Growth Stocks Weekly

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Performance: Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**

Junior Gold and Natural Resource Sector Report

Technical Alert

April 16, 2005

ELGIN RESOURCES INC. (ELR-TSX)

Weekly chart: Year High C2.25, Low C$0.80, Last Trade C$1.27

Elgin Resources Inc. (ELR-TSX) is building a significant portfolio of Platinum Group Metal ("PGM") exploration and mining projects in South Africa, and will have a resource of 12 million high-grade, near-surface PGM ounces (18 million ounces gold equivalent) upon completion of its just-approved merger with Jonpol Explorations Ltd. (JON-TSX). The company will have over C$50 million in cash post-financing, and will continue to seek additional accretive acquisitions, potentially further consolidating the South African PGM sector.

Since the Nov 1, 2004 announced merger it would be expected that both companies trade close to the 1 Elgin to 4 Jonpol merger ratio, and especially so after April 4, 2005 when shareholder approvals were obtained and the $30 million financing announcement was made. This size financing, given the assets involved and the behind-the-scenes sponsorship of the Endeavour Mining Capital group, is a walk-in-the-park and unlikely to cause indigestion for the selling group, even during the current correction. Endeavour Mining Capital is a financial partner and merchant banker to the company and is a well-respected and successful player in the Canadian mining industry.

Technicals

Interestingly, both the Elgin and Jonpol charts were already technically similar prior to their merger plans being announced. Both charts peaked in February 2004, hit their subsequent lows in August 2004, and retraced back up to key Fibonacci retracement lines before coming to rest just below their converging 13, 40 and 80 week MA's at the start of 2005.

The last (2nd) wave of this 7-month-long uptrend took price up to the next higher Fib line for both companies – with successive trading lows forming a very precise uptrend line extending from the Aug 2004 lows right until the last 3 days' low-volume "break" for Elgin. The Jonpol chart is similar, but does not show a break of its own uptrend line on the weekly chart. This suggests that Elgin's low-volume "break" is likely an isolated incident to Elgin, unrelated to "the deal" per se, and therefore may offer a short term anomaly / opportunity for intrepid traders.

It is my thought that a relatively large seller sought liquidity (ie a margin call) at a time when the resource markets (and the big board) were already suffering a vicious downdraft – a time when most potential buyers are already sitting on their hands. There were simply too few buyers available to meet an aggressive seller on short notice.

The fact that Elgin's trading lows of the day were short lived and that we saw a bounce back of half the drop suggests that at least some bargain hunters swept in after the seller was filled down to Friday's $1.10 low. Monday may not see any follow through selling, or it might, but I hear that the $1.50 unit-financing is already over-subscribed. Short term weakness is unlikely to result in any meaningful financing recissions, and late last week the brokers we talk to confirm that their allotments had been cutback due to heavy institutional demand.

Strong technical support for Elgin is indicated between the $1.17 Fib line and the $1.21 80-week EMA, with some resistance now likely at the $1.40 area. Jonpol's levels are simply one-forth of these, but the shares tend to be more liquid with somewhat lower volatility (beta).

JONPOL EXPLORATION (JON-TSX)

Weekly chart: Year High C0.82, Low C$0.22, Last Trade C$0.33

Overview

A merger between Elgin and Jonpol Explorations was announced Nov 1, 2004. Jonpol shareholders will receive 1 Elgin share for every 4 Jonpol shares held. The merged company will be one of the largest public PGM-focused companies with an internationally respected Toronto Stock Exchange listing.

Elgin offers an opportunity to participate in an aggressive South African platinum sector growth play. Similar to Wheaton River's rapid ascension with the strategic backing of Endeavour Financial Group, Elgin's management team comes with exceptional technical and financing ability, while Jonpol's strong connections to Endeavour suggests a strategic merging of interests for mutual gain. Their stated objective is to be in production by Q1 2006.

The Merger

On November 1, 2004 Elgin and Jonpol announced their agreement to merge and acquire a controlling interest to PGM mineralization at the Spitzkop PGM project in Mpumalanga Province, South Africa from the Spitzkop Syndicate.

The Spitzkop Syndicate and its South African Black Economic Empowerment partners hold the rights to Spitzkop in Spitzkop Platinum (Pty) Ltd ("Spitzplats"), a South African Corporation.

Elgin has entered into a 50:50 Joint Venture with Spitzplats to explore, develop and operate the Spitzkop PGM project, thereby controlling a 50% interest.

Jonpol has entered into a share purchase agreement whereby it will acquire a 74% direct shareholding in Spitzplats, thereby acquiring a 37% (74% x 50%) interest.

The merged company will therefore control 87% (Elgin's 50% + Jonpol's 37%) of Spitzkop as well as 75.5% of the Mareesburg PGM Project (2.0 M ozs PGM's), both located on the Eastern Limb of the Bushveld Igneous Complex. The end result is 12 million ounces net to the new company between these two synergistic deposits.

Platinum

We are bullish on all the precious metals, but the platinum story is particularly compelling. Although platinum is the rarest of the precious metals it is also essential in the production of a wide range of goods from gasoline and paints to pacemakers, disk drives and anti-cancer drugs. Auto exhaust emission and industrial usage takes up about 54% of supply while jewelry takes up about 40%.

The platinum story looks very compelling for at least the next 3-5 years. Platinum is in a trend with supply tightening and demand increasing for the last 6 years according to Johnson Matthey. More important, with platinum trading at 24-year highs over $800/oz for all of 2004, supply increases were only 230,000 ounces. Platinum was up over 54% from the 2000-2001 average price. Platinum has little political risk and above ground supplies are all in the global market.

About 75% of the platinum market is controlled by South Africa and almost 70% of the world's platinum comes from an area in South Africa called the Bushveld. The unique geological structure of this area explains why platinum supply may not increase very much in the future.

The Bushveld geological structure is a great bowl-like structure 300 kilometers across, buried in the ground. Mother nature coated the bowl with a 1 to 2 meter thick platinum group metal rich rock. The edges of the bowl are somewhat close to surface (200-500 meters) and the platinum is mineable by accessing this bowl's outer area. In the middle of the bowl, 1500-3000 meters below the surface, substantial platinum could be found, but the cost of extracting it from such deep levels is prohibitive. The coating or "reef" is only at best a few meters wide, a small area to extract the valuable rock. The fact that it is so narrow means that the mining must be done slowly by hand. Bottom line. This deep area and the narrow mining widths will mean very high cost production and supply will be limited.

The South African currency, the Rand, has appreciated so much in the last two years that the local price of platinum in Rand terms is not high enough to justify the high capital costs of production on platinum projects in the country. This has caused the cancellation of several projects and delayed others.

This situation may constrain the supply of platinum for many years. In the meantime, as populations and middle class consumers increase, platinum demand goes up, year after year. Since the metal is so rare and so useful, this situation should provide an excellent long-term investment opportunity.

At much higher prices, industrial users eventually may find substitutes and thereafter demand slows. But at $700-900/oz this has not happened and barring a major global recession we could expect platinum to remain in this price range at a minimum.

In the event of a global recession platinum should still remain above $500. During the last Asian meltdown (1996-99) platinum demand actually increased from about 4.9 million ounces to 5.6 million ounces. During the U.S. recession in 2001-2002, platinum demand increased from 5.6 million ounces to 6.2 million ounces.

The ideal investment opportunity would be to find a platinum company on the Bushveld with a low cost production, a high grade and substantial resource close to the surface that could withstand even a $500 platinum price. The merged Elgin-Jonpol opportunity promises to meet these criteria and offers a potential 4 to 5 fold return to investors from these levels.

Website: http://www.elginresources.com