

# Growth Stocks Weekly

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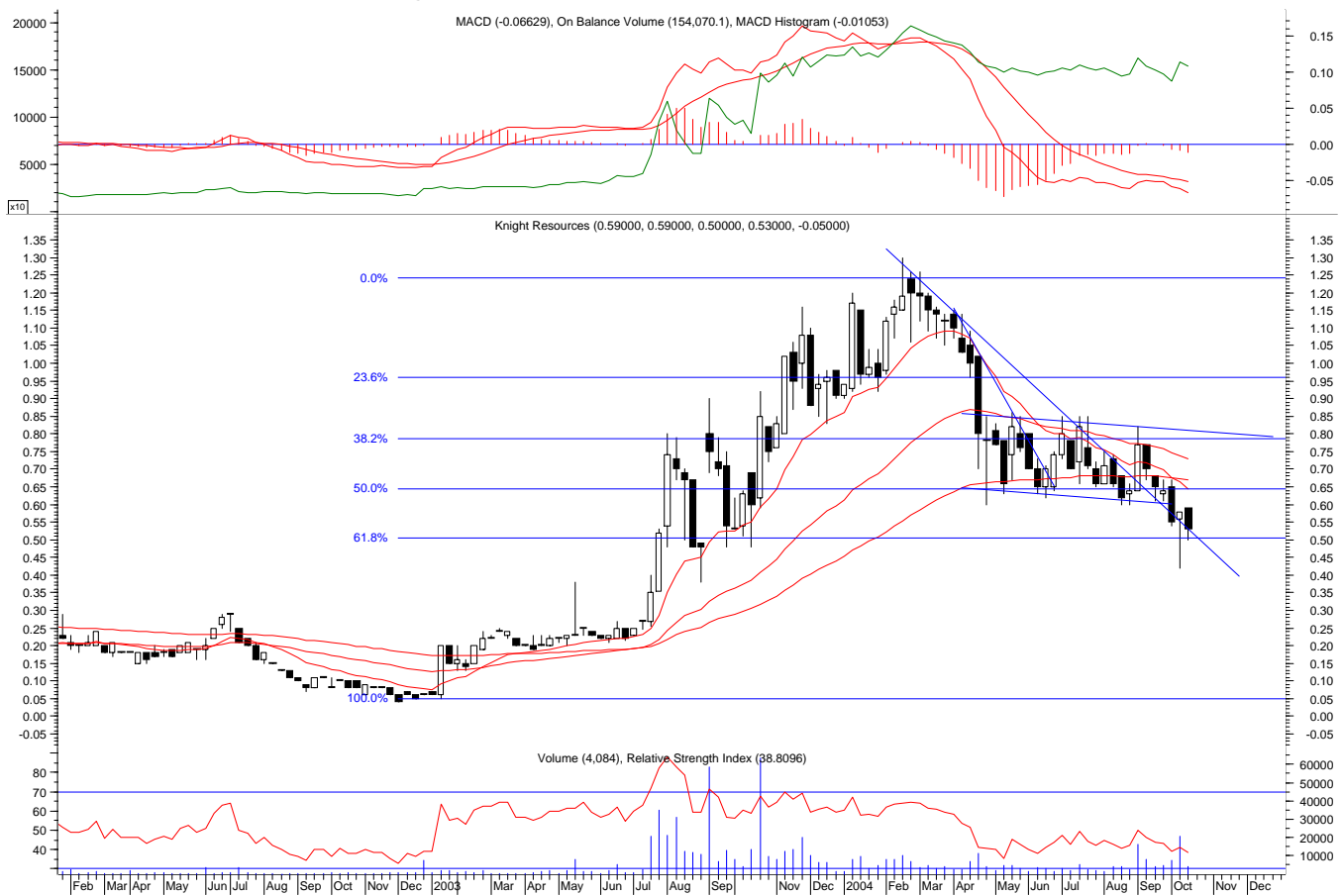
**Performance:** Year ended April 1996 **116.9%**; 1997 **28.1%**; 1998 **36.4%**; 1999 **39.4%**; 2000 **180.9%**; 2001 **-50.5%**; 2002 **18.7%**; 2003 **28.8%**; 2004 **166.7%**

## Junior Gold and Natural Resource Sector Report October 13, 2004

### Timing the Fundamentals

**UPDATE**

#### Knight Resources Ltd. (KNP-TSX Venture)



Weekly chart, Semi-log scale, High C\$1.30, Low C\$0.04, Last Trade C\$0.53

Knight Resources and JV partner Anglo American have made a significant nickel discovery on their West Raglan property in northern Quebec. West Raglan is on the same geologic belt (The "Raglan Horizon") as Falconbridge's Raglan mine, a producing nickel mine in the region.

Knight is managed by a team of professional geologists, Harvey Keats and Kerry Sparkes, who were key personnel in developing the world class Voisey's Bay nickel deposit in the 1990s.

Knight is earning a 49% in the property from Anglo American. The West Raglan Project also covers over 65 km of the western extension of the Expo-Ungava Horizon which hosts the Expo-Ungava deposit and the Mesamax occurrence, discovered by Canadian Royalties in 2002.

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### **Overview**

The Cape Smith Belt in northern Quebec has recently emerged as one of the most prospective areas in the world to discover new nickel deposits. Recognizing this, in early 2003 Knight entered into an agreement with Anglo American Exploration (Canada) Limited ('AAEC') to earn a 49% interest in their 720 square kilometre West Raglan Project.

Falconbridge's Raglan nickel mine is located 90 kilometres east of the eastern margin of the West Raglan Project. Resources, reserves and mined ore to date at Raglan total 28 million tonnes averaging 2.8% nickel and 0.8% copper with significant platinum group elements and cobalt.

The known nickel deposits in the Cape Smith Belt occur in two different settings: the Raglan Formation at the base of the Chukotat Group, and the Delta Horizon in the Povungnituk Group. All of Falconbridge's resources and reserves are hosted by the Raglan Formation and occur in nine separate deposits over a 55 kilometre strike length.

In 2002 AAEC confirmed the existence of 65 kilometres of strike length of the Raglan Formation and 65 kilometres of strike length of the Delta Horizon on the West Raglan Project.

The 2003 program began when AAEC flew the entire property with their deep penetrating SPECTREM electromagnetic and magnetic airborne system. In July, surface sampling discovered high grade locally derived boulders on the West Raglan Project. The best grab sample taken assayed 3.41% nickel, 2.91% copper, 0.09% cobalt, 3.3 grams/tonne palladium and 0.84 grams/tonne platinum.

A total of 18 holes were drilled, eight of which intersected significant nickel, copper, cobalt, platinum and palladium mineralization in the Frontier area. The Frontier area, which extends over 3 kilometres east-west and 1 kilometre north-south, has been divided into four zones: Frontier East, Frontier Central, Frontier West and Frontier South. The mineralization occurs in ultramafic rocks of the Raglan Formation.

### **Falconbridge's Raglan**

- Went into production in April 1998
- At current rate of production (1 MT/year) mine life of greater than 20 years
- Resources + Reserves + Mined = 28,000,000 tonnes @ 2.8% Ni, 0.8% Cu
- Significant PGE's and Co
- 9 deposits over 55 kilometres
- Well known for high nickel tenors
- Includes open pit and underground mines
- Deposits are made up of several lenses

The discovery hole, WR-08 intersected 14.75 metres of 3.04% nickel in 50% net textured sulphides. The best hole, WR-16, intersected 5.12 metres of 4.16% nickel averaging 35% sulphides, including a 0.67 metre intersection of 11.83% nickel in massive sulphides.

### **2004 Program**

Exploration on the West Raglan Project is resuming in late spring 2004. The \$4.4 million exploration program will focus on detailed drilling in the Frontier area, target drilling on the virtually unexplored 65 km strike length of the Raglan Formation, and target drilling on the 65 km strike length of the Delta Horizon.

### **Recent Events**

On April 22, 2004 Knight became aware that Novawest Resources Inc. commenced litigation in the Supreme Court of British Columbia against Anglo American Exploration (Canada) Ltd. The lawsuit, Action No. SO42230, relates primarily to the question of ownership of the claims that form the West Raglan Project.

Pursuant to an Option and Joint Venture Agreement dated March 26, 2003, Knight has the right to earn a 49% interest in the West Raglan Project from Anglo American.

Knight is rightly relying on representations in its Option and Joint Venture Agreement with Anglo American that Anglo American is the valid owner of all of the claims that form the West Raglan Project. Knight has been advised by Anglo American that they will be defending their ownership of the West Raglan Project claims.

Knight is proceeding with the previously announced \$4.4 million 2004 exploration program on the West Raglan Project, expected to begin in June.

### **What this law suit means to Knight**

In our view, this lawsuit should have no effect on Knight even if it did have merit, which we doubt. You have to ask of course why it would take 2 years for Novawest to get around to filing this suit if they felt wronged so long ago. Secondly, even if somehow Anglo were found in the wrong, it would be difficult to turn the clock back with respect to their deal with Knight. Knight would have recourse for the value proven up, the opportunity cost of losing their rights, as well as their costs spent to date in the unlikely event Anglo lost their rights to the property. Anglo has deep pockets and could withstand such an award.

Anglo is a sophisticated company not likely to be sloppy with their legal work. And for good reason, would be particularly careful given past events in the mining sector with legal challenges common when discoveries are made.

Back in 1989 Corona Resources sued Lac Minerals in the Supreme Court of Canada. Corona was a Murray Pezim junior exploration company with a property in Hemlo area of Ontario. It adjoined the Williams property, which was owned by a little old lady. Corona was drilling on their property beside hers. Lac said to Corona, we would like to look at your data with an idea to entering into agreement - but no agreement ever happened.

Lac geologists looked at data and said wow, it's likely this Hemlo deposit goes over to William's ground! Corona approached Williams about a deal on her property but Lac had backdoored Corona and cut their own deal with Williams. Lac then went and put a big mill on property. Corona then put a mill on their adjacent property.

Corona had given notice to Lac even before Lac started to build the mill that the Williams property had been improperly scooped by Lac.

Corona sued Lac for constructive trust in the Supreme Court of Canada (no written agreement, but parties have fiduciary duty to act in good faith). 2 judges ruled there was no constructive trust - 2 said yes, Lac shouldn't have done that - a 5th judge said no constructive trust, but the action was outside the bounds of good business and Lac is liable. Lac had to turn the property over to Corona but Corona had to pay Lac for the mill.

This is why there are ironclad Confidentiality Agreements (CA's) in use everywhere. This suit did not change the law, but it was such a huge dollar amount that from that point on, CA's became very tight, and the letter of the law is carefully followed.

### ***Technicals***

Daily chart, Semi-log scale, Last Trade C\$0.72

Price broke it's one year uptrend January 2004 but still had enough momentum to lift to a new year high in February at C\$1.30. Before falling through tentative new support forming at the \$1.10 area (this is the old resistance tested back in November and December 2003 - see two tops on daily chart above). Rules: support becomes resistance, and resistance becomes support once broken. The more times it is tested, the more technically important the area becomes.

Early April saw a several events occur as the US dollar strengthened (with the attendant decline in the \$US-priced metals), the resource markets were hit by a long-overdue correction, and indications became mainstream that a potential interest rate increase would be sooner rather than later. News of the Novawest-Anglo litigation got out last week, but technically price was already on the ropes.

Once trading below the 13-week moving average (MA), this MA naturally started to decline, acting as a moving resistance area to price. Price declines accelerated as the key 13, 40 and 80-day MA's fell, acting as a weight against which price rallied and failed time and again. These last 4 days saw some panic selling, with a probable capitulation spike down to C\$0.70 on relatively higher volume of almost 500,000 shares, and strong bounce back up, and then today's retest with a higher low on declining volume.

Relative Strength Index (RSI) is at an all-time low for this cycle, suggesting an oversold market. On a weekly basis (see chart on 1<sup>st</sup> page), the On-Balance-Volume continues within its overall strong uptrend on the weekly chart, albeit at a more sustainable pace (strong accumulation versus distribution is indicated, on balance), and shows the exit of the relatively minor skittish money on the daily chart. The Moving-Average-Convergence-Divergence (MACD) Indicator's mid-March sell-signal is still supportive of a continued long term up trend as it remains above the "zero" trigger line from a weekly perspective.

The Fibonacci Retracement support sits around the C\$0.72 area and is further supported by the uptrending 80-week MA, a key historical support indicator. This area has also historically provided support and resistance from both a short and long term perspective. Volume has consistently acted in support of a longer-term bullish consensus.

A break below the next C\$0.59 support zone would cause us to reconsider our technical conclusions, and question what we are missing on the fundamental side.

### ***Summary & Conclusion***

The Cape Smith Belt in northern Quebec has emerged as one of the most prospective areas in the world to discover new nickel deposits. By entering into an agreement with Anglo American to earn a 49% interest, Knight positioned itself with the West Raglan Project, a 720-square-kilometer land package, in early 2003 before the recent large move up in metals prices.

One of mining giant Falconbridge's richest properties is its Raglan nickel mine, located 90 kilometers east of the eastern margin of the West Raglan Project. Resources, reserves and mined ore to date at Raglan total 28 million tonnes averaging 2.8% nickel and 0.8% copper, with significant platinum group elements and cobalt.

The known nickel deposits in the Cape Smith Belt occur in two different settings: the Raglan Formation and the Delta Horizon. Falconbridge's resources and reserves are hosted by the Raglan Formation, and occur in nine separate ore deposits over a 55-kilometer strike length.

In 2002 Anglo American flew the entire property with their deep penetrating electromagnetic and magnetic airborne system, confirming the existence of 70 km of strike length of the Raglan Formation and 65 km of strike length of the Delta Horizon, all on the West Raglan Project.

In July 2003 surface sampling discovered high grade boulders on the West Raglan Project. The best grab sample taken assayed 3.41% nickel, 2.91% copper, 0.09% cobalt, 3.3 grams per tonne palladium and 0.84 grams per tonne platinum. A total of 18 holes were drilled, eight of which intersected significant nickel, copper, cobalt, platinum and palladium mineralization in the Frontier area of the project. A 1% nickel grade equates to a gold grade of about 11 grams per tonne – to give some perspective as to how rich this find is.

The discovery hole (Hole 8) hit 14.75 meters of 3.04% nickel. The best hole, Hole 16, intersected 5.12 meters of 4.16% nickel averaging 35% sulphides, including a stunning 0.67-meter intersection of 11.83% nickel in massive sulphides.

Knight has only eight holes with significant mineralization to its credit, but it is directly on trend with the rich Raglan mine. Knowledgeable geologists who have seen the core believe it's identical to the Raglan mineralization.

Drilling at the West Raglan Project resumes this June with a C\$4.4 million exploration program focused on the Frontier area, target drilling on the virtually unexplored 70 km strike length of the Raglan Formation, and target drilling on the 65 kilometers of strike length of the Delta Horizon.

With little in the way of news since last year's results, the subsequent correction in the resource market, and now the latest Novawest Resources litigation against Anglo American regarding this property, the share price has pulled back. We believe the correction is overdone, and price has reached a tested support area suggesting a bargain entry price is at hand. We have acquired 50,000 shares in this company for our Growth Stocks Weekly model portfolio.

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