Zacks Small-Cap Research

April 11, 2012

Steven Ralston, CFA
312-265-9426
sralston@zacks.com

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Pelangio Exploration (V.PX – TSX-V)

V.PX: Raise target to $1.10**.** An NI 43-101 compliant resource report is expected on the Manfo property in 2012.

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/16/2010
Current Price (04/10/12)	$0.39
Six- Month Target Price	**$1.10**

OUTLOOK

Pelangio Exploration is a junior gold exploration company proceeding with drilling programs on its Manfo and Obuasi properties in Ghana. Positive assay results from the first Manfo drilling program in late 2010 significantly increased shareholder value. Positive results from the second drilling program are confirming and extending the strike lengths of the discoveries on the Manfo property. Importantly, an NI 43-101 compliant resource report on the Manfo property is expected in 2012. The company has been very successful raising funds for its exploration program; hence we reiterate the Outperform rating and raise our target to $1.10.

SUMMARY DATA

52-Week High	**$0.76**
52-Week Low	**$0.35**
One-Year Return (%)	**-48.0**
Beta	**0.28**
Average Daily Volume (shrs.)	**131,954**
Shares Outstanding (million)	**158.1**
Market Capitalization ($ mil.)	**$61.7**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**12.8**
Insider Ownership (%)	**13.8**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/M**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/M**
P/E using 2012 Estimate	**N/M**
P/E using 2013 Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining -Gold**
Zacks Rank in Industry	**7 of 34**

ZACKS ESTIMATES

Revenue
(in millions of $ CAD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	4.81 A	1.18 A	1.54 A	2.34 A	9.86 A
2011	1.99 A	9.74 A	12.89 A	5.55 A	30.18 E
2012	7.13 E	7.60 E	7.90 E	8.37 E	32.00 E
2013					34.00 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$0.01 A	$0.00 A	-$0.00 A	-$0.01 A	-$0.02 A
2011	-$0.01 A	-$0.00 A	-$0.00 A	-$0.01 A	-$0.03 E
2012	-$0.01 E	-$0.01 E	-$0.01 E	-$0.01 E	-$0.02 E
2013					-$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Quarterly EPS may not add up to annual figures due to rounding.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- Pelangio Exploration is a junior gold exploration company currently proceeding with a second phase drilling program of over 30,000 meters at the company's Manfo property in Ghana. An exploratory diamond drill program of 7,000+ meters on the Obuasi property began in March 2011.
- **A NI 43-101[1] compliant inferred resource report on the Manfo property is expected in 2012**.
- An updated non-resource technical report is expected on the Obuasi property in early 2012.
- Pelangio has a 100% interest in the Obuasi and the Manfo properties in Ghana.
- We expect Pelangio's stock to react to the announcements of drilling results, both at Manfo and Obuasi.
  - Manfo consists of a significant bulk tonnage zone with 850+ meter strike (Pokukrom East), a near-surface high-grade zone with 100+ meter strike (Pokukrom West), a bulk tonnage zone with 280 meter strike (Nfante West) and two early discovery stage areas ((Nfante East and Nfante Central) along with other areas of interest.
  - Obuasi is located approximately four kilometers down-strike from the high grade Obuasi underground gold mine owned by AngloGold Ashanti. The discovery of an Obuasi gold mine-style gold shoot on Pelangio's Obuasi property (3+ million ounces Au) would dramatically and positively impact the stock's valuation.
- Pelangio entered into an agreement to acquire a 100% interest in the Akroma property in the Brong Ahafo region of Ghana.
- Management's strategy is to increase shareholder value by acquiring and exploring properties on world class gold belts, discovering and improving the understanding of the mineralization through drilling programs, while using innovative corporate restructuring to create additional shareholder value.
- Pelangio has been very successful raising funds for its exploration program.
- Consult our Initiation of Coverage report dated December 20, 2010 for background information.
- We reiterate an Outperform rating on Pelangio and raise our target to $1.10.

2011 HIGHLIGHTS

- **Manfo property:**
  - Over 22,600 meters of diamond drill holes were completed on the Manfo property in 2011.
  - Drilling results during 2011 at **Pokukrom East** defined a strike length of bulk gold mineralization of at least **850 meters**, which is open to the north. The geochemical anomaly is much longer at approximately 1,200 meters in length.
  - Having added a second drilling rig in July 2011, a third drilling rig is expected in 2012.
  - On November 1st, an NI 43-101 compliant non-resource technical report was issued, which upgraded the Manfo property to a resource delineation stage gold exploration project from an early stage exploration project.
  - An initial NI 43-101 compliant inferred resource report is expected in 2012.
- **Obuasi property**
  - Diamond drill program was expanded from 5,000 meters to 7,000+ meters during the summer.
  - In 2011, 44 diamond drill holes totaling 9,710 meters were completed.
- **Akroma property**
  - In June, Pelangio entered into an agreement to acquire a 100% interest in the Akroma property, a 160 square kilometer very early stage exploration parcel in the Brong Ahafo region of Ghana.

[1] National Instrument 43-101 is a mineral resource classification methodology that Canadian securities regulatory authorities required to report publicly disclosed information related to mineral properties by companies listed on stock exchanges within Canada. The terms "measured", "indicated" and "inferred" mineral resources are terms specifically defined pursuant to NI 43-101 compliant rules and guidelines. The U.S. Securities and Exchange Commission does not recognize these terms, which are not equivalent to the standards of "proven" and "probable" reserves set forth in SEC Industry Guide 7.

- **Financing**
  - Pelangio completed a private placement and a public offering in 2011; the placement in February raised $3.65 million and the offering in December funded the company with $7.18 million. In addition, the exercise of options and warrants provided a further $6.1 million.
- **Accounting**
  - Pelangio is adopting IFRS, and the company's financial statements for the year ending December 31, 2011 will comply with IFRS.

OVERVIEW

Based in Toronto, Ontario, Pelangio Exploration (PGXPF: OTCBB and PX: TSX-V) is a junior gold exploration company[2] that targets, acquires, and then explores properties in world-class gold belts, currently in Canada and Ghana. **Management's strategy** is to increase shareholder value by **acquiring and exploring camp-sized properties on world class gold belts**, discovering and improving the understanding of the mineralization through drilling programs, while using innovative corporate restructuring to create additional shareholder value. **Pelangio seeks to own 100% of these properties, usually through option agreements.** Since exploration programs are capital-intensive, sources of cash are necessary to continue drilling. Pelangio owns a 100% interest in its **Manfo and Obuasi properties in Ghana, which are being** actively explored through geophysical and geochemical surveying and diamond core drilling programs. Exploratory results to-date have been very encouraging, especially at Manfo. The exploration results from the second phase drilling program at the company's Manfo property will contribute to the initial NI 43-101 compliant inferred resource report, which is expected to be completed in 2012. In addition, additional assay results are expected from the diamond drill program on the Obuasi property.

Management can realize value for shareholders in several ways. Though management could proceed to carefully delineate the mineralization on its properties through exploration, advance to develop open pit or underground mines, and ultimately become a gold production company, it is not expected. More likely and based on historical track record (see below), **management will proactively maximize shareholder value through innovative corporate restructuring** when a particular property reaches late-exploration or early-development stage, or Pelangio will become an attractive acquisition candidate for a major gold production company. Junior gold companies with projects in West Africa are all potential targets for larger producers, which are seeking acquisitions for growth. For example, Kinross Gold acquired Red Back Mining[3] for $7.2 billion in September 2010.

Management highlights the series of transactions involving Detour Gold from 2007 to 2009 as an example of the company's ability to use innovative corporate restructuring to enhance shareholder value. As a property reaches the late-exploration or development stage, management plans to actively seek partners for the development of the property or to sell an interest in it while maintaining an equity interest in the partner to gain exposure to the resource and participate in its development and any potential new discoveries. For example, Pelangio Exploration's predecessor, Pelangio Mines, acquired the Detour Lake deposit in Northern Ontario from Placer Dome for C$1.5 million in 1998 during a severe downturn in the market for gold and gold related equities. From 1998 to 2006, Pelangio Mines outlined a 3.4 million ounce resource[4] (1,379,500 ounces in the measured and 2,035,650 ounces in the inferred categories). In January 2007, Pelangio Mines transferred the Detour Lake deposit to a newly formed corporation, Detour Gold, for C$5 million and 20,000,000 Detour Gold shares in Detour Gold Corporation. Detour Gold was led by CEO Gerald Panneton, formerly of Barrick Gold Corporation. Pelangio Mines thereby gaining proven expertise and retaining exposure to the Detour Lake project through its late-stage

[2] Pelangio is a development stage company, as defined by the Canadian Institute of Chartered Accountants' ("CICA") Handbook.
[3] Red Back Mining owned the 5.39 million ounce resource at the Chirano mine in Ghana.
[4] Technical Report for the Detour Lake Mine Option Property" dated September 21, 2006 and prepared by Eric Kallio, P.Geo.

exploration phase. Subsequent to the transaction (from 2007 to 2010), Detour Gold increased gold resources at Detour Lake to over 20 million ounces and developed a reserve of 11.4 million ounces[5].

Concurrently, in September 2008, Pelangio Mines completed a tax deferred spin-off of its exploration properties and 1,000,000 Detour Gold shares to Pelangio Exploration. This transaction was effected to increase the market visibility for Pelangio Mines' exploration properties in Ghana and to address the "holding company" discount between the values of the Detour Gold shares held by Pelangio Mines relative to Pelangio Mines' market capitalization. Pelangio Exploration Inc. (PX: TSX-V) was listed on the TSX Venture Exchange (TSX-V) on September 10, 2008

Subsequently, in March 2009, Pelangio Mines (then called PDX Resources) merged with Detour Gold and the 19,000,000 Detour Gold shares held by it at the time were distributed pro rata to its shareholders, again on a tax deferred basis. Shareholders were thus provided with a direct interest in the Detour Lake deposit's continuing development, as well as the upside of Pelangio Exploration's exploration properties in Canada and Ghana.

The Canadian dollar is the functional currency of the company. Pelangio is phasing in the adoption of IFRS with the financial statements for the year ending December 31, 2011 being the first annual financial statements that will fully comply with IFRS. Financial statements for 2010 have been restated to comply with IFRS.

RECENT EVENTS

On March 30, 2012, Pelangio Exploration reported **financial results for the fourth quarter and year** ending December 31, 2011. The company reported a loss for the quarter of $1,325,718 versus a loss of $785,520 in the comparable-quarter last year. Professional fees increased 152% to $129,462 from $51,314, primarily due to increased costs related to the transition to IFRS. Stock-based compensation (a non-cash expense) decreased 69% to $178.749 compared to $576,715.

For the year, Pelangio reported a loss of $3,709,147 versus a loss of $2,493,370 (restated to comply with IFRS) in 2010. For the year, professional fees increased more modestly by 11.1% to $310,159 from $279,090; however, investor relations expenses increased 76.1% due to the company's need for financial equity funding. Consulting services also increased 24.3%. Stock-based compensation (a non-cash expense) increased 18.6% to $1,230,057.

During the year, exploration at Manfo continued: Pokukrom East (57 holes totaling 11,506 meters), Pokukrom West (23 holes totaling 4,613 meters), Nfante West (four holes totaling 1,102 meters), Nfante East (five holes totaling 1,098 meters) and Nfante Central (five holes totaling 939 meters). At Obuasi 22 new trenches (2,177 linear meters) and 148 auger holes (857 meters) were completed. Recent exploration efforts have primarily focused on the Ayaase and Bura targets.

On January 17, 2012, Pelangio announced the results from seven additional diamond drill holes, which totaled 1,574 meters. Three of the seven holes were highly significant. Hole SPDD-184 was drilled on a section which had not previously been drilled and encountered **113 meters of 1.19 g/t Au bulk mineralization, the longest mineralized intersection yet encountered at Manfo**. In addition, the intersection included 9.05 g/t gold over 7 meters at a depth of 210 meters, which indicates a moderate-to-high grade plunge zone which links with the 7.01 g/t gold over 19 meters encountered at a depth of 35 meters with an earlier hole (SPDD- 088). Also, holes SPDD-192 and SPDD-188 added credence to the plunge, having encountered 4 meters grading 16.72 g/t gold (a depth of 49 meters down-hole) and 10

[5] "Technical Report – Feasibility Study of the Detour Lake Project, Ontario for Detour Gold Corporation" dated June 30, 2010 and prepared by BBA Inc. in cooperation with SGS Canada Inc. and AMEC Earth & Environmental, a division of AMEC Americas Limited.

meters of 11.94 g/t Au (at a depth of 136 meters down-hole), respectively. The length of the moderate-to-high grade plunge appears to be approximately 600 meters.

Through the end of 2011, over 24,800 meters of diamond drill holes have been completed on the Manfo property. With the addition of a third drilling rig, at least another 13,000 meters are planned during the first half of 2012. Drilling results at Pokukrom East have defined a strike length of bulk gold mineralization of at least 850 meters, which is open to the north and at depth. The geochemical anomaly is much longer at approximately 1,200 meters in length. Management plans not only infill drilling at 50 meter spacing but also 100 meter step-out drilling in hopes to increase the strike length to over 1,000 meters. The initial NI 43-101 compliant inferred resource report is expected in the second half of 2012.

On December 20, 2011, Pelangio Exploration **closed a 20,000,000 Unit public offering**, which was **at the high-end** of the 12.5 million to 20.0 million Unit range. Net proceeds were $7,181,076. Each Unit is composed of one common share and one-half of a warrant that entitles the holder the ability to purchase one common share at $0.60 prior to December 20, 2013. Directors and management purchased approximately $2 million worth of the Units, raising their ownership in the company from 13.0% to 13.8%. The offering syndicate was led by Fraser Mackenzie Limited and included Raymond James Ltd., Jones Gable & Company Ltd. and Maison Placements Canada Inc. Pelangio intends to use the net proceeds to fund exploration activities and resource delineation at Manfo and Obuasi.

On November 1, 2011, Pelangio Exploration filed an initial NI 43-101 on Manfo. According to the SRK report, which is effective as of June 30, 2011, at Pokukrom East, a zone with broad intervals of moderate grade (1.0 to 2.0 g/t Au) extends at least 660 meters and to a depth of 200 meters. The NI 43-101 pre-dates the announcements results that have extended the strike length to 850 meters. In addition, a narrower high grade zone (3.0 to 5.0 g/t Au) occurs along 400 meter strike length. At Pokukrom West, near surface high grade gold mineralization over a 100 meter strike length and to a depth of 110 meters has been identified that remains open along strike. At Nfante West, also open along strike, a zone of gold mineralization over a 280 meter strike length has been identified. SRK recommended a Phase 2 program of primarily in-fill and step-out drilling at 25 meter spacing to a depth of 300 meters on Nfante East, Nfante West, Pokukrom East and Pokukrom West.

MANFO (GHANA) PROPERTY

Pelangio's 100 square kilometer Manfo property lies on the Bibiani shear in the Sefwi greenstone belt[6], a fault network running from Newmont Mining's Ahafo mine (resources of 16 million ounces) 14 kilometers to the north and extending south through Noble Minerals' Bibiani property (resources of 1.98 million ounces) and down 50 kilometers to Kinross' Chirano property (resources of 5.39 million ounces). Within Pelangio's Manfo property, five significant Au anomalies have been identified, with discoveries made by drilling at all five of them: Pokukrom East (1,300 meters x 300 meters), Nfante East (800 meters x 350 meters), Nfante West (700 meters x 150 meters), Pokukrom West (200 meters x 150 meters), and Nfante Central. The sixth anomaly, Sika North (two areas measuring 700 meters x 100 meters and (500 meters x 100 meters), has been explored by geochemical and geophysical surveying, but has yet to be drilled.

In September 2011, Pelangio acquired a 100% interest in the Manfo property, having made all the necessary option payments and work expenditures. Pelangio's Manfo property is actually composed of three contiguous concessions: Subriso, Sempekrom, and Twabidi. Pelangio entered into option agreements with the owner of the Manfo property (a local Ghanaian company) to acquire 100% of each of the three concessions for total payment of $435,000, along with $2,000,000 in expenditures, to be paid over a three-year period. Pelangio accelerated the payments and completed the required work expenditures. Pelangio (or its successor) must pay the optionor a discovery bonus of $1,000,000 plus

[6] The Sefwi Gold Belt is a 40-to-60 km wide Birimian volcanic belt extending from Ghana to the coast of Côte d'Ivoire. It is located northwest of, and parallel to, the Ashanti Gold Belt.

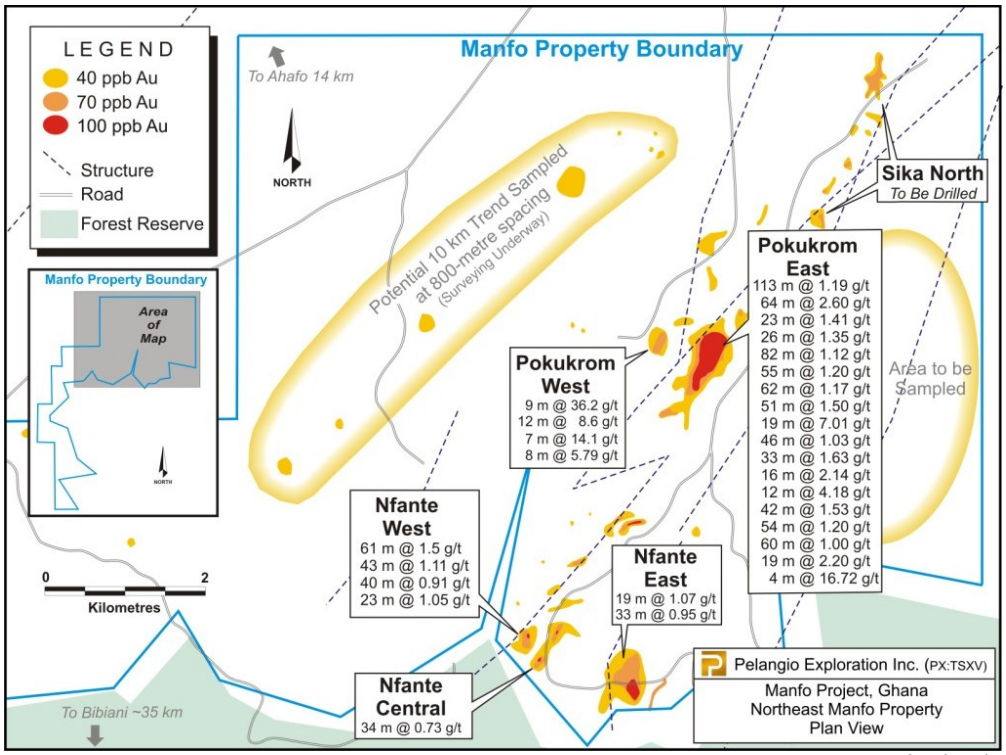
$1.00 per ounce of proven and probable gold reserves set out in the first positive feasibility study of the Manfo property. In addition, the Manfo property is subject to Ghana's legislated 10% carried interest upon commencement of mining operations[7] and a 2% royalty interest.

During 2010, Pelangio completed a First Phase (16 hole, 2,379 meter) diamond core[8] drilling program on the Manfo property to confirm certain historical exploration results. In March 2011, a **Second Phase drilling program began, which was subsequently increased to over 30,000 meters.** Through December 31, 2011, 122 holes totaling 24,856 meters had been completed. Both high grade and bulk tonnage grade intersections have been identified. All of the intersections were relatively near surface. Potential bulk tonnage gold mineralization was discovered at Nfante East, Nfante West and Pokukrom East. Four holes at Pokukrom West intersected near-surface, high-grade gold mineralization over significant intervals; the high-grade intersections at Pokukrom West could also be amenable to bulk tonnage mining due to their proximity to surface and the lower grade supporting mineralization surrounding the high-grade intervals.

During the first half of 2012, management plans to continue the Second Phase program with 13,000+ meters of drilling in order to complete a 43-101 compliant initial gold resource report. In addition, another induced polarization survey is planned, along with further trenching, augering and soil sampling programs.

Management believes that the results suggest that there may be a major gold bearing system similar to the Sefwi Belt mines of Newmont Mining's Ahafo and Kinross' Chirano, where the mines are composed of numerous deposits of varying size and grade spread over a considerable strike length.

Selected Drill Results on the Manfo Property



Courtesy of Pelangio

[7] The Ghanaian government also has the right to acquire a further 20% interest on mutually agreed terms.
[8] Diamond core drilling utilizes an annular diamond-impregnated drill bit attached to the end of hollow drill rods to cut a cylindrical core of solid rock. Water is injected through holes in the bit. Core samples are retrieved by the use of a lifter tube.

Pokukrom East

Pokukrom East is one of five significant Au anomalies have been identified within Pelangio's Manfo property, which lies on the Bibiani shear in the Sefwi greenstone belt[9], a fault network running from Newmont Mining's Ahafo mine (resources of 16 million oz) 14 kilometers to the north and extending south through Noble Minerals' Bibiani property (1.98 million oz) and down 50 kilometers to Kinros' Chirano property (resources of 5.39 million oz).

Drill holes consistently intersected near-surface, high-grade gold mineralization (intervals between 10-to-13 meters of 3.05-to-4.18 g/t) over a strike length of approximately 400 meters (see table and map below). **The strike length of low-grade gold mineralization has been expanded to 850 meters and to a vertical depth of up to 275 meters.** Further drilling is planned to the north and south. **Potential bulk tonnage zones continue to be discovered in every announcement of drilling results at Pokukrom East.** Through December 31, 2011, 63holes totaling 12,657 meters had been completed. The company continues with in-fill drilling at 50 meter spacing and to a depth of 200 meters to further define the resource at Pokukrom East. The geochemical anomaly at Pokukrom East is approximately 1,200 meters in length.

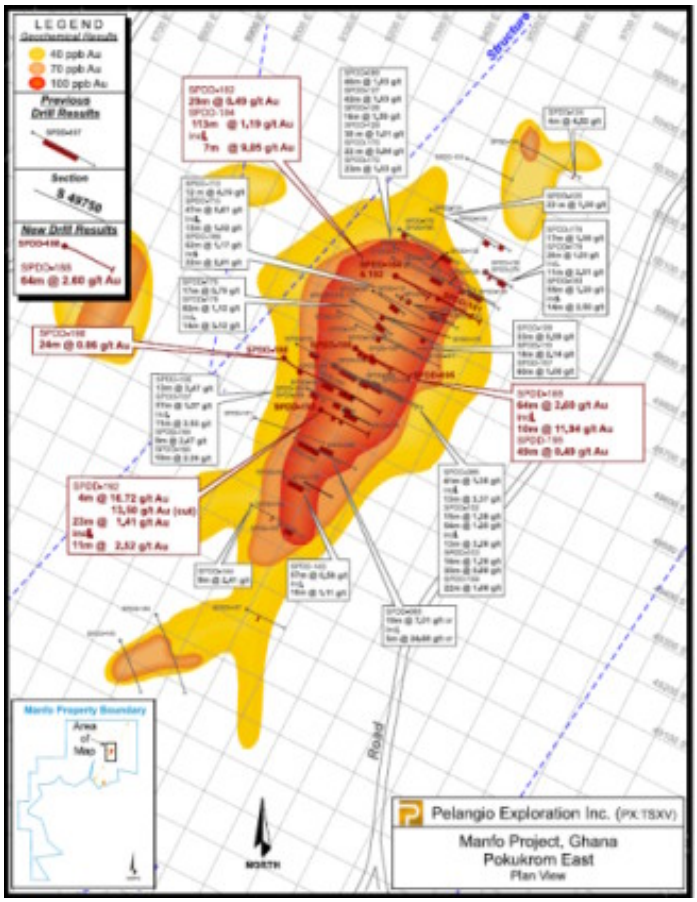
High grade intersections at Pokukrom East

Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
Pokukrom East	SPDD-085	116	129	13	3.37
	SPDD-088	35	54	19	7.01
	SPDD-106	41	54	13	3.47
	SPDD-107	116	127	11	3.53
	SPDD-110	117	127	10	3.05
	SPDD-113	91	103	12	4.19
	SPDD-152	142	155	13	3.26
	SPDD-179	**217**	**284**	**14**	**3.12**
	SPDD-185	**215**	**222**	**7**	**9.05**
	SPDD-188	**136**	**146**	**10**	**11.94**

Bold items are results that have been announced since our last report.

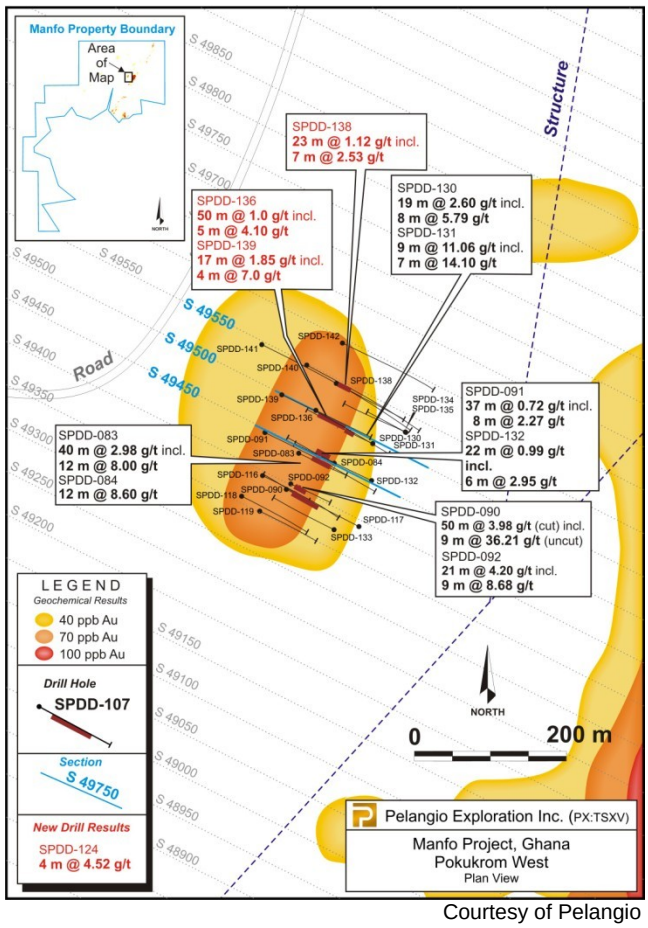
[9] The Sefwi Gold Belt is a 40-to-60 km wide Birimian volcanic belt extending from Ghana to the coast of Côte d'Ivoire. It is located northwest of, and parallel to, the Ashanti Gold Belt.

Pokukrom East



Courtesy of Pelangio

Pokukrom West



Courtesy of Pelangio

Pokukrom West

High-grade mineralization has also been encountered at **Pokukrom West**. Through the end of 2011, Pelangio has drilled 28 holes totaling 5,566 meters at Pokukrom West. Several drill holes (SPDD-130, 131, 136 and 139) assayed four-to-nine meters of 4.10-to-11.06 g/t high-grade gold. The strike appears to plunge, indicating the potential for a significant high-grade zone at depth. Drilling has been mainly spaced 50 meters apart, with some larger step outs.

Management believes that the results suggest that there may be a major gold bearing system similar to the Sefwi Belt mines of Newmont Mining's Ahafo and Kinross' Chirano, where the mines are composed of numerous deposits of varying size and grade spread over a considerable strike length.

High grade intersections at Pokukrom West

Pokukrom West	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
	SPDD-084	27	39	12	8.00
	SPDD-090	1	51	50	6.89
	SPDD-130	69	77	8	5.79
	SPDD-131	131	138	9	11.06
	SPDD-139	136	140	4	7.00

Nfante West

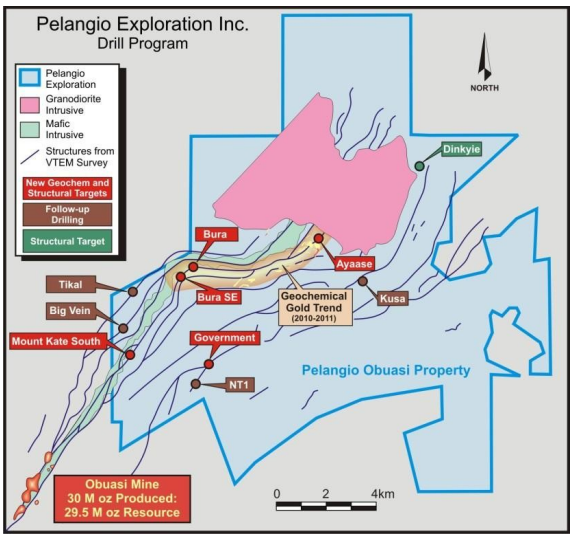
Bulk tonnage grade intersections have been identified at **Nfante West**. Through December 31, 2011, Pelangio has drilled 18 diamond drill holes totaling 3,429 meters at Nfante West. Results indicate the potential for bulk tonnage gold mineralization. Management plans to complete 50 meter infill drilling during the first half of 2012.

Nfante Central

A new low-grade gold zone has been confirmed through the company's diamond core drilling program. Since it is between Nfante East and Nfante West, the zone has been dubbed **Nfante Central**. Nfante Central is a geochemical anomaly approximately 800 meters in length. Pelangio drilled five holes totaling 939 meters. The first two holes confirmed bulk tonnage gold mineralization, with one hole intersecting 0.73 g/t gold over 34 meters, including 1.05 g/t over 11 meters, and the other intersecting 0.66 g/t gold over 7 meters. Step-outs 100 meters to the north and south have been drilled in order to trace the zone along strike. The assay results are pending.

OBUASI (GHANA) PROPERTY

Pelangio Exploration has a 100% interest in the **Obuasi property**. Pelangio Mines entered into option agreements in May 2006 for three early-stage gold mineral exploration concessions (Meduma, Kyereboso No. 2, and Kyereboso No. 3, collectively known as the Obuasi property) totaling 290 square kilometers, which lie on the Northern Ashanti Gold Belt contiguous with and immediately adjacent to AngloGold Ashanti's Obuasi mine (the world's largest vein hosted gold deposit). **In June 2011, Pelangio made the last option payment and acquired a 100% interest in Obuasi property** subject to Ghana's legislated 10% carried interest upon commencement of mining operations[10] and a 2% royalty interest.

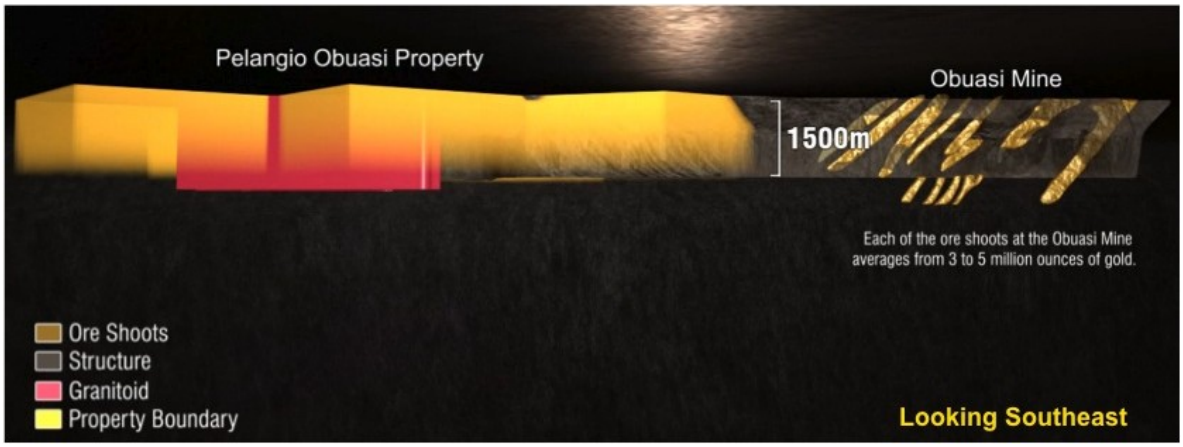


The Obuasi mine is a (primarily) underground, high-grade gold mine and has produced over 30 million ounces of gold since 1897, with 383,000 ounces produced in 2009. The Obuasi mine currently holds 29.53 million ounces in mineral resources (measured, indicated and inferred) [11].

Management's primary goal is to locate Obuasi Mine-style ore shoots within the company's Obuasi property boundary. **Obuasi Mine-style ore shoots** generally have a strike length of 80-to-200 meters,

[10] The Ghanaian government also has the right to acquire a further 20% interest on mutually agreed terms.
[11] Mineral Resource and Ore Reserve Report 2009 by AngloGold Ashanti.

are 3-to-20 meters wide and plunge to depths in excess of 2,500 meters. The gold mineralization in the Obuasi ore shoots is very continuous. In the company's drilling program, management is attempting to discover an Obuasi Mine-style ore shoot on a 15 kilometer anomaly (based on VTEM geophysical surveys) on strike with the Main Obuasi Mine Trend.



Management initiated a second phase 5,000 meter diamond drilling program on the Main Obuasi Trend in March 2011, which was subsequently **expanded to 7,000 meters**. During 2010, Pelangio identified evaluated and prepared targets for this second phase diamond drilling program on Kyereboso No. 2 and Meduma concessions. First phase exploration work included line cutting[12], prospecting pitting, geologic mapping, trenching, auger drilling and sampling of soils, outcrops and stream sediments. Also, 32 holes totaling 9,160 were drilled on the Kyereboso #2 concession and Kusa prospect (Meduma). Geophysical and geochemical surveys on Ayaase and Bura/Tikal on the Kyereboso No. 2 concession suggest the continuation of the main Obuasi Mine trend. During 2011, the **second phase drilling program was completed with 44 holes totaling 9,710 meters.** Targets included the Obuasi Mine trend, Ayaase, Bura, Tikal, Big Vein, Mount Kate South, Government, NT1 and Mampamphwe areas.

Management initially focused on the Ayaase and Bura targets, where channel sampling has returned results up to 15 g/t gold at Bura and one meter of 31.5 g/t Au at Ayaase. Strike lengths between 100 and 400 meters in gold anomalies have been identified. At Ayaase, in particular, concurrent gold and arsenic anomalies have been detected. Management is encouraged in that high-gold grades at the Obuasi Mine tend to be associated with iron arsenic sulphide. The 2011 program identified areas hosting high grade gold in the Government Area with intersection of 24.5 g/t Au over 1.0 meter, 11.28 g/t Au over 2.0 meters and 6.01 g/t Au over 2.0 meters.

In 2011, trenching (22 new trenches totaling 2,177 linear meters) and auger drilling (148 auger holes totaling 857 meters) were completed. **During the first half of 2012, management plans to continue prospecting, mapping and surveying** the Obuasi property, especially on Bura/Tikal corridor, and at Ayaase, where geophysical and geochemical surveys suggest the continuation of the Main Obuasi Mine Trend. In addition, the company will target the trend associated with the NT1, Government Area and Mampamphwe.

AKROMA (GHANA) PROPERTY

In June 2011, Pelangio entered into an agreement to acquire a 100% interest in the Akroma property, a 160 square kilometer parcel in the Brong Ahafo region of Ghana. The Akroma property is a very early

[12] Line cutting delineates the property, usually on grid lines, by cutting trees and underbrush, along with placing pickets and flagging.

stage exploration property with a reconnaissance license, where initial prospecting and geochemical and geophysical surveys indicate the potential for significant exploration discoveries. In Ghana, a reconnaissance license grants the exclusive right to investigate an area for minerals, including the ability to erect camps and/or temporary buildings. The reconnaissance license does not permit drilling or excavation. A reconnaissance license is usually granted for an initial period of 12 months, and extensions of the term of the license may be granted upon proper applications. The Akroma property is not expected to be drill-ready for at least a year.

Brong-Ahafo is located in mid-Ghana, between the Ashanti region and the Northern region. Though Pelangio has not yet given details of this reconnaissance license and its exact location, it is known that Newmont Mining is pursuing the Ahafo project, which lies within the Sefwi Volcanic Belt, a northeast-southwest trending volcanic belt in the Birimian system in the Brong Ahafo region. AngloGold Ashanti's Obuasi mine and Goldfield International's Abosso mine lie within this Birimian system, where economic gold deposits tend to occur along 70 kilometer strike lengths. The Abosso open pit mine has gold resources (measured, indicated, inferred and surface stockpiles) of 4.28 million ounces[13]. The Akroma property is generally north of the Sefwi Volcanic Belt.

The option agreement for the Akroma property requires that Pelangio pay $50,000 and issue 200,000 Pelangio common shares to the optionor over a three-year period to earn a 100% interest. On June 15, 2011, Pelangio paid $50,000 and issued 35,000 shares. In addition, Pelangio must issue to the optionor 40,000 shares in the first year (on or before June 15, 2012), 55,000 shares in the second year and 70,000 shares in the third year to secure the 100% interest. Pelangio must also grant the optionor a 2% net smelter return royalty (NSR), of which 1% may be repurchased at any time for $2 million.

FINANCIAL POSITION

At year-end 2011 (December 31, 2011), Pelangio had $7,732,269 in cash and marketable securities, no long-term debt, and $46,357,174 in shareholders' equity. Working capital increased 98% to $6,454,479 from $3,254,097 at the end of 2010. The company does not have any long-term debt, and shareholders' equity increased 45.1% from $31,948,634.

During 2011, the company's cash requirements for exploratory activities totaled $10,177,942 and were funded by $16,919,544 from the sale of securities and the exercise of options and warrants. The exploration costs in Ghana were $5,546,532 at Manfo and $3,992,513 at Obuasi.

Pelangio has financed capital expenditures and the payments towards options to acquire potential mining properties through the issuance of securities. In 2010, the exercise of options and warrants netted the company $811,314. During 2011, $3,653,271 was raised in a private placement in February. In addition, the exercise of options and warrants provided a further $6,085,197. A subsequent public offering raised $7,181,076.

VALUATION

As a junior gold exploration company, Pelangio cannot be valued on a revenue, earnings, or cash flow basis. Management's strategy is to increase a property's value through exploration, and subsequently through a corporate event, realize the value created by allowing another party to mine and generate revenues, cash flow and earnings from the property, while Pelangio retains some equity interest to participate in the property's development and any potential new discoveries. More sophisticated

[13] Measured 0.46 million ounces Au, Indicated 2.27 million ounces Au, Inferred 1.37 million ounces Au and surface stockpiles 0.18 million ounces Au as of June 2009.

methodologies based on market capitalization-to-reserves, average ore value per tonne, per-ounce costs or cash profit margins per ounce produced also are not germane. Therefore, an alternative valuation technique based on book value is the only appropriate alternative, especially in comparison to junior gold companies employing a similar exploration-discovery stage strategy to Pelangio's.

Book value of a junior gold exploration company represents the equity capital that has been raised to acquire the minerals rights on properties and to conduct exploration programs. An amalgamation of information is encapsulated within the raised capital total, including the quality of the properties (both in terms of mineral potential and political stability) and the exploration results from introductory geochemical surveys to assay results from drilling programs. Therefore, book value captures the complex valuation potential of the company's base gold resource value potential by sophisticated investors, most with expert knowledge of a junior gold exploration companies in the exploration phase with no stated revenues. Hence, we find the use of book value is a valid and appropriate metric by which to determine a junior gold exploration company's valuation.

Kaminak (KAM: TSXV) appears very similar to Pelangio. Kaminak operates in the exploration-discovery stage, focusing on the acquisition and exploration of gold properties. The company has not reached the gold production phase, and hence, does not yet generate revenues. Like Pelangio, Kaminak initiates drilling programs after conducting geochemical analysis of its properties. Also like Pelangio, Kaminak's drilling program discovered multiple intersections of wide intervals of gold mineralization over a presumed strike length of 100's of meters. Therefore, Kaminak can be analyzed as a benchmark for the valuation of a junior gold company without a resource calculation.

In late October 2009, Kaminak announced results from a trenching program of 11.72 g/t over ten meters from one trench and 8.56 g/t over 15m from the other trench. Prior to the discovery 2010, Kaminak's stock traded in a range between 1.4 and 2.2 times book value. After the announcement, the stock rallied to 3.2 times book value. Thereafter, stock steadily expanded its valuation to 3.7 times book. In late May 2010, the results of a successful drilling program (17.1 g/t over 15.5 meters) were announced, and the stock rallied to 7.1 times book value; in August 2010, after additional announced discoveries (15.9 and 21.3 g/t over 5 and 8 meters, respectively), the stock rallied further to 16.1 times book.

The stocks of junior gold companies have a unique trading profile. The stocks tend to mark time, trading sideways-to-down, during an incubation phase until a discovery from a drilling program is announced. Significant positive results are the stimulus for upside gaps in stock's price in a mark-up phase as the new information is discounted by first-movers. Generally, the price appreciation continues, albeit at a slower pace, usually on heavy volume until the newly created demand instigated by the announcement of the discovery is fulfilled. After the initial rally, another period of time of sideways-to-down action occurs. Often the stock retraces some, or sometimes all, of the prior price-appreciation during this digestion phase. If and when a subsequent discovery is announced from a follow-on drilling program, another mark-up phase is set in motion.

The valuation of Pelangio is more complex than Kaminak case, since Pelangio has two flagship properties (Manfo and Obuasi). In addition, Pelangio operates in Ghana instead of the Yukon Territory of Canada. However, using the Kaminak benchmark, **we expect Pelangio's stock to trade between 2.0 and 3.8 times book (C$0.60 and C$1.10)** due to the recent announcements concerning the successful drilling program on the Manfo property. With an initial NI 43-101 compliant inferred resource report on Manfo expected in 2012, the stock's valuation could potentially increase to between 6.0 and 7.0 times book (C$1.75 and C$2.05). We look forward to the release of the NI 43-101 compliant resource report on the Manfo property so that we can utilize our NAV model on the inferred resource.

Pelangio Exploration Inc.

Consolidated Statements of Operations and Retained Earnings

(in $ CAD)

For the years ending December 31	2006	2007	2008	2009	2010	IFRS 2010	IFRS 2011	2012 E
Interest	71,886	7,048	13,817	5,428	9,864	9,864	30,176	31,000
Gain on sale of marketable securities	10,836	0	0	0	0	0	0	0
Revenue:	**82,722**	**7,048**	**13,817**	**5,428**	**9,864**	**9,864**	**30,176**	**31,000**
Salaries and employee benefits	220,414	193,270	145,921	621,145	830,945	830,945	856,374	839,421
Consulting services	61,083	94,439	9,047	79,595	132,035	132,035	164,160	142,743
General exploration	0	1,395	8,396	7,323	29,609	29,609	13,936	17,000
Insurance	15,369	16,673	16,601	45,463	45,008	45,008	43,887	45,000
Professional fees	170,161	192,044	191,090	261,361	279,090	279,090	310,159	285,000
Investor relations	384,381	220,292	103,731	337,172	367,403	367,403	647,054	500,000
Office and general	74,977	126,025	67,363	122,347	188,023	188,023	382,946	400,000
Rent	48,000	58,295	9,602	61,390	79,649	79,649	56,884	60,000
Vehicle	0	0	0	596	553	553	473	600
Transfer agent and filing fees	45,535	16,606	25,919	67,680	39,227	39,227	101,677	75,000
Interest on advance from PDX Resources Inc.	0	0	0	5,250	0	0	0	0
Interest on short-term debt	0	0	300,000	0	0	0	0	0
Travel	45,016	4,295	14,684	22,612	78,953	78,953	28,676	35,000
Foreign exchange loss (gain)	0	0	21,720	83,874	118,967	118,967	(41,573)	0
Stock-based compensation cost	35,188	109,974	160,807	377,291	1,037,128	1,037,128	1,230,057	1,500,000
Amortization	9,327	25,080	31,309	47,626	77,765	77,765	104,852	115,000
Total Expenses	**1,109,451**	**1,058,388**	**1,106,190**	**2,140,725**	**3,304,355**	**3,304,355**	**3,899,562**	**4,014,765**
Loss from operations	**(1,026,729)**	**(1,051,340)**	**(1,092,373)**	**(2,135,297)**	**(3,294,491)**	**(3,294,491)**	**(3,869,386)**	**(3,983,765)**
Gain (loss) on disposal of mineral properties	(157,615)	7,305,367	0	1,913,200	0	0	0	0
Gain (loss) on disposal of marketable securities	(74,208)	9,002	902,812	0	2,377,304	2,377,304	0	0
Gain (loss) on disposal of equipment	0	0	0	0	0	0	6,239	0
Write down of mineral property	0	(1,126,959)	0	(270,416)	(1,109,183)	(1,109,183)	0	0
Equity loss from investment in Detour Gold Corp.	0	0	0	0	0	0	0	0
Other income	(231,823)	6,187,410	902,812	1,642,784	1,268,121	1,268,121	6,239	0
Income (loss) before income taxes	**(1,258,552)**	**5,136,070**	**(189,561)**	**(492,513)**	**(2,026,370)**	**(2,026,370)**	**(3,863,147)**	**(3,983,765)**
Future income taxes	1,833,000	(1,485)	262,000	167,000	168,000	(467,000)	154,000	(48,333)
Net income for the year	**574,448**	**5,134,585**	**72,439**	**(325,513)**	**(1,858,370)**	**(2,493,370)**	**(3,709,147)**	**(4,032,098)**
Other comprehensive income (loss)						(1,425,326)	0	0
Comprehensive income (loss) for the year						**(3,918,696)**	**(3,709,147)**	**(4,032,098)**
Loss attributable to parent company						**(2,442,556)**	**(3,688,354)**	**(4,009,495)**
Comprehensive income (loss) attributable to parent company						**(3,867,882)**	**(3,688,354)**	**(4,009,495)**
Net income per common share (basic)	0.01	0.07	0.00	(0.00)	(0.02)	(0.02)	(0.03)	(0.02)
Net income per common share (diluted)	**0.01**	**0.07**	**0.00**	**(0.00)**	**(0.02)**	**(0.02)**	**(0.03)**	**(0.02)**
Weighted average common shares outstanding								
- basic	65,878,728	69,646,697	73,858,277	91,109,890	122,000,341	122,000,341	135,452,924	168,000,000
- diluted	67,690,961	73,102,997	75,980,777	91,109,890	122,000,341	122,000,341	135,452,924	168,000,000

Pelangio Exploration Inc.

Consolidated Statements of Operations and Retain (in $ CAD) For the years ending December 31	IFRS 1Q 2011	IFRS 2Q 2011	IFRS 3Q 2011	IFRS 4Q 2011	IFRS 2011	IFRS 1Q 2012 E	IFRS 2Q 2012 E	IFRS 3Q 2012 E	IFRS 4Q 2012 E	IFRS 2012 E
Interest	1,995	9,738	12,891	5,552	30,176	7,130	7,595	7,905	8,370	31,000
Gain on sale of marketable securities	0	0	0	0	0					
Revenue:	**1,995**	**9,738**	**12,891**	**5,552**	**30,176**	**7,130**	**7,595**	**7,905**	**8,370**	**31,000**
Salaries and employee benefits	192,993	208,075	177,237	278,069	856,374	193,067	205,658	214,052	226,644	839,421
Consulting services	35,802	65,441	19,542	43,375	164,160	32,831	34,972	36,400	38,541	142,743
General exploration	1,397	3,970	4,098	4,471	13,936	3,910	4,165	4,335	4,590	17,000
Insurance	10,891	10,823	11,006	11,167	43,887	10,350	11,025	11,475	12,150	45,000
Professional fees	31,605	39,530	109,562	129,462	310,159	65,550	69,825	72,675	76,950	285,000
Investor relations	205,688	172,032	123,683	145,651	647,054	115,000	122,500	127,500	135,000	500,000
Office and general	119,972	73,230	80,178	109,566	382,946	92,000	98,000	102,000	108,000	400,000
Rent	14,111	13,793	14,301	14,679	56,884	13,800	14,700	15,300	16,200	60,000
Vehicle	0	0	473	0	473	138	147	153	162	600
Transfer agent and filing fees	42,352	14,792	1,960	42,573	101,677	17,250	18,375	19,125	20,250	75,000
Interest on advance from PDX Resources Inc.	0	0	0	0	0	0	0	0	0	0
Interest on short-term debt	0	0	0	0	0	0	0	0	0	0
Travel	2,841	4,141	9,293	12,401	28,676	8,050	8,575	8,925	9,450	35,000
Foreign exchange loss (gain)	63,644	16,717	(200,901)	78,967	(41,573)	0	0	0	0	0
Stock-based compensation cost	436,477	412,086	202,745	178,749	1,230,057	345,000	367,500	382,500	405,000	1,500,000
Amortization	28,437	32,027	18,517	25,871	104,852	26,450	28,175	29,325	31,050	115,000
Total Expenses	**1,186,210**	**1,066,657**	**571,694**	**1,075,001**	**3,899,562**	**923,396**	**983,617**	**1,023,765**	**1,083,986**	**4,014,765**
Loss from operations	**(1,184,215)**	**(1,056,919)**	**(558,803)**	**(1,069,449)**	**(3,869,386)**	**(916,266)**	**(976,022)**	**(1,015,860)**	**(1,075,616)**	**(3,983,765)**
Gain (loss) on disposal of mineral properties	0	0	0	0	0	0	0	0	0	0
Gain (loss) on disposal of marketable securities	0	0	0	0	0	0	0	0	0	0
Gain (loss) on disposal of equipment	0	0	(1,492)	7,731	6,239	0	0	0	0	0
Write down of mineral property	0	0	0	0	0	0	0	0	0	0
Equity loss from investment in Detour Gold Corp.	0	0	0	0	0	0	0	0	0	0
Other income	0	0	(1,492)	7,731	6,239	0	0	0	0	0
Income (loss) before income taxes	**(1,184,215)**	**(1,056,919)**	**(560,295)**	**(1,061,718)**	**(3,863,147)**	**(916,266)**	**(976,022)**	**(1,015,860)**	**(1,075,616)**	**(3,983,765)**
Future income taxes	(247,000)	555,000	110,000	(264,000)	154,000	0	0	0	0	(48,333)
Net income	**(1,431,215)**	**(501,919)**	**(450,295)**	**(1,325,718)**	**(3,709,147)**	**(916,266)**	**(976,022)**	**(1,015,860)**	**(1,075,616)**	**(4,032,098)**
Other comprehensive income (loss)					0	0	0	0	0	0
Comprehensive income (loss) for the year					(3,709,147)	(916,266)	(976,022)	(1,015,860)	(1,075,616)	(4,032,098)
Loss attributable to parent company					(3,688,354)	(911,129)	(970,551)	(1,010,165)	(1,069,587)	(4,009,495)
Comprehensive income (loss) attributable to parent company					(3,688,354)	(911,129)	(970,551)	(1,010,165)	(1,069,587)	(4,009,495)
Net income per common share (basic)	(0.01)	(0.00)	(0.00)	(0.01)	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Net income per common share (diluted)	**(0.01)**	**(0.00)**	**(0.00)**	**(0.01)**	**(0.03)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.02)**
Weighted average common shares outstanding										
- basic	125,928,192	137,040,872	138,130,763	140,711,870	135,452,924	159,000,000	164,000,000	169,000,000	172,000,000	177,000,000
- diluted	125,928,192	137,040,872	138,130,763	140,711,870	135,452,924	159,000,000	164,000,000	169,000,000	172,000,000	177,000,000

Pelangio Exploration Inc.

Consolidated Balance Sheets
(in $ CAD)

For the years ending December 31	2006	2007	2008	2009	2010	2011	2012 E
Assets							
Current:							
Cash and cash equivalents	1,258,676	2,018,603	379,937	7,178,564	3,300,209	7,732,269	7,240,115
Amounts receivable	445,826	16,196	13,764	38,424	62,816	106,405	75,000
Loan receivable	0	0	424,000	0	0	0	0
Prepaid expenses	32,102	31,938	37,182	135,640	114,421	77,548	75,000
Marketable securities	360,000	12,359,950	2,415,952	1,788,000	0	0	0
Current Assets	2,096,604	14,426,687	3,270,835	9,140,628	3,477,446	7,916,222	7,390,115
Deferred transactions costs	263,166	0	0	0	0	0	0
Non-current prepaid expenses	0	0	0	0	182,785	103,960	115,000
Property and equipment	52,433	101,887	95,485	215,340	266,054	389,039	425,000
Mineral properties and deferred exploration costs	11,780,395	9,977,472	20,635,810	26,335,067	30,030,884	41,091,696	45,000,000
Future income taxes	1,833,000	-	-	-	-	-	-
Total Assets	**16,025,598**	**24,506,046**	**24,002,130**	**35,691,035**	**33,957,169**	**49,500,917**	**52,930,115**
Liabilities							
Accounts payable and accrued liabilities	340,956	222,087	330,478	278,961	223,349	1,461,743	1,000,000
Advances from PDX Resources Inc.	0	0	177,803	0	0	0	0
Current Liabilities	340,956	222,087	508,281	278,961	223,349	1,461,743	1,000,000
Future income taxes	56,000	747,000	395,000	1,444,000	1,836,000	1,682,000	1,700,000
Share capital (no par value)	18,476,557	0	18,511,438	30,283,689	31,239,402	47,364,248	54,148,201
Contributed surplus	1,615,103	14,030,841	275,950	1,443,491	2,335,920	4,374,258	5,495,344
Retained earnings (deficit)	(4,463,018)	2,362,492	2,434,931	815,568	(1,626,688)	(5,381,332)	(9,413,430)
Accumulated other comprehensive income		7,143,626	1,876,530	1,425,326	0	0	0
Shareholders' Equity	15,628,642	23,536,959	23,098,849	33,968,074	31,948,634	46,357,174	50,230,115
Non-controlling interest	-	-	-	-	(50,814)	-	-
Total Liabilities and Equity	**16,025,598**	**24,506,046**	**24,002,130**	**35,691,035**	**33,957,169**	**49,500,917**	**52,930,115**

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1029 companies covered: Buy/Outperform- 15.1%, Hold/Neutral- 79.2%, Sell/Underperform – 5.0%. Data is as of midnight on the business day immediately prior to this publication.