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Esquel? Encore!

By David Rowland

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After yet another set of bonanza intersections, Patagonia Gold could be sitting on three mines in Santa Cruz alone.

When Proactive last covered Patagonia Gold (PGD), veteran CEO Bill Humphries had just pulled off a coup with mining behemoth Barrick, who vended in a series of promising properties in Santa Cruz, Argentina for cash and a stake in the company (currently 8%). At the time, the deal looked encouraging. One year on, it is looking positively inspired, given that three separate mines could be taking shape.

'P' is for Patagonian Politics!

In late 2006 the outlook was nowhere near as rosy. Chubut had announced a three year province-wide moratorium on all hard rock mining and exploration. This kyboshed 85% of PGD's properties at one cavalier stroke, including Huemules and Leleque.

Old Brancote aficionados will need no further explanation, but for newcomers, Huemules and Leleque were red-hot pieces of real estate in the immediate vicinity of the famous Esquel. Brancote proved up 3.8m ounces of high-grade gold at Esquel before selling up to Meridian Gold in 2002. However, the Brancote team – Humphries, Prickett et al – cleverly hived these satellite properties into their new vehicle HPD Exploration, later re-branded Patagonia Gold.

Argentina's governance is structured similarly to the USA in that its 23 provinces have considerable autonomy, within the parameters set by Central Government. Santa Cruz therefore has different rules to Chubut, hence mining continues. Nevertheless, Santa Cruz Governor Daniel Peralta recently caused a scare by volunteering support to any community that wanted to outlaw mining in their particular backyard.

Startled PGD investors can breathe again. This only applies to the Andean area of Santa Cruz, west of Route 40 – which incidentally is largely glaciated. All but one minor PGD property sits east of Route 40, on the Deseado Massif.

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'G' is for Great Geology.

The Deseado Massif is a regional scale (60,000 km2) geological structure of volcanic origin that underlies a large chunk of Santa Cruz, the most southerly and least populated of the Argentinean states. It plays host to numerous mines, the best known of which is Anglo-Ashanti's 4m ounce Cerro Vanguardia gold mine. All are low sulphidation epithermal high-grade deposits, and there appear to be rather a lot of them in this region, mainly clustered around the rim of this shield-shaped, topographically flat massif.

The real joy of the Barrick deal was that all their field work was served to PGD on a platter, saving a couple of years' work. PGD just had to stick the drill where the data pointed. No surprise then that the company is already at the stage of resource definition.

We will move round the properties anticlockwise, starting at the Western edge of the Deseado Massif.

Up to now, the lead property has been La Paloma, home to the adjacent Lomada de Leiva and Breccia Sofia deposits, where an NI 43-101 compliant scoping study is just a week away from reporting. Several months ago, resources stood at a modest 235,000 ounces – albeit two-thirds measured and indicated. Post-drilling, expect the ounces to expand. Bill Humphries describes Lomada as 'a solid project' – not much pizzazz, but a decent potential earner. Interestingly, PGD has secured the Emilia cateo (land parcel) immediately north, which connects Paloma to an original PGD property, Cerro Vasco, 10km away. Early indications here suggest a geologically complex polymetallic deposit.

120km south-east of La Paloma at the El Tranquilo tenements, Cap Oeste and Breccia Valentina are starting to look truly exceptional. Humphries reckons that although Lomada de Leiva was originally a year ahead, Cap Oeste in particular is catching up fast and could be the first mine developed.

When you see the drilling results, you can understand why. The January results highlighted a stunning 1.2m intersection at 94g/t gold and 3,410g/t silver, equivalent to 164g/t gold, within a very mineable 13.5m intersection of 11.9g/t gold and 389g/t silver. Later superb intersections included 2.8m at 116g/t gold and 1,875g/t silver. Both of these amount to five ounces of gold equivalent over a respectable width, just 100m underground. It seems likely that they exist within a wider lower-grade mineralised envelope, which could make a meaningful economic contribution.

To date, the structures at Cap Oeste have a strike length of 1,200 metres, which Marc Sale and team have been assiduously drilling at 50m intervals. The result will be a resource statement to Indicated standards in due

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course. Three parallel mineralised fault structures have been defined to date, two of which join up, and drilling beyond the V could prove interesting. The size and grade of the resource evoke memories of Esquel. Wishful thinking? Time will tell, but drilling continues. Cap Oeste is open at depth and along strike.

Moving 50km east of Cap Oeste, 3500m of drilling at La Manchuria's Main Zone has identified narrow silver-dominant near-surface vein swarms yielding up to 5,669g/t silver. There is a plenty of work to do but most companies would be glad to have a property like this in their portfolio.

<u>'D' – Dollars and Dreams.</u>

PGD has a phenomenal cash burn rate – £7m in the last year. Sometime in the summer more cash will need raising, but with resources materialising rapidly, Humphries is unworried. With Sir John Craven, non-executive Chairman of Lonmin, occupying the same role for PGD, it isn't hard to figure. The other reason is that Argentinean businessman Carlos Miguens (of the Miguens-Bemberg dynasty) owns 49% of the company and intends to maintain this proportion, so FD and countryman Gonzalo Tanoira will only need to find half.

With almost 403 million shares in issue, PDG boasts a market cap of £43m. Considering today's resources, at first sight this looks a hefty premium. Look harder. Stack up Huemules, Lomada de Leiva, Cap Oeste, Breccia Valentino and La Manchuria. Add seasoned management with a proven track record, a top class geology team and genuine Argentinean company credentials, and the valuation doesn't seem quite such a stretch after all.

Speaking of dreams, did I say three mines? That would discount Huemules. Readers may care to contemplate why Humphries and Prickett have never relocated their head office from Esquel to Santa Cruz. Unofficially the company expects news on the Chubut Moratorium by Christmas, in good time for the June 2009 expiry.

So we finish as we started, with politics. What happens in June 2009 is guesswork, but a heavily conditional rollback of the ban seems a good bet. Whatever happens, PGD's status as a principally Argentine company will be a welcome asset. Ask Barrick.