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Aquiline grads look for treasure in Ontario

TREASURY METALS
Exploration geologists Rory Krocker (front) and Adam Larsen examine core at Treasury Metals' Goliath project.

BY ANTHONY VACCARO

Three years after selling the world-class Navidad silver deposit in Argentina, the key members of the former Aquiline Resources team are looking to strike pay dirt again — only this time, they are doing it closer to home.

After **Pan American Silver** (PAA-T, PAAS-Q) bought Aquiline for $626 million in late 2009, Martin Walter, **Treasury Metals**' (TML-T) CEO and the former vice-president of Aquiline, moved over to the petroleum sector.

But the stint didn't last long, and he was lured back to the mining side by Treasury's chairman and former president of Aquiline, Marc Henderson, in early 2011.

Treasury Metals CEO Martin Walter.

"He said to come back and help at Treasury because it was lacking a bit of direction," Walter says. "There was no staff back then. It was all being run by consultants, and the company was never really fully capitalized."

Walter got to work on addressing both shortcomings. He orchestrated raising $15 million over the course of last year, beefed up the staff to 16 members and made sure that Treasury's Goliath project in the Kenora district of northwestern Ontario was on the minds of investors.

"The story wasn't well known in the market," Walter says of the time of his arrival. "Goliath has nearly 2 million oz. gold sitting just off the Trans-Canada highway, and now that we're getting the story out there people are saying, 'where

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the hell did this come from?'"

Goliath is located 20 km east of Dryden in the same district as **Rainy River Resources**' (RR-T) Rainy River gold project and **Osisko Mining**'s (OSK-T) Hammond Reef gold project.

The deposit is 2 km east of the Trans-Canada highway and has indicated resources of 9.14 million tonnes grading 2.6 grams gold and 10.4 grams silver, for 760,000 oz. gold and 3.07 million oz. silver, and inferred resources of 15.9 million tonnes grading 1.7 grams gold and 3.9 grams silver, for 870,000 oz. gold and 1.99 million oz. silver.

The estimate came out of a resource update last November and increased the previous estimate by 500,000 oz. gold.

But perhaps Walter's major contribution to unlocking Goliath's potential was realizing that the project would only work if management took full ownership.

"It's our project," Walter says. "It's not the consultants' project. We'll move it along the best way we see fit."

Expanding the staff to include geologists as well as engineers and environmental experts is part of that plan and lets Treasury drive the feasibility study, baseline studies and environmental impact studies from inside its own tent.

"We'd like to get further down the engineering and environmental-impact road, and make sure we see the light at the end of tunnel before we make a comment on it," Walter explains. "We want to control our own destiny, and we can do it because it's not an expensive project."

Walter estimates that capex for the preliminary economic study will be in the $80-million to $100-million range, which could get the company a standard gravity and carbon-in-leach (CIL) plant turning out nearly 100,000 oz. gold per year. Ore could be taken from an open pit in the first five to six years, and after that, mining could move underground.

TREASURY METALS

A drill rig at Treasury Metals' Goliath gold-silver project in NW Ontario.

Finding Treasure

Treasury Metals was born as a spin-out of **Laramide Resources**' (LAM-T) non-uranium assets — the chief ones being Goliath, and a net smelter return royalty (NSR) from a gold mine in Mexico.

Goliath was first discovered by **Teck Resources** (TCK-T, TCK-N) in the early 1990s. When Teck made the find it noted the mineralization style was similar to Hemlo, and deduced it could have another giant gold deposit on its hands.

Drilling, however, led to delineating 600,000 non-compliant oz. gold. Not bad for a junior, but a little light for a

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heavyweight like Teck. So the company formed a joint venture with **Corona Gold** (CRG-T).

After the joint venture made a strong drill intercept in 1994, Laramide, a company headed by Marc Henderson, staked the ground to the southwest of the property, reasoning that the mineralized zone on the joint-venture property could extend downdip.

"So you ended up with three owners, and everyone kept their cards held close to their chest," Walter explains. "Corona had outlined 600,000 oz. gold and didn't want to drill too close to the Laramide border, since that would add value to Laramide. And Laramide couldn't drill it because it didn't have the money at the time."

The resulting stalemate left the property to stagnate until 2008, when Laramide finally made the bold move of consolidating the ground by paying Corona and Teck $18 million in cash, and issuing enough shares to give them a 20% stake in Treasury.

But the acquisition didn't immediately bring about the capital intensive focus that Laramide thought Goliath deserved. Near the end of 2008 the financial crisis was just taking hold, and Treasury — with capital scarce like most juniors at the time — battened down the hatches and got through the rough patch.

But it had extra help through the tough times. Part of the spin-out of non-uranium assets included a royalty from a gold mine in Mexico named Cerro Colorado. The 3% NSR puts $90,000 per month into Treasury's coffers, and is expected to continue for at least two years.

"That $91,000 takes care of overhead like rent and salaries, so that all the money we raise goes into ground," Walter says.

Into the ground, indeed. Most of the $15 million in capital raised in the last year went into a 70,000-metre drill program, with 62,000 metres working its way into the resource update announced late last year.

Post drilling, the company has $2.5 million left in cash and short-term investments, with 5,000 metres to go on its most recent 20,000-metre drill program.

With a resource estimate behind it, the latest drilling program included targets in areas outside of the resource zone.

Treasury reasoned that rather than chase the deposit further downdip — which can be expensive, because it costs more to drill deeper — it would look elsewhere on its 49-sq.-km land package for the next find.

As a guide in the endeavour, the company used historic drill results from Teck and its own geophysical and geochemical work.

"We stepped off the resource and are 3–4 km along strike, and are chasing targets there," Walter says. "If one comes in we will get a lot of respect from the market."

Out of the 15,000 metres drilled in its current 20,000-metre drill program, Walter says 10,000 metres went into targets outside of the known resource area, and intersected wide, low-grade anomalous gold halos with occasional high-grade spikes.

Highlight intercepts from the Fold zone, which is 3.1 km northeast of the eastern end of the current deposit, included 2 metres grading 6 grams gold and 3 metres grading 2.27 grams gold.

In a region full of lakes, Goliath has the benefit of not having one on top of the deposit. It also benefits from having the enthusiastic support of the community, who are looking for gainful employment in the mining industry after the pulp and paper industry was largely shuttered.

As for the development timeline, the company wants to have a feasibility study done by mid-2013, with construction coming in early 2014.

By keeping much of the work in house, and given the nature of the project, Walter expects the feasibility study at a bargain price.

"We're not looking at a feasibility that is going to cost $20 million to do. It's an Ontario-based project with a gravity circuit to CIL plant," he says. "It's a cookie-cutter facility, and with that sort of project we don't expect a feasibility study to cost more than $2 million."

Near term, the PEA will focus on an open-pit shell that mines an orebody with an average grade of 1.8 grams per tonne. The high grade in the open pit, however, is likely to be mitigated by a high strip ratio. Walter says the estimate for the strip ratio is 8 to 1.

"The strip ratio is the only issue we have on the whole project, but we're looking at ways to improve it," he says.

As for financing a future mine, Walter says a fifty-fifty debt to equity ratio would be the most likely scenario. And while the company has the NSR coming in, Walter concedes that Treasury will likely turn to equity markets in the future for more capital.

"But one difference about Treasury, compared to a lot of other juniors, is that a lot of management and the board are owners. And because we're owners, we're conscious about dilution and maintaining value for our current shareholders," he says.

Management has a 14% stake in the company.