

Anaconda: Obscure Object of Desire in Newfoundland

Unusually, a small collection of gold mines in far off Newfoundland is showing the potential to be a fought-over asset. We might compare Anaconda Mining to a Faberge Egg in that it's a small object that people lust after adding to their collection. Like Faberge Eggs the assets in questions were long overlooked but put together in a collection (as Malcolm Forbes did, with the eggs) they suddenly become highly desirable.



Anaconda Mining Inc. (TSX: ANX) is a miner that has pursued a stealth strategy of accumulating properties and has ended up owning a goodly chunk of Newfoundland with one mine in operation and should, if things go to plan, end up with a whole string of satellite mines feeding the same central

plant.

The starter's gun went off this week when Anaconda revealed that the obscure Plantro Venture Group Ltd. had announced an intention to offer to acquire all of the issued and outstanding common shares of Anaconda at a price of CAD\$0.035, which was below the recent market price of Anaconda's shares. The gap then widened even further with ANX hitting 5 cts. This was due to a combination of the bid giving the target some long overdue attention from the market's bottom-feeders and some interesting exploration results. Our colleague Peter Clausi has dealt with the takeover offer already so here we shall look at the exploration results and the evolution of the company's results.

Exploration Results

On the eve of the takeover offer Anaconda announced the results of its exploration program at Stog'er Tight. This program is a preliminary to a 2,800-tonne bulk sample to be undertaken in Autumn of 2015 and the publication of an NI43-101 report in September. Thus far the exploration program has included: stripping of the overburden to expose the historical mining surface, detailed geological mapping, channel sampling and near-surface drilling in the main pit area where Anaconda ultimately expects to begin mining of the Stog'er Tight Deposit.

Anaconda drilled several holes on the western side of the main pit area to establish both the outer limits of the mineralization and the historical pit configuration in that direction. It stripped overburden to expose the historical mining surface to aid in refining the block model. The results from the exploration work will be used to determine the location of the bulk sample.

Stog'er Tight

The curiously named Stog'er Tight deposit was discovered by

Noranda in 1988. This gold deposit is located three kms east of the Pine Cove mill near Baie Verte. There have been two attempts to mine the Stog'er Tight deposit. Exploration work in 2014 included the drilling of sixteen infill holes, with the best of them returned 10.52 g/t Au over 3.5 metres, 8.13 g/t over 4.0 metres, and 7.2 g/t over 4.0 metres. Several historical holes had returned high grades, including 4.23 g/t over 7.9 metres, 10.10 g/t over 2.5 metres, and 5.2 g/t over 3.7 metres.

The last resource estimate, dating from 2010, included 65,200 tonnes of reserves at 4.96 g/t Au, 95,000 indicated tonnes at 7.04 g/t, and 53,000 inferred tonnes at 5.75 g/t.

Channel Sampling

The channel sampling program consisted of 58 channels, covering 323 metres, sampled on the exposed central and eastern portions of the main pit area. Channels were chosen to coincide with drill section lines with regularly-spaced infilling.

Highlights of the gold results from the channel sampling include:

- 83 g/t over 4.38 metres including 26.50 g/t over 1.42 metres and 14.80 g/t over 0.95 metres
- 55 g/t over 4.97 metres including 30.40 g/t over 0.98 metres
- 58 g/t over 6.02 metres including 18.5 g/t over 1.06 metres
- 00 g/t over 5.69 metres
- 16 g/t over 3.32 metres

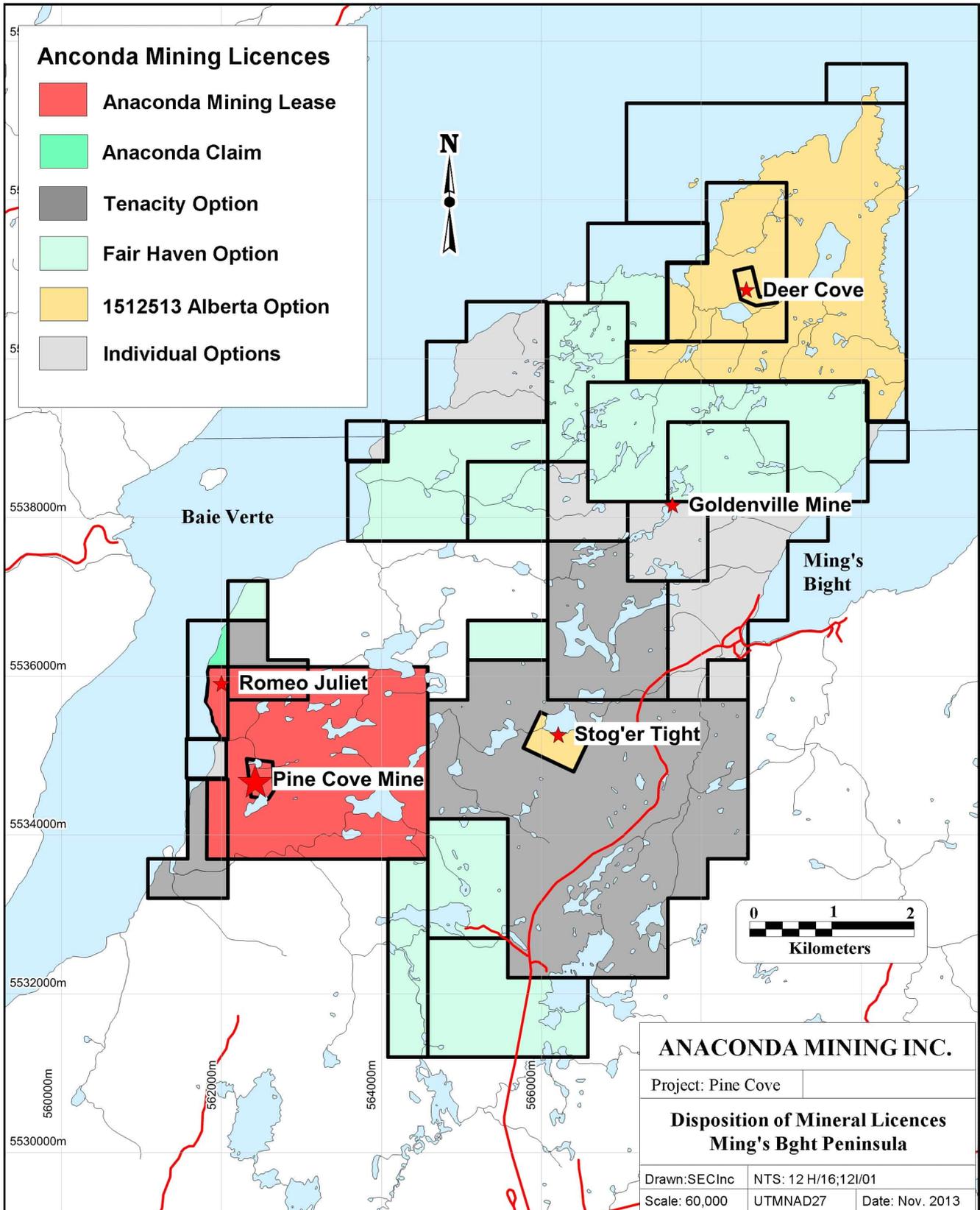
At the same time Anaconda tested the margins of the western portion of the main pit area near surface via an 8-hole, 222-metre diamond drill program. Six holes were either condemnation or pit-design holes however another one (BN-15-217) tested the potential western extension of the

Stog'er Tight Deposit, located approximately 15 metres west of the previously known limits of the deposit. It intersected mineralization of 2.78 g/t over 9.34 metres from 12.56 metres to 21.90 metres; including 5.15 g/t over 3.65 metres. None of the holes were really all that great but this last one shows the potential to widen out the pit.

The company has received its approvals for extracting a 2,800-tonne bulk sample and has begun the process of permitting a 30,000-tonne bulk sample in the late fall as part of its fiscal 2016 mining budget. Frankly this sounds more like trial mining than mere bulk sampling!

Monopolist Tendencies

As the map below shows, Anaconda has made like an aggressive Monopoly player and virtually collected the whole playing board on the Ming Peninsula.



The Mining Operation

The mine at Pine Cove dates back to 2007 when Anaconda commissioned the Pine Cove open pit mine. At the time the deposit had an indicated resource of 2.63 million tonnes

grading 2.93 g/t gold and an inferred resource of 254,150 tonnes grading 2.11 g/t gold.

The Pine Cove Mine is an open pit, truck, and shovel operation with eight haul trucks and two excavators. It is contract mined but the mine has in-house supervision and management, with single shifts of 10 hours. On average, 9,000 tonnes per day are extracted from the mine. The pit is currently at 40 metres below starting elevation.

The baseload production at the mill is approximately 15,000 ounces per year.

Production Expansion through New Deposits

Anaconda's goal is to double annual production of gold from the current production of approximately 15,000 ounces to approximately 30,000 ounces. It also wants to extend the life of the project to 10 years or more. The strategy to this is to develop two styles of mineralization:

- Develop more Pine Cove-like pits (i.e. Stog'er Tight) that provide bulk tonnage at roughly 2 g/t
- Exploit high-grade veins like Deer Cove, Romeo & Juliet, that can be blended with the Pine Cove pit feed (or future Pine Cove-like pits) at a lower incremental cost while increasing the overall head grade.

The Point Rousse deposit is being targeted as it has a high-grade "layer", which along with a marginal increase to throughput, would produce the incremental ounces to reach approximately 30,000 ounces of annual production. Anaconda envisions creating an operating complex on the Ming's Bight Peninsula with multiple pits and trucking the ore back to the Pine Cove mill.

Earnings Outlook

The current sloppy gold price is doing no-one any favours but

conventional wisdom would say that a mine of Anaconda's size should not really be viable at current levels. Interestingly though the companies losses per quarter are surprisingly small and any upturn in the gold price should flow straight down to the bottom line. The table below shows the recent results for the company with revenues looking particularly healthy in the last reported quarter on the back of production rises.

Anaconda Mining - P&L										
In Millions of CAD										
FY ending 31st of May	3Q15	2Q15	1Q15	FY14	4Q14	3Q14	2Q14	1Q14	FY13	FY12
Total Revenue	6.27	4.80	5.51	20.18	5.28	3.87	5.30	5.73	24.17	19.31
Cost of Revenue, Total	4.37	4.19	4.45	14.87	3.72	3.77	3.93	3.45	17.01	12.59
Gross Profit	1.90	-0.34	-0.02	2.34	0.78	-0.49	0.59	-0.34	7.17	6.72
Selling/General/Admin Expenses	0.47	0.52	0.55	2.11	0.44	0.52	0.59	0.56	2.47	2.67
Depn & Amortization	1.23	0.95	1.08	2.97	0.78	0.59	0.78	0.82		
Forward Sale loss (gain)	0.29	0.07	-0.02	-0.04	-0.22	0.15	-0.03	0.06		
Other Expense (Income)	0.02	0.00	0.00	0.27	0.00	0.00	0.29	0.00	0.00	-
Total Operating Expense	6.39	5.73	6.07	20.18	4.72	5.03	5.57	4.89	19.47	15.26
Operating Income	-0.12	-0.93	-0.56	-0.01	0.56	-1.16	-0.27	0.84	4.70	4.05
Gain (Loss) on Sale of Assets	-	-2.26	0.31	4.27	0.44	0.53	3.29	0.00	-	0.98
Income Before Tax	-0.12	-3.19	-0.24	4.26	1.01	-0.61	3.02	0.84	3.72	3.30
Tax	-0.01	-0.02	-0.06	-0.03	-0.32	-0.33	0.37	0.24	-3.90	0.00
Income After Tax	-0.11	-3.17	-0.18	4.29	1.33	-0.28	2.65	0.60	7.62	3.30
Diluted Weighted Average Shares	179.88	179.88	179.88	179.88	179.88	179.88	179.88	179.88	179.48	185.12
Diluted EPS	-0.001	-0.018	-0.001	0.024	0.007	-0.002	0.015	0.003	0.042	0.020

Conclusion

Production is king and right-sized production meshes with our mantra even more. Anaconda certainly has a vast territory that appears prospective for many other deposits to feed its central mill.

While the market may not credit Anaconda with being onto something with its "small is beautiful" concept, its potential aggressor has obviously passed its magnifying glass over the company and decided not only that it likes what it sees but that it wants to grab it while it's still going cheap. Luckily for Anaconda's holders and unfortunately for the predator, it's not going cheap enough!