper and gold values from outcrop samples range from background levels to 0.86% Cu and 1.1 g/t Au. It is associated with a magnetic anomaly that is approximately 1 km in length. However, it is part of a much larger chargeability anomaly that exceeds 6.0 km in length, is open-ended and varies from 2.0 to 3.0 km in width.

Soil sampling and reconnaissance rock and silt sampling have outlined several other areas that are anomalous in copper and gold. CGH mobilized a team to the site in early July 2008 and by September it announced a drilling program that would total approximately 1,554.6 metres in 6 holes and focusing on the Hobbes target.

The IP geophysical survey is nearing completion and has shown that mineralization is associated with a very large sulphide system. The IP anomalies on the FM and Hobbes grids are approximately 2.5 km wide and are open-ended (2.0 km long on FM and 1.5 km long on Hobbes). Two lines are being surveyed between the grids to determine if the anomalies join. In November the company announced initial drill results with all of the holes intersecting significant intervals of copper-gold mineralization with the best interval being 72.0 metres grading 0.72% Cu and 0.54 g/t Au starting at 15.0 metres in hole ZY-08-09.

The initial exploration program on the Hobbes target included a 6-hole 1,550-metre diamond drill program in 2008, the highlight of which was an intersection of 72.0 metres in ZY08-09, which graded 0.72% copper and 0.54 g/t gold from 15.0 to 87.0 metres.

During the September quarter NGex completed a five-hole drill program totaling 1,964 metres. Four holes were drilled in the Hobbes target and one hole tested a showing in the FM Zone. All holes intersected mineralization. We can't help thinking that this Canadian property may not be as loved as it once was for the exploratory activity is desultory to say the least.

Resource

The company presents the following chart to demonstrate their Measured, Indicated and Inferred Resources on their most advanced projects. It should be noted again that GJ is for sale. We would also note that the rising gold price makes the resource numbers for GJ almost nonsensical compared to when they were originally calculated. Hambok has a very interesting base metal resource indeed and Josemarias's Inferred gold resource is sizeable indeed.

Project	T Mm	Cu %	Cu lbs mm	Zn %	Zn lbs mm	Au g/t	Au oz	Ag g/t	Ag oz mm
Hambok M&I	10.7	0.98	231.2	2.25	530.7	0.2	68,801	6.84	2.3
Hambok Inferred	17	0.85	318.6	1.74	652.1	0.19	103,845	5.89	3.2
GJ M&I	69.1	0.29	442			0.34	764,562		
GJ Inferred	23	0.26	131.8			0.31	229,230		
Josemaria Inferred	460	0.39	3,955			0.30	4,436,700		

Unlike many in the analytical circles we do not subscribe to the theory that it is better for explorers to find the deposit, prove it up and then move on. It is even more bizarre to hold this view when the company concerned is part of a major mining group (i.e. Lundin).

Are we to believe that Lundin could not build a mine at Hambok? Are we wrong to think that Red Back could not develop GJ's deposit with its nearly one million ounces all in? Why couldn't Red Back make something of Josemaria? If we thought other Lundin companies could do something with these then we could feel that NGex has the potential to be melded into the rest of the grouping at a decent valuation. Perish the thought that these interesting assets might be cast adrift in the manner that Caballo Blanco has been detached in recent months. It becomes clearer that some sort of rollup of NGex into the other Lundin vehicles make eminent sense.

Recent Financings

At the beginning of December the company announced a CAD$7.7mn financing but later (on the 16th of December) upped the size of the private placement to $8.7mn. This should take the cash balance back up closer to $15mn.

Thus the company is currently in the process of selling, on a non-brokered, private placement basis, an aggregate of up to 12.43 million common shares at a price of CAD$0.70 per share for gross proceeds of up to CAD$8.7mn. Shares issued will be subject to a four-month hold period. Interestingly a 5% finder's may be payable on a portion, or all, of the private placement. The company ventured that net proceeds of the private placement will be used towards ongoing exploration programs as well as for general working capital purposes.

Management

The main man is, of course, the aforementioned Lukas Lundin.

The President & CEO is Dr. Wojtek Wodzicki who has worked in the mining industry since 1987 and has managed exploration programs on five continents. He is a geologist by training and has a doctorate in Geosciences from the University of Arizona. He previously served as VP of Strategic Partnerships for Lundin Mining Corporation and President, CEO and Director of Sanu Resources. Prior to joining the Lundin Group Dr. Wodzicki was with Teck Cominco in a variety of roles that included managing exploration offices in Bolivia, Peru, Chile, and Argentina. His last role with Teck Cominco was as General Manager of Exploration for North America and Europe-Africa. Originally we had felt that the combined entity was going to be headed up by Richard Bailes who was been President, CEO and a Director of Canadian Gold Hunter since September 2002. He had a long history of over 30 years experience in the mining industry having held senior positions with Abermin Corporation, Pan Ocean Oil Ltd, and Kennecott Copper. However in the event he departed and the company went for a younger profile at the top.

Meanwhile, Wanda Lee, who was shared between several Lundin group companies, including CGH and Suramina was named as the CFO. Lukas Lundin was already on the boards of the predecessor companies, as was William Rand, a retired venture capitalist/banker.

Suramina's local exploration team had a good track record of past success so the veteran head of that company, Dr. J. Patricio Jones, was carried over to the board of the merged structure. He is based in Buenos Aires, and has over 35 years experience of exploration management. He was been responsible for the discovery of the Veladero gold deposit, now owned by Barrick Gold, as well as the initial recognition and development of the Bajo de la Alumbrera gold mine, now owned by Xstrata and Yamana. He holds a Master of Science degree in geology from Witwatersrand University and a Doctorate from La Plata University. Dr. Jones spent the early part of his career in the gold and platinum fields of South Africa before joining Inco and then BP Minerals in the early 1980's. He joined the Lundin Group in the late 1980's, having already been involved in the discovery of three tin mines, Sª Da Onca, Sª Da Cacimba and 14 Abril in Rondonia, Brazil and was instrumental in the Lundin vehicles having successful finds in Argentina and Chile.

Michael Winn was the prime carry-over from Sanu Resources where he served as a director from March 2004, until the closing of Sanu's merger into the expanded structure. Mr. Winn is currently President of Terrasearch Inc., a consulting company that provides investment analysis and financial services to companies operating in the oil & gas mining, and energy sectors. The relevance of this to NGex is not apparent.

The company’s ties back to Endeavour Financial might seem to be linked to the presence of Lee Graber who was, from 2002-2004, the Managing Director of M&A for Endeavour Financial, the prominent resource industry investment banking firm. Prior to this he was with Homestake Mining over 23 years where he was VP for Corporate Development closing 55 major transactions totaling US $9.2 billion. Mr. Graber also led Homestake's international growth program, completing US$1.8 billion in international transactions. As a result, Homestake became the second largest gold producer in Australia and Canada, established major gold operations in Chile and acquired the Veladero gold deposit in Argentina.

Another name of note is Paul Conibear, an engineer with over 20 years of experience in heavy industrial and mining projects in North America, Africa, Chile, Venezuela, Uruguay and Argentina across a range of metals including base and precious metal, coal and potash projects. He spent many years with Fluor Daniel Wright, where he held senior project management and site positions for a variety of projects and more recently was part of the of the management team that established the Simons Mining Group. He is currently a director of several Lundin Group companies and was President of Tenke until its merger with Lundin Mining where he played a key role in progressing the Tenke Fungurume copper/cobalt project towards development.

Thus experienced and well-connected management are not in short supply at the merged group.

Potential Negatives

While the Lundin group is very resourced the Lundin Mining seems rather loathe to make available funds to “help out” other group companies.

The company may hive off so many projects that it will end up with only assets that look good in NI 43-101 reports but are not actionable except in a very much bigger company.

If the dollar carry-trade unwinds then gold may be in for a period of relative quiescence in the absence of inflationary signals. This would favour producers over distant wannabes and NGex can only be termed the latter.

Veracruz remains largely untested mining territory. The political reception of a new project hitherto remains a mystery. Passing the project to Goldgroup makes it their problem, but also means that NGex is not in control of very much of substance any more.

The Argentine properties look promising but are on the Chilean border which has been a contentious matter for others in the past.

Conclusion

It is well known that one of our long held hopes is the repopulation of the mining middle ground of diversified players that was thinned out drastically by M&A activity (and other attrition) during the lean years for the Great Deflation from 1997 to 2002 and then the early phases of the reflation (when M&A was still an attractive concept). A few new miners appeared to inhabit the space, such as Lundin through its multiple mergers and IAMgold through pairing up with Cambior. Meanwhile other names were lost like Teck (*pace* Cominco) getting bigger (and more indebted.. while losing half its name.. a sure sign of getting big) and Xstrata which devoured everything it could get its teeth into.

The merger of the Lundin exploration proxies into one company scarcely qualifies as the creation of a new Lundin or Teck, but ironically they probably represent a forerunner to an eventual folding of the combined entities into the bigger Lundin family vehicles at some point in the future when more value can be built into the company’s market capitalization.

Frankly we suspect this merger is directed towards two goals. The simplest is to increase the pool of cash and working capital to over $10mn, which seems to be the new comfort zone irrespective of asset size, market capitalization or burn-rates. Secondly three corporate structures are more burdensome than one when they are really in a Siamese-twin-like formation such as these parties were. Money can be saved and profile raised by knocking the three together. Certainly the stock price has looked livelier since the deal than before.

Letting Caballo Blanco pass out of control in exchange for equity elsewhere may have been a good idea but it certainly reduces the collection of interesting assets at this company, particularly in light of the number of other projects that the company is trying to hive off one way of another. This tempts us to put the company on a watchlist for future consideration rather than one for immediate action.

We rate this stock as **Neutral**. It cannot be a Buy call due to the distance in time to possible production and the unlikeliness that it might fall to predators from outside the Lundin Group. We would not even make it a Speculative Long as it is obviously a quality operation, with veteran management and well-resourced for the rest of 2009 and into 2010. We are putting a 12-month target price of CAD$0.65 upon the stock.

Important disclosures

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