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**Patagonia Gold Should Be In Production By The End Of The Year, Helped Nicely Along By Nearly £10 Million In New Money**

*By Alastair Ford*

“Patagonia is back on track”, says Richard Prickett. That’s the simple, short version of the latest installment in the story of Patagonia Gold, a company which - in fairly good company, it has to be said - was unceremoniously dumped out of Argentina’s Chubut province some years ago as the politics turned distinctly anti-mining. That forced departure was a hammer blow to Patagonia at the time, no doubt about it, but anyone looking for a positive spin on the upheavals of the past need look no further than the recent announcements that Patagonia has put out.

Following the exodus from Chubut, the company managed to move root and branch to the Santa Cruz province to the south, where it picked up a tidy looking portfolio of assets from Barrick in 2007. It’s taken a little while to pull these together into a coherent offering, but following a £9.3 million fundraising organized by Matrix, the details of which were announced at the beginning of this month, the situation now looks very clear: Patagonia will move into a trial production phase by the end of this year, ramping up to an output of around 20,000 ounces of gold per year next year. That, says Richard Prickett, ought to bring in between US\$8 million and US\$10 million per year, money with which Patagonia will be able to advance two other lead exploration properties: Cap Oeste, which already boasts a resource of just over 300,000 ounces of gold, and the less advanced La Manchuria property, where the best recent intersection showed a whopping 82.47 grammes per tonne gold and 10,485 grammes per tonne silver over 1.1 metres.

The initial production will come from the Lomada de Leiva gold property, on which there’s an established resource of around 200,000 ounces of gold. Richard concedes that in the scheme of things, the planned output from Lomada is fairly small. That’s not the key point though. Rather, the issue, as ever, is cash. The cash flow that Lomada will generate will support Patagonia’s endeavours to progress Cap Oeste and La Manchuria. Which is why Richard says of the money just raised by Matrix: “This will be the last risk financing for the company”. It’ll be development funding from here on in, and, as the company gets used to a life supported by the cash from Lamada, the idea is that any further funds will come in on Patagonia’s own terms – or closer to them at least. That said, it’s not as if Patagonia’s current shareholders haven’t been supportive. Quite the contrary, in fact. A leading Argentinian family has in the past been so supportive that one of the aims of this latest fundraising was to dilute this family back down to below the 50 per cent level. Black Rock, another long-standing supporter, was a key ally in this undertaking.

You can see why Patagonia would garner such support. Not only is this a team that has been together for more than a decade on the ground in Argentina, but it also has a track record of success behind it too. Those who remember the details of the sale of Brancote Holdings to Meridian Gold will know that that was a successful piece of business that was conducted in a market that wasn't exactly kindly disposed to smaller miners. In fact back then, the gold price was much lower, so in company-specific sort of a way, the team at Patagonia has seen worse conditions than this.

Before we over-simplify too much, Richard does caution that costs have also moved on a fair amount since he was instrumental in the sale of Brancote in the early part of the decade. But he then adds that the model is nevertheless still the same: low cost gold projects. You can gain some measure of what he means by "low cost" when he explains that because Lomada is so small costs are "disproportionately high" at US\$300 per ounce. Costs at Cap Oeste, he reckons, will be substantially lower, as the projected output is much higher.

Indeed broker Matrix reckons Cap Oeste could eventually deliver as much as 200,000 ounces per year, based on a two million ounce resource. We're some way from that, but if that expectation is met, then Cap Oeste will indeed have turned out to have been the "company maker" that Matrix is hoping for. On the basis of the development potential and the near-term production, Matrix sets a price target of 28p, which compares very favourably to the 10p at which Patagonia is currently trading. The long-term gold price assumptions used in that model are quite high at US\$800 per ounce, but on the other hand the way the world looks at the moment, there might well be strong demand for gold for decades to come. In that context, with drilling likely to show more ounces, and production set to start turning those ounces into hard cash, Patagonia does indeed look "back on track".

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