

Garson Gold, a good, cheap spec — in Canada

By Mike Kachanovsky

One unfortunate but all too predictable consequence of the bull market for resources is the temptation in some countries to nationalize projects after companies have invested capital to discover or develop a deposit. Some would also refer to this as theft. In other cases, new tax burdens have been imposed. Rules are often changed in mid-stream. Permitting can be revoked, and exploration rights may be summarily withdrawn.

All of these issues tend to create big sell-offs for any companies that have the misfortune to be affected when such political risk arises. And it also tends to encourage investors to focus on countries and jurisdictions where the risk is minimal.

Manitoba is not only one of the best provinces in Canada for mine development, it is also ranked among the top places in the world. It also happens to be endowed with a wealth of resources, and there is a boom in exploration and mining activity that has already generated some great success stories.

Garson Gold Corp. (GG-TSX/VEN, \$0.13) aspires to join the ranks of the producing gold miners in Manitoba. The company is working towards returning its New Britannia Mine back into operation. The gold mine is the centre-piece for a large under-explored property area controlled by Garson that covers about 3,900 hectares.

I recently toured the property and was impressed by the potential for this high-quality asset. But while great potential is common for the sector, it is a tall order to transform that potential into something special that would create a winner for shareholders. So the question at hand is does Garson have the ability to advance the project to profitable operations?

The most important priority on the company checklist is establishing new resources. While



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there are remnant resources from the previous mining activity, it will only be worth the investment to resume production if a large additional gold resource can be proven up, sufficient to keep the mine running at capacity for many years.

Garson has been engaged in an aggressive exploration program since the project was acquired, and the results are encouraging to say the least. The company chose to target proximal zones along a linear trend to the north of the main mine. Several high-grade gold intercepts have been reported from the drill programs, and this work has evolved to yield significant NI- 43-101-compliant gold resources to the mineral inventory.

The total resource in all categories for all resource zones now amounts to about 750,000 ounces of gold, and it is likely this number will grow beyond the magic one-million-ounce threshold as work continues.

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Gold-bearing quartz veins at the mine have been encountered to depths of more than 1,000 metres. The newly discovered resource zones have only been drilled down to a few hundred metres, and they remain open. If these new zones have the same productive extension to depth as the nearby, main mine, then there is a very real potential to add a lot more gold to that resource. And the gold grade has been increasing as the company continues exploration further to depth, so that,

too, is a promising indication for the future if that trend continues.

The current plan is to access these new resource zones through a decline ramp and then truck the ore that is extracted to the nearby mill and recovery plant. Infrastructure in the area is excellent, and the mine is actually located within the Town of Snow Lake.

This is a community that understands mining and is supportive of the mine returning to production. Therefore many possible hurdles to get the new zones into production are already removed from the equation.

The recovery plant is modern and well maintained. Ore is treated through a vat-leaching process to produce gold-dore bars. This plant was operating at 93 per cent recovery-efficiency, which is about as good as one can hope to achieve in real field conditions, and it is a very bullish factor in the overall economics for the project.

There is plenty of capacity in the tailings pond to handle several more years of production. All of the mine buildings are in good shape, and there is an inventory of stores and supplies on hand.

A scoping study is currently underway to outline the economics and estimate the profitability under current market assumptions. Considering all of the circumstances of this project, Garson has picked up an exceptional asset and begun to prove up a large new resource that could sustain very profitable mining operations. But like every emerging producer there are question marks in this story that must also be considered.

Mining is a capital-intensive business, and there will also be a price tag on rehabilitating underground workings and getting everything set up before the first tonne of ore is processed. Garson is very thin on working capital, and the share price is at the low end of its range. So to raise the capital needed to continue with exploration, and eventually to get that mine back into operation if all

goes well, is going to present some challenges in the current market environment.

The share structure is more diluted than I like to see for a junior at this stage of development, with more than 100 million shares outstanding. Nevertheless, the market capitalization for the company of under \$15 million is still cheap, relative to its peers, and the entire sector is in value territory.

Buying shares of Garson Gold comes down to one's personal outlook for the years ahead. For those who are bullish on gold and tolerant of the risk that is inherent with all junior exploration stocks, there are many things to like about the company.

It is very likely that a much larger total resource will ultimately be proven up for the project, and the existence of a modern, efficient mine and recovery plant is a huge head start, compared to most other exploration projects. Investors can sleep well at night knowing that the project is in friendly Manitoba and the local population is solidly in favor of seeing the mine go back into production.

While there are challenges that will have to be dealt with, none of them appear to be insurmountable. Therefore, risks and all, the company looks attractive at the current price range, and investors should be optimistic about the future prospects.

I am of the opinion that the bull market in gold has a long way left to run, and much higher prices await. There are many mining projects in the bargain bin today that will be fantastically profitable in the years ahead if I am right. Conservative investors may wish to refrain from loading up on the junior mining stocks, but for all others, this could be the right time to build a portfolio of companies just like Garson Gold, with leverage to discovery upside in safe jurisdictions.

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