Thursday, January 28, 2021

HALLGARTEN & COMPANY

Corporate Actions

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Pelangio Exploration

(TSX:PX, OTCBB:PGXPF, FSE: 67P1)

Strategy: NEUTRAL

Price (CAD)	$0.21
12-Month Target Price (CAD)	$0.22
Upside to Target	5%
High-low (12 mth)	$0.105 - $0.27
Market Cap (CAD mn)	$11.24
Shares O/S (millions)	**53.5**
Fully Diluted (millions)	**77.1**

Pelangio

Furiously Resisting Adding Value

- + A collection of great assets in Africa and Canada has gone largely overlooked over the last ten years due to the company's (unknowing) poison pill
- + The company is "cheap" and has largely missed the market upmove on the back of gold's surge in 2020
- + Ghana has proven to be amenable territory for Western miners
- + The company has a meaningful resource on its Manfo project
- + The company has been accumulating territory in prime camps in Ontario
- ✘ The refusal of the company to choose separate market paths for its African and Canadian assets means that the whole is less attractive than the parts
- ✘ The Toronto markets are less inclined towards Africa than they used to be pre-2012
- ✘ Despite its long presence in the Timmins & Red Lake camps the company has still not identified a resource there
- ✘ The company seems to have missed the gold upsurge of 2020 by declining to make itself more palatable to investors and now gold has retreated from its 2020 highs

Demerge? – Over management's dead body…..

It is over ten years since we first encountered Pelangio and we have repeated over and over and over again that it should demerge its African assets (in Ghana) and create two vehicles to avoid being seen by the notoriously fickle market as being the "worst of both worlds".

The company of course does not need to listen to us but it didn't seem to be listening to answer. That "patter of tiny feet" it heard was investors fleeing from the story. The stock has gone from a high of $9.50 in 2011 to around 22 cts today. And this is with nothing gone wrong. It hasn't had any disasters, hasn't had properties seized and hasn't run out of money. The only stocks that have this sort of unrelenting decline are those with these types of serious issues. Instead the company has doggedly stuck to its knitting, and managed to miss every rebound in gold (or broader mineral sentiment) between the start of the decade and now. That takes some doing.

Out of Africa

The essential problem is that Canada fell out of love with Africa after a brief and intense flirtation between 2005 and 2012. Traditionally London had been the market for African stories, but briefly the Canadian and Australian forces invaded. The Canadians largely retreated (and consolidated). The Australians were still dotted around the continent but London became the go-to place for exploration in

Africa (not that there was much of that going on).

With a resurgent gold price in 2019/20, the heat has been turned back up in Africa with London and Australian-based companies pawing over the available territory, TSX entities less so.

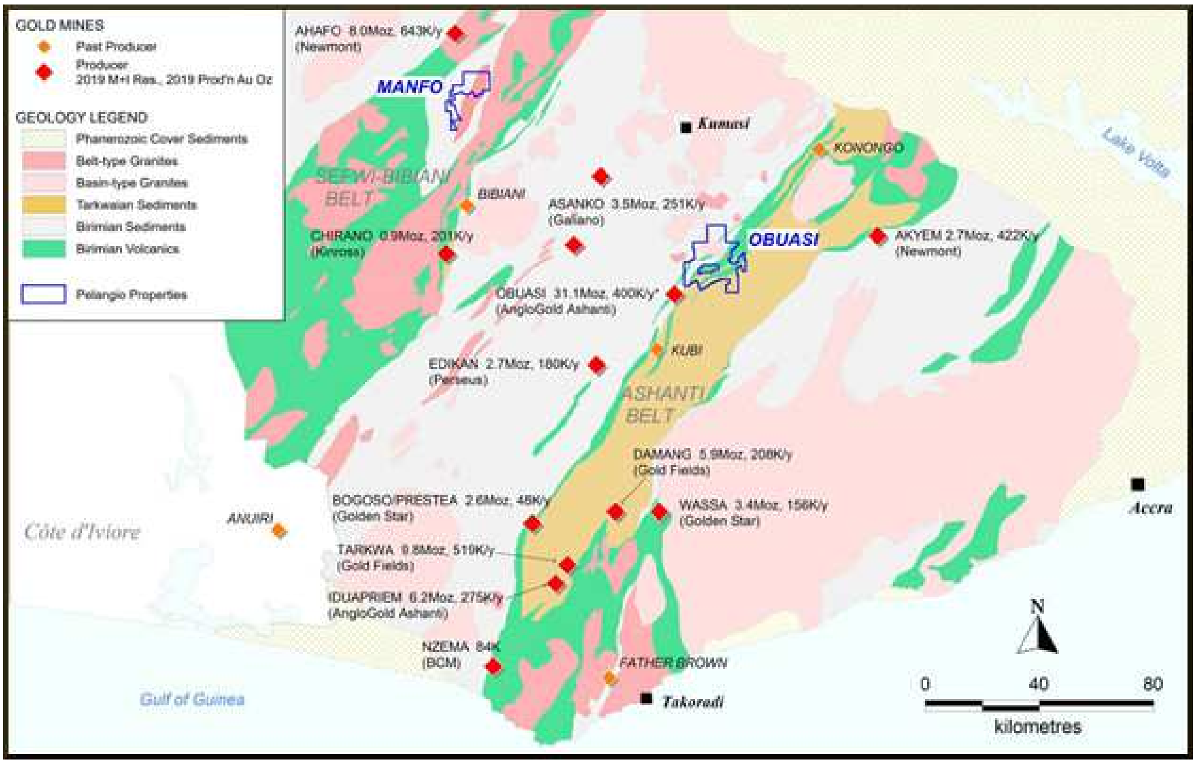
Ghana

The mining industry of Ghana, according to the USGS, accounted for 4.2% to the country's real GDP in 2016 compared with 5.4% in 2015. Gold and natural gas and petroleum exports accounted for about 56% of the country's total export earnings in 2016. Gold contributed over 90% of the total mineral exports. Ghana even managed to pip South Africa as the continent's largest gold producer back in 2008.

Gold in Ghana was produced at both industrial and artisanal scales. At the industrial scale, gold mining was carried out by various international mining companies. The government holds a 10% free-carried interest in all large-scale gold mining operations in the country.

Artisanal miners produce around 120,000 ozs per annum but that number is by its very nature somewhat of a guesstimate.

Below one can see Pelangio's strategically positioned assets in the Ashanti gold belt.



Obuasi

The element of this company's portfolio that drove the stock into the frenzy of 2011 was the Obuasi project. In 2005, the company announced the acquisition of an option on a group of four early-stage gold exploration concessions located near the town of Obuasi in Ghana. This property is located contiguous with AngloGold Ashanti's renowned Obuasi gold mine within the prolific 300-kilometre-long Ashanti Gold Belt. The Obuasi mine has produced over 33 million ounces of gold since 1897 and currently hosts a resource of approximately 28 million ounces of gold at an average grade of 7.98 g/t.

Unfortunately, the company's most recent technical report on the Obuasi Gold Project, prepared by SRK Consulting, dates back to April 2008. This is indicative of how the company took the eye of the ball subsequent to the waning of Canadian interest in West Africa post-2012.

Access to the project is via paved roads from Accra. Travel time from Accra to Obuasi is approximately four to five hours depending on traffic in Accra. The main paved roads traverse the project, while several secondary gravel roads and tracks provide access to most parts of the properties, except to areas covered by prominent hills where access is difficult and mobilization of heavy equipment such as drilling rigs will require road building.

The topography in the project area is variable. The concessions are covered by prominent hills rising 200 to 300 metres above the valleys and forming chains of hills aligned along geological features. Elevations range between approximately 200 and 500 metres above sea level.

Geology

The structural characteristics of the nearby Obuasi Mine's mineralization consists of shear hosted quartz vein mineralization located within graphitic structures in Birimian sediments (wackes and phyllites) and along their contacts with Birimian volcanics and more competent Tarkwaian sediments. Quartz vein hosted gold at Obuasi is generally "free" gold (non-refractory) and usually high grade. Gold also occurs in silicified alteration haloes around the veins and is associated with fine needles of arsenopyrite. This style of gold is refractory, with gold encapsulated by arsenopyrite grains, and is usually lower grade but tends to develop into wide zones of mineralization.

The Obuasi property of Pelangio contains evidence of both styles of mineralization; quartz (+/- carbonate) veining in carbonaceous shear zones in the sediments and locally within mafic volcanics (e.g. at Big Vein) with locally high grades (e.g. the NGA prospect) and also zones of silicification within the sediments, volcanics and dioritic intrusives (e.g. at Kusa) with disseminated arsenopyrite +/-pyrite and elevated gold grades.

Exploration

Pelangio's most recent drilling campaign discovered high-grade, vein–hosted visible gold mineralization in sheared graphitic argillites. The gold mineralization observed from this drill core is associated with the 'Obuasi style' alteration responsible for the Obuasi Mine gold deposit.

A soil sampling campaign conducted post-drilling discovered seven areas with greater than 200 ppb gold between 200 metres to 800 metres in strike length. Given the size of the land package, management's opinion is that the drilling and exploration programs completed thus far on the Obuasi project have just scratched the surface of the property's geology.

When one considers the target model (a several million oz high grade lode sourced from the massive fluid system that deposited >60 mn oz a few kilometres to the southwest) further exploration and drilling on the project is demonstrably justified. Robust geological study over the course of Pelangio's interest in the property concludes that numerous D2 anastomosing splay structures emanate from the Obuasi Main Reef Fissure and strike north-easterly into Pelangio's property. The geological interpretation of these events leads the Company to conclude that the massive Au-bearing hydrothermal fluid system which forms the Obuasi orebodies have leaked into these subsidiary structures located within Pelangio's property and that significant gold mineralization lays deposited within a suitable structural trap.

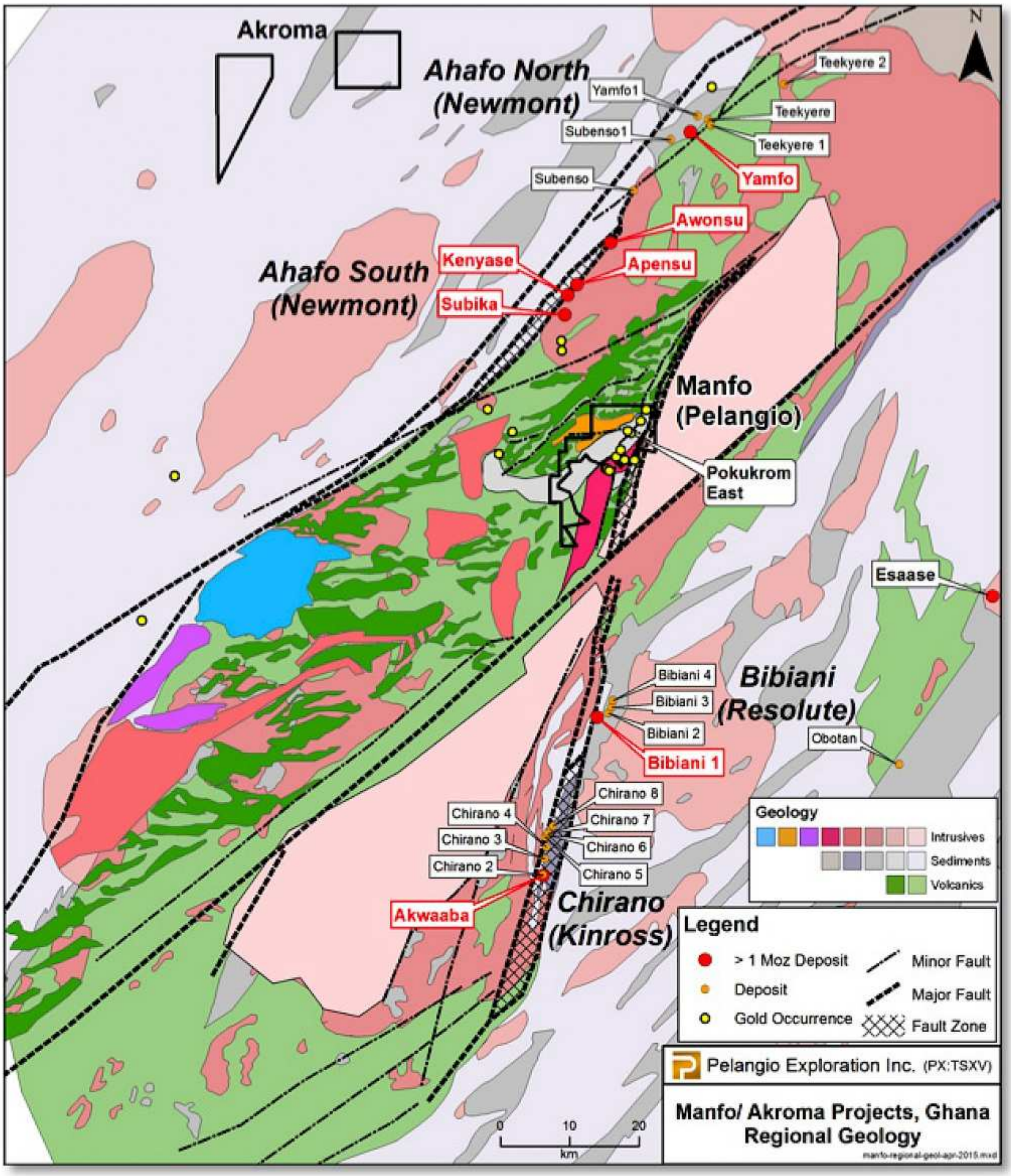
Manfo

One is tempted to dredge up the old saw about "elephant country" when referring to Pelangio's Manfo project as it is situated roughly in the middle of the Sefwi-Bibiani Belt between Newmont's Ahafo mine; the Subika deposit being only 14 kilometres to the NNE, and Resolute's Bibiani mine 25 kilometres to the south of the Manfo project area and 50 kilometres from Kinross' Chirano Mine. The Manfo project also shows indications of geological characteristics similar to the largest deposit at Ahafo, Subika.

Geology

The Manfo project is located along the eastern edge of the Paleoproterozoic Sefwi-Bibiani Belt. The property is underlain primarily by metasediments, mafic volcanic rocks, and small granitoid bodies. A major northeast trending fault zone or corridor, approximately three kilometres wide, traverses the east side of the property. This fault corridor serves as the regional contact between the greenstone volcano-sedimentary package to the west and a regional belt batholith to the east. Gold mineralization at Manfo is hosted in sericite and hematite altered granitoid rock adjacent to a set of brittle-ductile faults. Within the alteration envelopes, the gold mineralization occurs adjacent to the brittle-ductile faults, and in fracture-controlled zones preferentially developed in certain horizons within the granitoid in the hanging wall of the fault. The mineralization is localized along the major northeast-striking fault zone.

Alteration and gold mineralization are closely related to increasing strain. Gold is associated with wide zones of pervasive to fracture-controlled quartz-sericite-carbonate-pyrite alteration overprinting an earlier phase of hematite alteration hosted predominantly in sheared and locally brecciated, altered granitoid rocks and to a lesser extent brecciated hematite-altered mafic metavolcanic rocks.



Exploration at Manfo

Pelangio has drilled 271 holes totaling 42,150 metres. Seven gold-mineralized areas have been identified to date, primarily targeting a 9-kilometre long soil geochemical trend, on the eastern side of the project. The maiden gold resource at the Manfo project can be divided into three areas:

- Pokukrom East (PE);
- Pokukrom West (PW); and
- Nfante West (NW)

The company's technical team defined wireframes for the altered envelopes and submitted them to SRK for optimization using alteration profiles and lithological coding of drilling data.

The team's technical interpretation of the structural geology maintains that the gold mineralization improves considerably in grade down plunge and a high-grade underground-mineable lode of mineralization is present down plunge from what has been defined by shallower drilling to date. The mineral resources were classified as Indicated and Inferred, primarily based on the basis of continuity at the reporting cut-off grade, positive kriging efficiency, completely located within the conceptual pit envelope used to constrain the mineral resources and on variography results.

The Resource at Manfo

The company published, in 2013, a resource statement prepared by SRK Consulting. The maiden resource estimate defined 195,000 oz (at 1.5 g/t Au) Indicated, 298,000 oz (at 1 g/t Au) Inferred.

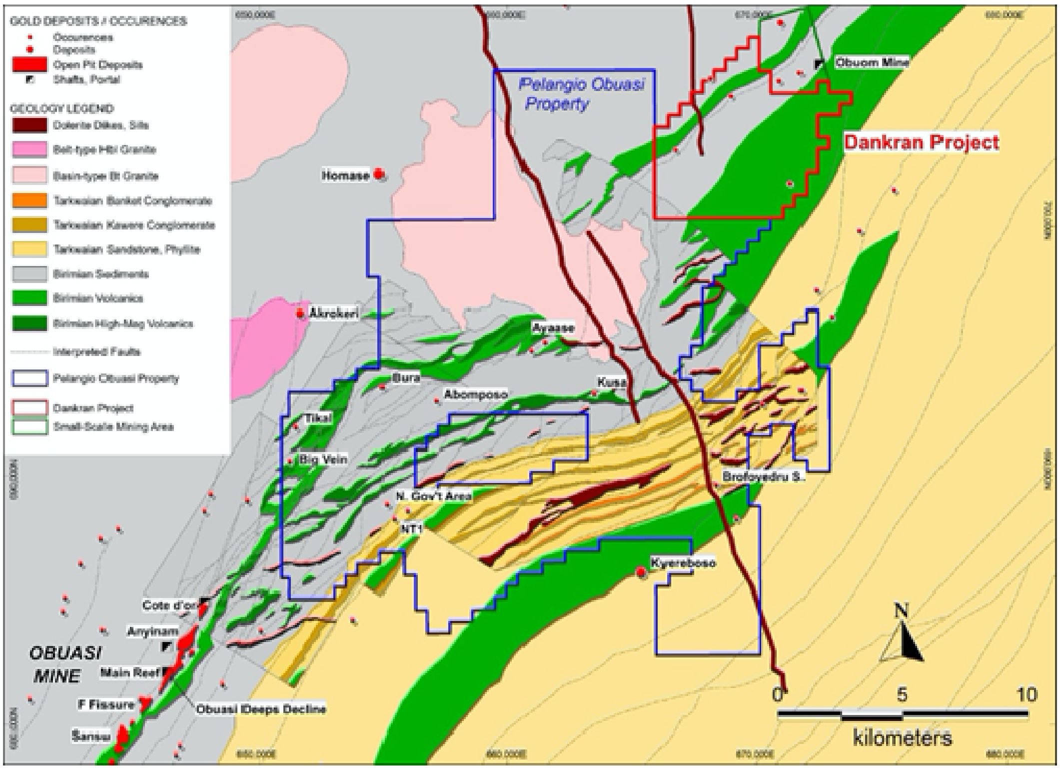
Manfo - Resource Estimate

	Cut-off (Au g/t)	Indicated			Inferred		
		Quantity (000' tonnes)	Grade Au (g/t)	Contained Au (000'oz)	Quantity (000' tonnes)	Grade Au (g/t)	Contained Au (000'oz)
Oxide	0.4	49	0.96	2	508	1.05	17
Transitional	0.5	382	1.96	24	1,093	1.05	37
Fresh	0.5	3,543	1.49	169	8,064	0.94	245
Total		**3,973**	**1.52**	**195**	**9,666**	**0.96**	**298**

SRK considered portions of the Manfo gold mineralization amenable for open pit extraction. The "reasonable prospects for eventual economic extraction" were assessed using a pit optimizer. The mineral resources for the Manfo gold project are reported at two cut-off grades. The mineral resources within the oxide material were reported at a cut-off of 0.40 g/t Au, whereas the transitional and fresh portion of mineral resources were reported at a cut-off grade of 0.50 g/t gold.

Dankran – a bolt-on to Obuasi

In mid-November 2020 the company announced that it had entered into an Option Agreement with BNT Resources Ghana Ltd., to acquire a 100% interest in the Subriso-Kokotro concession, (known as Dankran) located adjacent to the Obuasi project. The terms of the acquisition are that Pelangio acquire s a 100% interest in the Dankran property, by pay to BNT Ghana an aggregate of $300,000, and issue 1,000,000 shares over a period of two years.



The Dankran project covers an area of 34.65 km^2 contiguous to the northeastern corner of the Obuasi project. The Prospecting License covers the same Birimian sedimentary and volcanic stratigraphy that hosts the Obuasi Mine, 25 kilometers to the southwest, plus several prospective northeasterly striking regional structures.

An historic gold mine, the Obuom Mine, is located approximately 1.5 kilometers to the northeast of the Dankran project boundary, in an area that is presently designated for formalized Small Scale Mining. The Obuom deposit was discovered during the gold rush in Ghana at the close of World War I and was developed into a small underground operation which ran intermittently during the 1920s and 1930s at a peak capacity of 1,000 tons per day, and shut down in 1936 after having reportedly produced 29,000 ounces Au at an average grade of approximately 16 g/t Au. The mining operation focused on two or more 1m to 1.5m wide high-grade gold bearing quartz veins occurring along the sheared contact between Birimian metasediments to the northwest and Birimian metavolcanics to the southeast.

Dankran Exploration

Management claims that there appears to have been very limited exploration in the Dankran project area since the 1930s. The Ghana Geological Survey mapped the northern Ashanti Belt in the 1960s and the BRGM (Bureau de Recherches Géologiques et Minières - Geological Survey of France) conducted a stream sediment sampling program over the district in the 1980s. In the early 1990s Johannesburg Consolidated Investment of South Africa conducted soil sampling and geological mapping plus sampling.

Pelangio's envisioned work begins with a first pass program of soil sampling comprising 1,050 samples on 160 to 320 meters spaced sample lines has been designed to cover the most prospective northwestern half of the Dankran property, including the areas of artisanal mining plus the known major structures.

The company claimed it would begin the work before the end of 2020 and be completed within 7 to 8 weeks including receipt of assays. The soil sampling grid would eventually be extended and infilled with favourable results, however first-pass sampling closer to the Small Scale Mining Area should be sufficiently detailed (160 meter-spaced lines) to permit the planning and execution of scout air-core or reverse circulation drill testing of significant gold in soil anomalies, potentially resulting in an early discovery.

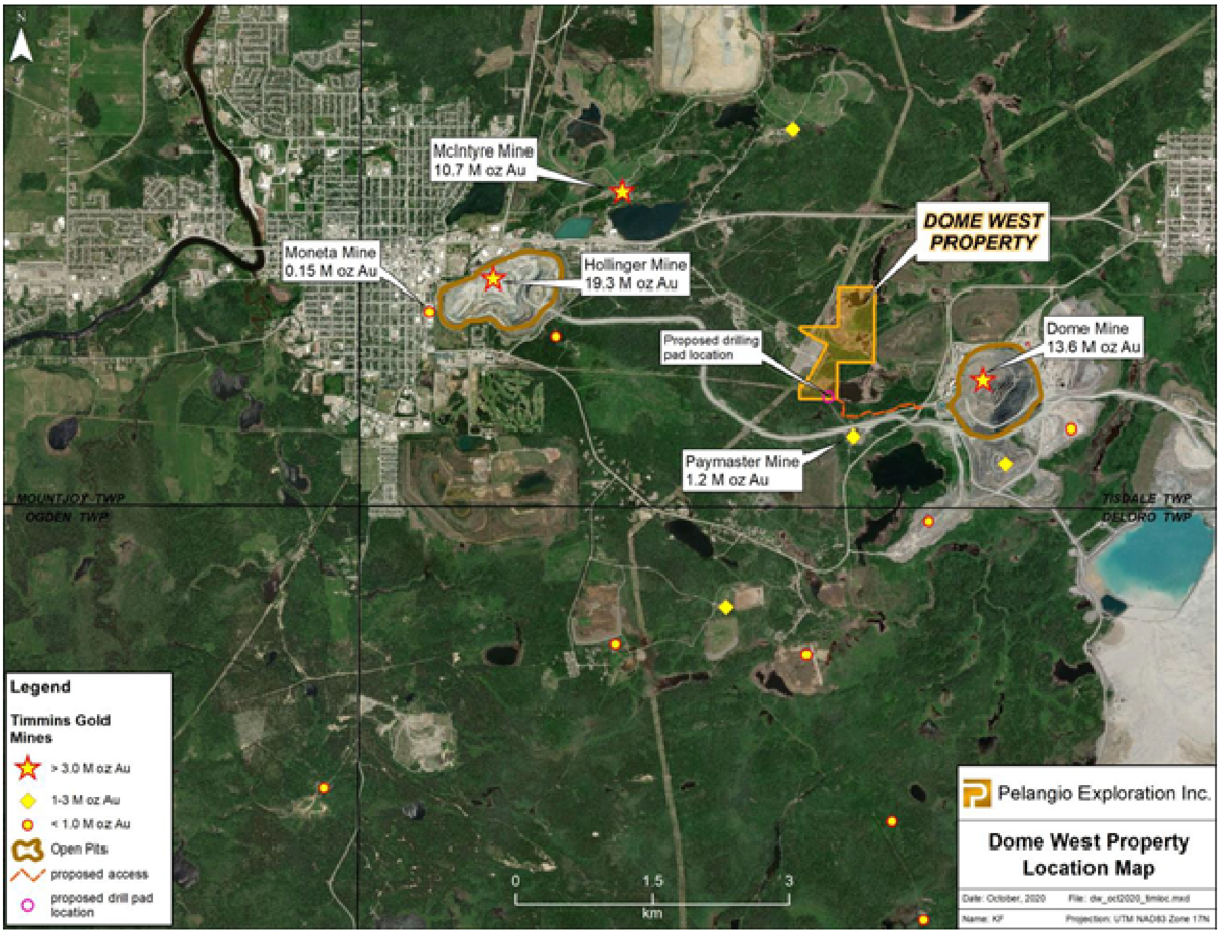
Ontario

This province should be the stamping ground of management at this company. The company's CEO, Ingrid Hibbard's achievements include negotiating the acquisition of the Detour gold mine property for Pelangio Larder Mines and participating in the founding Detour Gold, which attained a market capitalization in excess of $5 billion. And yet…. Despite all the years that have gone by since Pelangio first became involved here in its current corporate guise it still does not have a resource on either of its main properties.

Dome West

This property, formerly controlled by Central Porcupine Mines Ltd., is strategically located adjacent to both the former Paymaster Mine property and Newmont's Dome Mine. The neighbourhpood of the Dome West property is shown in the map on the following page.

The Dome West property is located within the storied Timmins camp approximately 800 meters west of the Dome super pit and approximately 500 meters northwest of the former Paymaster shaft.



In April 2019 the company began a drill campaign at site. The company's objective from this limited first phase of diamond drilling was to confirm the presence (or not) of a highly prospective porphyritic sill unit that they named target P1 and that was interpreted to extend across a substantial portion of the Dome West property at the 1000-foot elevation from the former Paymaster Mine property.

Pelangio completed a single 543 meter drill hole on the property, representing the first and deepest hole on the property since the late 1930's. The purpose of the hole, DW1901, was to evaluate the strike extension of a prospective porphyritic intrusive sill interpreted to extend from the former Paymaster Mine and also test for potential new vein systems in prospective stratigraphy extending from the Dome and Paymaster Mines.

The gold intersection obtained during the recent drilling (3.21 g/t Au over 1.25 m) was associated with quartz stringers and up to 5% pyrite in a strongly altered leucoxene bearing mafic flow extending from 407.00 to 476.75 meters.

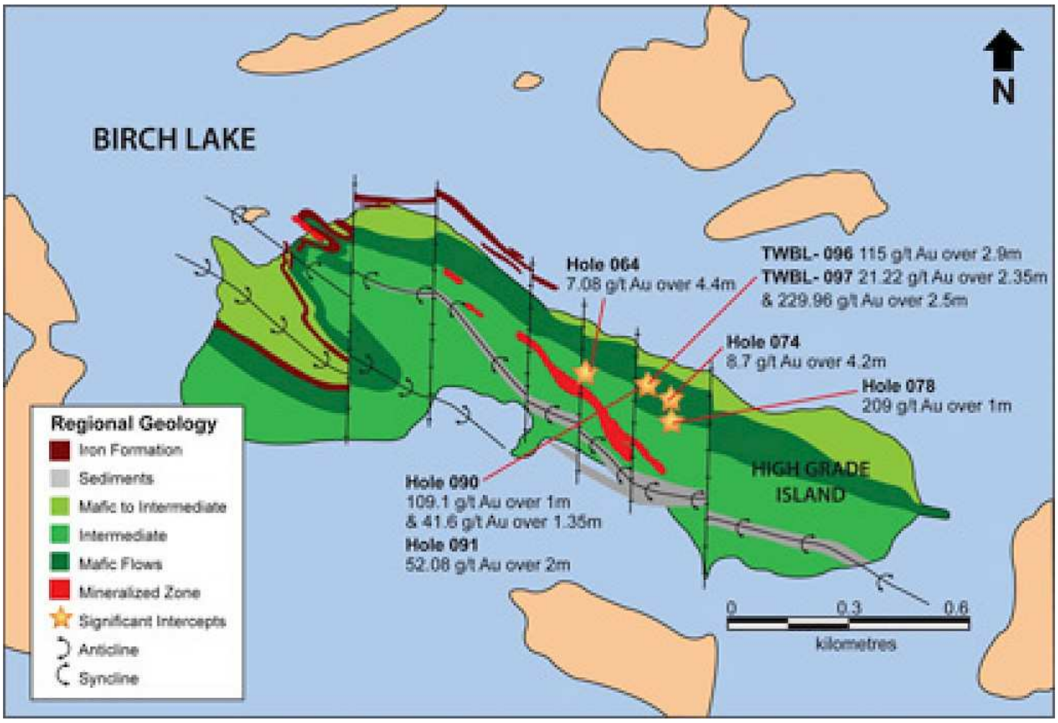
Going Forward

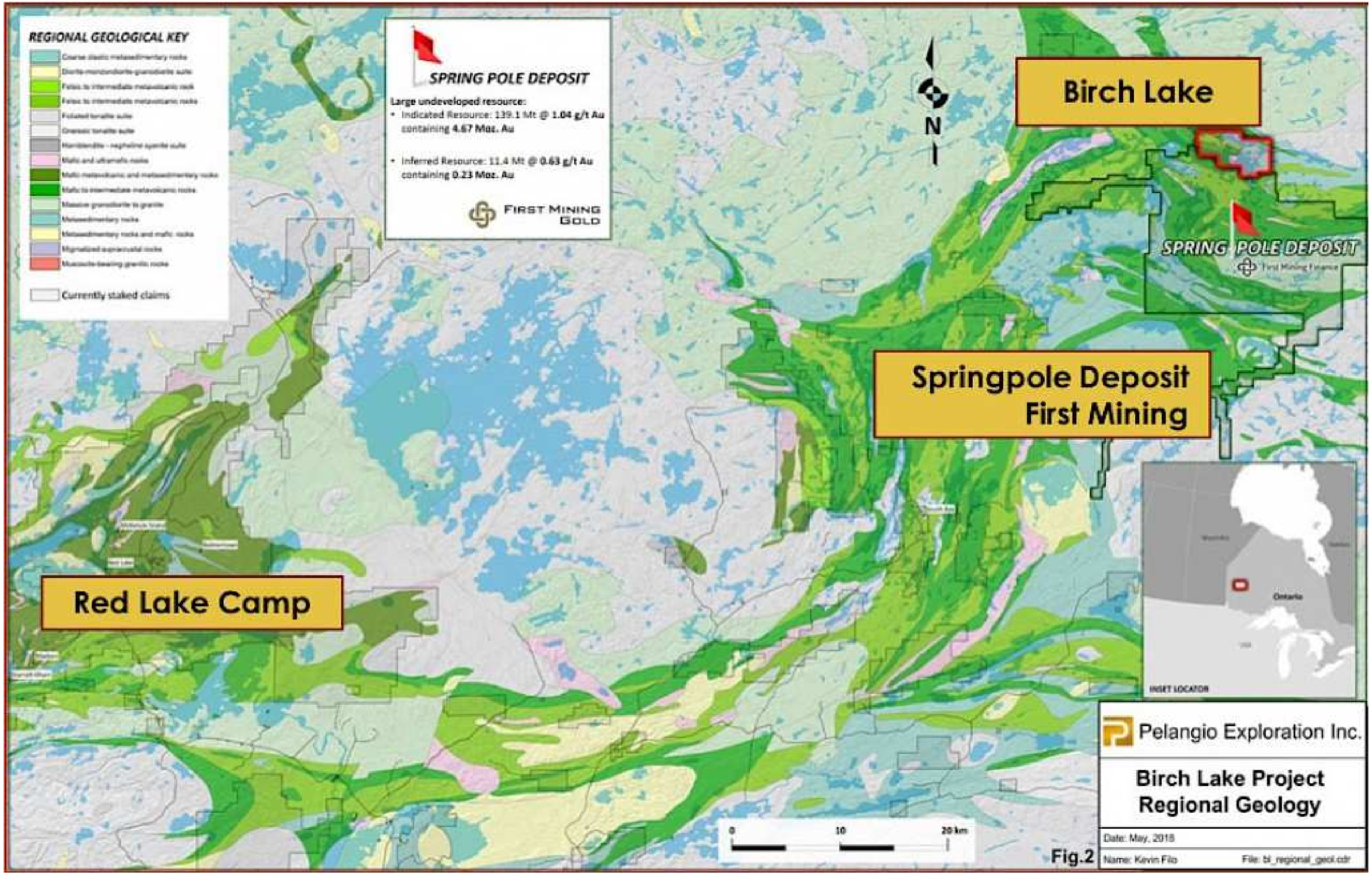
In recent days the company has announced the exercise of its option on the Dome West property. Planned exploration and advancement of the Dome West project was curtailed in early 2020 due to certain COVID-19 access restrictions by surface rights holders. Management says it is working with surface rights holders to monitor the COVID-19 situation in Timmins and to expedite a return to work when it is deemed safe to do so by both parties. As a result of this unforeseen delay in work progress, Pelangio exercised the *force majeure* clause in the option agreement.

Management is proposing a 700m drill program. Drill holes will target potential new gold veins associated with the porphyritic intrusive intersected during Pelangio's first drill program. We must say though that after having raised so much in a recent financing (see later in this note), a program of a mere 700m is not exactly a ringing endorsement of the potential.

Birch Lake

This project is the combination of Pelangio's original Birch Lake block of claims and the recently acquired Keigat Lake Area Claims through the merger with 5SD Capital. The original land position on which most of exploration work was conducted covers approximately 453 hectares located in the Keigat Lake area, approximately 120 km northeast of Red Lake, Ontario.




REGIONAL GEOLOGICAL KEY
Currently staked claims
SPRING POLE DEPOSIT
Large undeveloped resource:
• Indicated Resource: 139.1 Mt @ 1.04 g/t Au containing 4.67 Moz. Au
• Inferred Resource: 11.4 Mt @ 0.63 g/t Au containing 0.23 Moz. Au
FIRST MINING GOLD
N
Birch Lake
SPRING POLE DEPOSIT
Springpole Deposit
First Mining
Red Lake Camp
Ontario
INSET LOCATOR
0
10
20 km
Pelangio Exploration Inc.
Birch Lake Project
Regional Geology
Date: May, 2018
Name: Kevin Filo
File: bl_regional_geol.cdr
Fig.2

Previous work by Placer Dome delineated a gold-bearing system (High Grade Island) over a strike length of approximately 300 metres to a vertical extent of 150 metres. From 1986 to 1996, Placer Dome completed 110 drill holes totaling 19,918 metres, together with mapping, trenching, geochemical and ground geophysical surveys.

Prior to September 30, 2008, the property was subject to an option agreement between Pelangio and Trade Winds Ventures Inc., who spent approximately $1.2mn on the property during the term of the option. Trade Winds completed its drilling activities on High Grade Island during winter 2005. The previous 2004 drilling program consisted of four holes, TWBL-094/095/096/097, totaling 1,102.60 metres, testing the continuity and down-dip extension of the central gold zone located on High Grade Island. The current Birch Lake project includes both High Grade Island and Keigat Island.

The original land holdings are subject to an underlying agreement whereby Goldcorp (now Newmont) retained a 2% NSR.

In addition, the Birch Lake project is adjacent to First Mining Gold Corp.'s Springpole Deposit, which has an indicated resource of 139.1 million tonnes at a grade of 1.04 g/t Au, and 5.4 g/t Ag, containing 4.67 million ounces Au and 24.19 million ounces Ag.

Financing

In mid-November 2020 the company announced a non-brokered private placement for aggregate gross proceeds of up to CAD$1.8mn. The placing consisted of the sale of hard dollar (HD) units at a price of $0.13 per HD Unit and common shares issued on a flow-through (FT) basis at a price of $0.17 per FT share.

Then, on the 10th of December the company closed the final tranche of the placement, which, due to stronger demand than originally expected, raised $2,211,700.

Each HD Unit consisted of one common share plus a purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.18 for a period of two years from 3rd December 3, 2020.

The gross proceeds from the sale of the FT shares must be used to incur qualifying Canadian Exploration Expenses. Qualifying expenses are to be incurred by no later than December 31, 2021. The balance of the proceeds of are to be used to advance the exploration projects in Ghana.

Breaking Up is So Easy to Do

Ever since we first met this company around 2009 in New York we have been impressed by its need to break in half. Alas, management did not feel the same imperative. Shareholders have paid the price.

Ideally the solution for this company is to put the different assets in the markets that appreciate them best.

Despite the depressed conditions from 2012 to 2018 the London market has remained the go-to market for African deals. Ghana is primarily a plaything of London or ASX-listed players. Canadians dabbled in the first decade of the current century but the non-francophone Canadians largely abandoned West Africa and as Ghana was not francophone it was doubly ignored by Canadian players. Things were exacerbated by rough going in Mali and more recently Burkina Faso where the residual Canadian interest lay. This reinforced negative vibes about the area.

Demerging the Ghanaian assets with a London HQ for them (but a retained listing on the TSXV) would have allowed the new entity to tap the stronger investment and knowledge pool on Africa in London, where the market has been funding projects in Ghana (before independence the Gold Coast) since the late 1800s. Stock and trading volumes would have inevitably migrated to London and the residual Canadian holders could have been wound down over time (or awaited a revival in Canadian interest in the “Dark Continent”.

Whenever the subject is raised of a London listing the Canadian managements trot out the same two old shibboleths that: 1) AIM is dreadful and 2) London is so expensive to list. This really gets on our nerves because the Standard List option has been around for several years and has totally overtaken the AIM as the favoured means of listing and is a fraction of the cost of AIM listings and does not come freighted with the blood-sucking NomAds that Canadian corporates have mythologized. The listing process is nowhere near as log-jammed as the TSX/TSX-V is these days. A Standard List could be had for, at most, £150,000.

The fallacy of awaiting a turn in Canadian sentiment is seen in recent times, with something of an improvement in sentiment, but that has not rubbed off on Pelangio as investors want a pure play - not a hybrid of Ontario/Ghana. The economic equation of the current entity does not add up. In theory one (asset) plus one (asset) should equal two, but at Pelangio it adds up to less than one. Whereas demerged, we would expect a market cap of at least the same or higher, for the Canadian assets, that Pelangio has currently and a value of around £8-10mn for the Ghanaian portfolio. The demerger could be accompanied by a financing of several million pounds into the London entity, with a part of the proceeds going towards a Normal Course issuer bid in Canada to soak up unmarketable parcels (much like is being done by so many ASX companies at the moment).

Risks

The prime risks for any investment at this stage are:

- Fall in the gold price

- Political uncertainty in Ghana
- Failure to prove up a resource for Ontario assets
- Financing problems

The main risk currently is that the gold price might move unfavorably, but that holds for all gold miners. Our outlook is for gold to break through $2000 per oz in 2021 but not to advance significantly beyond that. In our view anything over $1600 is highly prospective for encouraging investment and exploration in the gold space. If a project does not work at $1600 it should not be in consideration.

Financing waves come and they go. At the moment the mining space in general is attracting significant attention from dedicated and non-dedicated investors, with the latter group, in particular, seeking to rotate out of other more overvalued sectors in the broader markets. The perspectives look good for funds to continue to be dedicated to precious metals for at least the next two years.

The risk of non-discovery or inadequate resources being defined is a perennial in the exploration space. This risk is best mitigated by the prospectivity of the ground being explored and the quality of the team involved. In the case of Pelangio the danger is not poor results but lack of exploration work in absolute terms. The company has not actually done all that much work in the last ten years.

Conclusion

Casting our minds back through the mists of time, we added a Long position in Pelangio to the Model Resources Portfolio at 21 cts in mid-May 2010. We then sold out at 90 cts in late October 2010. We then waited for the bottom…. we waited… we waited…. and…. the stock consolidated one for 10 in 2018… so that 90 cts was actually $9 compared to today's price of 21cts. We dodged a bullet there…

The perpetual question that holders (and detractors) of Pelangio ask themselves (and management) is exactly how much of the market cap represents a value on the African assets and how much is for the Canadian assets? If management answer that the pieces are worth more than the whole then they are begging the question from the investor (or detractor) then why aren't you demerging the pieces to let them stand alone and get a realistic valuation? The rhetorical question becomes a trap that management flounder with when asked.

Instead the logic appears to be that African assets are some sort of guarantee should Canada go awry, or vice versa. Sometimes though trying to balance risks just ends up being equivocation. The struggle between which project should be pushed to the front of the stage was a no-brainer since 2012 with Africa being in the doghouse for all but the most adventurous TSX investors. However, not much progress was made on the Canadian front either as the company was bumping along the bottom in terms of market cap and there was scarcely any financing to be had for neither love nor money as long as gold was in the dumpster.

As we have stated before the preferred solution for us was to demerge the Ghanaian assets into a more sympathetic market (i.e. London) and keep a secondary listing in Canada so those original shareholders who are "stay-at-homes" could exit relatively painlessly. Eventually one could ditch the TSX listing if buying interest was scanty and after most of the departees had left. Instead the company went into deer-in-the-headlights mode, deciding not to decide. With so little work having been done on the Ghanaian projects in recent years, it was very unlikely that there would be an exploration surprise. For us the surprise would have been if the company had actually done any exploration on these assets.

So we like to compare the company to the two headed llama in Dr Dolittle, the Push-me-Pull-me. Direction unclear so not going anywhere.

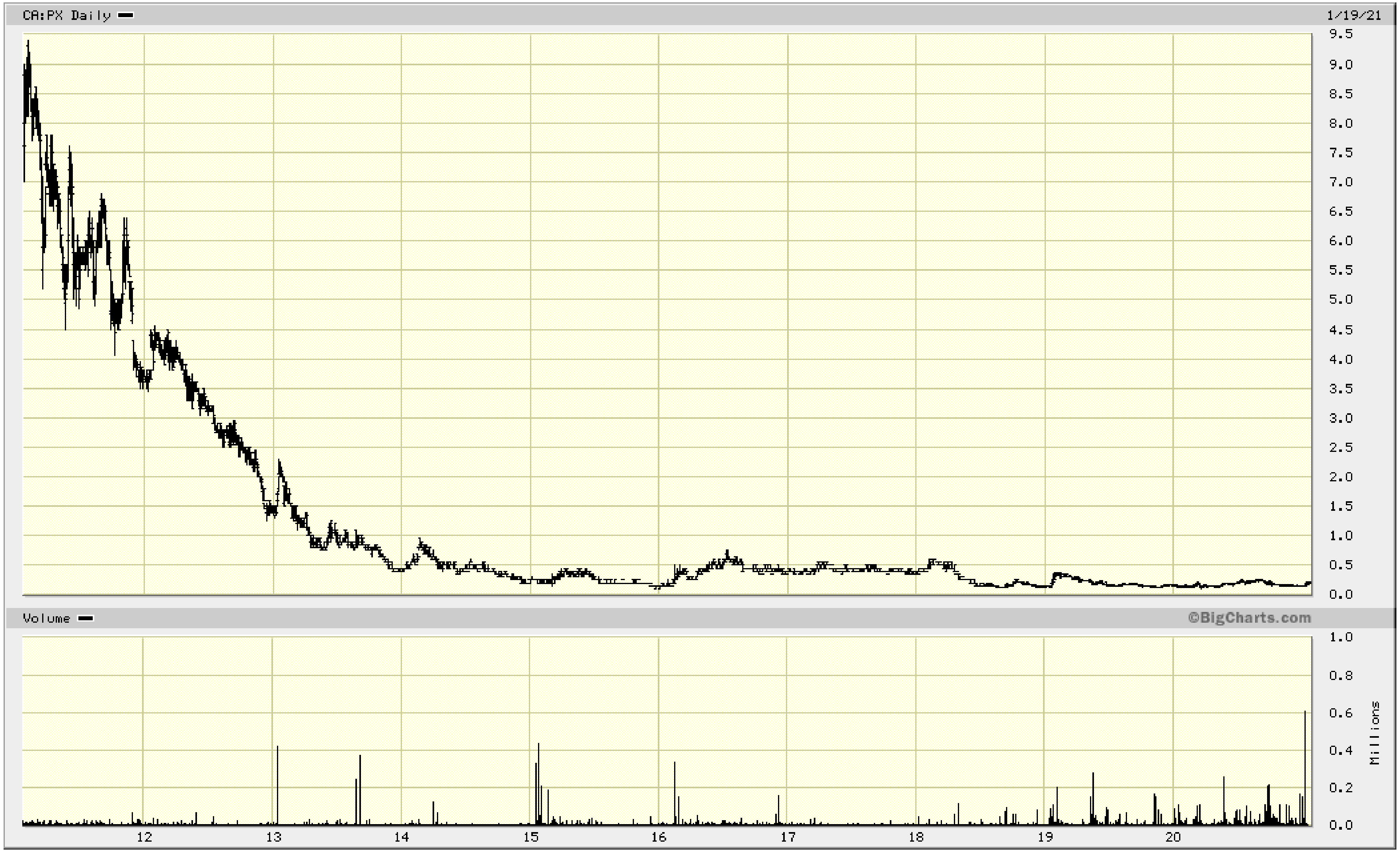
Gold has turned, sentiment on Africa has turned, but has Pelangio turned? The Push-me-Pull-me can alas only go in circles.

The solution is within the company's grasp. Newcos are not rocket-science and as the company is run by a corporate lawyer; such an outcome should be second-nature. Will a predator though do a cheap deal, swooping in and relieving exhausted shareholders of their holdings and then doing the necessary in the private sphere, slicing and dicing it into appetizing pieces?

Time will tell…. But hopefully not too much time. We agonise over what strategy call to give this stock. Is it a **LONG** for intrinsic value for a bear-up merchant? Is it a **SHORT** because management has shown an extraordinary long-lived ability to dig their heels in and resist logic? Or is it a **NEUTRAL** with the Long attractions cancelling out the Short drawbacks?

In a break up situation the sum of the parts could be worth 50-90 cts per share. That would merit a **LONG** rating. But will Ingrid press the button that sends value to the stratosphere?

At this point with management dug in and firmly resisting facing the inevitable, we must plump for a NEUTRAL rating as, like in so many years that have brought us to this point, management might not do anything. We can only venture, in a no-change scenario, a 12-month target price of 22 cts.


CA:PX Daily
1/19/21
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Volume
©BigCharts.com
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0.4
0.2
0.0
Millions
12
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