

676902

092HNW007

Caroline Mine

Gold Stocks Advisory

Vol.10, No.3

March 1, 1996

\$15.00

This Junior Gold Is My Silver Stock For The Year 2000 AD.

By: Paul Sarnoff, Editor

GSA subscribers know I am a dedicated silver bull. In fact, some of you very nice people may have enjoyed my book, *Silver Bulls*, which told my version of silver's rocket-rise to \$50 an ounce, back in January 1980 — and its subsequent collapse that same year.*

In that book, I envisioned that the silver price someday would surpass its old high of \$50 an ounce. The main impetus for this, I wrote, would be the Chinese need for silver. Silver demand is a function of population. The United States uses the most silver-per-person of any country of the world: approximately 1/4-ounce of silver-per-person a year. Now, by the year 2000 AD, there will be over 2-billion Chinese in mainland China. I have calculated that, by then, there would be a per-capita demand in that country of at least 1/4 ounce of silver a year. Thus the Chinese alone would require over a billion silver ounces annually. This need would arise when the Chinese demand the same kind of modern amenities we enjoy in our culture. Yes, while western civilization can exist industrially without gold, we certainly cannot thrive without silver.

GSA subscribers also know I have recommended a number of penny gold stocks that have turned into dollar-gold stocks. But I never before recommended a penny silver stock slated to become a multi-dollar one. So now I'm making up for the past — and recommending a company that should become a multi-dollar silver stock well before the end of this century.

Oddly enough, my "silver stock" recommendation is actively traded as a "junior gold exploration/development company." But there are dramatically improving events looming in its silver future, which will lift its shares to multi-dollar levels.

So my recommendation is: buy shares of Athabaska Gold (AHB on Toronto) — and HOLD for long-term gains. The 52-week range for Athabaska has been C\$1.40 high and C\$0.30 low. AHB closed on February 13th at C\$0.72 (about 53-cents a share in American money).

But before calling your broker to buy stock, kindly read on . . .

Overview of Athabaska Gold

Right from its start in 1987, Athabaska has been an exploration/development company, primarily seeking gold deposits. Initially it confined its exploration to areas north of

*NOTE: *Silver Bulls*, Arlington House, 1980 is out of print. I am making reprint arrangements with another publisher. Among other items, it shows clearly how the Hunt Brothers got shafted. If you have an interest in this book, let me know. I'll tell you how to get a copy.

Yellowknife, in Canada's Northwest Territories. Led by one of the best mine finders in the business, President Jim Kermeen, two great gold prospects were discovered and developed at Damoti Lake and at Nicholas Lake. The Damoti Lake holding was sold to Consolidated Ramrod (CYN on Toronto) and the Nicholas Lake holding went to Royal Oak. Armed with more than \$6-million in assets, Athabaska, in 1995, decided to focus on two areas: the revival of a former gold producer in British Columbia; and the development of a massive silver/base metals project in China.

In this regard, Athabaska's 34%-owned subsidiary, Breckenridge (BKD on Vancouver) recently signed an "agreement in principle" with the Chinese government to develop the Xiacun metal project in Sichuan Province.

I'll discuss both this silver project in China and Athabaska's British Columbia gold mine a bit later. But I want you to know that the President of Athabaska is also the President of Breckenridge — and the companies are inter-locked**.

In essence then, Athabaska is coming out of the closet in Canada as a gold producer on the one hand; and on the other it is bringing into production an advanced-stage silver deposit in China, through a subsidiary. I look for AHB to advance sharply

continued on page 2

**NOTE: AHB has the right of first refusal for all future financing of Breckenridge. It also stands to profit handsomely from its gold mine development at Ladner Creek, BC. I feel GSA subscribers have the best of both worlds (gold and silver) with Athabaska. Breckenridge shares closed on Vancouver February 13th at C\$0.45. So by buying Athabaska, for a few cents more, you are also getting the upside benefit of a future gold price rise. Ed.

Gold Stocks Advisory (ISSN #0891-2351) is published monthly for Agora, Inc. by Marketing & Publishing Associates, Ltd., 23-00 Route 208, Fair Lawn, NJ 07410. Customer Service phone: 201/794-1879, Fax: 201/794-1221. Address all editorial correspondence to P.O. Box 173, Baldwin, NY 11510

Subscription rates: \$144 for one year, \$252 for two years. Single copy: \$15. For questions about your subscription, editorial or other business matters write to us at the address above. Enclose your GSA mailing label to assist in your service.

Editor: Paul Sarnoff

Associate Editor: Steven Sarnoff

Publisher: N. S. Hayden

Marketing Manager: Diane Freeman • Graphics: Carolyn Loxton

©Copyright 1996 by Marketing & Publishing Associates, Ltd. All rights reserved. Photocopying, reproduction in whole or part, or any quotation is prohibited without the express written consent of the publisher.

Gold Stocks Advisory receives no compensation of any kind in any form from any broker, mining company or other third party for recommendations. Staff members may NOT act on recommendations made in the newsletter until at least a week after the issue is mailed.

Not a broker • No stocks to sell • Unbiased specific recommendations

Junior Gold . . . continued from page 1

in price as both the gold mine in Canada and the silver mine in China proceed to production.

Moreover, real mines are made by dedicated people — experienced mining people, not necessarily promoters. And that's one of the main reasons I have chosen Athabaska as my silver stock for 2000 AD and beyond.

Athabaska Has Great Mining People

Jim Kermeen, President of Athabaska, has more than forty years experience in mining. He began his career in the early 1950's as an exploration geologist. Since then he has acted as a consulting geologist for major mining companies and foreign governments. He is — in my opinion — one of the best geologists and mining company administrators in the industry. I first met Jim four years ago, when Athabaska was exploring the Damoti Lake and Nicholas Lake digs. And I was greatly impressed with his accomplishments and outlook. So I recommended Athabaska to my *Red Hot Penny Gold* subscribers. At the time the company wasn't much more than a mine finder. But now the company not only has the ability to find mines, but also to finance and operate them. And Jim Kermeen, one of the nicest people in the mining business, will see to it that his shareholders benefit as his company grows.

Working closely with Jim is Thomas Adamson, VP Administration, who holds a BSc in geology from the University of British Columbia and is a professional geoscientist. Tom has more than 28-years experience in management of publicly-traded resource companies. Incidentally, Jim is President of both Athabaska and Breckenridge; and Tom is VP of both companies.

In addition to skilled geologists, Athabaska can call on its directors when help is needed. For example, Ian Burgess, is a director and financial advisor to Athabaska. He has had 16-years of experience with Barclay's Bank, where he was a Vice President and head of "structured finance", which means financing for junior and intermediate mining companies.

It is indeed a pleasure to find a small mining company with such mining and financial talent. But while people do make a mining company go, it can only grow if the properties are economically viable. So it's now time to turn to . . .

Athabaska's Future Promise

First The Gold:

AHB's principal Canadian property is its Ladner Creek gold project. The former company that operated this mine spent over C\$40-million to create the infrastructure, building both a mine and a mill — and operated the property for 27 months. During that period, the mine produced 45,000 ounces of gold. But the mine closed because of technical and operational problems. Athabaska is convinced that by combining modern technology and its experienced management, the previous problems can be solved. In fact, AHB has already anticipated that the mine will not only be reopened, but also will profitably produce at least 56,000 ounces of gold a year.

Right now AHB is conducting a program of drilling and drifting from both surface and underground workings. This program, which will cost more than a million dollars, is designed to outline additional reserves. At the same time, a large scale metallurgical testing program is under way. During the past few months, results of drilling have emerged — and the fire assays clearly reflect very promising high grade gold intercepts.*

At the present time, the proven and probable ore that can be accessed from the mine's underground workings exceed 110,000 gold ounces. In addition, AHB intends to reprocess the tailings at the mine, which could add as much as 31,000 ounces, while new reserves are being proved up. The infrastructure is in place. Previous milling, by the former mine operator, resulted in only a 52% gold recovery from the ore. This made the mine uneconomic. AHB is convinced that with proper metallurgical testing and mill modifications, satisfactory gold recovery (85-90%) will ensue.

The mine is located about 80 miles east of Vancouver. It is readily accessible from a 3-mile road connecting with the Trans Canada Highway.

If all works out, as Athabaska's executives believe, the mine could be in operation by next year. And, of course, by then the AHB share price will not be under C\$1.

Now Athabaska's Silver Future:

In the fall of 1995, Athabaska financed Breckenridge, a Vancouver-traded company that has a Placer Gold property in Costa Rica and a "memorandum of understanding" with the Chinese government, enabling Breckenridge to acquire a 67% interest in an advanced stage high grade silver/base metals project. This massive silver property, called the Xiacun Project in Sichuan Province, is, in my opinion, the gift for investors in Athabaska's silver future. You see, Jim had a "prefeasibility" study conducted by Rescan Engineering, a highly qualified

*NOTE: For copies of recent releases detailing AHB's Ladner Creek drill progress and fire assays, call Stephen Jackson, AHB Investor Relations VP, at 604/521-3005.

Canadian engineering firm specializing in mining projects. And the results were sensational.

In the first place, current reserves are 8,173,000 tonnes grading 224 grammes per tonne silver; 0.61 grammes per tonne gold; 9.15% zinc; 5.65% lead; and 1.04% copper. This translates to an annual anticipated production of 5,895 gold ounces, 118 tonnes of silver (multiply by 31,115 troy oz. per tonne), 26,075 tonnes of lead, and 4,560 tonnes of copper.

The economics of the project are, of course, very viable because of low labor and power costs; and low smelter costs. At current commodity prices, the study indicates (after all smelting, refining and concentrate hauling costs) a net smelter return of US\$117 a tonne in the early years of mine operation, and US\$92 a tonne over the initial fifteen-years of life of the mine. Thus, the study concludes that annual pre-tax operating profit will be "US\$46-million in the early years and US\$31 over the life of the mine." This is a pre-tax discounted rate of flow of 37% — and a very rapid payback of capital, in 1.9-years. It is expected that the joint venture between Breckenridge, which will hold a 67% interest in the operation, and the Chinese partners, 33%, will be exempt from Chinese income tax for the first two years, and be taxed at a 50% reduced rate for at least the following three years".

Now get out your pencils and figure what's in it for Athabaska, which now owns (diluted) about 34% of Breckenridge — and will be supplying financing for the future. You may not hit the figure precisely on the head, but I suspect Athabaska's share of this venture will escalate with the future financings. By the way, the Chinese partners in the joint venture with Breckenridge are four government agencies as follows: 1) China Non-ferrous Metals Corporation; 2) Xichuan Provincial Bureau of Geology and Mineral resources; 3) Ganzu Non-Ferrous Metals Industrial Corporation; and 4) Baiyu County Industrial Resources Corporation. On January 10, 1996, Breckenridge managed to proceed to step 2 in the process, that started in 1995 with the signing of the memorandum of understanding, by achieving the signing of the "Agreement in Principle" by the "partners." Now Breckenridge can vest a 67% interest "by completing a bankable feasibility study and matching, pro-rata prior Chinese project expenditures in the amount to be finalized by future agreement". After this important piece of paper is signed, parties to the venture will share all project costs and proceeds "in proportion to their respective project interests."

Since the Chinese wish to proceed "as expeditiously as possible towards a final joint venture agreement," I hope to be around to look at the mine when it goes into production.

So far, Athabaska has fulfilled most of my criteria for inclusion on the GSA "Also Recommended List." The final criterion involves money.

Can Athabaska Raise Breckenridge's Future Financing Needs?

Right now, Athabaska has plenty of money. When it disposed of its holdings in Damoti Lake and Nicholas Lake to Consolidated Ramrod and Royal Oak, respectively, Ramrod had no money, so they gave AHB 630,000 shares of stock. But Royal Oak sent over \$3.8-million in cash. So Athabaska has

plenty of money for the foreseeable future. But Breckenridge is going to need plenty of money to advance to step 3, the finalizing of the joint venture with the Chinese. Since AHB has a financial advisor-director, former VP of a global bank, and since AHB has first refusal rights for future Breckenridge financing, and since I forgot to mention that the chairman of Breckenridge (and also its largest shareholder) is based in Singapore and speaks Chinese fluently, I have little doubts about future financing, either for Breckenridge or for Athabaska, if and when the need arises.

So having met all my criteria for inclusion in GSA, it is my pleasure to tell you I'm putting AHB on the list with this issue. So if you can buy Athabaska at around current levels, do so. And hold your shares for future profits.

And now here's...

Athabaska Gold At-A-Glance

Symbol & Where traded: Athabaska trades on the Toronto Exchange under the symbol "AHB".

Type of Company: Junior exploration/development company with gold properties in Canada and prospects in Voisey's Bay. AHB also owns 30% (34% diluted) of Breckenridge Resources (BKD on Vancouver) which has a chance to earn a 67% interest in a very rich silver/base metals prospect now nearing production in China. Key officers of AHB and BKD are the same and the companies are "inter-locked".

52-week Share Price Range: High: C\$1.40 and low C\$0.30. Closing price February 13, 1996 = C\$0.72 (about US\$0.53).

Capitalization: 50-million shares of common stock authorized. 22.7-million issued (26.7-million fully diluted). No debt.

Financials: Company has not sent me recent reports of financial condition. But even without balance sheets, etc. its financial ratios have to be great. It had at start of this year over \$4-million in cash, securities worth more than a million dollars (US) and very little current liabilities. You can ask for the next financial report directly from the company president, if you like. But I'm confident the company has plenty of money to fulfill its foreseeable goals.

Special Situations: AHB has optioned the Ladner Creek Mine and is spending \$1-million to see if it is worthwhile to acquire the mine. If it exercises its option, AHB will issue up to \$6-million worth of its shares to the mine owners. But I'm convinced Athabaska's future is interlinked with that of Breckenridge, a massive silver/base metals prospect in China nearing production. The first two steps have already been met by the joint-venture partners. After step 3, a finalized joint-venture agreement, it will be gung-ho and AHB will not be trading in the pennies. For that matter, neither will Breckenridge. But for GSA subscribers, I believe AHB will provide the best of both worlds: gold — with a silver lining.

Company Address: Athabaska Gold, 1185 West Georgia St. Suite 1200, Vancouver, BC V6E 4E6, Canada

Contact: Stephen Jackson, VP Investor Relations
Phone: 604/521-3005 - Fax: 604/684-4601

An Update On The Gold Price: The End Of The Beginning

In mid-December of 1995, I wrote an analysis and outlook on the gold price for GSA subscribers. With the actively traded gold futures price stuck in the mid-380's, I forecast that in the first quarter of 1996, you could expect the Midas metal to move against the resistance awaiting buyers above \$400. I stated that, "If gold can defeat resistance at the \$425 level, \$500 becomes a reasonable price objective for 1996."

As you can see in the candlestick chart of daily gold (Figure 1), the new year brought, as expected, a return to volatility in the form of an upside surge. Gold caught many

market participants flat-footed, as the yellow metal rose to an early-February high of \$420.20, basis the April futures.

Mining shares, which led the surge, got too far ahead of themselves. Gold was getting positively glowing coverage in the financial press — this always sets my contrarian senses tingling. With April gold at \$417.70, I published a sell signal, telling my Samurai subscribers that "...producers and professionals would be foolish not to sell at these currently rich prices."

To my bloodshot eyes, the \$415-\$425 area marked a selling zone, with support at \$398-\$405. I instructed Samurai traders to cover their shorts at \$405.30, which they were able to do on February 12th. As of this writing, April gold has found support at \$402.50 and is now trading at \$405.10.

So Sarnoff, what now?

Gold's bounce, from current support, should tell the tale. I see key overhead resistance at \$409.30-\$412.90 and \$417-\$420. So many analysts are saying that the \$400 level will hold and gold is going to \$500 — it's a bit scary — that it leads me to suspect that gold's correction will need to be deeper and last longer than the crowd expects.

Below \$398, the next support (buying) levels I see are \$391.50-\$393.50 and \$381.50-\$386.40. If gold were to reach those levels, the psychology of the market would be so pessimistic — excitable bulls would have been bashed — that the way would be paved for a strong resumption of gold's bull market trend. You could then expect resistance in the \$420's to be overcome, possibly by the end of the year.

Over the next couple months, while gold has the potential to be under pressure, note that gold shares may retrace a great portion of their recent advance. A continuation of the "silly season" in stocks and bonds should weigh on gold. You can expect your select mining shares to rocket, as the investment environment changes during the year and gold really gets moving to the upside. The driving force should simply be the relatively small number of quality companies and the huge amount of institutional money that will desperately want to own them.

Thank you.
Steven Sarnoff, CTA

Fig. 1: Daily Gold Chart

