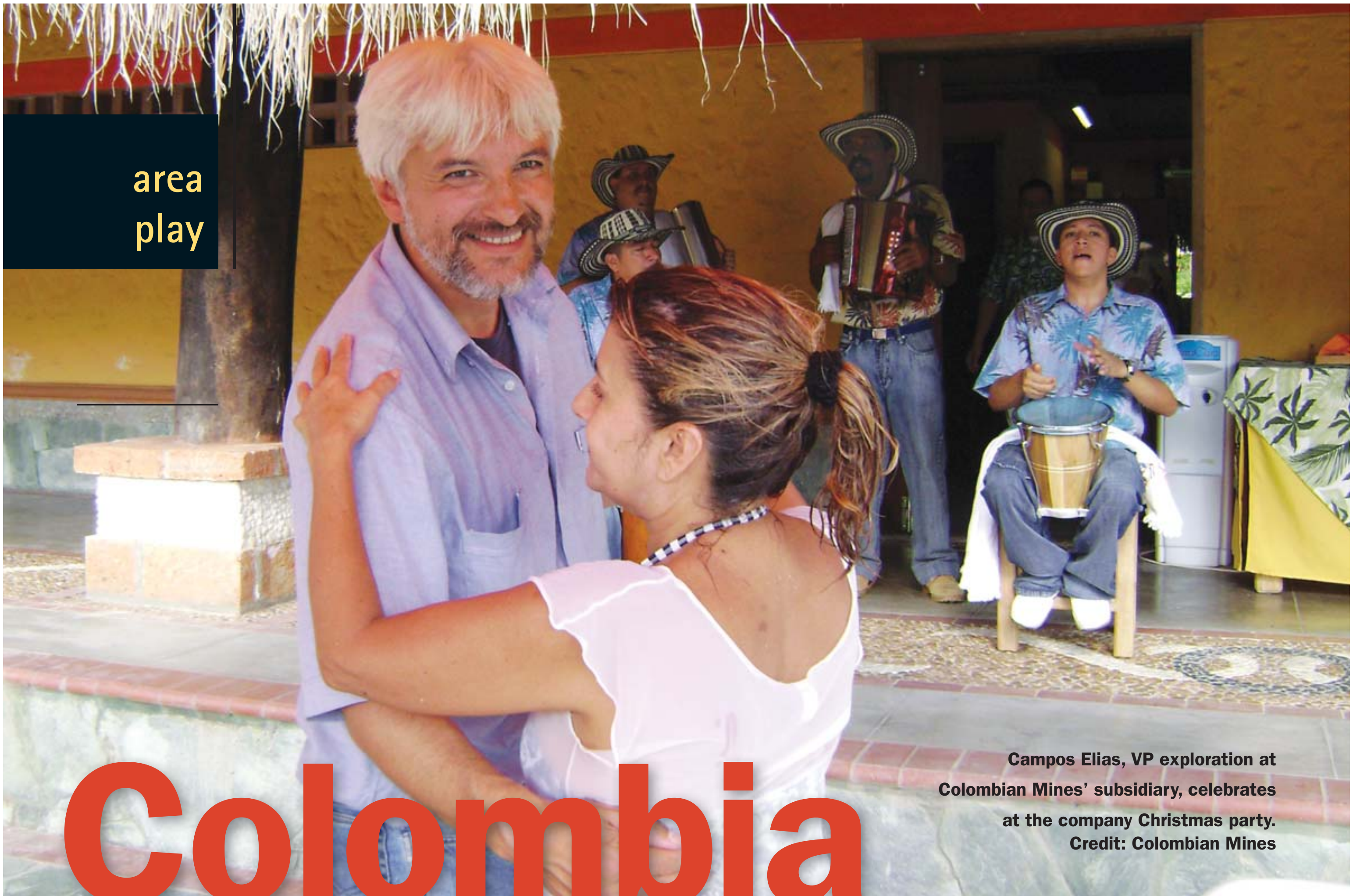
area play



Campos Elias, VP exploration at Colombian Mines' subsidiary, celebrates at the company Christmas party. Credit: Colombian Mines

Colombia Calling

Juniors are flocking to this former no-go zone of South America and turning up some intriguing prospects.

BY ANTHONY VACCARO

Special to Mining Markets

Ranked as the largest historical gold producer in South America, with past production of more than 80 million oz., Colombia's gold potential has never been a secret.

But due to extreme political and social unrest over the last 50 years, much of that potential has remained untouched by modern exploration and mining methods.

With the election of President Alvaro Uribe in 2002, however, things began to improve. Combined with a new, business-friendly economic policy, an empowered military backed by a firm security agenda planted the seeds of change.

Since 2002, the country has seen its homicide rate drop by 44% and kidnappings — once so rampant — have fallen by 85%. Opposite those declines, economic indicators have been marching steadily upward.

Such remarkable progress, largely due to the military's clampdown on areas controlled by narco-guerillas such as the left-wing rebel groups Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN), has opened a window for juniors. The increased security has allowed **Greystar Resources** (GSL-T) to build up its 11.6-million-oz. Angostura project, and **Ventana Gold** (VEN-T) to make its La Bodega discovery, and drawn in more juniors searching for the next big find.

While the country has made great strides both in containing the FARC and ELN, and making the streets of its larger cities safer, Colombia is by no means the next Switzerland.

Medellin, the capital of Antioquia Department and the place where most Western mining companies set up shop, saw its murder rate increase by 64% in 2009 to 1,431. That is in a city with a population of 3.8 million, about 1 million more than Toronto, which recorded 62 murders in 2009.

The reorganization of some of the paramilitary groups that Uribe worked so hard to demobilize is seen as a chief culprit behind the recent spike in Medellin's violent crime rate.

Also of concern is a recent upswing in activity by the FARC and ELN. The two groups have agreed to join forces, and their murder of the governor of Caqueta state in December shows that they can still strike at the upper echelons of power.

In total, FARC activities are up 30% from 2008, according to Colombian think tank Nuevo Arco Iris.

Clearly, investing in Colombia is not for the faint of heart. Still, for those who can handle the heat, Colombia can offer some serious returns on investment. While Greystar and Ventana's stories are well-known — with robust valuations to prove it — there are still several juniors just getting their exploration programs into gear that could present significant upside. The following are some of those best positioned to make headway this year.

Typical mineralized breccia at Colombian Mines' Cerro de Cobre project.
Credit: Colombian Mines

Medoro Resources (MRS-V)

Medoro Resources and its Marmato deposit, 80 km south of Medellin, is shaping up to be one of the most intriguing stories in Colombia's burgeoning gold mining scene.

The company's origins trace back to the team that cofounded and built Bolivar Gold — Serafino Iacono, Jose Francisco Arata and Miguel de la Campa. The three executives are also behind Colombia-focused oil producer **Pacific Rubiales Energy** (PRE-T) — one of the TSX's highest gaining stocks in 2009.

While Medoro was initially known for a gold project it had in Venezuela, Hugo Chavez helped to cool the company's interest in the country, and Medoro's management turned their eyes west to Colombia.

Iacono and Arata — who stepped down from Medoro's board last year but still serve as advisers — set Medoro on a new path by steering it towards the Marmato gold project, which was as well known for its substantial gold mineralization as it was for the difficulty of getting at it.

While consisting of one gold system, Marmato had come to be divided into three zones, each held by a different party.

On top of that, the system's high-grade veinlets had attracted a small crowd of artisanal miners that held licences in one of the zones.

Medoro's task from the beginning was simple, yet daunting: Unify Marmato.

It began the process by acquiring the deposit's Zona Alta, the highest-altitude zone in the mountainous district and the one possessing the most high-grade, open-pittable mineralization. It bought out Zona Alta's owner, Colombia Goldfields, in October for 35 million shares and 1.12 million warrants.

Next, it set its sights on a connecting hill to the northwest, which hosts a zone known as Echandia. By purchasing the zone's owner, privately held Colombia Gold, it locked that bit up. That merger, which closed in January, cost Medoro 33.3 million shares and $2.6 million.

Lastly, it had to acquire the zone directly beneath Zona Alta, Zona Baja.

Medoro expected to have the acquisition of that zone and the company that holds it — Mineros Nacionales — sewn up by mid-February. Medoro is paying US$35 million in cash for the company.

OTHER JUNIORS TO WATCH

Colombian Mines (CMJ-V)

One junior getting some early positive results is Colombian Mines.

Initial channel samples at its 90-sq.-km El Dovio project, released in mid-January, returned a 7-metre interval grading 9.29 grams per tonne, 54.3 grams silver and 10.25% copper.

El Dovio includes the historic Sabana Blanca mine, where samples of stockpiled mineralized material yielded results of up to 25 grams gold, 60 grams silver, 11.5% copper and 2.8% zinc.

Colombian Mines plans to reopen Sabana Blanca for sampling purposes, and then complete property-wide mapping, geochemistry, and geophysical surveys.

El Dovio is in western range of the Colombian Andes in the Department of El Valle.

Colombian Mines says the project hosts an enriched massive sulphide target with a partially or wholly preserved "stringer zone" of vein and stockwork mineralization consisting of veinlets and veins ranging from millimetres to more than 3 metres in width.

The company also has five other projects in Colombia.

Galway Resources (GWY-V)

Galway's story, at this point, is largely based on what Ventana Gold has done.

With its California gold properties sitting just 1 km southwest of Ventana's La Bodega project, and 3 km from Greystar Resources' Angostura project, Galway is hoping to prove that its properties -- which are along strike of the other two -- contain similar stores of mineralization.

Its latest sample results came from the Pie De Gallo pit -- the eastern portion of which is just 200 metres southwest of the property line with Ventana.

Highlights from surface channel and chip samplings of outcrops in the pit included 28 metres grading 16.6 grams gold per tonne and 34 metres grading 3.8 grams gold.

Of 422 samples taken by the company, 110 assayed 0.5 gram gold or greater.

Galway has also finished drilling its first hole at the site with results due out shortly.

At presstime, the company had added a second drill rig to the site.

Galway also has two coal projects in Colombia.

Seafield Resources (SFF-V)

Seafield's presence in Colombia currently hinges on a letter of intent signed with privately owned Caribbean Copper and Gold (CCGC).

If consummated, the deal would have Seafield pay US$250,000 in cash and issue 5 million common shares to CCGC for the 47-sq.-km Quinchia property in the Quinchia district.

After one year, Seafield has the option to make a final US$250,000 payment and issue another 2 million shares, or return the properties.

Seafield will also have option payments on the permits totalling US$5.5 million and needs to spend US$2 million on exploration in the first year.

Quinchia is in the same mid-cauca porphyry geological belt that hosts Medoro Resources' Marmato deposit and Anglogold Ashanti's La Colosa. Previous exploration in the district identified porphyry-style gold mineralization in outcrop, geochemical anomalies and airborne geophysical signatures related to porphyritic intrusions.

To get all of those acquisitions done, and then to tackle a project of Marmato's scale, Medoro knew it would need a ton of money.

On the strength of Iacono's and Francisco Arata's reputation for putting together winning projects, as well as red hot gold prices, the company put together a massive financing last October that netted it roughly $96 million.

Medoro's president and chief executive John Hick says the company will need every penny.

Beyond the costs associated with the three big acquisitions, capital is needed to move the town of Marmato, which sits at the base of the mountain.

While the government has already begun moving the town, Medoro will likely be on the hook for $20 to $30 million, spread out over the next couple of years.

Then there's the remaining artisanal miners, whose mining licences Medora still has to purchase. Of the 120 or so artisanals that originally worked Zona Alta, only 15 remain. Still, Hick pegs the cost of settling with the small-scale miners at $10 to $15 million.

Of greater interest to ounce-in-the-ground hungry investors, however, is the upcoming exploration and infill-drill program.

Hick says the plan is to spend roughly $40 million over the next two years, to upgrade the resource and on exploration drilling.

That could bring significant upside to what is already a very promising project.

At this early stage, Zona Alta — where Colombia Goldfields spent US$81 million between 2005 and June 2009 — has measured and indicated resources of 88.2 million tonnes grading 0.82 gram gold per tonne and 4.65 grams silver for 2.3 million oz. gold and 13.1 million oz. silver. Another 27 million tonnes sit in the inferred category, grading 1.21 grams gold and 6.74 grams silver for 1.07 million oz. gold and 5.9 million oz. silver.

The Echandia zone hosts measured and indicated resources of 48.5 million tonnes grading 0.69 gram gold for 1.08 million oz. The property has another 10.6 million inferred tonnes grading 0.8 gram gold for 274,000 oz.

As for Zona Baja, Mineros Nacionales has been operating an underground mine onsite, producing 25,000 oz. gold per year, based on an 800-tonne-per-day operation.

While drilling will be carried out on all three zones, Hick says Zona Alta and Zona Baja will get much of the early attention

Left: Antioquia Gold's VP exploration, Brad Van Den Bussche, at the Cisneros project. Right: Gold panned at Cisneros is visible at top left.
Credit: Anthony Vaccaro

because of the two zones' proven richness.

Still, the ultimate goal will be to bring all three zones into one global resource.

Located in the heart of Colombia's western Cordillera, roughly 100 km north of **AngloGold Ashanti**'s (AU-N) La Colosa gold project, the system is being interpreted as a large porphyry with grades ranging from 0.3 gram to 2 grams gold, with systems of veinlets running through the deposit that can grade as high as 12 grams to 15 grams gold.

While Hick says it's too soon to estimate when a scoping study could be done, investors' appetites will be whetted by a steady supply of both drilling and metallurgical results over the coming year.

"The goal is that by the time we've improved the resource by making it bigger and of better quality, the feasibility study will be coming in right behind it," Hick says.

Antioquia Gold (AGD-V)

Along with other Colombian gold plays, Antioquia Gold enjoyed a healthy lift in its share price in the latter half of 2009.

Investors eagerly awaited drill results from the first-ever drill program at its Cisneros gold project — a target well known to local artisanal miners, but hitherto untouched by modern drills.

The 30-hole program wrapped up in the middle of December, but when results from the first 21 holes were released, the market yawned.

Perhaps spoiled by the sort of bonanza grades that Ventana turned in last year from its La Bodega property — which included 84 metres of 13.66 grams gold per tonne — Antioquia's highlight, near-surface intercept of 6.9 metres grading 15.73 grams gold per tonne failed to provide the sort of lift that an exploration company would normally expect.

For its part, Antioquia was pleased with the results, as they confirmed a geological hypothesis that lower-grade clusters of veinlets occur over thick widths between narrower, higher-grade veins.

More results released in late January further verified the potential of the project, 70 km northeast of Medellin.

Assays from the final nine holes of the drill program included an 11.7-metre interval of 22.56 grams gold and an 8.3-metre section of 5.56 grams gold.

Those kinds of results have raised management's confidence in the company's geological model, and chairman Jim Decker says a major fundraising planned in March will further test its model.

The junior has about $3.5 million in its treasury. It last went to the market in November, raising $1.78 million by issuing 7.1 million units at 25¢ apiece.

When completed, Decker says the financing will leave Antioquia with enough money to not only unleash more drills on Cisneros — it has a 10,000-metre program planned for 2010 — but to also begin poking around at its newer permits.

In October last year, Antioquia acquired Ingenieria y Gestion del Territorio (IGTER) — a Medellin-based company with a large swath of prospective ground in Colombia.

Through the acquisition, which cost it $300,000 in cash and 2 million shares, Antioquia inherited a previous agreement between IGTER and an undisclosed multinational mining company. The two were partnered on several land packages covering 1,000 sq. km, including grassroots properties near Marmato, La Colosa, and **B2Gold** (BTO-T) and AngloGold's Gramalote joint venture.

Right and left: Ventana Gold's La Bodega property. The company has completed more than 200 holes totalling 60,000 metres at the high-grade gold project. **Credit: Ventana Gold**

Antioquia's yet-to-be named multinational partner has the right to earn a 60% interest in ground explored by the junior by paying it a premium on its exploration costs and other discovery charges on a per-ounce basis.

But whatever tantalizing prospects such exploration yields, Antioquia's primary focus is to recapture the market's attention as it develops a resource at Cisneros.

Eaglecrest Explorations (EEL-V)

While Eaglecrest currently has the smallest footprint in Colombia of the three companies profiled here, its share price has also experienced the least movement.

Both Medoro and Antioquia have enjoyed spikes in their market values, but Eaglecrest shares have spent much of their time in a consolidation pattern between the 50¢ and 40¢ marks.

The company chalks up the relative inertness of its share price to its lack of self-promotion, compared with its peers in Colombia.

But in 2010, things are set to change.

It recently hired Toronto-based CHF Investor Relations to spread the word about the company, just as it is beginning work in Colombia and keeping an eye out for other acquisitions in

Gold companies in Colombia

Company	Ticker	Price (Feb. 4)	52-week High/Low (Feb. 4)	Shares Outstanding
Anglogold Ashanti	AU-N	US$35.59	US$47.52/US$26.95	365.8 million
Antioquia Gold	AGD-V	37.5¢	69¢/9¢	56 million
B2Gold	BTO-T	$1.26	$1.50/54¢	282.3 million
Colombian Mines	CMJ-V	85¢	$1.15/5¢	13 million
Eaglecrest Explorations	EEL-V	41¢	75¢/35¢	45.6 million
Galway Resources	GWY-V	$1.04	$1.87/5¢	73.1 million
Greystar Resources	GSL-T	$4.80	$7.17/$2.05	72.4 million
Medoro Resources	MRS-V	50¢	94¢/5¢	401 million
Seafield Resources	SFF-V	22¢	30¢/2.5¢	63.6 million
Ventana Gold	VEN-T	$7.77	$12.91/55¢	97.1 million

Doing due diligence at Eaglecrest Explorations' Fredonia project.
Credit: Eaglecrest Explorations

the country.

The company has signed a letter of intent to acquire a 75% stake in the Fredonia project from privately held Colombian miner Grupo de Bullet by issuing 1 million shares, covering $45,000 in cash and spending $3 million over three years on exploration.

During the first quarter, Eaglecrest plans to take field samples and fly an aeromagnetic survey over Fredonia, 40 km south of Medellin, in search of porphyry systems.

Paul Zdebiak, a director at Eaglecrest, says the company still hasn't worked out the specifics of its exploration budget, but that dollars will likely be split 50/50 between its projects in Bolivia and Colombia, with drills arriving at Fredonia by the third quarter.

Fredonia is 40 km north of Medoro's Marmato project and consists of 180 sq. km of permits. But Eaglecrest wants more, and it is evaluating other permits along the 300-km gold belt that extends from the La Colosa project through to Medellin.

The company recently raised $580,000 in a private placement by issuing 1.16 million units at 50¢ apiece. At presstime, it had about $700,000 cash on hand.

As with Marmato and Antioquia's Cisneros, Fredonia benefits from good infrastructure with a paved road leading to the property and access to the national power grid nearby.

Where Fredonia differs from Marmato and Cisneros is in a complete absence of artisanal mining at the project.

Zdebiak explains that because mineralization is associated with a porphyry — with grades seldom climbing above 2 grams gold per tonne — the site is less attractive to artisanals, making for one less logistical issue for Eaglecrest.

Another promising aspect to the company comes from a source closer to home. In December, Sprott Asset Management — a company that has built a reputation as one of the best commodity investment houses in the world — took a roughly $500,000 stake in Eaglecrest.

And while a shot of confidence from Sprott goes a long way, Eaglecrest will be looking to raise more money early this year to beef up its treasury.

If the company can return some promising results to the market, expect to see its shares have a similar run to that of its peers late last year. MM

— THE AUTHOR IS A STAFF WRITER WITH THE NORTHERN MINER.