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By Ed Bugos

PAPILLON, MERREX, IAMGOLD EXPLORATION UPDATE FEKOLA-BOTO-?? TREND

B2GOLD ACQUIRES PAPILLON

Some of you may remember my passionate arm waving and drive last year about the geological potential of the southern extent of the Mali-Senegal shear zone that further to the north has hosted some of the largest mines in Mali –i.e. mines owned by Anglo, Randgold, IAMGOLD, and others. I have been following developments in this region ever since discovering M**errex Gold (MXI.tsxv)** at an investment conference in San Francisco in 2010 at a much higher 40 cent share price that led to a $10 million financing in NY involving well known institutional names, which later bailed in the midst of the 2012 Mali coup,

http://en.wikipedia.org/wiki/2012_Malian_coup_d%27%C3%A9tat

Merrex was one of the early pioneers of the southern extension of the > 100km long N-S trending shear, back in 2006.

The company's CEO, Greg Isenor, was of the opinion that the Faleme River (which you can see in the pic below) was somehow reflective of the same underlying structure. The region remained unexplored by any modern methods but local miners have had their way with the surface landscape in certain areas, leaving abundant clues. Since 2006, the area has hosted multiple discoveries and has attracted interest from major players like IAMGOLD and B2gold, which just acquired "***one of the best undeveloped gold***

assets in the region" –according to this reporter,

https://au.news.yahoo.com/thewest/business/wa/a/23875842/talk-suggests-papillon-in-play/

When I discovered Merrex, a couple years after the 2008 crash, it had just discovered the first half of a 605,000 (2.2 g/t) near surface oxidized gold deposit on one of the more prominent structures that management dubbed the Siribaya megastructure.

It had also signed a joint venture agreement with IAMGOLD allowing IMG to earn 50%, which it did by the end of 2011 after spending ~$10.5 million.

The Siribaya megastructure is 10km long and other

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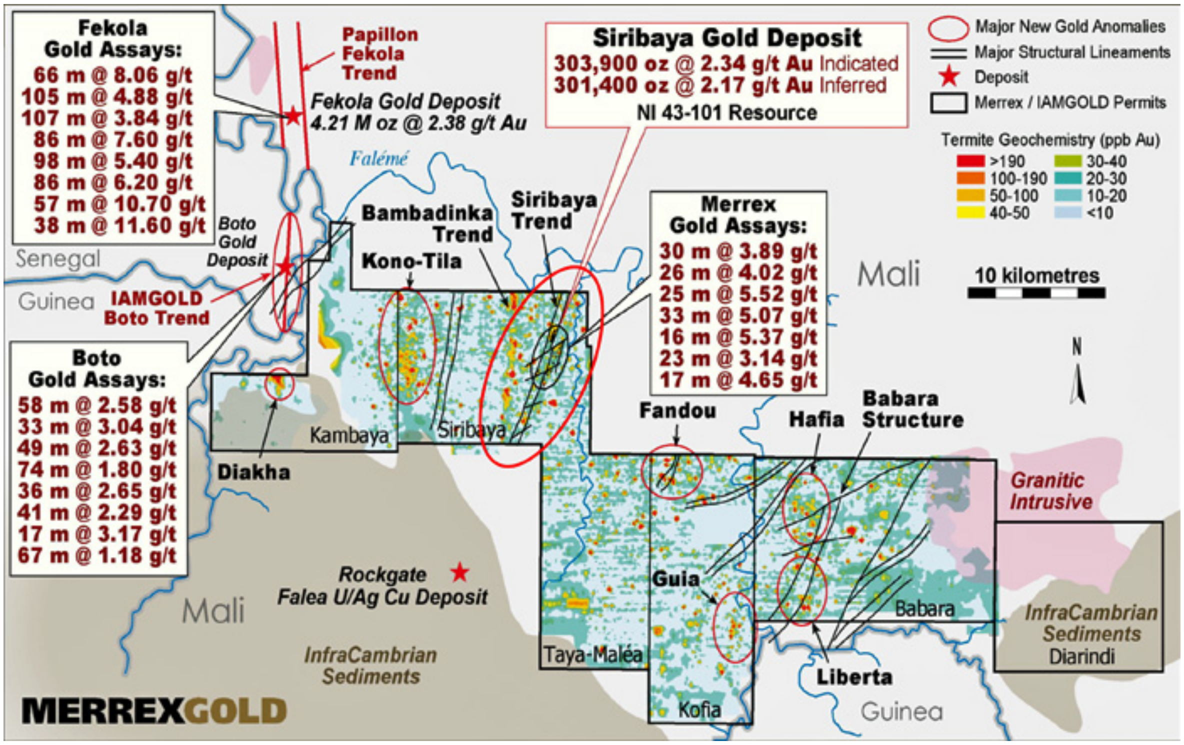

than the aforementioned discovery it was effectively unexplored and undrilled. Since then, IAMGOLD and Merrex have spent more than $40 million on the project, which included drilling roughly 150,000 meters along widely spaced fences up and down most of the megastructure (using mainly reverse circulation drills and some DDH) largely to depths of less than 200 meters. You see this structure in the above graph on the second permit (Siribaya) area -with the biggest red circle drawn around it.

The assays from that drilling inferred varied and complex pictures of what may be going on there, but the structure was certainly well mineralized.

The JV has been weighing several models to follow up on that work. At the same time, time and money on the 910 sq km project was devoted to mapping the 100 km worth of "gold anomalous structural lineaments" present (i.e. the NE-SW trending black lines cutting through their permits in the pic above) in order to define new targets.

They zeroed in on seven by the end of 2012 when the coup struck and prevented them from testing.

[They are now testing some of them.]

But while IAMGOLD and Merrex were busy mapping their claim block, another company, **Papillon Resources (PIR:ASX, PAPQF),** led by former Endeavor COO, Mark Connelly, turned its own 2011 gold discovery (Fekola) some 20 km to the northwest into a 5+ million ounce gold deposit scooped up by B2Gold a few weeks ago.

On June 3rd Papillon signed a definitive merger agreement with B2Gold to combine the two entities at an agreed ratio of 0.661 B2Gold shares for each Papillon share at a deemed value of A$1.72 per share (or a A$615 million transaction value). That is roughly my NPV calculation for Papillon at a 7% discount and a $1300 long-term gold price, or about $115 in enterprise value per oz of gold resource in the ground – a pretty good deal for B2gold, especially considering not only the real upside in gold prices, but mainly just the growth potential of the Fekola deposit and other discoveries they've made just to the north where they've been getting intersections like almost 5 g/t over 10m and 2 g/t over 30m from 12-13 meters.

Ultimately I'd bet B2Gold finds 10-15 million ounces on those claims. I formerly thought 5-10.

Upon completion of the deal Papillon shareholders will own about 26% of the merged B2Gold.

The board was unanimous in recommending that shareholders accept the deal – "*in the absence of a superior proposal*". The vote is in September.

My reaction? Mixed.

As you may recall, I expected Papillon's takeover.

That's one of the main reasons we recommended it. However, I did NOT expect it to go so quietly!

I'm still wading through the 90-something page merger implementation agreement but it is curious that Papillon never listed on any of the major North American exchanges given that Connelly has relatively strong connections here.

Indeed, I remember being curious about it even while they were developing the asset…i.e. as to why they weren't making any noise.

Yet the money seemed plentiful.

Great, I thought, for everyone except shareholders. And kudos to B2 (and its shareholders) for being one of the only companies to pay attention to fundamental developments in this market, and for pulling the rug out from under IAMGOLD's feet. Unfortunately, we added IAMGOLD to the TDV portfolio last year in part because of the opportunity that it had to secure this asset and increase its oligopoly in Mali.

After all, IAMGOLD's Sadiola mine to the north, which Anglo operates, is out of oxide mineralization, and Anglo has been twiddling its proverbial thumbs on developing the sulphide extraction capital. Another reason I thought it would have been a good fit is that IMG had just made a discovery on its 100% owned claims in Senegal to the west of and right adjacent to its 50/50 Siribaya joint venture with Merrex where it already owned 50% of 600,000 ounces of gold.

Combined with the newly discovered Boto deposit in Senegal that made nearly 2 million ounces within 20 km of the 5 million ounce Fekola deposit that IAMGOLD already discovered. Surely it wasn't going to let another wolf into its backyard.

Somebody had to consolidate all that gold!

Maybe that's what B2 has in mind.

Instead, IAMGOLD slashed its dividend (along with other costs) and has continued to hold out hope that Anglogold will invest in the sulphide expansion project at the northern end of the Mali shear zone. So my initial reaction was disappointment in IAMGOLD, which seems to be in a state of total flux. They missed the boat on that, though they could still do something.

They could purchase most of Papillon in a cash bid, which is something that B2gold probably would not have wanted to do –nor would it have to, which brings me to the second part of my reaction. B2Gold's stock is better than cash!

BUT We End Up With More B2GOLD!

It's a pretty bullish consolation prize.

B2 is one of the few companies scooping assets at what I would have to consider bargain levels.

Nobody else is doing it like these guys.

Since 2011 they have acquired over 20 million ounces that will ultimately add some 1 million ounces in annual gold production over the next three years that they didn't previously have!

That is exactly what every miner should be doing in this trough! And that is why they are who they are; because they know how to build wealth for their shareholders. The company's gold output has already grown from 145,000 in 2011 to 366,000 in 2013; it is expected to grow to over 600,000 ounces by 2015, and will probably break the 1 million ounce barrier soon after, given its current trajectory. I have been recommending B2gold since it was about $2. It is one of the few stocks that have been able to hold most of its value during the bear market in the PM sector.

Load up on B2Gold, people. That deal is going to be the next Goldcorp. It is an outright absolute buy. What's more, it is going to put Mali on the map, which brings me to the part about "noise."

Put Your Earplugs In

B2Gold may not be a noisemaker but it has a lot of supporters who are. And they are going to be excitable when it comes to the drill results we are seeing come out of Fekola and the new satellite.

We can expect them to do as good a job if not better than any of the companies that I had previously expected would promote the region.

The takeover may have been quiet, but the world will soon learn about this region, which gives us an opportunity I believe. Meanwhile, Merrex and IAMGOLD have continued to advance their exploration projects to the south, and I am looking forward to seeing assays there **imminently**.

While I am not happy about it, IAMGOLD is very cheap and I still have to recommend it as a buy.

But for the speculative gains on this region, Merrex Gold is still the best bet.

Nobody in our view has better prospects in the area…not IAMGOLD at its Senegal claims, where it discovered the low grade near surface Boto (au) deposit, and not B2Gold at Fekola. That's bullish!

Exploration Progress

Last spring (2013) I failed to help Merrex raise enough money to fund a $4-5 million exploration program to test the seven targets (property wide) revealed by a massive geochem sampling effort in previous years. Investors were just too gun shy in a reeling gold market. Who could blame them.

If the first fall in gold prices from $1600 to around $1350 in April didn't kill the deal, the next $200 point decline in June of that year certainly would.

The HUI had fallen by a third in just that time frame and all the spec stocks continued to decline, only they had been doing it for over a year then. That was the time to buy! –I believed.

And indeed, many companies haven't done all that bad since the low in Jun 2013, including Papillon above which we bought for the dollar vigilante's portfolio in April 2013 at $1.31 per share, but also, other picks: Agnico, Osisko, B2Gold, Golden Star, Alacer, and one or two others…although many speculative positions continued to sink further, as did Merrex's shares.

Its market fell from the 5-10 cent range during the first half of 2013 to between the 3-5 cent range in the second half, as the financing fell through and the exploration program was cut short (last year).

The stock sank as investors worried it would face an ever larger dilution in its interest.

However, IAMGOLD has turned out to be a friendly supporter, and has even committed to funding Merrex's share of a smaller version of the exploration program this year (i.e. US$1.75 million instead of $4-5 million), which Merrex will have to pay for at the end of the year. So if the market looks up or they get good drill results, which is a good bet in my analysis, they can raise money at better terms. Instead of drilling all 7 of its priority targets, as planned last year, the joint venture is focusing on the two showings in the graph above (Diakha and Kono Tila), which are on trend with Papillon's Fekola deposit (reported as discoveries last year), as well as one or two of the others.

At the end of April (2014) of this year Merrex reported on the first 8 holes of a 5662m RC drill program testing the Diakha target. All 8 holes were drilled to depths of around 60 to 100 meters, and all came back mineralized with decent grades (i.e. from 1 to 7 g/t over widths of at least 2 meters in the higher grade cases, and up to as much as 12m in one assay which graded 1.4 g/t…better grade than Boto? After an initial rally back up into the 6 cent range ahead of those drill results, the market sank back again in April and May, again in line with the general sector trends, and has since reversed an important intermediate downtrend on the charts while we wait for further assays from Diakha, as well as from the other targets.

This week the company reports that it has completed "11,816 metres of air core ("AC") drilling and 2,137 metres of mechanized auger drilling" at the Kofia and Babara permit areas.

This is exciting to me because, like Greg, the company's CEO, I really like the targets on those permits in the east. This project deserves to be drilled properly. With the possibility of good drill results around the corner, as well as the PR push that will come from the B2Gold crowd and the PR group that Merrex has hired on, don't be surprised to see the shares leave the single digits behind.

END

Edmond J Bugos

Mr. Bugos has been a dedicated investment professional since 1989, initially performing as a financial advisor, then stockbroker (with a focus on exploration and venture finance) and futures trader through 1999.

Ed left the brokerage industry early in 2000 warning his clients that the tech bubble would burst, and lead to a secular bull market in gold, a collapse in the dollar, and a repeat of the 1970's style stagflation in the decades ahead. Building on a reputation for putting clients first, Bugos launched ***The Goldenbar Report***: a subscription driven gold and currency digest that published a relatively broad based asset allocation returning over 20% per year from 2001-06 without a down year.

His last recommendation when winding down the newsletter in September of 2006 was for clients to allocate up to a 45% exposure to a short position against the equity averages, and largely the financial sector "XLF"; 40% to a long position in gold bullion (physical or GLD); and a residual core position (15%) in gold equities.

These positions minimized the effects of the 2008 crash with the short exposure up over 100% in 2008, and gold ending the year unchanged. The gold stocks crashed in a long overdue correction, which checked our short gains somewhat (in 2007 the gold equities and bullion both ended up about 25% while the short side was down about 30%, leaving that year a wash). From March 2008 to January 2009, Mr. Bugos compiled a portfolio of about thirteen small cap juniors to buy during the correction for readers of his Gold & Options Trader (published by Agora Financial). These juniors returned an average 275% from the trough in 2008-09 to their peak in 2011, and 248% from their entry prices, significantly outperforming the HUI and other gold share indexes in the period (this "GOT" portfolio is still up slightly even after the 2012-13 liquidation.

Since 2009, Mr. Bugos has been the CEO of his own independent research company (Precious Metals Equity Research), which sells research to small and medium sized broker-dealers, and other providers of financial content. Mr. Bugos is also the senior analyst and partner at The Dollar Vigilante, a newsletter aimed at helping investors survive the eventual collapse of the dollar system, and of American freedom.

His equity research is currently focused on the precious metals exploration and mining sectors, as well as base metals and rare earth mining/exploration (including uranium but not oil & gas). Using a model for evaluating exploration risk and early stage assets, Mr. Bugos tries to identify value across all the relevant segments in the resource sector. Ed's economic research is focused on macro asset trends with a focus on money supply analysis. He is a student of the Austrian School of economics, and a self-taught economist.