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Tip of the Day: betting on Cinderella's coach without risking the pumpkin

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One of the most important emerging Cinderella stories on the exploration scene is the Eleonore discovery of **Virginia Gold Mines Ltd (VIA-T: \$4.10)** in the James Bay region of central Quebec. A couple of weeks ago Virginia issued some infill drill holes which rattled the nerves of speculators because they revealed that barren pegmatite dykes had punctured the Roberto zone and a fault had limited the northern strike. Last week Virginia released additional holes which extended the Roberto zone to the north beyond the fault and south giving it a minimum strike length of 450 metres. Drilling also deepened the zone to 350 metres. What is significant about the latest results is that they continue to demonstrate remarkable grade consistency within mineralized meta-sediments wherever the zone has not been disrupted by what appear to be post-mineralization events such as dykes and faults. Grades are running 3-22 g/t gold, with the odd spike to 110 g/t over 3 metres, over thicknesses running 3-20 metres. Check it out for yourself through this link to the **Roberto Longitudinal Section**. Simple arithmetic on a tabular body suggests that tonnage is now in the 3-4 million tonne range with a gold resource approaching 1 million ounces. Virginia has celebrated the latest results with a \$16 million private placement of 3,930,000 units at \$4.10, which boosted fully diluted capitalization to about 48 million shares. This assigns an implied value of nearly \$200 million to the 100% owned Eleonore project. At this stage of the exploration cycle this valuation is more than fully pricing a million ounce gold discovery. But that is not a Cinderella story, just a modest junior exploration success story of which I suspect we will see many during the next few years. For Eleonore to qualify as a Cinderella story the discovery must scale to 5-10 million ounces or beyond. Virginia deserves close watching because Eleonore does have the potential to scale to a \$1-2 billion dream target, fulfillment of which would make Virginia a bona fide Cinderella story and trigger a Great Canadian Area Play in the James Bay region of Quebec.

Although the latest news releases suggest that Virginia is tentatively stepping out from the known zone, one has to recognize that drilling of the Roberto zone has concentrated on the portion accessible by land. There is significant strike extension potential to the south-southwest that is under a shallow lake. The zone is within a package of meta-sediments which wrap around an intrusive which somewhat farther to the southwest appears to host copper-gold mineralization that is in itself a target for Virginia. A multi-rig drilling program has been underway since late January when the ice became thick enough to hold a drill rig. Andre Gaumont indicates that Virginia can drill until spring thaw sets in during May. The next two months promise a very intensive flow of results which could send the stock significantly higher. The key here is that the mineralization is hosted within meta-sediments situated within the La Grande greenstone belt, which is related to the Eastmain greenstone belt. Exploration during the past couple decades has identified hundreds of gold showings, most of them occurring as veins within sheared volcanics or as iron formation lenses. The biggest discovery to date is the Clearwater vein system of **Eastmain Resources Ltd (ER-**

T: \$0.58) which now boasts an indicated resource of 1,029,332 tonnes of 9.46 g/t gold. (Eastmain is a former top priority buy in the \$0.30-\$0.49 that has been in the Spec Cycle 100% Hold mode since December 2003. During this period Eastmain has acquired 100% of Clearwater and loaded its treasury. I'm now waiting for Professor Donald Robinson to come up with some Eleonore lookalikes in his James Bay backyard. Because of the way my bottom-fishing system works I cannot call Eastmain a bottom-fish buy right now, but I do want bottom-fishers who bought it as a bottom-fish and are patiently holding the stock to know that I believe the circumstances are right for this junior to launch into a major speculation cycle. In other words, Spec Cycle Hold 100% means exactly that.) The Eleonore discovery is turning heads because it is hosted by meta-sediments and has certain affinities with the 20 million ounce Hemlo system in western Ontario. Virginia has found sufficient gold showings up to 8 km to the southwest of Roberto to justify optimism that the gold mineralization has a very large footprint. Check it out for yourself in this **Eleonore Showings Diagram**. Virginia does not qualify as a bottom-fish, but I deem this story so important I have added Virginia to KBFO as a "game-fish" and will be covering this story as it evolves.

And that brings me to the actual **Tip of the Day**, which is a new medium priority bottom-fish buy recommendation in the \$0.30-\$0.49 range called **Azimut Exploration Inc (AZM-V: \$0.43)**. I would rank Azimut "top priority" if the stock were not so illiquid. Azimut has only 16.3 million shares fully diluted, much of it held by Quebec pension funds. Virginia was at one time a major shareholder of Azimut which not too long ago was to be sacrificed on the altar of a Montreal technology deal. But in June 2003 Jean-Marc Lulin joined the company and turned it into a competitor to Andre Gaumont's Virginia. Lulin is a former SOQUEM chief geologist who headed up the Burkina-Faso subsidiary of Ross Fitzpatrick's Channel Resources Inc during the nineties. (For those wondering about my Channel bottom-fish pick, Fitzpatrick tells me he has looked at many gold projects, prefers an advanced one in Canada, and is still looking.) He is a data nut, which makes him something of a kindred spirit for me. His approach is to assemble all the available data for Quebec and filter it for proprietary models. Azimut's target generation system attracted the attention of Rio Tinto (Kennecott) which in July 2004 struck a deal whereby it would grubstake Azimut to generate targets within a 50 million hectare portion of Quebec that does not include the James Bay region. Under this deal Azimut will present a bunch of targets generated by number crunching to Kennecott, which will select a bunch of them for followup prospecting in 2005 at its expense of up to \$30,000 per target. At the end of the year Kennecott will select those targets which will each become subject of an exploration option to earn 60% over 3 years by spending \$1 million. Upon vesting Kennecott will have the option of going to 80% by funding all costs needed to deliver a feasibility study over five years. In essence Rio Tinto has tapped into the Azimut brain trust. If this were all Azimut had I would congratulate them and beg them to call me when Kennecott decides to take a project to feasibility (ie don't bother me for the next few years). But Azimut is not content to be Rio Tinto's database gopher.

Azimut has crunched the data for the James Bay region. This resulted in staking several claim blocks totaling 28,492 hectares in the vicinity of and adjacent to the Eleonore project of Virginia last summer. Andre Gaumont was already excited about Eleonore when I spoke to him during last year's Calgary conference in April, and naturally I paid no attention because I had heard that sort of story from him several times before, and central Quebec in any case was unproven territory. But one cannot help suspect that a junior like Azimut immersed in the geology of this region would have been rather more perceptive. Lulin, however, insists that Azimut's targets in this area were generated solely by its targeting

system, that the Eleonore area did show up as a key target, but not the only and dominant one. It was thus just a matter of bad luck that Virginia, which has projects all over the James Bay region generated through prospecting, already owned Eleonore. (Mental Note to Myself: if you bump into Jean-Marc Lulin in a PDAC Hostility Suite, do not be evil and try to see what happens in a crowded space when you muse aloud that Azimut's best projects seem to be staked next door to those of Andre Gaumont.) If what Lulin says is true (jokes aside, that is what I am inclined to believe), one has to pay special attention to claims owned by Azimut in the James Bay region because these are generated by theoretical geology tied to data, not plain old closeology. If Virginia delivers a world class discovery through Eleonore, this will require serious rethinking of the James Bay region's potential to host major orebodies. This in turn would trigger the final and necessary condition for a Great Canadian Area Play, which by its nature sucks in huge pools of new speculative capital. While newcomers would jump into the juniors with land closest to the discovery, sophisticated speculators would gravitate toward those juniors whose projects were not just staked early but staked for non-closeology based geological reasons.

Luckily for another junior indirectly related to Virginia the Azimut management has a fundamental aversion to risk. In December 2004 Azimut optioned 65% of the Opinaca claims to **Everton Resources Inc (EVR-V: \$0.38)** in exchange for \$2 million exploration over five years and eventual delivery of a bankable feasibility study. Everton is a well-financed junior headed by Andre Audet which has had a problem developing a flagship story. But because a lot of people, including the Kondratieff Winter guy, are hung in this stock, all of whom would fall over themselves if Everton's Opinaca project turned out to be next door (check out the **Opinaca Map**) to a world class discovery with claims that have their own geological *raison d'etre*, this farmout could be characterized as a rather shrewd move by the rather anti-promotional Azimut. Although Everton already has 50.8 million shares fully diluted, it does have about \$3 million working capital and a variety of projects in the Dominican Republic and Uruguay, which, given my macro assumption that the second wave of the mother of all resource sector bull markets has just begun, makes Everton an ideal bottom-fish. So in addition to Azimut, I am adopting Everton as a medium priority bottom-fish buy in the \$0.30-\$0.49 range. (Everton is already in the system as an ex-bottom-fish thanks to a rolled back dud called Mt Hope which turned into a dot-com magazine for brides that went the way of all too many marriages.)

These two companies are such opposites when it comes to market dynamics a shrewd bottom-fisher would be inclined to buy both. If you ignore all their other projects and just focus on the Opinaca claims next door to Eleonore, Everton is only 50% more expensive than Azimut. Through Everton the Opinaca project has an IPV of \$30 million, while through Azimut the IPV is \$20 million. Azimut has such poor liquidity, however, that it will easily pop to \$0.65 where the exposure to the Opinaca project has a value equivalent to that of Everton at \$0.38. Everton has since gone on to acquire additional 100% owned ground in the James Bay region, as has Azimut, which acquired the 44,200 hectare Eastmain project located 20 km southeast of Eastmain's Clearwater deposit. These claims adjoin the Auclair project of Virginia farmed out 50% to Kinross. The Auclair project covers an iron formation style gold target about which Virginia has not had much to say for a long time. Azimut claims that, in contrast, the target generated by its method is hosted by meta-sediments. While I would like Azimut to explore the Eastmain project on a 100% basis, management indicates that it intends to stick to its prospect-generation-farmout model, which is probably a wise strategy given its modest \$250,000 working capital position. So, tip of the day in a nutshell, high-rollers buy Virginia to participate in one of the best up and coming Cinderella gold stories, conservative bottom-fishers who can't stand losing money

buy Azimut, and aggressive bottom-fishers who want action buy Everton. A further tip for the wise would be that the probability of extreme Eleonore buzz at PDAC as a result of just drilled holes is very high.

*JK does not own shares in any of the companies mentioned herein except Channel

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