



# Patagonia Gold

18 March 2009

## Patagonia Gold is Cashed Up and Running

Cash and junior gold explorers are uneasy bedfellows right now. And cash and junior miners seem to be heading for the divorce courts! We've seen Serabi suspending operations underground pending a financial solution, Mercator's Australian operation in administration, Cambridge failing to meet loan payments, and Vatukoula struggling to ramp up production with an outworn mining fleet it can't yet afford to replace – to name just a few.

In the base metals space, life is even harder for the juniors, who have been beaten black and blue by the collapse of demand for their end product, allied to an almost total lack of available funding for either exploration or development.

Which is why it is heartening to see a good old-fashioned gold explorer raising funds – yet again – with no apparent difficulty. Headed up by Bill Humphries and Richard Prickett of Esquel renown, Patagonia Gold has traditionally raised each year's drilling budget on the fly, with the directors putting their hands in their own pockets if no-one else wanted to play. Supportive Argentinian backers – the wealthy Miguens-Bemberg family – have played backstop for several years, picking up what was left of the tab to enable continuing focused fossicking in the high-altitude plains of Patagonia.

The result has been worth every penny. Having been summarily ejected from Chubut province nearly three years ago by a provincial government who, for political reasons, took the decision to ban exploration, development and mining under their jurisdiction, PGD were quick to seize a new opportunity a couple of years ago in early 2007. Barrick Gold were parting company with their gold project portfolio in Santa Cruz province – somewhat more mining friendly than Chubut – and PGD were fortunate enough to win the auction. Among the projects partially explored by Barrick were what have now become PGD's three flagship sites at Lomada da Leiva, Cap Oeste and La Manchuria. All were just about drill ready, and are fairly typical volcanogenic deposits, hosting epithermal gold – and some silver – in a variety of geological settings.

The first to be drilled was Lomada da Leiva, part of the La Paloma property, where a small resource of 237,000 ounces of gold has been established, although further exploration and resource drilling could increase this substantially, especially if the adjacent Breccia Sofia prospect is brought into play. The drills then moved to Cap Oeste in the El Tranquilo block, some 100 km to the south, where a six kilometre NNE-SSW trending anomaly awaited them. Starting at the northern end, PGD intended to run one campaign and reassess. But what they found was good enough to make them want to keep going, and drilling has continued uninterrupted – other than by the seasons – ever since. An initial resource of 304,099 ounces of gold and 6,929,825 ounces of silver has been delineated thus far, but this is based on rather less than a quarter of the known strike length, and is anticipated to increase markedly as drilling progresses along strike to the south. At La Manchuria, PGD have also had success, and although a resource has not yet been calculated for this gold and silver rich prospect, high grades of both have been found over two drilling programmes, including an intersection of 1.1 metres @ 82.47 g/t gold and 10,485 g/t silver.

Given the current financial climate, PGD have decided that the best way forward is to move into production at Lomada da Leiva in short order. Although the current resource is small, scoping studies have shown the viability of an open pit operation with a

**Price:** 8.633p  
**Market Cap:** £51.19m

### 1 Year Share Price Graph



### Share Information

**Code:** PGD  
**Listing:** AIM  
**52 week High:** 11.00  
**52 week Low:** 4.00  
**Sector:** Gold mining  
**Website:** [www.patagoniagold.com](http://www.patagoniagold.com)

### Company Synopsis:

*Patagonia Gold is a mining explorer. It holds permits or options to purchase property in the Patagonian region of Argentina and Chile across an area of over 7,000 square kilometres. The company is exploring principally for gold and silver.*

*Major shareholders include Carlos Miguens, the Argentinean industrialist and Barrick Gold, the world's largest gold miner. The company is led by Chairman, Sir John Craven, who is also non-executive Chairman of Lonmin, and Chief Executive Officer, Bill Humphries, the co-founder of the successful mining explorer, Brancote Holdings. He is also Chairman of Landore Resources, which is also an AIM listed mineral explorer.*

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heap leach process route using run-of-mine ore, (i.e. straight out of the pit, with no crushing) to generate some 20,000 ounces of gold a year in the short term. This will provide sufficient cash flow to finance continued drilling at Cap Oeste and La Manchuria, and PGD thus expect to be self-sufficient cash-wise until such time as project finance is required to develop a mining operation at Cap Oeste.

Hence the fund raising exercise just completed, which has raised just over £9 million – sufficient to put Lomada da Leiva into operation and to continue exploration activity for at least two years. Bill Humphries again contributed, taking 1.3 million shares to bring his holding up to 2.21%, although on this occasion it was felt that the company's reliance on the Miguens-Bemberg family should be reduced, and external sources, both old and new, provided the lion's share of the funding. Black Rock – formerly the Merrill Lynch Gold and General Fund – increased their holding to over 9%, and the available equity was in fact over-subscribed.

So with £9 million in the kitty, what happens now?

Lomada da Leiva is the next key step. To test the effectiveness of the heap leach process route and establish firm parameters for the main feasibility study due by the end of the year, a trial heap leach operation using 50,000 tonnes of ore on a single leach pad will be established at Lomada by the Autumn, and will cost just \$1.9 million for its establishment and initial operation. The leach pad itself will be carefully constructed, with a double lining of impermeable materials for extra safety. The start-up loading of the pad with a 6 metre layer of gold-bearing ore should produce around 2,500 ounces of gold after irrigation with cyanide, and provided all goes well and permitting comes through for the company to go beyond the initial 50,000 tonnes of ore, the pad can be stacked with a further three 6-metre layers of run-of-mine ore.

This will provide sufficient gold, at 80% recovery, to finance much of the cost of the main heap leach operation, which comes next, and is planned to be producing at the rate of 20,000 ounces of gold a year – subject to permitting – by mid 2010. Operating costs will be low, at around \$300 per ounce, and full project cash flow over the initially-calculated 7 year mine-life is estimated at approximately \$64 million at \$850 gold. However, that 7 year mine-life is currently based on the scoping study, which took in just 163,000 ounces of the existing Lomada da Leiva resource – it's therefore a given that mine-life and revenue will grow substantially as the resource is firmed up and increased.

Added to the cash in the bank, this revenue will enable continued exploration at the company's other two key projects. At Cap Oeste, drilling down strike will continue, along with infill drilling to increase the size of the resource by the third quarter of this year. If continued exploration replicates the existing mineralisation model, Cap Oeste is likely to be brought into full development, and will be in production by 2012, although it is possible that the Lomada da Leiva model could also be applied at Cap Oeste in advance of a full scale mining operation. Low cost heap leaching might be the perfect way to deal with some of the more isolated high grade veins which make up the strike of Cap Oeste. Additional exploration will also be carried out in other parts of the licence, as there are clear indications that Cap Oeste is not an isolated occurrence, and may be part of a much larger mineralised province. La Manchuria will also be drilled, infilling the existing drilling within the mineralised corridor and extending the high grade mineralisation along strike and down dip in order to define a resource.

It's worth noting here that all three projects are now only 90% attributable to PGD. During Spring last year, the company signed a letter of intent to go into a 90/10 joint venture with Fomicruz SE, a well established mining company wholly owned by the government of Santa Cruz. The contributions of PGD to this joint venture are the La Paloma, El Tranquilo and La Manchuria tenements, whilst Fomicruz have contributed 100,000 hectares of mining properties located close to the El Tranquilo and La Manchuria blocks of properties. Whilst Santa Cruz is host to many mining and exploration companies, and has a distinctly mining friendly attitude, links such as this with state owned companies can only be of benefit to Patagonia Gold going forward.

It's also worth noting that the original terms of the Barrick sale stipulated that PGD should spend \$10 million over five years on exploration and development of the projects acquired as part of the purchase. Such is the prospectivity of the properties and the enthusiasm of the PGD exploration team that this expenditure was in fact satisfied within just 22 months!

With "dilution" now being the most feared bogeyman of private investors - no matter how illogical that may seem and even if bankruptcy is the alternative! - Patagonia Gold now look very well placed going forward. Existing cash plus the proceeds of the



sale of gold from, first, the heap leach trial, and later, the main mining operation at Lomada da Leiva, mean that the next time they come to the market should be when Cap Oeste is ready for project finance in 2011....

The author own shares in Patagonia Gold.

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