



# HALLGARTEN & COMPANY

## Results Note

Christopher Ecclestone  
[ceccestone@hallgartenco.com](mailto:ceccestone@hallgartenco.com)

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

Key Metrics		
Price (CAD)	\$	0.095
12-Month Target Price (CAD)	\$	0.03
Downside to Target		-68%
High-low (12 mth)		\$0.04 - \$0.13
Market Cap (CAD mn)	\$	19.08
Shares Outstanding (millions)		200.8
Fully diluted (millions)		270.0
	<b>2018</b>	<b>2019e</b>
Consensus EPS		n/a
Hallgarten EPS (est.)		\$0.001
Actual EPS	(\$0.002)	
P/E	n/a	\$ 95.38

# Galane Gold

## Mining for New Suckers

- + The gold price has rebounded to near \$1,500 per ounce
- + Production at supposedly started (again) at Galaxy mine but lack of updates makes us suspicious
- + Ill-considered transaction in Australia fell by the wayside for unexplained reasons
- + B2Gold have reached their investment commitment on the first phase of the earn-in on properties that Galane, if competent, would have explored itself
- ✗ Despite the gold rally the company remains barely profitable
- ✗ Company is laboring under USD\$36.4mn in debt with only USD\$3.8mn in the cash on hand
- ✗ Further massive dilution has occurred during 2019 with shares on issue blowing out to over 200 million, up 25% this year, and nearly four times more shares on issue than 4 years ago
- ✗ Scrabbling around in low-grade stockpiles in Botswana to try and maintain production levels
- ✗ Almost nothing has been spent on exploration for years resulting in no new resources or reserves - hence the deal with B2Gold
- ✗ Shuffling of the debt mountain has still left the mountain up a net \$5mn since December 2018

### New Chums

In the Australian goldfields of the 1850s there was an enormous influx of wannabe miners and the veteran players (who'd been there a few months longer – veteran being a relative term) called the naïve newcomers “New Chums”. The veterans would sell them faulty equipment, worked out or barren claims or direct them towards the pyrite, otherwise known as Fools Gold.

Galane Gold is like those veteran miners and needs a constant supply of New Chums, ones who don't remember how it has been producing gold for over half a decade and scarcely turned a profit..... suckers who don't remember the first go around of the Galaxy mine..... the failed Vantage deal... the uninformed who don't remember the debacle of Andy Well late in 2018..... then there was the deep discount rights issue following on the footsteps of the purchase of all IAMgold's stake by insiders for 1 ct per share.

It all relies upon a lack of memory in the investor base. The one fly in the ointment is that we have been around through it all, were even deceived ourselves by the company at one point and are we are not in the habit of forgetting what the team at Galane Gold have done to shareholders.

But for management it's all like water under the bridge. Look forward, not backward... they cry... the

crew that brought you those deals may still be in power but they are now suddenly dynamic and competent. That is until the next major SNAFU derails the story.

### **La Plus ca Change**

If one looks away from Galane for a while and comes back one sees the promotion has changed slightly but all the pieces on the chess board are essentially in the same place. Debt reshuffles are exactly that. Some efforts are supposedly moving forward but look to be in the same place. The company has the same old excuses for why it hasn't achieved anything but for veterans of the stock, one realizes that management are just blowing smoke up the vulnerable parts of the investor base.

### **Galaxy Mine – Fool's Gold?**

In mid-April 2019 the company announced that it had commenced commissioning of its refurbished 15,000 tonne per month plant at the Galaxy project and the production of its first concentrate.

Galane expected to use the full capacity of the plant from May onwards. Work was still ongoing on the upgrade of the plant to 30,000 tonnes per month which was currently planned to be completed by September 2019.

In June results management revised its forecast for 2019 to produce 2,400 tonnes of concentrate containing only 3,200 ounces of gold. To achieve this outcome it will be processing approximately 112,000 tonnes of material from various sources including the Princeton underground and historic tailings facilities.

Plans are to get to a steady state annual production, on average, of 25,000 ounces of gold at an operating cash cost per ounce of less than US\$800. Time will tell.

### **The Defaulted Royalties**

A long-term problem is that the company's management are debt junkies and don't like paying what is owed. As a result the company has owned large amounts of money for a long time to various parties.

Most embarrassing of all these is the money owed for back royalties to the Botswanan government. The Government of Botswana royalties were all recorded as current liabilities until early 2018, however on March 19, 2018 an agreement was reached with the government regarding royalties payable on the sale of gold and subsequent repayment thereof under the following terms:

- \$8,398,709 of royalties deferred to December 2017 would commence repayment in March 2018 over 34 months
- principal repayments of \$21,593 per month for ten months commencing March 2018
- principal repayments of \$101,593 per month for 12 months commencing January 2019

- the remaining balance to be repaid in 12 equal monthly payments commencing January 2020
- interest to be charged at Bank of Botswana commercial bank prime lending rate +5%, applied on a simple interest basis, equating to \$28,407 per month over the 34 month repayment period

The fourth bullet point is classic Galane. If one calculates it the amount payable is \$580,000 per month! Which is nigh on \$1.74mn per quarter.

How a company that made \$160,000 in 2Q19 (and lost money in Q1 can expect to repay such amounts is beyond our calculations or imagination. This has all the whiff of pushing a problem off into the future.

Royalty Debt Repayments	
Total Owing as at March 2018	8,398,709
Pay in 2018	215,930
Pay in 2019	1,219,116
Pay in 2020	6,963,663

While the deferral amount is unsecured we doubt the company's concessions would be safe from confiscation if it defaults again on the amounts owed as production is in decline and the company could "do a runner". This must be a consideration for B2Gold.

### **B2Gold (TSX: BTO) – Better than Lost**

In March of 2018, Galane Gold did a deal with B2Gold whereby it disposed of all its upside in Botswana via an earn-in. We were unperturbed by this loss of opportunity as it was evident that Galane had non-existent skills in the exploration sphere. Meanwhile it risked losing all its Botswanan assets if it continued in its default upon payments of royalties to the Botswanan government. So it was better that B2Gold did something with these assets than see them lost.

In early October of 2019 the company confirmed that B2Gold had met the conditions of Tranche 1 of the earn-in option and confirmed its intent to commence with Tranche 2 expenditures of US\$2mn.

Under the Earn-in Agreement, B2Gold has the option to indirectly acquire, in three tranches, up to 70% of the shares of Southern Cross Exploration and Development (Pty) Ltd., a subsidiary of Galane Gold, which has received two gold prospecting licences over an aggregate of approximately 520 km<sup>2</sup> located around the Mupane property in Botswana, but excluding its current operations and mining licences.

B2Gold has agreed to carry out exploration on the properties with guidance received from a jointly formed technical committee. We had to chuckle at this as what Galane have to offer on "technical" matters could be written on the back of a small postage stamp. A face-saving device we presume.

### **Recent Results**

A look at the company's earnings statement back over the years makes dismaying reading. How can a

company producing gold have lost so much money over such a long time and yet still claim to investors that the turn in its fortunes is imminent.

As can be seen from the table on the following page the company managed to lose \$8.5mn in FY15 on \$26mn in revenue. And yet the company always claims it has an operating cost per ounce significantly under the reigning gold price. It can be noted though that GS&A holds up well because it would not do for management to be suffering with the shareholders.

The company dropped its GSA to \$220,000 in 2Q19 to ensure that anyone doing back of the envelope projections might think that the bottom line in 2019 might be saved by lower overheads. One can note that if GSA in 2Q19 had been the same as Q1 then the bottom line would have again been in the negative. Massaging of numbers should be made of sterner stuff.

However in our view GSA will rebound to the levels of FY18 and thus cut into second half earnings and those for the full year. We would also note that the company reported sales of gold that were higher than production in the both of the quarters in early 2019.

### **Earnings Outlook**

It's a case of "fool us once, shame on you, fool us twice, shame on us" with production estimations for Galane. While being realistic on the poor track record of the company on profitability and the continuous disconnect between what it says is cost per ounce and the ongoing poor bottom line, when it came to future production we used to take the company's estimates with only a pinch of salt. This has meant we have persistently overstated future gold production due to the "Galaxy is imminent" line that the company has spun. We have now been waiting three years for Galaxy's production and it is like waiting for Godot, it never arrives.

Thus we have decided not to make any guesstimates of production or sales for FY20.

However it seems clear that top line sales will be up for the mere reason that gold has staged a strong rebound in 3Q19. However never put it past management to miss out on such rebounds.

It's clear also that the high-grading of the low-grade stockpiles (only a Galane) has made costs per ounce very nice despite the gold price rebound. The company even managed a gross loss in 1Q19. This takes some doing.

As noted earlier though the company has to up the amount of it pays to the Botswana government in FY20 and this should consume all available free cashflow and then some. How this feat shall be achieved remains unclear but more debt might be taken on (cue - shuffling of deckchairs on the Titanic) or financings might be engineered to further blow out the shares on issue, depressing EPS just when it may turn positive. Same old, same old...

The effect of Galaxy is unknown it supposedly started producing in Q2, but made no effect. Sigh.....

<b>Galane Gold</b>												
In Millions of USD												
	<b>FY19e</b>	<b>2Q19</b>	<b>1Q19</b>	<b>FY18</b>	<b>4Q18</b>	<b>3Q18</b>	<b>2Q18</b>	<b>1Q18</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>
Mine Revenue	43.30	11.42	8.48	44.65	11.02	10.56	13.17	9.91	37.30	32.66	26.23	40.46
Cost of Mine Revenue	39.50	10.60	9.30	41.68	9.71	11.36	10.98	9.63	35.56	33.97	34.45	35.98
Gross Profit	3.80	0.82	-0.82	2.97	1.31	-0.81	2.19	0.27	1.74	-1.31	-8.22	4.49
Selling/General/Admin. Expenses	2.90	0.22	0.68	2.98	0.91	0.78	0.65	0.65	1.88	2.10	2.26	2.51
Exploration	0.00	0.00	0.00	0.20	0.01	0.07	0.06	0.06	0.21	0.026	0.115	0.12
Depreciation/Amortisation									-	-	-	-
Interest Expense (Income)	1.20	0.10	0.38	0.92	0.46	0.15	0.15	0.15	2.15	0.86	0.69	-0.58
Unusual Expense (Income)									0.00	0.00	0.00	0.00
Forex costs (gain)	-0.50	-0.08	0.11	-1.63	-0.48	-0.46	-1.29	0.60	0.57	1.71	-3.02	
Other Operating Expenses		0.41	0.25	0.83	0.46	-0.08	0.16	0.29	0.23	0.66	0.245	0.56
Total Operating Expense	43.10	11.26	10.72	44.97	11.07	11.81	10.71	11.38	40.60	39.32	34.74	38.58
Operating Income	0.20	0.16	-2.25	-0.32	-1.26	-1.26	2.40	-1.47	-3.30	-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	0.20	0.16	-2.25	-0.32	-1.26	-1.26	2.40	-1.47	-3.30	-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	0.20	0.16	-2.25	-0.32	-1.26	-1.26	2.40	-1.47	-3.30	-6.66	-8.51	1.88
Diluted Weighted Average Shares	200.80	200.80	200.80	160.27	160.27	146.80	148.80	146.80	146.41	117.59	54.90	54.584
Diluted EPS	0.001	0.001	-0.011	-0.002	-0.008	-0.009	0.016	-0.010	-0.023	-0.057	-0.155	0.034
Estimated Av. Au Price	\$1,410	\$1,305	\$1,291		\$1,212	\$1,194		\$1,280	\$1,275	\$1,247	\$1,148	\$1,190
Ounces Au produced	32,000	8,694	6,326	35,527	9,245	8,545	10,088	7,649	29,354	26,783	24,321	30,791
Ounces Au sold	31,200	8,750	6,565	35,746	9,088	8,837	10,259	7,562	29,896	26,188	24,205	

We envisage a small profit for FY19 mainly on the higher gold price mitigated against by higher GSA.

## 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 occurred since the middle of this year 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.

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

Absolutely nothing has happened over the years to change the line-up of management that brought investors so much disappointment over the years. One definition of insanity is "doing the same thing over and over again and expecting a different outcome". In which case there is good reason to summon the men in white coats. More ludicrous than management repeating itself is the shareholders that put their faith in this hapless crew. Bitter experience has shown the management is not working for shareholders and that it does nothing to remedy its long-term incompetence.

To visit the online forums where this stock is discussed is to venture into a fantasy land. There dwell a crowd who sustain that gold is going up so Galane earnings must go up... Wrong! Gold has been up and down and all around and it is the unique incompetence of management that ensure this company cannot catch a break. Or is it incompetence? We note the GS&A is almost invariably higher than \$2mn per annum and sometimes nearer to \$3mn despite the dire bottom line. In essence management is not homeless and destitute, instead it is shareholders that are told they should "await the turn".

Has the turn come? The Galaxy mine is supposedly in production (since April indeed) and we shall not prejudge its fate, except to look at it in the light of the last time this mine was "working" over a few years ago. Galane 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

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flopped, it has returned to Galaxy and has taken ages to get operational a mine that it was “working” in 2017 and then its Andy Well deal in Australia dematerialised.

The company has an uncanny ability to snatch defeat from the jaws of victory. We reiterate our **Short** position in Galane Gold in the Model Mining Portfolio with a 12-month target price of CAD\$0.03.





## Important disclosures

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