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Queenston Mining — for exposure to the gold scene

By Craig Stanley


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Investors bullish on gold and looking at pre-production-stage companies for both commodity and exploration leverage should check out **Queenston Mining Inc**. (QMI-TSX, $4.54). (Disclosure: Pinetree Capital is a large shareholder.) The company is the largest land holder (16,000 hectares) in the Kirkland Lake camp in northern Ontario from which 40 million ounces has been produced.

In addition to four, 100 per cent owned gold projects in the east end of the camp (Upper Beaver, McBean, Anoki and Upper Canada), Queenston is also exploring the South Mine Complex (one of the highest grade finds ever in the Canadian Shield) and related structures with 50 per cent joint-venture-partner, **Kirkland Lake Gold** (KGI-TSX, $8.04), and on its 100 per cent owned AK property, in the west end of the camp. The company currently has reportable (NI 43-101 compliant) measured and indicated resources of 636,200 ounces, and an inferred resource of 577,000 ounces.

Queenston's shares have been under pressure since the start of year, down 16 per cent as at April 7, compared to gold (C$), which is up five per cent. The company's peers have fared relatively better: **Colossus Minerals** (CSI-TSX, $7.44) up 27 per cent, **Andean Resources** (AND-TSX, $2.84) up 17 per cent, **Premier Gold** (PG-TSX, $4.39) up seven per cent, **Eastmain Resources** (ER-TSX, $1.44) down seven per cent and **Rubicon** (RMX-TSX, $4.12) down 16 per cent.

This underperformance has been the result of higher-priced shares hitting the market, namely a $17 million flow-through financing completed last September at $7 that became free trading in February, plus the recent exercise of over 2 million, $5 warrants from a financing in March 2009. Yet this relative underperformance has masked a number of positive developments for the company.

First, it released great assays from its Upper Beaver project, including 12 metres of 15.8 grams per tonne of gold (g/t Au) from the upper resource area, 6 m of 20.3 g/t Au and 2.5% copper in the deep western area, plus 0.5 m of 30.2 g/t Au from a newly discovered area called the foot-wall zone.

These are phenomenal hits and suggest that grades and widths are increasing with depth. (To any geologists reading this, you may want to check out the geology of Upper Beaver as it is not a typical Archean greenstone-hosted quartz-carbonate vein-type deposit, but has similarities to porphyry and iron oxide-copper-gold deposits.)

Second, the company continues to expand a "bulk tonnage" (i.e., lower grade) target at Upper Canada, including near-surface assays of 32 m of 1.93 g/t Au, 71.3 m of 1.12 g/t Au and 41.2 m of 1.02 g/t Au. The bigger picture is to develop a two-million-ounce resource from Upper Beaver, McBean, Anoki and Upper Canada that could feed a central mill — exploration success from Upper Beaver alone indicates this target will be easily surpassed.

And third, on March 5 management announced it would be acquiring **Vault Minerals** (VMI-TSX/VEN, $0.46), further expanding its land position in the camp to 27 individual properties containing about 19,000 hectares. Vault shareholders will receive one Queenston share for every 10 Vault shares. Upon closing, Queenston will have 68 million shares outstanding.

The deal is relatively inexpensive for Queenston considering it picks up key land, especially near the South Mine Complex and Upper Beaver projects. In addition, Mike Sutton, Vault's vice-president exploration, will be joining Queenston. Sutton previously worked for Kirkland Lake Gold where he was instrumental in discovering the SMC in 2005. The SMC is currently the highest-grade portion of the Macassa mine operated by Kirkland Lake Gold.

At April 30, 2009, proven and probable reserves and measured and indicated resources for the SMC stood at 1.28 million tonnes at 24.3 g/t for a total of 998,000 ounces; inferred resources were 638,500 tonnes at 28.8 g/t for 590,000 ounces. (Though a smaller reserve and resource, the SMC has a higher grade than **Goldcorp**'s (G-TSX, $39.95) Red Lake mine and still has considerable exploration potential). Proven and probable reserves for the entire Macassa mine are at 22.3 million tonnes at 18.51 g/t for 1.4 million ounces.

Sutton will bring valuable geologic knowledge in tapping the potential of the South Claims, HM and East Claim joint ventures with Kirkland Lake Gold, which host the dip and plunge extent of the SMC, as well as the AK target.

Well financed with $47 million in the bank, Queenston plans to spend $15 million this year on exploration, with an estimated 140,000 metres of drilling from up to 12 diamond drill rigs. Milestones for 2010 include NI 43-101 compliant resources for Upper Canada, and AK, advance Upper Beaver, McBean, Anoki and Upper Canada towards the pre-feasibility stage, step-up deep exploration drilling at Upper Beaver, McBean, Anoki and AK, and continue advanced underground exploration with Kirkland Lake Gold.

We feel the recent underperformance provides an attractive entry point to accumulate Queenston shares given both the leverage to potential exploration success as seen by the huge amount of planned drilling) and an economic environment favorable for future strength in the price of gold.

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