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HALLGARTEN & COMPANY

Initiating Coverage

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Galane Gold (TSX-V: GG)

Strategy: LONG

Key Metrics

Price (CAD)	$	0.13
12-Month Target Price (CAD)	$	0.90
Upside to Target		592%
High-low (12 mth)	$0.065 -	$0.30
Market Cap (CAD mn)	$	6.8
Shares Outstanding (millions)		52.7
Fully diluted		57.0

	2013	2014e	2015e	2016e
Consensus EPS		n/a	n/a	n/a
Hallgarten EPS (est.)		$0.01	$0.13	$0.23
Actual EPS	($0.57)			
P/E	n/a	n/a	1.0	0.6
Dividend (est.)	$ -	$ -	$ -	$ 0.05

Galane Gold

Going Symbiotic With Samsung

- + Brownfield sites trump greenfield sites in the race to production in a new world where production is king
- + Galane has substantially more cash on hand than its current market capitalization representing an arbitrage gap to be closed
- + The company has obtained Samsung as its offtake partner with a substantial upfront payment and a long term gold offtake commitment
- + A permanent CEO has just been appointed with a long pre-existing acquaintance to the various projects
- + There is currently around $10mn in cash on hand after the arrival of the funds from Samsung and the pay down of residual debt to IAMgold
- + The company has a policy of having 5 years of LOM ahead of it, from various easily exploitable deposits on its existing tenements
- + Though it has the flexibility to maintain profitable production at $900 gold in the short term
- + Galane controls the entire Tati Greenstone belt in Botswana, and there is considerable potential for expansion as well as upside in the longer term.
- + Management is M&A savvy and intend to bulk up through advantageous purchases of other producing or near-producing mines
- ✖ The gold price is the chief vulnerability of the company with a further long term leg down restricting the ability to profitability exploit some of its future prospects
- ✖ Beyond the assets the company currently holds there is almost nothing in the general vicinity that would make sense as a bolt-on to the production schedule

Production, Production and More Production

Our oft-repeated mantra is that production is king. Many investors and analysts repeat the complaint that there are few undiscovered producers going at cheap prices any more. However, they are clearly not looking as we seem to be finding them. The challenge is that the hidden gems come in “unconventional packaging” and the seekers need to think outside the box to work out how to unwrap the most attractively priced assets.

Galane (pronounced Ga-larn-ee) Gold is an un-hedged gold producer and explorer with mining operations and exploration tenements in Botswana. In this case the company in question has an array of small mines that all function synergistically with a centrally placed mill. Many of these mines have historical antecedents, but in the latest iteration the “complex” has been operating for most of the last decade, firstly under Gallery Gold, then IAMgold and latterly Galane Gold.

The company's shares are quoted on the TSX Venture Exchange and the Botswana Stock Exchange under the symbol GG. The company had its origins as a CPC called Carlaw Capital 111 and became "live" when it acquired the Mupane complex from IAMgold in the second half of 2011.

The main part of the company's asset base is the Mupane concessions, which have their roots in the historic Monarch mine, from which activity spread forth across the whole of the Tati Greenstone Belt.

History – Monarch, Mupane & Beyond

By any standards the gold mines of the Tati Greenstone Belt have pedigree. In fact, the exposed part of the Monarch deposit was worked from AD1100 to AD1400 by the predecessors of the BaKalanga people who went on to make up the Great Zimbabwe culture. The site was rediscovered in 1889 by a Swiss mining engineer called De Maffy. Significant development began in 1897 under the ownership of the Premier Tati Monarch Company, which sank a shaft to 120 feet. The company was listed on the London Stock Exchange but the mine ceased operations in 1902 and the corporate entity went into liquidation in 1914, when gold prices collapsed. It reopened under new ownership in 1919 with a more concerted investment program putting up 20 stamps and a cyanide plant. The shaft was sunk to 200 metres. However, it closed again in 1922. This pattern seems to have been repeated over the decades with the vagaries of the gold price.

The more recent history begins in 1994 when the ASX-listed Gallery Gold Limited purchased the then operating Monarch Mine. The company conducted small scale mining operations at Monarch and in the Golden Eagle area until mid-1998. In 1996 following a regional analysis of the Zimbabwe Craton the company acquired prospecting rights over the bulk of the Tati Green Belt (TGB).

By 2000 the entire belt was covered with sampling on a 200 by 40m grid although sample spacing is closer in areas of anomalism, Over 40,000 samples were collected across the entire TGB during this exercise and were sent for low level analysis for Au and As. Several significant anomalies were discovered in areas of old workings throughout the belt. One of these anomalies was a coincident Au-As in soil anomaly in the region of the Mupanipani Hills some 30 kilometres southeast of Francistown. Follow up trenching and led to the discovery of Au mineralization associated with strongly silicified iron rich cherty sedimentary horizons. Subsequent reverse circulation drilling in 1999 in several areas led to the discovery of what is now the Mupane complex.

Independent consultants Resource Service Group prepared an initial inferred resource estimate for

Areas 1 & 2 in March 2001. Area 1 yielded 3.74 million tonnes at 3.6 g/t gold for 438,000 contained ounces. This inferred resource was to a variable vertical depth of 100 to 200 meters dictated by depth of drilling. Area 2 yielded 1.33 million tonnes at 1.8 g/t gold for 76,000 ounces. This inferred resource was to a vertical depth of 90 meters.

Metallurgical test work showed that even though the gold was associated with arsenopyrite, the ore was not refractory. Recoveries were predicted at 97% in oxide and 94% in sulfide for Area 1 ore.

Gallery Gold was picked up by IAMgold in a merger transaction in December 2005.

The Galane Deal With IAMgold

The history of the Mupane project within the Galane corporate fold dates back to 2001 when it represented the Qualifying Transaction (QT) that morphed the CPC, Carlaw Capital III Corp, into Galane Gold.

Galane Gold paid IAMgold total consideration of $34.2 million (after adjustments) with the consideration made up of $12.5 million in cash, $17.9 million in common shares of Galane Gold (representing 21,875,000 common shares of Galane - approximately 48.5% of the outstanding shares) and a $3.8 million promissory note, payable over three years at an annual interest rate of 6%. The vendor also received 1,265,253 warrants in Galane exercisable at CAD$1.10 per share for an 18 month period, but these have now all expired unexercised.

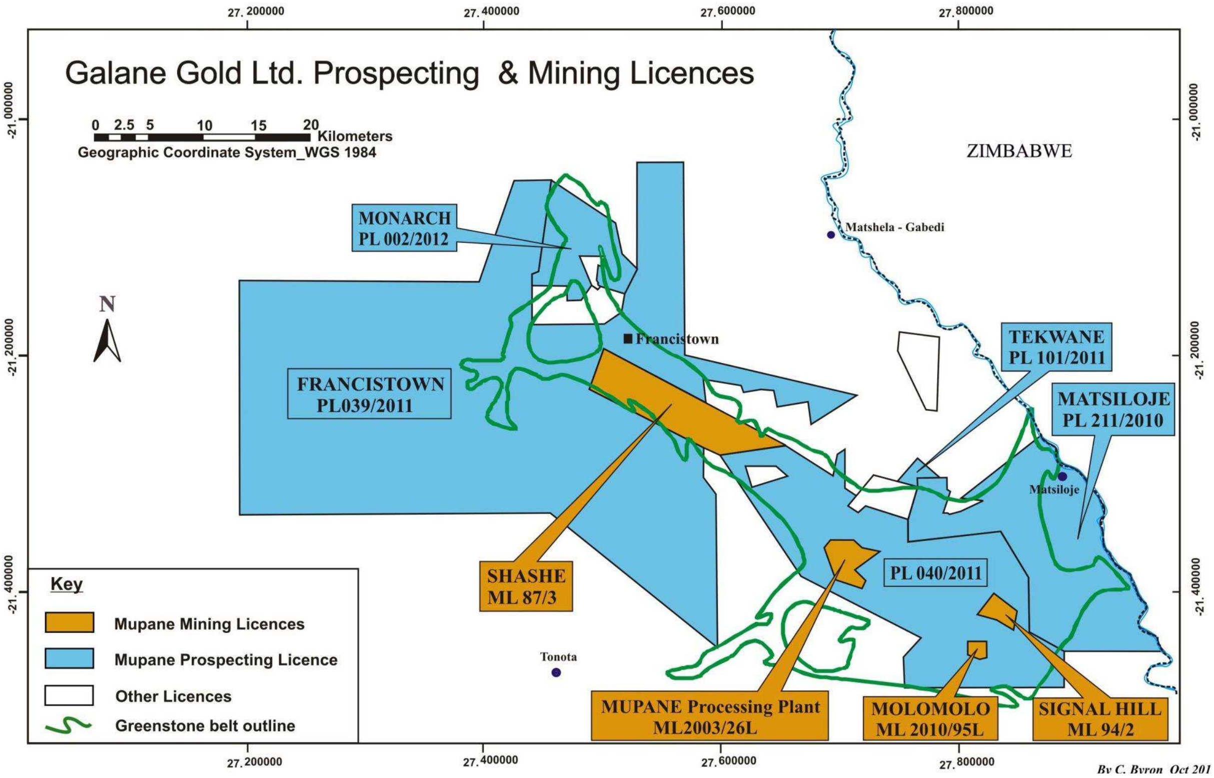
That stake has been whittled down (percentage-wise) over time and now represents 41.5% of Galane's shares on issue.

Roping Off More Territory

In April 2012 Galane Gold added to its territory in the zone by having its 100% held subsidiary Mupane Gold Mining acquire the totality of The Northern Lights Exploration Company (NLE) which owned several prospecting licenses in the Tati Greenstone Belt adjacent to existing licenses held by Galane Gold. The target company was owned by Charles Byron, a director of Galane Gold.

In consideration for the acquisition, Galane Gold issued to the NLE shareholders 3.125 million common shares and promissory notes (with a principal amount of $400,000). There is a top-up feature which, if by 2018, exploration work within the areas acquired confirms a NI 43-101 compliant measured mineral resource containing the certain amount ounces of gold then Galane Gold shall issue to the NLE shareholders additional shares.

The map on the following page shows in yellow the mining licenses picked up in the IAMgold deal, while the blue areas (prospecting licences) were added via the NLE deal. It should be noted that Botswana has a "give-back" system on concession. The large part of the NLE territory to the West can thus be surrendered without compromising the mineralized area of the TGB that the company holds.



Mupane

Gallery Gold commissioned a Bankable Feasibility Study for a one million tonne per annum gold operation at the Mupane that was completed in May 2003. The project comprised the construction of a gold process plant and related infrastructure to process ore from open pit mining operations in the Mupane and Signal Hill areas.

The construction of the processing plant (shown on the following page) commenced in 2003 with commissioning completed October 2004 Open pit mining commenced at Tau in May 2004. Open pit mining was undertaken utilising an open pit mining contractor from South Africa. Processing commenced and the first gold poured occurred in November 2004. Full gold production was achieved in January 2005, and the project had its official opening in February 2005.

The mining complex that evolved out of this project was the Tau/Tawana pits, with Tau being the larger development and Tawana being a very much smaller contiguous pit. These have been mined open pit until recently with Tau now moving into an underground phase and Tawana being more closely integrated into this new development push. This evolution shall be discussed in more detail later in this note.

Improving Production Costs

Most of the rationale for the languishing stock price of Galane Gold relates to a perceived short mine life, the overhang of the IAMgold shareholding and a historically high cash-cost. Even though the latter issue has been grappled with in recent times, investors do not seem to have picked up on the improvements. The company is aiming to shortly achieve an all-in sustaining cost of $1,000-$1,100 per Au ounce.

It is only really through digging into the MD&A that the progress becomes evident. In the six months ended June 30, 2014, Galane generated CAD$23.2 million in revenue from the sale of 17,904 ounces of gold plus incidental silver at an average combined price of $1,296 per ounce and a profit from mining operations of $2.8 million. This compared to CAD$26.2 million in revenue from the sale of 17,871 ounces of gold plus incidental silver at an average combined price of $1,467 per ounce and a loss from mining operations of $27.9 million (though this included a large impairment charge) in the same period of FY13.

At its producing properties the stripping ratio has been the big driver of OpEx. The largest part of the problem has been the original pit design for Tholo which had been a $1,700 pit shell while the Golden Eagle Pit was designed for $1600 gold. The result of this was a legacy for Galane of an off-the charts stripping ratio. This original plan for Tholo had dictated a $23mn pushback which was a big burden on past results. It is only in the last year that this situation has been able to be corrected. A good example of this being that the stripping ratio in 2Q14 decreased to 3.70 from 9.85 in 2Q13. The pit design at Golden Eagle is now being modified to a $1,000 Au design.

Beyond stripping there was the general situation that Galane inherited from IAMgold where the former owner never had a General Manager that lasted in the job more than 11 months. This resulted in short-termism.

Galane has carried out two rounds of retrenchments since taking over which have shrunk the workforce from 400 to around 200 currently. Some of these have shifted over to the payroll of sub-contractors. Contract mining has reduced costs significantly. When Galane arrived quite a large proportion of the mining fleet was nearing its end of life with high maintenance costs. The shift to contract mining has lowered costs from $4.50 to $5.50 per tonne to $3 per tonne at Golden Eagle and $2 per tonne at Tawana. In addition this brings flexibility as the company can reduce the pits' dimensions and resize the mining fleet to bring costs down. Historically the company was stuck with a large fleet with little work. Also the move from 55% fixed cost to 35% makes Galane Gold better able to cope with lower gold prices.

As far as processing is concerned, a number of low-costs investments in recent times are expected to lift recoveries. The main moves are installing:

- A pre-oxidation circuit (expecting a 3% increase in recoveries)
- A liquid cyanide plant (an estimated 1% improvement in recoveries)
- A fine carbon press (also a 1% enhancement in recoveries)

The pre-oxidation plant involves an expenditure of $60,000, the liquid cyanide plant will be funded by SASOL and the fine carbon press is an investment of $20,000. The only substantial extra spend is a gravity concentration circuit to be installed by 3Q15 at a costs of $600,000 which is expected to enhance recoveries by around 3%.

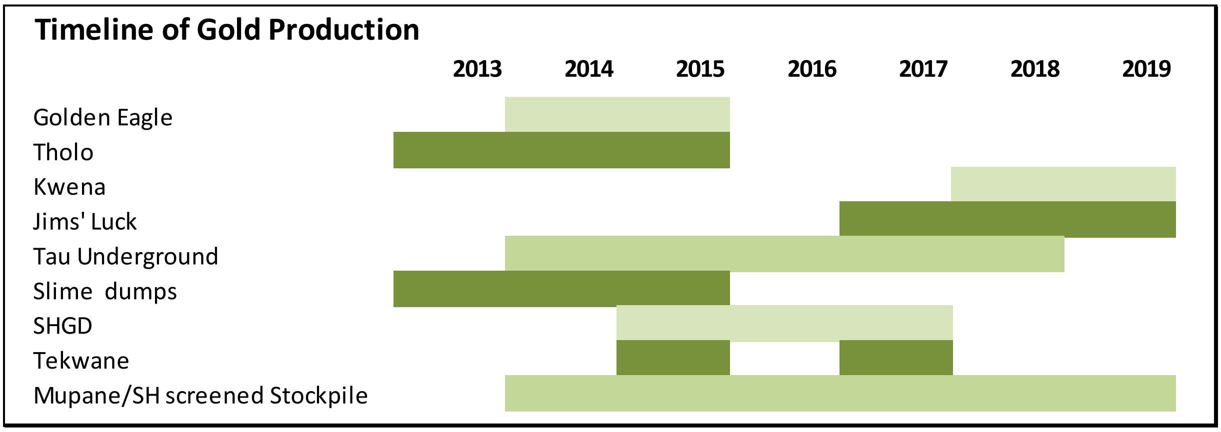
A good example of past short-termism relates to cyanide, the biggest consumable (with over two litres required for every tonne of ore processed), where a traditional purchasing deal with Orica (extant since 2005) resulted in the mine paying $3,800 per tonne for the material. This has now been replaced with an arrangement souring cyanide from Samsung in Korea at $2,200 per tonne. In addition to the cost aspect the mine was using more than it needed to because several years ago the automated dosing equipment broke down and rather than fixing it the operators has used manual dosing resulting in 50% higher consumption than was required. This has been remedied now with automation reinstated at the costs of a mere $1,000 per month.

As noted the benefits are starting to flow in lower operating costs both in mining and processing. This also helps dispel whatever lingering fears there may be that the company is skating on thin ice as far as cash-costs are concerned. While IAMgold may not have been on top of cost control the new management team is almost entirely focused on profitability. Production made be king but loss-making production is a real downer.

All in the Phasing

The remit of the company's new five-year plan is to <u>not</u> overload the plant and instead to concentrate on profitable ounces. If gold prices come back the company will look to increase the feed to the plant. With the end of mining at the Tholo pit and the change of Tau from open-pit to underground development, Galane Gold is moving into a whole new phase. The new mode of operation will consist of parallel running of “major” and “minor” projects.

The timeline below shows when various of these projects shall be in the prime production.



The major project of the next few years will be the Tau underground development until the baton passes to the Jim’s Luck open-pit development. While these major projects will provide the core gold production the icing on the cake so to speak shall come from a mixture of smaller pits and tailings/stockpile reprocessing.

For next year to help fund the underground mine, and maintain cash flows, the management has decided to high-grade the Tekwane deposit. As the Tau underground operation is expected to be more profitable the production plant, in 2016, will take the ore from there in preference to the low grade portions at Tekwane. This means there will only be capacity to take Tekwane ore again in 2017.

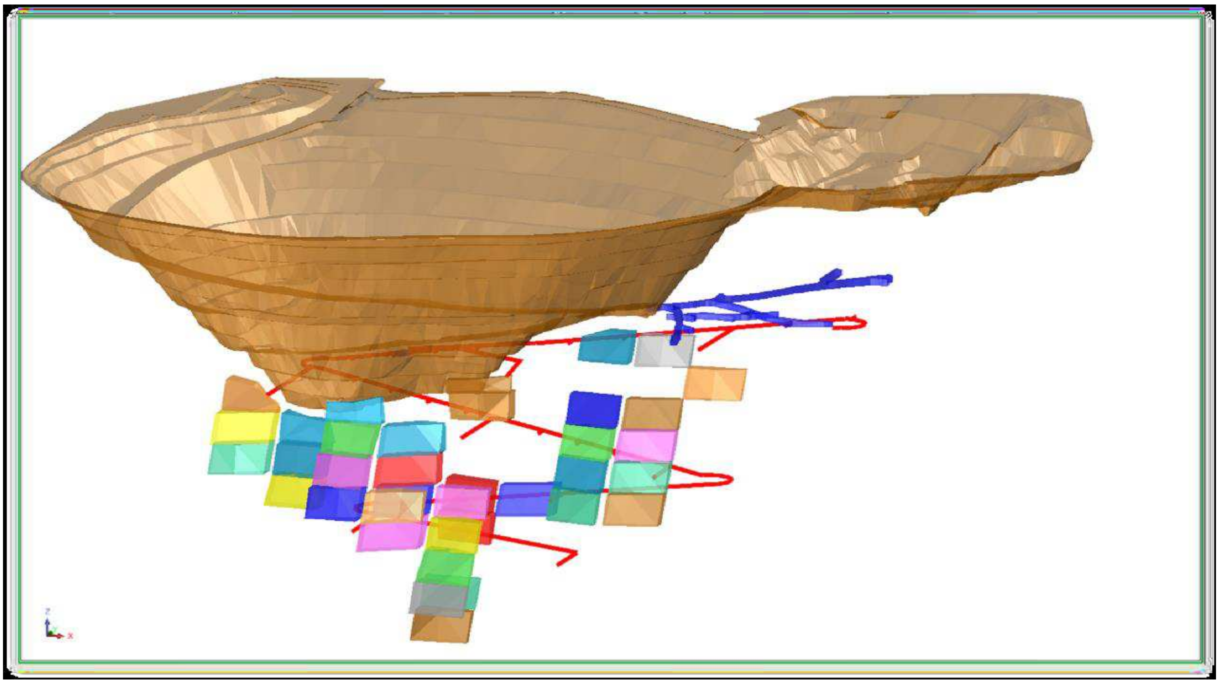
Galane Gold - Projected Au Production

	2013	2014	2015	2016	2017	2018	2019	Total 2015-19
Golden Eagle		18,600	15,300					15,300
Tholo	16,392	11,400	2,100					2,100
Kwana						4,700	27,900	32,600
Jim's Luck					7,500	24,500	9,400	41,400
Tau Underground		4,700	18,300	24,400	30,600	9600		82,900
Slime Dumps	2,099	4,500	5,300					5,300
SHGD			3,700	9,700	9,700			23,100
Tekwane			5,300		5,400			10,700
Mupane Stockpile		8,900	5,300	18,900	7,100	7100	6300	44,700
Annual Production	**18,491**	**48,100**	**55,300**	**53,000**	**60,300**	**45,900**	**43,600**	**258,100**

The sub-theme, beating in the background, is the processing of the stockpiles which provides a flow of material, out to at least 2019, at a much lower average cost because it does not involve any mining expense.

Tau Deeps/Tawana

This project has hitherto been exploited as a pair of open-pits, with Tawana being significantly smaller than Tau. As the mineralisation continues at depth under both pits the company has developed a plan which it feels with produce around 75,000 ozs Au over the next three years.



As of mid-2014 the decline (shown in dark blue below) from the Tau pit has been advancing towards a point underneath the Tawana pit. As part of the underground mine plan for Tau, the company will put in a vent through the floor of the Tawana pit. This will be done by expanding the current open pit at Tawana, which will provide additional ore for the processing plant in 2014. The company has mined 2,300 in situ oz to date with a further 4,000 oz targeted.

The geological team is carrying out exploration while undertaking the drive from Tau to Tawana as the company anticipates that the ore body extends at depth. Any discoveries will be incorporated into the Tau underground mine plan.

The company has started a second ramp closer to the bottom of the Tau pit (this planned development is shown in red). This will be more specifically directed towards exploiting the Tau Deeps. Drilling results at the previously mined Tau pit include a 53 m intersection averaging 4.55 g/t Au including:

- 24 m at 6.57 g/t Au
- 15 m at 5.86 g/t Au

Galane is expecting to mine nearly one million tonnes of ore at an average grade of 2.6 g/t by 2018. The company is fairly confident that the ore body extends at depth and will commence exploration drilling once underground.

Golden Eagle

The mining effort at this deposit commenced in 2012 and to date some 304,000 tonnes at an average grade of 1.44g/t has been mined.

A revised mine design was completed at $1,400 gold. The company recommenced mining (mainly employing a pushback of the existing pit walls) in early 2014 and, on the current resources, is expecting to mine nearly one million tonnes more ore, at an average grade of1.71 g/t and with a stripping ratio of 5.6:1 by the end of 2015. The company is targeting production of a total of 33,000 ozs over 2014 and 2015.

Tekwane

The Tekwane deposit is located approximately 11 km by main road from the Mupane processing plant. The deposit's gold potential was very evident in a soil geochemical anomaly some 4.5 sq km in size and caused by an auriferous quartz rubble horizon in the soil profile. A systemic and extensive, but phased, pitting exercise commenced in late 2011. Exploration has mainly been trenching and other near surface probing (638 pits). As yet the origin of this quartz rubble needs to be established. The theory of Galane Gold's team that it could originate from an as yet undiscovered underlying "stockwork" system associated with existing favourable lithologies. The deposit can best be described as an oxide, free gold, near-surface deposit within the rubble horizon of the soil bed. Prior to Galane's efforts, it had never been adequately explored or explained.

In October 2013 the results were published of a resource estimate, calculated by Steven Duma, on the Tekwane prospect. These included an Indicated resource of 12,735 oz. Au and an Inferred Resource of 11,443 oz. Au. Obviously this is small stuff, but more could scarcely be expected from limited sampling.

Galane Gold has commenced the process of applying for a mining licence and it is envisaged that mining will commence at Tekwane in 2015. The gold-bearing rubble horizon will be strip-mined and processed using a conventional mobile crusher and milling circuit which will recover the gold using a gravity concentrator. This mobile plant will be based at the mining site to reduce the cost of hauling material to the main plant at the Mupane site.

The technical team anticipates at least an 83% recovery though highlights the potential to exceed the historical recoveries of other deposits on the mining lease area. The management estimates a $600,000 capital expenditure will be required to commence production. The operating cash costs for the project are forecast to be $315 - $375 per ounce (inclusive of royalties).

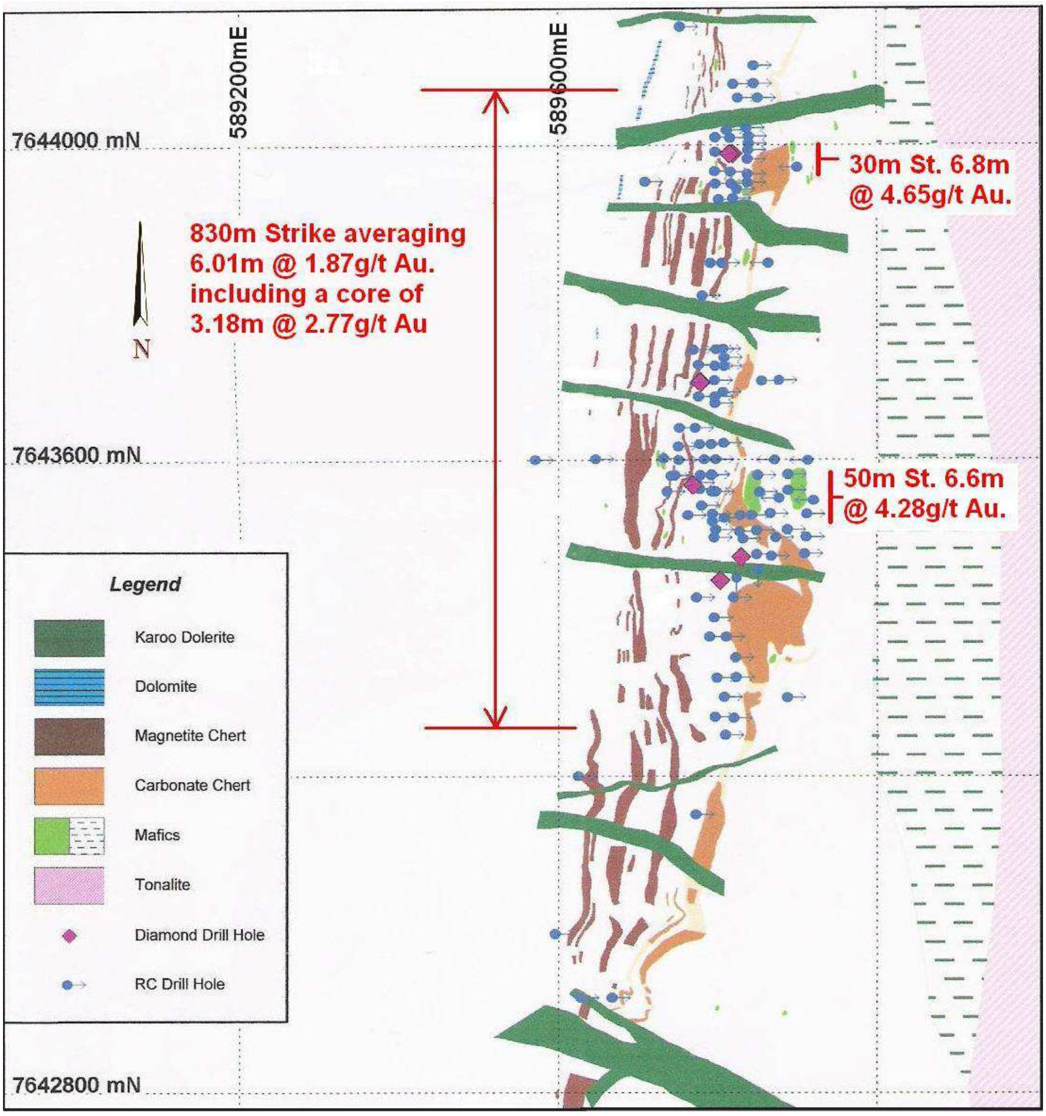
It is the intention to mine this deposit in 2015, then NOT in 2016 and then return to production there in 2017. Because of the nature of the ore body the company can mine the high grade portions without sterilising the lower grade portions. For reasons explained later it is picking and choosing when to operate or not some of these deposits to create the ideal mixes of ore, grades and revenues.

Jim’s Luck

The company’s major *de novo* mining project is the Jim’s Luck deposit, which is a Banded Ironstone Formation ridge. There is in excess of seven kms of strike of prospective ironstone lithology, of which only 830 meters has been drill tested thus far. There is known low-grade mineralization over the remaining 6km of the ridge. In the company’s opinion the Jim's Luck Project constitutes a 500,000 oz exploration target.

Past work on the prospect has consisted of 140 RC holes (totaling 13,170m) and seven diamond drill holes (totaling 1,212m) that were completed by Gallery Gold in the period 1999 to 2004 and by IAMgold in 2006. Some 77 RC and seven diamond holes outline the 830m long target zone averaging 6.0m @ 1.87g/t Au, which 'envelopes' a higher grade core averaging 3.18m @ 2.77g/t Au. Two wider, higher grade 'shoots' have also been identified within the 830m of strike – 30m of strike averaging 6.8m at an impressive 4.65g/t and 50m of strike, averaging 6.6m @ 4.28g/t

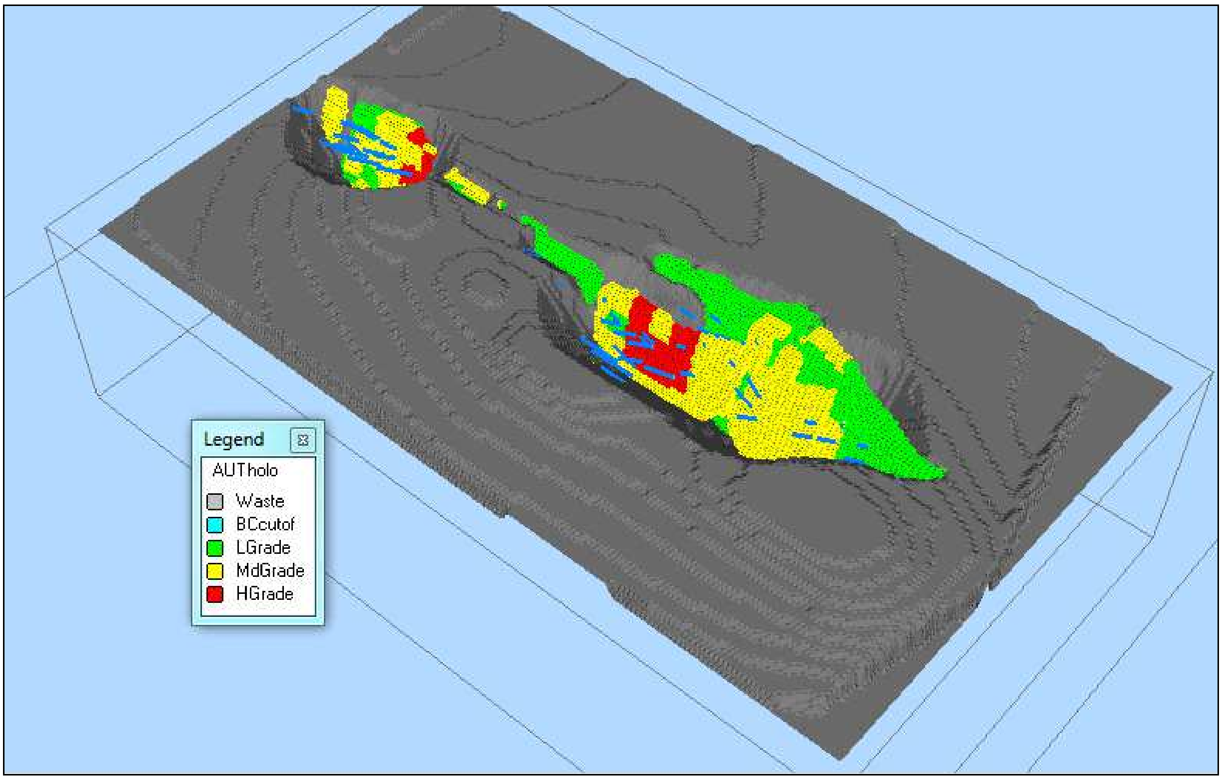
The company claims that drilling to 100m+ has shown the mineralization generally, including the high grade shoots, to be open at depth with strong down-plunge continuity.



As sufficient data exists from the drilled out portion for production to commence quickly the company is moving ahead fast with preliminary work on an open pit scenario and identifying the potential resource and metallurgical testing.

Initial mine design has been completed and work has commenced on pit optimization (see the design on the following page). The company's mine engineers have produced a conceptual mine plan which could mine 680,000 tonnes of ore at an average grade of 2.16 g/t at a stripping ratio of 5.5:1. An

Environmental Impact Assessment has been approved by the Department of Environmental Affairs and application has been made for a mining license on the project



As a result of exploration the company knows that there is a further 10km of strike and once mining commences they shall step-up near mine exploration to extend the life of mine.

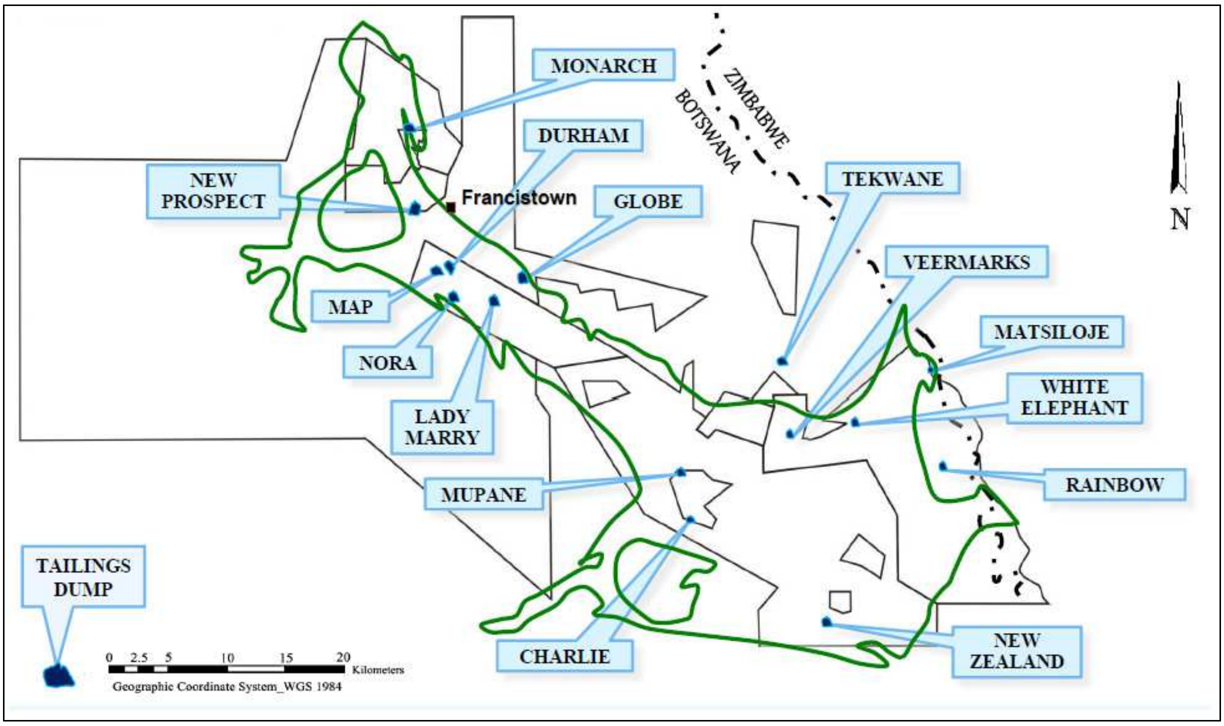
The Tailings/Stockpile Reworking

With such a vast territory under its control and with a plethora of past producing sites scattered across its length and breadth, it is inevitable that tailings reprocessing should prove to be an interesting business proposition. However in this case it is not just tailings that Galane has its disposal, but also significant low-grade stockpiles.

At the Mupane mill, historical operations have resulted in a low-grade stockpile of 702,000 tonnes of ore at an average grade of 0.92g/t. The stockpile is located next to the ROM pad. The there are other low grade stockpiles located next to other historic mining properties e.g. Signal Hill.

Galane's team have carried out a screening exercise on the material at that site. Screening the ore using a 40mm screen is expected to increase 38% of the stockpile grade by 65% with the upgraded ore being dispatched to the processing plant. The process is expected to produce an additional 266,000 tonnes at an average graded of 1.6g/t. This material is primarily oxide in nature and the company expects a recovery rate of 83%. The direct operating cost will be in the range of $600-700 per oz, thereby significantly lowering the cash cost of total production.

A screening plant was acquired at minimal cost and the screening of material has already commenced.



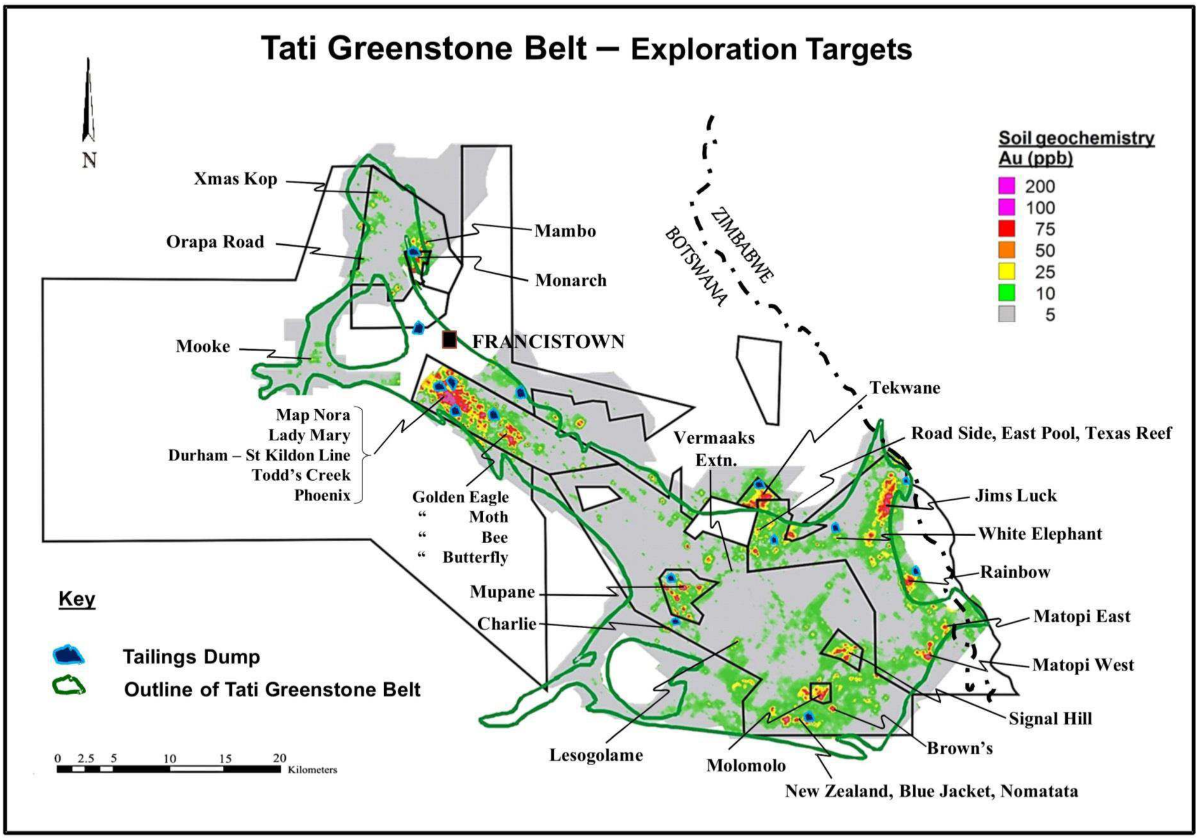
As for the tailings reprocessing Galane has completed assaying and surveying work as part of the exploration project. The most significant work so far has been the reprocessing at the Map stockpile where the company re-treated 60,000 tonnes grading 1.4g/t resulted in recoveries of 70%.

The company is currently planning on processing 643,000 tonnes at an average grade of 0.97 g/t. The majority of which will come from the Monarch Slimes Dam.

Exploration

Usually, we place the exploration section of one of these reviews up near the front of the piece because the production usually emanates from the exploration work done. However in the case of Galane Gold, the exploration is the upside and lays the groundwork for the future beyond the pre-existing gaggle of projects currently underway or planned. As we have demonstrated the company already has years of potential production laid out in front of it without having to consider exploration in the very short term. This also helps in minimizing exploration budgets at this time when frankly the market could not care less about results or resource statements.

However the territory of the company is vast and the probability of finding something that adds meaningfully to future production should not be discounted. The company is therefore conducting a comprehensive exploration program over a large number of prospects contained within its mining leases and exploration tenements which cover the bulk of the Tati greenstone belt.



Exploration in recent quarters has been focused on the Jim's Luck development. Assay results from trenching delineated the Western Parallel (WP) zone of gold mineralisation due to gold depletion. Also exposed in the trenches is the Western Banded Magnetic Chert, at BIF horizon, and gold values there continue to be encouraging. The whole strata-bound package of gold mineralisation at Jim's Luck is being followed up southwards along the Matsiloje range of mountains where quarrying has been done by a cement manufacturer on the limestone horizon which forms part of this package.

Trenching work in the Central Complex produced assays showing similar characteristics to the WP at Jim's Luck.

Map/Nora

Mention should be made of the Map/Nora asset with which the company is taking a different tack to the rest of its assets in the TGB. Interestingly the Map/Nora deposit was held by a major, Phelps Dodge, which originally developed the property. The company commenced gold mining operations at Map/Nora in the 1980s and continued into the early 1990s. Production was impeded by the refractory nature of the ore and failed due to metallurgical complexities. At the time it even had a roaster at site to try and deal with this issue.

The Map Nora location features high grade shoots (>10g/t) that are continuous down plunge allowing for a Resource of the order of 100,000 to 150,000 ozs to a 300m vertical depth. The potential is thought to exist for 200,000ozs for every 300m vertical depth tranche.

Underground infrastructure, including headgear and winder, are in place and in good order to 340m vertical depth. The company plans to extract a bulk sample from underground for metallurgical test work in late 2012.

The metallurgy of such deposits is now far better understood and management is optimistic that concentrates from Map/Nora could be processed at bio-leach facilities in South Africa. To this end metallurgical test work commenced in late 2012.

The goal with Map/Nora is to lease (or sell) the asset to another miner with capabilities in dealing with refractory ore. The company would be happy to execute this transaction in exchange for a VPP type payment (e.g. 10% of the gold produced). We have not factored any Map/Nora revenues into our earnings model.

The Samsung Deal

The mining markets have become inured to hearing about deals with the ubiquitous Silver Wheaton and Sandstorm Gold when it comes to VPP on precious metals projects as a financing method. Thus it came as somewhat of a novelty when Galane Gold unveiled in late August that it had entered into a secured US$5mn loan facility and gold prepayment agreement with Samsung C&T U.K. Limited. While the name is not familiar to mining financiers, the company is in fact the world's largest industrial user of gold through its electronics applications.

Samsung agreed to provide a US$5mn loan facility in return for the sale and delivery by the Company's Botswana operating subsidiary, Mupane Gold Mining (Pty) Ltd. a minimum of 1,607 ounces of gold per month for a period of two years (38,568 ounces in aggregate) payable by Samsung at a fixed discount rate to the then prevailing spot price upon delivery.

Samsung also has an exclusive option to purchase all gold produced by Mupane above 1,607 ounces per month on a non-discounted basis at the then prevailing spot price for such two year period. The loan facility is repayable by Galane over the two year period by way of 18 equal principal payments commencing seven months after the initial advancement of the facility. The facility shall be secured first by a pledge of the shares of Mupane and then replaced with a first charge against the assets of Mupane. Using recent industry forecasts on gold price, it is anticipated that the arrangement will have an approximate cost of capital of 9.1% per annum. The arrangement requires neither hedging nor share dilution.

Galane has used the proceeds to repay early (and in full) the outstanding debt and accrued interest owed to IAMgold, with the balance being applied to general corporate and working capital purposes. With the repayment of this debt, all related covenants at the parent company level of Galane Gold are removed.

A number of thoughts come to mind on this transaction. Firstly is that it is unprecedented to find a goldminer obtaining an end-user offtaker. We have not heard of any other cases. Secondly, Samsung have clearly done their due diligence before embarking on this arrangement and that in itself is somewhat of a badge of honour for Galane in having passed the test with Samsung. Thirdly, this appears to be an arrangement for the long term that might evolve in various ways, most probably as a “most favoured miner” status for Galane not just with regard to its current operation but also with future transactions.

Earnings Outlook

The earnings outlook at this company is not some simplistic linear calculation of how many ounces at what cash cost for the same old, same old mine. In fact the main source of production in recent years (Tholo) will fade in the very near future and be replaced by quite literally a “moving feast” of smaller mines of varying LOMs with the “backbeat” of tailings and stockpile (re)processing to provide tonnage whilst also lowering average production costs.

Galane Gold

In Millions of USD

	FY16e	FY15e	FY14e	2Q14	1Q14	FY13	4Q13	3Q13	1H13	FY12	FY11
Total Revenue	70.23	69.13	36.17	10.77	12.44	53.82	13.76	13.85	26.21	81.94	28.61
Cost of Revenue, Total	54.13	59.47	33.34	10.55	9.86	60.28	9.07	14.94	36.27	65.04	23.61
Gross Profit	16.09	9.66	2.83	0.22	2.58	-6.46	4.69	-1.10	-10.06	16.9	5.00
Selling/General/Admin. Expenses	2.10	1.84	2.05	0.61	0.47	2.81	1.12	0.54	1.15	4.35	2.09
Research & Development	0.33	0.27	0.16	0.03	0.03	0.17	0.04	0.04	0.08	0.52	0.04
Depreciation/Amortisation	-	-	-	-	-	-	-	-	-	-	-
Interest Expense (Income)	-	-	-	-	-	-	-	-	-	-	-
Unusual Expense (Income)	0	0	0.00	0	-	17.82	0	0	17.82	-	-
Other Operating Expenses, Total	0.36	0.36	0.32	0.09	0.08	1.08	0.03	0.17	0.88	0.58	0.5
Total Operating Expense	56.92	61.94	35.86	11.27	10.44	82.15	10.26	15.69	56.2	70.48	26.24
Operating Income	13.30	7.19	0.30	-0.50	1.99	-28.33	3.5	-1.84	-29.99	11.45	2.37
Interest Income (Expense)	-	-	-	-	-	-	-	-	-	-	-
Gain (Loss) on Sale of Assets	0	0	0	0	0	0.02	0	0	0.02	0.02	0
Other, Net	-	-	-	-	-	-	-	-	-	-	-
Income Before Tax	13.30	7.19	0.30	-0.69	2.12	-26.97	3.37	-1.88	-28.46	15.6	1.42
Tax	0.00	0.00	0.00	0.00	0.00	1.81	0.00	0.00	1.81	-1.81	0.00
Post- Tax Income	13.30	7.19	0.30	-0.69	2.12	-28.78	3.37	-1.88	-30.27	17.41	1.42
Diluted Weighted Average Shares	56.70	54.50	52.54	52.54	51.53	50.36	48.75	50.9	50.88	50.27	16.56
Diluted EPS	0.235	0.132	0.006	-0.013	0.041	-0.571	0.069	-0.037	-0.595	0.346	0.086
Estimated Av, Au Price	$1,325	$1,250	$1,190								
Ounces Au produced	53,000	55,300	30,392	7,196	9,346	31,586	9,530	7,430	14,626	48,940	20,193

As can be noted from the table above, we have only projected out two years on the information currently available. We are working on the premise that gold will spend most of 2015 between $1,200 and $1,300 with a lightly higher price in 2015. A combination of these prices with lowered cash costs of production (and the absence of taxation due to over $60mn in tax loss credits) might signal a slight profit in the current year, with potential for a strong improvement in FY15 to over $7mn (EPS of 13.2cts) and in FY16 this might nearly double (on not particularly higher gross revenues) to around $13.3mn (or 23.5 cts). This strong margin improvement is prompted by the tailings reprocessing (with its absence of mining cost) swinging into full production.

Clearly such a strong EPS scenario lends credibility to the idea that a dividend could be paid at that point.

M&A

One of the stark realities (or attractions) of any stock-based M&A transaction at Galane Gold is the dilution down of the residual IAMgold stake which currently doesn't make it an IAG target in any way, but only serves to ward off acquirers (desired or undesired) with a dulling effect on the stock price.

The Tati Greenstone belt has its limits, in that Galane effectively owns all of it. While the rolling five years LOM plan, in theory, could go on ad infinitum there will ultimately be an end point of diminishing retruns. As the only gold mine in Botswana the perspectives for picking up another past producer are totally discounted. Then there is Zimbabwe where the greenstone belt makes appearances around Bulawayo. The problems with doing business in Zimbabwe are well known. Therefore the net is being cast farther afield with Canada, Ireland, Latin America, (Southern) Africa and Asia also being looked at. Asia has pretty much been dismissed though and the main area of interest in LatAm is Peru.

Some Colour on Botswana

Obviously, from the history of these projects, it is clear that Botswana has been a gold mining destination for nigh on a millennium. Diamonds though are obviously the mineral product the country is known best for these days and its biggest money spinner.

As a mining destination, most surveys rank the country as the best mining jurisdiction in Africa and in one survey it is ranked 7th best mining country globally. The obvious advantages are the political stability (in a notoriously unstable continent and legal stability with English Law as the basis for the system.

On the economic front, there has been strong GDP growth in recent years, the country has an AA credit rating, while on the corporate front, the corporate tax rate can be as low as 22%, there is a 5% royalty on gold sales and there are no exchange controls.

Directors & Management

The company obviously believes in slim-line management as the board is four-strong, in comparison to many of the more bloated boards around these days. Until recent weeks the Chairman had also been the Acting CEO, but that situation has now been resolved with the elevation of Nick Brodie to the permanent CEO position.

Nick Brodie was formerly the company's Chief Financial Officer. He is a senior finance professional with extensive experience in Africa. Prior to joining Galane Gold Mr. Brodie was the CFO of Katanga Mining Limited and Copperbelt Energy Corporation Plc. He is a Fellow of the Association of Certified Chartered Accountants and holds a BSc (Hons) Geography.

Ravi Sood is the Chairman and a director. He is a financier and venture capitalist. He is the founder and former CEO of Navina Asset Management, a Toronto-based investment firm that was acquired by a major financial institution. He has also founded several natural resources- based businesses including Feronia Inc., one of Africa's largest employers, where he serves as Chairman. He was amongst the group that bought this palm oil giant out of its long-term ownership by Unilever. He was also a director of Elgin Mining (which was recently taken over by Mandalay Resources) and TrueContext Mobile Solutions Corp.

He holds a B. Mathematics (Hons) degree from the University of Waterloo.

Charles Byron is the Chief Geologist and also serves as a Director. He has over 30 years' experience as a geologist focused on Archaen gold exploration and mining. Prior to joining Galane Gold as its Chief Geologist, he worked with Phelps Dodge, Falconbridge, and later Gallery Gold where he led the team that discovered the Mupane Gold deposit and saw it into production in 2004. Mr. Byron holds a B.Sc. (Hons) Geology, Soils, Geography (University of Natal).

Wayne Hatton-Jones, the Chief Operating Officer, has 26 years' experience working in South Africa, Mali, Tajikistan, Kazakhstan, Romania and the Solomon Islands. He was as the General Manager of the Gold Ridge Operation (Allied Gold) in the Solomon Islands, the Chief Operating Officer of Galaxy Gold Mining Limited, Acting General Manager of Avocet Mining plc in Tajikistan, General Manager of Ergo gold surface retreatment operation at DRD Gold, Process Manager and Acting General Manager of Randgold Resources and Metallurgical Manager for Harmony Gold mine. He holds a Bachelor of Science (BSc) degree from the University of the Witwatersrand, South Africa and a Management Development Diploma (MDP) from the University of South Africa.

Stephen Doolan, who has worked until now within finance at Mupane Gold Mines, has been appointed the interim chief financial officer. He holds a bachelor's degree in business with a specialization in accounting and has held progressively senior finance roles in a number of mining companies globally, including Gold Ridge Mining, Rio Tinto PLC, Glencore and Newmont.

Risks

The prime risks we can envision at this stage are:

- Gold price weakness
- Technical problems with the mine re-openings
- Budget overruns on the capex
- Cash opex in an age of weakening gold

At least Galane Gold does not suffer from the ubiquitous syndrome of this day and age which is lack of financing. All the expansions it has planned are very low capex and can be met from either the current cash pile or the cash flow from on-going operations.

The company is successfully trampling down the cash costs of operating but if gold took a hefty leg downwards then all bets would be off.

The company does have the advantage that it is NOT one mega mine that is difficult to turn or stop like a super-tanker, thus if gold took a temporary reverse into unprofitable territory, Galane could freeze operations at little expense. Its cash cushion puts it in a very sound position.

Conclusion

At the current moment, Galane's many virtues are made somewhat second priority to the over-arching reality that the stock has a market capitalization that is a significant discount to its cash on hand. The

Samsung funds are in the corporate treasury and the residual debt to IAMgold is paid down, leaving the company with a cash pile of $10mn while its market capitalization has been briefly dipped below $7mn in recent weeks. This is patently ridiculous. The market is NOT up to speed on the opex reductions that the company has made and seemingly still thinks the company is grappling with the high cash costs inherited from previous management.

Production is king and Galane Gold has no shortage of production, current and future, with a substantial and proven mining district largely under its control with an array of open pit, underground and tailings/stockpile opportunities at its disposal.

In the current environment of gold being in a swoon despite the troubled international scene (Russia/Ukraine, ISIS etc) gold companies must stand on their own merits instead of relying upon the tide lifting all boats. One needs to be the boat that stays afloat when the tide goes out. To continue with the nautical analogy, Galane had multiple flotation devices at its disposal to make sure it stays above the cruel tides of fortune while so many others go under.

With cash costs in descent, after a vigorous pruning of past owners' erroneous practices, the company has bolstered the space between its operating costs and the currently capricious gold price. As long as gold does not take a further southwards move then the company should have be producing a positive bottom line, with scope for reinvestment, and hopefully, a dividend.

We have added a **Long** position in Galane Gold to the Model Mining Portfolio with a 12-month target price of CAD$0.90.


Historic Chart for Cdn:GG by Stockwatch.com 604.687.1500 - (c) 2014
Tue Nov 11 2014 Op=0.13 Hi=0.13 Lo=0.13 Cl=0.13 Vol=13,000 Year hi=0.30 lo=0.065
Cdn:GG
0.33
0.315
0.30
0.285
0.27
0.255
0.24
0.225
0.21
0.195
0.18
0.165
0.15
0.135
0.12
0.105
0.09
0.075
0.06
Volume
450 k
300 k
150 k
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
2013
2014

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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