



HALLGARTEN & COMPANY

Results Note

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Galane Gold (TSX-V: GG, OTCQB: GGGOF)
Strategy: SHORT

Key Metrics		
Price (CAD)	\$	0.05
12-Month Target Price (CAD)	\$	0.03
Downside to Target		-40%
High-low (12 mth)		\$0.04 - \$0.07
Market Cap (CAD mn)	\$	7.34
Shares Outstanding (millions)		146.8
Fully diluted (millions)		215.4
	2017	2018e
Consensus EPS		n/a
Hallgarten EPS (est.)		(\$0.015)
Actual EPS	(\$0.023)	
P/E	n/a	n/a

Galane Gold

Another Dumb Deal

- + The gold price has rebounded above \$1,200
- + A financing for \$2.7mn was announced in October 2019
- ✗ Earnings collapsed back into the red (a loss of \$1.26mn in 3Q18) on the lower gold price through the middle of the year
- ✗ Company is now making a run at taking over a gold mine in Australia that its existing managed felt was unviable at prices around current levels
- ✗ More dilution seems inevitable with this transaction
- ✗ Lack of clarity on Galaxy Mine, notably no provision of costs or timetable on reopening or details on BEE involvement
- ✗ Almost nothing has been spent on exploration for years now resulting in no new resources or reserves
- ✗ Shuffling of the debt mountain has still left the mountain at the same size as before

Mining for Suckers

It is unusual to find a producing miner with so many years of production, so many losses and so many mistakes made that has not had its management challenged (except in the pages of our analyses). Mistake is piled on mistake, incompetence upon incompetence and yet there is no day of reckoning just the slow sinking of the share price as “value investors” discover the stock then retreat in horror when they realise the mistake in bottom-fishing in this murky pool.

After a brief (one quarter) flirtation with profitability the company has dived back into the red and sought to compound its unattractiveness by purchasing the shuttered Andy Well gold mine in Australia, a region it has never operated in before, where a seasoned operator shut the mine only relatively recently when they found it unviable at gold prices similar to those reigning currently.

Then there is the second reboot of the failed Galaxy mine in South Africa in recent years. Fool me once, shame on you, fool me twice, shame on me. Our days of being fooled by this company ended a long time ago but as PT Barnum said “there is a sucker born every minute”. Galane must mine deeper and deeper to find a new source of suckers as the “near surface” supply is running low.

In this note we shall look at the Andy Well purchase and review the latest results which show the company plunging back into the red.

Andy Well

In early October 2018, Galane announced that it had entered into a purchase agreement to acquire the Andy Well project in Western Australian which consisted of mining tenements and related plant, equipment and assets from Andy Well Mining Pty Ltd and Doray Minerals Limited (DRM.ax).

The Andy Well Project is located 43km north of Meekatharra in the northern Murchison Region of Western Australia. The tenements of Andy Well cover approximately 281km² and comprise one mining lease of 11.09km² and four exploration leases.

Andy Well is a narrow vein, high-grade gold system, with mineralisation hosted in a series of quartz vein lodes. The Andy Well deposit was discovered by Doray in 2010.

The mine commenced production in August 2013 and produced over 300,000oz through to the end of October 2017, when the operation was put into care and maintenance due to the capital costs associated with development required to extend the life of the underground mining.



The Andy Well processing facility is a 30,000 tonne per month plant and comprises a two-stage crushing circuit, single stage grinding circuit, gravity recovery circuit and conventional carbon-in-pulp circuit. Commissioned in July 2013, it consistently had above 98% availability and recoveries averaging more than 95% during the final year of operation. Mining at the later stages of the operations was all underground and used the cut and fill method.

The Deal

Galane Gold agreed to acquire the Andy Well Project in exchange for aggregate consideration of

AUD\$10mn comprised of:

- common shares in its capital having an aggregate value of AUD\$1mn calculated by reference to the average volume weighted average on which common shares in the capital of Galane Gold during the five trading days preceding September 29, 2018
- aggregate cash consideration of AUD\$9mn

The shares issued in consideration would represent approximately 9% of Galane’s issued and outstanding common shares based upon its current share capital, if the transaction is completed.

The share consideration and AUD\$3mn of the cash component will become payable on the later of January 27, 2019 and 10 business days after the last of the conditions is satisfied or waived. Another AUD\$3mn of the cash consideration will become payable on the earlier of the commencement of commercial operations on the Andy Well Project and September 29, 2019, with the remaining AUD\$3mn in cash will become payable on the earlier of 12 months after the commencement of commercial operations on the Andy Well Project and September 29, 2020.

In connection with the acquisition of the Andy Well Project, Galane’s subsidiary will enter into a farm-in agreement with respect to certain exploration tenements in the Gnaweeda area.

The acquisition of the Andy Well Project is subject to various closing conditions on or before January 27, 2019, including the receipt of a NI43-101 technical report, the execution of the Gnaweeda Farm-In Agreement and the preparation and filing of a revised mine closure plan by Doray.

Galane envisages a six-month mining development program to recommence production following the acquisition. As we know all too well the past history of Galane at delivering on proposed production timelines has been abysmal.

Resource Estimate

The historical estimate set out in the table below was prepared by Doray Minerals and reported as at June 30, 2018.

We repeat the numbers here as per the news release however we note that the total of the M+I tonnes theoretically should be 1,202,000 tonnes. Then we went to Doray’s annual report and note that the 139,000 tonnes should read 127,000. Galane’s management

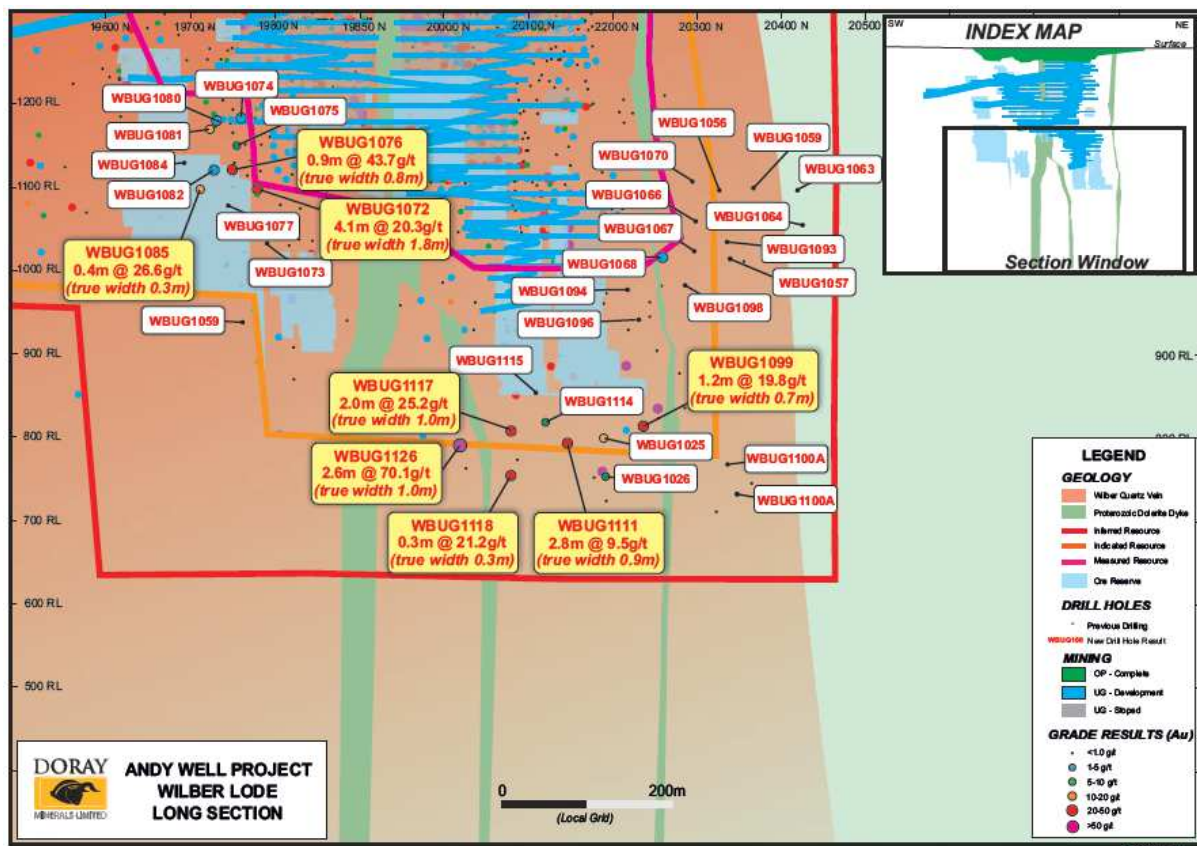
Andy Well Resource			
Category	Tonnes	Au g/t	Contained Ounces
Measured	139,000	13.7	56,000
Indicated	1,063,000	9.2	315,000
Total M+I	1,189,000	9.7	371,000
Inferred	628,000	6.6	134,000

presumably cannot add up. This does not surprise us.

The resource is reported above a 0.1g/t lower cut off and was calculated by Doray Minerals in accordance with the JORC Code. The estimation is based on a compilation of 872 reverse circulation and 1,024 diamond drill holes completed by Doray Minerals.

Galane Gold claims that it will verify the historical estimates as a condition to closing of the acquisition of the Andy Well Project. Work required to upgrade or verify the historical estimates as current mineral resources will be based on recommendations in the NI 43-101 report.

We would note that the resource indicates that, at best, Andy Well will be either a small producer or have a very limited minelife unless substantial resource expansion is achieved. This then should be viewed in the light of Galane's poor record at expanding resources and scant expenditure on exploration.



In its 2017 annual report Doray Minerals made the observation that the future of the Andy Well operation lay in the Gnaweeda project, which is located 15kms away and has potential for an open pit operation. Any new operation at Gnaweeda could potentially make use of the Andy Well Processing Plant and tolling or profit sharing with other companies in our immediate area to create a large mining

operation with many avenues of production and revenue.

Turnberry is the most advanced prospect at Gnaweeda with current Indicated and Inferred Mineral Resource of 5.5mn tonnes @ 1.8g/t for 322,000 oz. Three main mineralised zones have been identified to date at Turnberry. The grade is low for an underground operation.

Air core drilling by Doray has defined an anomalous corridor along strike from Turnberry of 6-7km. Initial RC drill testing by Doray of the St Annes prospect, 3.5km south of Turnberry, intersected 20m @ 2.4g/t Au, with similar host rocks to those at Turnberry. It is intriguing that the extant resource on Turnberry was not mentioned in the Galane release on the Andy Well acquisition.

The Strategy

Some companies make a business of picking up other companies' cast-off assets and reviving value. Galane has signally failed to prove it can do this over and over again. It seems to feel it will buck the trend in this latest transaction. The triumph of hope over experience, we feel.

With Galane back in the red at an operational level, scarcely any cash on hand and the stock price wallowing, we see a high chance that this transaction will have to be let go before reaching the initial payout date.

The Latest Financing

In early October the company announced it had closed a non-brokered private placement of 54 million units at a price of five cents per unit for aggregate gross proceeds of \$2.7mn. Some are claiming that this financing gets the company over the line for the amount required to reboot the Galaxy Mine. Having heard this claim before our response is "seeing is believing".

Each unit consisted of one common share of the company and one common share purchase warrant, with each warrant entitling the holder thereof to acquire one common share at an exercise price of five cents until Oct. 1, 2020. The expiry date of the warrants can be accelerated by the company to the date that is 10 business days after the date where the closing price of the common shares on the TSX Venture Exchange is higher than 20 cents for 10 consecutive trading days, provided such trading days occur four months and one day after the issuance of the warrants.

As previously announced, certain directors and officers of the company purchased 10,563,000 units for aggregate gross proceeds of \$528,150. The issuance of these units was considered to be a related party transaction within the meaning of Multilateral Instrument 61-101 -- Protection of Minority Security Holders in Special Transactions.

Recent Results

As predicted in our last update on the company, the tumble in the gold price combined with the management's affinity for losing money resulted in a massive swingaround into losses at the company.

Galane Gold												
In Millions of USD												
	FY18e	3Q18	2Q18	1Q18	FY17	4Q17	3Q17	2Q17	1Q17	FY16	FY15	FY14
Mine Revenue	43.80	10.56	13.17	9.91	37.30	10.56	11.80	8.21	6.73	32.66	26.23	40.46
Cost of Mine Revenue	40.50	11.36	10.98	9.63	35.56	8.19	9.99	8.13	9.26	33.97	34.45	35.98
Gross Profit	3.30	-0.81	2.19	0.27	1.74	2.37	1.81	0.09	-2.53	-1.31	-8.22	4.49
Selling/General/Admin. Expenses	2.60	0.78	0.65	0.65	1.88	0.35	0.57	0.47	0.49	2.10	2.26	2.51
Exploration	0.20	0.07	0.06	0.06	0.21	0.07	0.057	0.05	0.034	0.026	0.115	0.12
Depreciation/Amortisation	-				-				-	-	-	-
Interest Expense (Income)	0.90	0.15	0.15	0.15	2.15	0.50	0.63	0.53	0.49	0.86	0.69	-0.58
Unusual Expense (Income)	0.00				0.00	0.00			0.00	0.00	0.00	0.00
Forex costs (gain)	1.20	-0.46	-1.29	0.60	0.57	0.18	-0.07	0.05	0.41	1.71	-3.02	
Other Operating Expenses	0.86	-0.08	0.16	0.29	0.23	0.27	-0.655	0.308	0.31	0.66	0.245	0.56
Total Operating Expense	46.26	11.81	10.71	11.38	40.60	9.56	10.52	9.54	10.99	39.32	34.74	38.58
Operating Income	-2.46	-1.26	2.40	-1.47	-3.30	1.00	1.29	-1.33	-4.26	-6.66	-8.51	1.88
Gain (Loss) on Sale of Assets	0	0	0	0	0	0	0	0	0	0	0	0
Income Before Tax	-2.46	-1.26	2.40	-1.47	-3.30	1.00	1.29	-1.33	-4.26	-6.66	-8.51	1.88
Tax	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Post- Tax Income	-2.46	-1.26	2.40	-1.47	-3.30	1.00	1.29	-1.33	-4.26	-6.66	-8.51	1.88
Diluted Weighted Average Shares	160.00	146.80	148.80	146.80	146.41	146.804	146.804	146.285	145.732	117.59	54.90	54.584
Diluted EPS	-0.015	-0.009	0.016	-0.010	-0.023	0.007	0.009	-0.009	-0.029	-0.057	-0.155	0.034
Estimated Av. Au Price	\$1,200			\$1,280	\$1,275					\$1,247	\$1,148	\$1,190
Ounces Au produced	35,000	8,545	10,088	7,649	29,354	8,812	9,535	6,709	4,298	26,783	24,321	30,791
Ounces Au sold	34,700		10,259	7,562	29,896	8,569	9,251	6,545	5,531	26,188	24,205	

The press release mentioned positive cashflow (with no earnings numbers) while the SEDAR filing actually showed the extent of the company's deteriorating earnings with a sizeable bottom line loss and even a loss at the gross revenue level. One has to go back to 1Q17 to find the last negative gross margin. On top of this there was the largest G&A booked ever. Management clearly don't feel like sharing in the shareholders' pain.

We dare not make projections beyond FY18 as the company may or may not buy Andy Well, it may or may not get Galaxy back into operation and may or may not be able to take advantage of the gold price perking up. The likely share count is also a mystery as shares will be issued if Andy Well is purchased and further financings will be needed to fund getting that going again and the cash component of the Andy Well deal.

We envisage the loss for FY18 being of the order of negative \$2.46mn.

Risks

The principal risks for a Short position at Galane Gold are:

- Change of management
- Strong uplift in the gold price
- Predatory bid

The two least likely dangers are the second and third. An uplift in gold has happened in the last month but as we have seen in the past this doesn't necessarily help Galane's bottom line to improve, as management have an extraordinary ability to miss opportunities. The stock price did not rebound on higher gold and instead headed lower on the unappetizing acquisition of Andy Well.

A predatory bid is unlikely as the management has a large number of shares and a predator would be better advised to just await the company's demise to pick up the assets. No-one would bid for the whole company to get the Botswanan assets as their minelife is indeterminate but tending towards the short end.

A change of management is unlikely also because the current management is entrenched and they hold a large position emanating from their purchase of the lamgold stake at 1ct per share and then the rights issue at a similar discount. The management group is their own poison pill at Galane Gold.

Conclusion

There is an old expression to classify the terminally unlucky: "If they decided to make hats, people would be born without heads". But is this the case with Galane Gold? Is it a lack of luck or really monumental incompetence? It has scarcely been able to make a buck in Botswana despite gold being over \$1,200 per ounce for years now. It made a run at the Galaxy mine and flopped, it made a run at Vantage and flopped, it has returned to Galaxy and is taking ages to get operational a mine that it was "working" only

Tuesday, December 18, 2018

a year and a half ago and now it is buying Andy Well in Australia, which was shut down by its current owners as unviable when the gold price was pretty much where it is now.

Now if Galane were corporate doctors skilled at turnarounds that might be one thing but as serial losers themselves how can one expect them to do better at Andy Well than they have done in Botswana, at Galaxy and wanted to do at Vantage? This is a case of “Physician, heal thyself!” more than corporate doctoring. Galane needs radical surgery with its board of directors cut off from its body. Despite the myriad debacles, not one of the incompetents with smoking guns in their hands has paid the ultimate price for their mediocrity.

The current share price malaise is an indictment of the low standing and credibility that the company’s management has with the investment community. The company is something of a modern equivalent of the medieval leper, wandering the landscape ringing a bell and forced to cry “unclean, unclean” to warn investors of their approach.

Gold in mid-2018 tumbled \$100 per ounce lower than where it was for most of the last few years and this was bad news for Galane which continually claims its cash cost per ounce is well below \$1,000 and yet can rarely register a profit. The latest downshift ensured that the company tumbled back into the red, just as we predicted in our last review of the company. Gold has struggled back above \$1,200 per ounce but can the company’s management get out of its own way?

As the miseries go on, and the company compounds this with bizarre digressions like Andy Well, we reiterate our **Short** position in Galane Gold in the Model Mining Portfolio with a 12-month target price of CAD\$0.03.

Tuesday, December 18, 2018



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