Zacks Small-Cap Research

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Pelangio Exploration (V.PX-TSX-V)

V.PX: An NI 43-101 compliant resource report is expected on Manfo in 2012. Our target remains $1.10

Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/16/2010
Current Price (07/17/12)	$0.29
Six- Month Target Price	**$1.10**

OUTLOOK

Pelangio Exploration is a junior gold exploration company proceeding with a Phase 2 drilling program on its Manfo 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 confirmed and extended the strike lengths of the discoveries on the Manfo property. Importantly, an NI 43-101 compliant resource report on Manfo is expected in 2012. The company has been very successful raising funds for its exploration program; hence, we reiterate the Outperform rating and maintain our target of $1.10.

SUMMARY DATA

52-Week High	**$0.68**
52-Week Low	**$0.28**
One-Year Return (%)	**-50.84**
Beta	**0.31**
Average Daily Volume (shrs.)	**98,425**
Shares Outstanding (million)	**158.9**
Market Capitalization ($ mil.)	**$46.1**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**19.1**
Insider Ownership (%)	**13.7**
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	**16 of 41**

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	10.86 A	7.60 E	7.30 E	8.37 E	34.13 E
2013					35.00 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 A	-$0.00 E	-$0.00 E	-$0.00 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.

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KEY POINTS

- Pelangio Exploration is a junior gold exploration company currently proceeding with a second phase drilling program of 40,000 meters at the company's Manfo property in Ghana. An exploratory diamond drill program of 9,710 meters on the Obuasi property was completed in 2011.
- **A NI 43-101[1] compliant inferred resource report on the Manfo property is expected in 2012**.
- Pelangio holds a 100% interest in both 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.
- In June, Pelangio made the second of four payments towards the acquisition of 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.
- We reiterate an Outperform rating on Pelangio and our target remains $1.10.

RECENT DEVELOPMENTS

- **Manfo property:**
  - A follow-up induced polarization (IP) survey was completed in the first quarter; the 350 line kilometer program identified 20 new targets in areas of high resistivity at Pokukrom East.
  - During the first quarter, 18 holes totaling 4,442 meters were drilled at Pokukrom East, and seven holes totaling 1,617 meters were drilled at Nfante West. Subsequently, Pelangio has indicated that 178 drill holes totaling over 37,000 meters in the Second Phase program had been completed.
  - A third drilling rig was added in the first quarter of 2012.
  - Preliminary scoping metallurgical tests on samples indicate a conventional metallurgical profile with gold recoveries between 84% and 94%.
  - An initial NI 43-101 compliant inferred resource report on the Pokukrom East, Pokukrom West and Nfante West deposits is expected in the second half of 2012.
- **Obuasi property**
  - During the second and third quarters of 2012, management plans to continue prospecting, mapping and surveying at Obuasi.
- **Akroma property**
  - Since optioning the property, Pelangio has explored the property by collecting 3,712 soil samples from three areas for the purpose of identifying targets for an upcoming drill program.

[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**
  - The exercise of options provided $97,500 of working capital during the first quarter of 2012.

RECENT EVENTS

On July 9, 2012, Pelangio announced results from preliminary scoping metallurgical tests on composite samples taken from Pokukrom East and Pokukrom West. Undertaken by SGS Mineral Services (Ontario), four samples exhibited a conventional metallurgical profile with the expectation of gold recoveries between 84% and 94%. Initial indications suggest a recovery circuit composed of crushing and grinding, gravity separation (achieving recoveries between 21% and 50%) and cyanide leaching (48 hours in the laboratory test). Though the optimal grind size has yet to be determined, the 84% to 94% recovery rates assume 80% of the ore passing through 75 micron screens. The average actual head assays of the four samples were 1.32 g/t, 1.22 g/t, 12.5 g/t and 2.71 g/t. Also, the study suggested that a whole ore cyanide leaching circuit with oxygen injection may be able to achieve similar levels of gold recovery.

On June 19, 2012, Pelangio announce that the second option payment (40,000 common shares of Pelangio Exploration) was made to the optionor of the Akroma property. In order to earn a 100% interest in the property, Pelangio need only issue an additional 125,000 shares to the optionor over the next two years (55,000 shares on or before June 15, 2013 and 70,000 shares on or before June 15, 2014).

On May 25, 2012, Pelangio Exploration reported **financial results for the first quarter** ending March 31, 2012. The company reported a loss for the quarter of $1,693,708 versus a loss of $1,431,215 in the comparable-quarter last year. Interest received increased 445% due to a high cash balance derived from the closing of an equity offering that provided net proceeds of $7.1 million in late December 2011. Professional fees increased 110% to $66,458 from $31,605, primarily due to increased costs related to the transition to IFRS. Consulting services also increased 75%. However, cost cutting was evident from Office expenses decreasing 55% to $53,576 due to less administrative travel to Ghana and Investor Relations expenses declining 57% to $89,153. Also, stock-based compensation (a non-cash expense) decreased 20% to $295,199 compared to $436,477. During the quarter, the exercise of options provided $97,500 of working capital.

During the quarter, a follow-up induced polarization (IP) survey was completed at **Manfo**. A 350 line kilometer program identified 20 new targets in areas of high resistivity where cover appears to mask underlying gold mineralization that geochemical surveys cannot detect. In connection with the IP survey, 1,869 soil and four pit samples were collected. At Pokukrom East, 18 holes totaling 4,442 meters were drilled during the quarter, and seven holes totaling 1,617 meters were drilled at Nfante West. At **Obuasi**, Pelangio completed three trenches totaling 331 meters and four prospecting pits for a total depth of 4.90 meters; 357 trench samples, 252 outcrop samples and 4,091 soil samples were collected.

During the second and third quarters of 2012, management plans to drill on new targets identified by the follow-up IP survey, along with continued trenching, pitting, augering and soil sampling programs elsewhere at Manfo. The results from the geochemical surveys will be analyzed and initial metallurgical testing will be conducted. **An NI 43-101 initial inferred gold resource report on Manfo is expected to be completed in the second half of 2012.**

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,

[2] Pelangio is a development stage company, as defined by the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

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 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

[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.
[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.

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 has adopted IFRS with the financial statements for the year ending December 31, 2011 being the first annual financial statements that fully comply with IFRS. Financial statements for 2010 were restated to comply with IFRS.

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 geochemical anomalies** have been identified, and drilling has **confirmed near surface gold discoveries 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 $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 40,000 meters.** During 2011, 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). Through December 31, 2011, 122 holes totaling 24,856 meters had been completed on the Manfo property. At Obuasi 22 new trenches (2,177 linear meters) and 148 auger holes (857 meters) were completed.

Exploration continued during the first quarter of 2012. A follow-up induced polarization (IP) survey was completed, and the 350 line kilometer program identified 20 new targets in areas of high resistivity. At Pokukrom East, 18 holes totaling 4,442 meters were drilled, and seven holes totaling 1,617 meters were drilled at Nfante West during the quarter. Subsequent to the quarter end, Pelangio has indicated that 178 drill holes totaling over 37,000 meters in the Second Phase program had been completed.

[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.
[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.

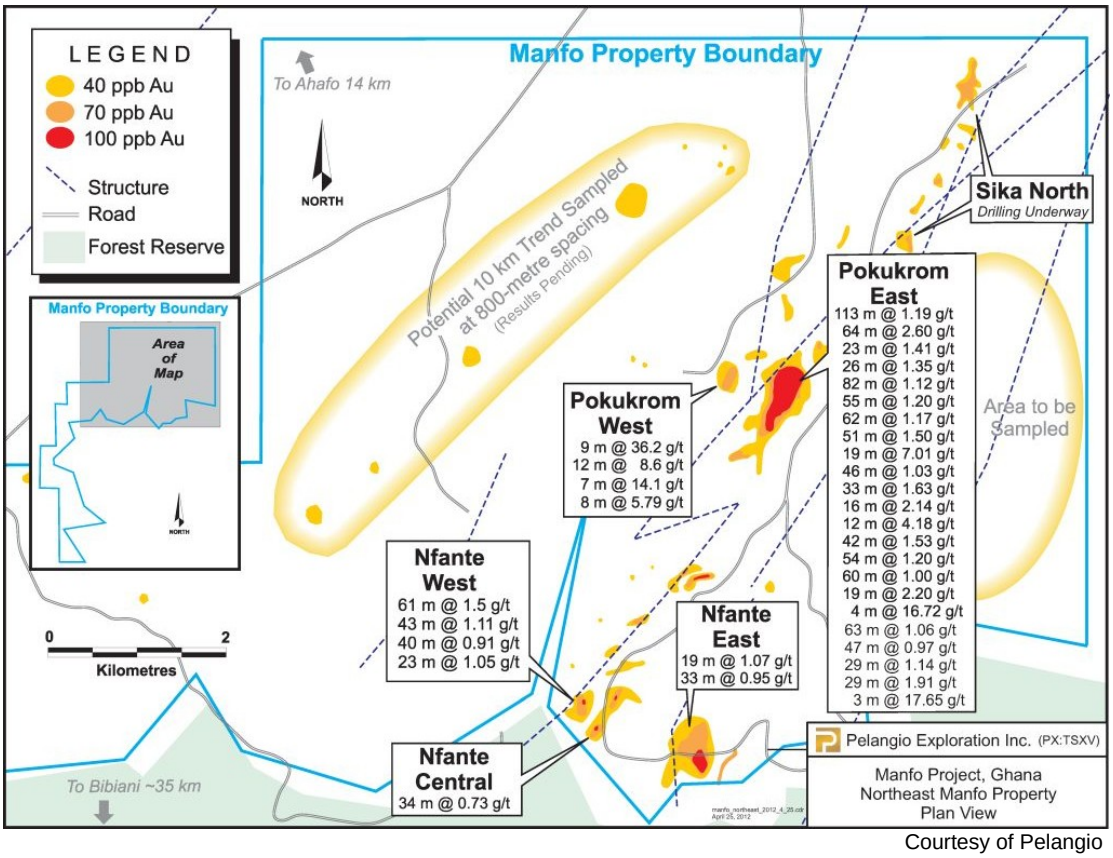
Both high grade and bulk tonnage grade intersections have been identified. All of the intersections have been relatively near surface. Potential bulk tonnage gold mineralization was discovered at Nfante East, Nfante West and Pokukrom East. Four holes at Pokukrom West intersected near-surface, high-grade 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 second 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 inferred resource report. A third drilling rig was added in the first quarter. Also, another induced polarization survey is planned, along with further trenching, augering and soil sampling programs.

On November 1, 2011, Pelangio Exploration filed an initial NI 43-101 report 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. **An initial NI 43-101 compliant inferred resource report is expected in the second half of 2012.**

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

Pokukrom East

Pokukrom East is one of five significant Au anomalies have been identified within Pelangio's Manfo property. **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. Through March 31, 2012, 91 holes totaling 17,099 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. In addition, to the north the zone plunges at approximately 40 degrees from near-surface to a depth of 210 meters with a currently defined length of approximately 600 meters.

High grade intersections at Pokukrom East

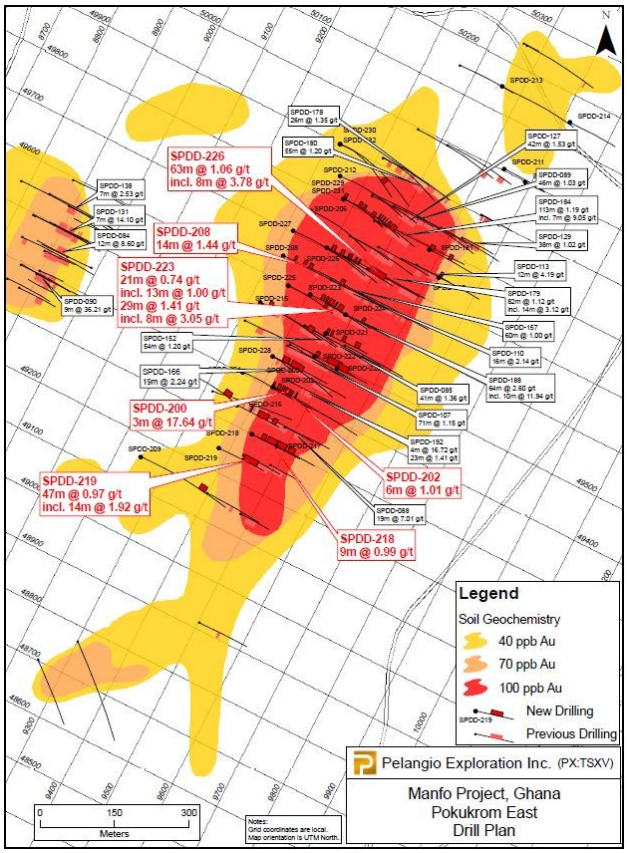
Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
Pokukrom East	SPDD-085	116	129	13	3.37
	SPDD-088	35	54	19	7.01
	SPDD-106	41	54	13	3.47
	SPDD-107	116	127	11	3.53
	SPDD-110	117	127	10	3.05
	SPDD-113	91	103	12	4.19
	SPDD-152	142	155	13	3.26
	SPDD-179	217	284	14	3.12
	SPDD-184	215	222	7	9.05
	SPDD-188	136	146	10	11.94
	SPDD-223	**185**	**193**	**8**	**3.05**
	SPDD-226	**181**	**189**	**8**	**3.78**

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

Pokukrom West

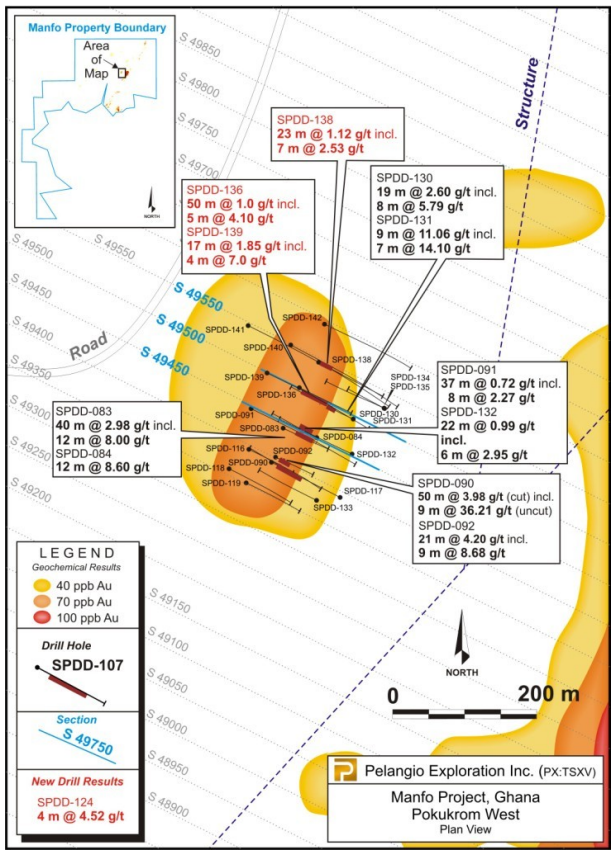
High-grade mineralization has also been encountered at **Pokukrom West**. Through the end of 2011, Pelangio has drilled 28 holes totaling 5,566 meters at Pokukrom West. Several drill holes (SPDD-130, 131, 136 and 139) assayed four-to-nine meters of 4.10-to-11.06 g/t high-grade gold. The currently defined 100 meter 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. No drilling was conducted at Pokukrom West during the first quarter of 2012.

Pokukrom East



Courtesy of Pelangio

Pokukrom West



Courtesy of Pelangio

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

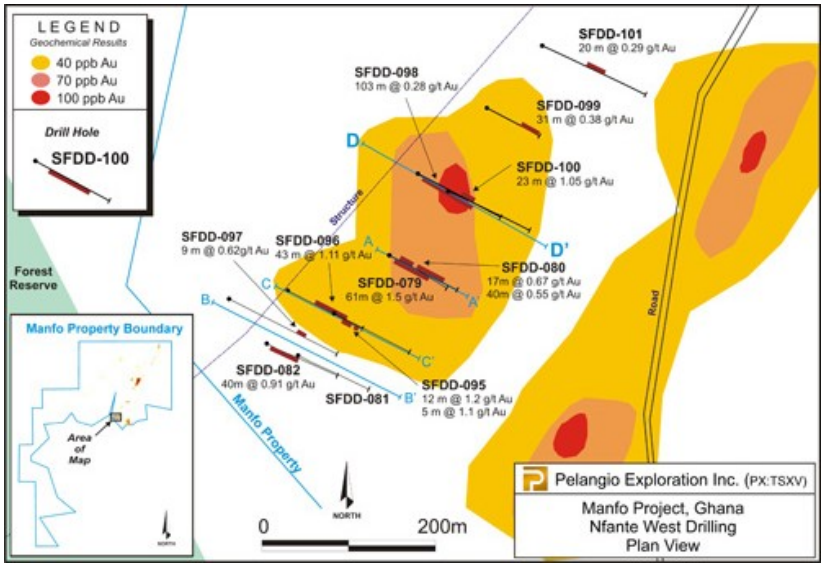
Nfante West

Bulk tonnage grade intersections have been identified at **Nfante West**. Through March 31, 2012, Pelangio has drilled 25 diamond drill holes totaling 5,046 meters at Nfante West. Results indicate the potential for bulk tonnage gold mineralization. To date, drilling has defined a strike length of at least 280 meters that remains open on strike and at depth. Management aims to complete 50 meter infill drilling during 2012.

Nfante Central

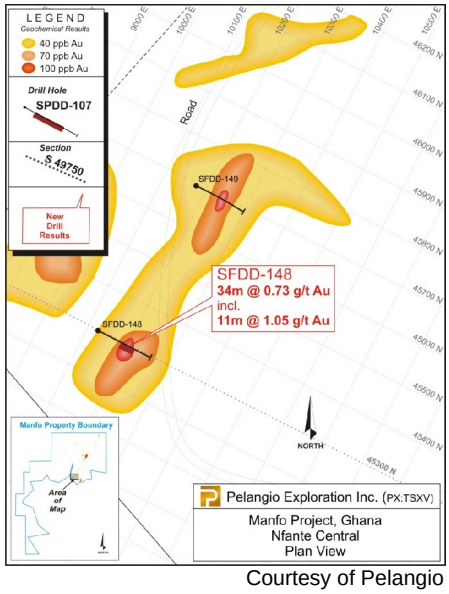
A new low-grade gold zone has been confirmed through the company's diamond core drilling program. Since it is between Nfante East and Nfante West, the zone has been dubbed **Nfante Central**. Nfante Central is a geochemical anomaly approximately 800 meters in length. During 2011, Pelangio drilled five 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 were drilled in order to trace the zone along strike. No drilling was conducted at Nfante Central during the first quarter of 2012.

Nfante West



Courtesy of Pelangio

Nfante Central



Courtesy of Pelangio

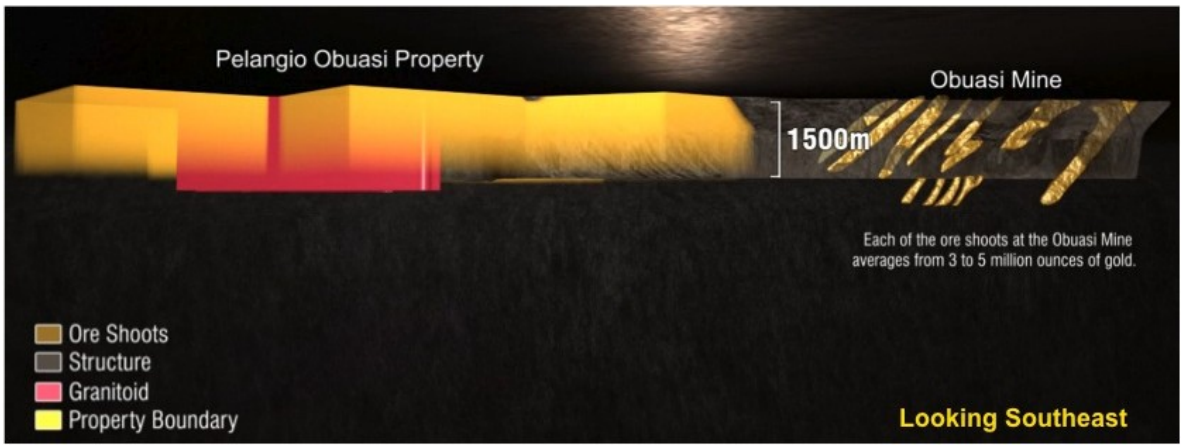
OBUASI (GHANA) PROPERTY

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[9] 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) [10].

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, 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.

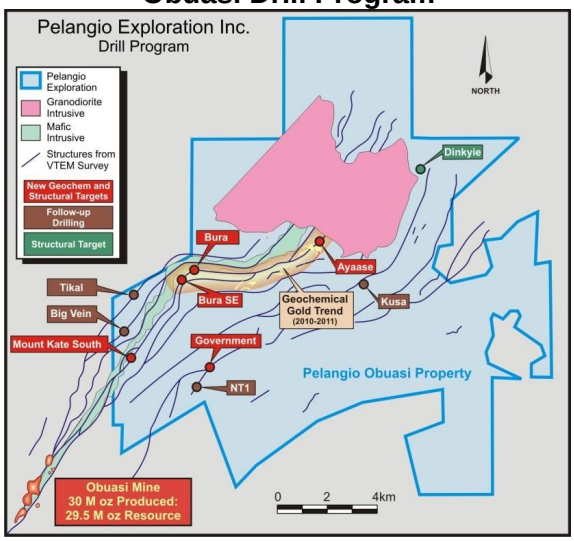
[9] The Ghanaian government also has the right to acquire a further 20% interest on mutually agreed terms.
[10] Mineral Resource and Ore Reserve Report 2009 by AngloGold Ashanti.



Management initiated a second phase 5,000 meter diamond drilling program on the Main Obuasi Trend in March 2011, which was subsequently **expanded to over 9,000 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[11], 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.

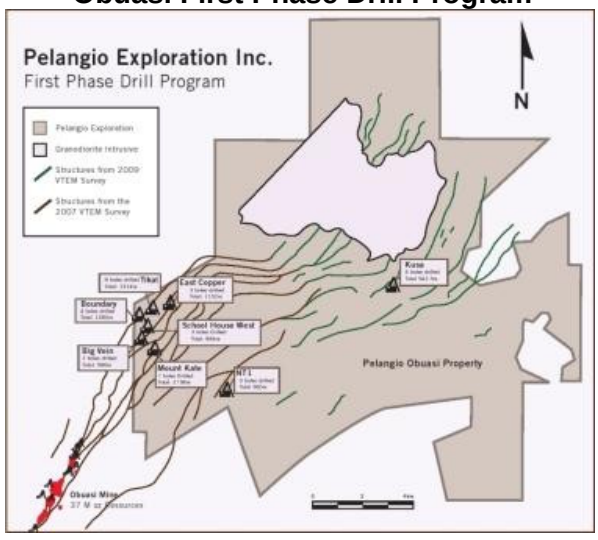
Management initially focused on the Ayaase and Bura targets, where channel sampling has returned results up to 15 g/t gold at Bura and one meter of 31.5 g/t Au at Ayaase. Strike lengths between 100 and 400 meters in gold anomalies have been identified. At Ayaase, in particular, concurrent gold and arsenic 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.

Obuasi Drill Program



Courtesy of Pelangio

Obuasi First Phase Drill Program



Courtesy of Pelangio

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

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 quarter of 2012, At Obuasi, Pelangio completed three trenches totaling 331 meters and four prospecting pits for a total depth of 4.90 meters; 357 trench samples, 252 outcrop samples and 4,091 soil samples were collected. **During the second and third quarters of 2012, management plans to continue prospecting, mapping and surveying** the Obuasi property, especially 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 159.5 square kilometer parcel in the Brong Ahafo region of Ghana. The Akroma property is an early 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[12]. 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, and in June 2012, Pelangio issued an additional 40,000 shares to the optionor. To secure a 100% interest the Akroma property, Pelangio must issue 55,000 shares to the optionor in the second year (on or before June 15, 2013) and 70,000 shares in the third year. 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.

Prior to acquiring the option on the Akroma property, geochemical drainage sampling had been conducted. Drainage sampling returned between 1 g/t Au and 23 g/t Au from 56 out of 65 pan samples and between 0.037 g/t gold and 0.71 g/t gold from 28 of 42 silt samples. Since optioning the property, Pelangio has explored three areas of the property by collecting 3,712 soil samples. The samples have been sent to SGS Laboratories for bulk leach extractable gold (BLEG) analysis. An additional 126 orientation samples were collected and sent to ALS Chemex for Leachwell gold analysis. Management is focusing on identifying near-surface, drill-ready targets for an upcoming drill program.

[12] 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.

FINANCIAL POSITION

At the end of the first quarter of 2012 (March 31, 2012), Pelangio had $3,950,498 in cash and marketable securities, no long-term debt, and $45,056,165 in shareholders' equity. Working capital was $3,373,939. The company does not have any long-term debt.

Pelangio has financed exploration activities 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, and a subsequent public offering raised $7,181,076. The company's cash requirements for exploratory activities totaled $10,177,942 ($5,546,532 at Manfo and $3,992,513 at Obuasi) and were funded by the net proceeds of $16,919,544 from the sale of securities and the exercise of options and warrants during 2011. During the first quarter of 2012, the exercise of options provided $97,500 of additional working capital.

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 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 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 1.5 and 3.8 times book (C$0.44 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.

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.

PROJECTED FINANCIAL STATEMENTS

Pelangio Exploration Inc.

Consolidated Balance Sheets
(in $ CAD)

For the years ending December 31	2006	2007	2008	2009	2010	2011	1Q 2012	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	3,950,498	7,240,115
Amounts receivable	445,826	16,196	13,764	38,424	62,816	106,405	95,841	75,958
Loan receivable	0	0	424,000	0	0	0	0	0
Prepaid expenses	32,102	31,938	37,182	135,640	114,421	77,548	79,631	75,000
Marketable securities	360,000	12,359,950	2,415,952	1,788,000	0	0	0	0
Current Assets	2,096,604	14,426,687	3,270,835	9,140,628	3,477,446	7,916,222	4,125,970	7,391,073
Deferred transactions costs	263,166	0	0	0	0	0	0	0
Non-current prepaid expenses	0	0	0	0	182,785	103,960	204,480	115,000
Property and equipment	52,433	101,887	95,485	215,340	266,054	389,039	369,659	400,000
Mineral properties and deferred exploration costs	11,780,395	9,977,472	20,635,810	26,335,067	30,030,884	41,091,696	43,544,087	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**	**48,244,196**	**52,906,073**
Liabilities								
Accounts payable and accrued liabilities	340,956	222,087	330,478	278,961	223,349	1,461,743	752,031	1,000,000
Advances from PDX Resources Inc.	0	0	177,803	0	0	0	0	0
Current Liabilities	340,956	222,087	508,281	278,961	223,349	1,461,743	752,031	1,000,000
Future income taxes	56,000	747,000	395,000	1,444,000	1,836,000	1,682,000	2,436,000	1,700,000
Share capital (no par value)	18,476,557	0	18,511,438	30,283,689	31,239,402	47,364,248	47,500,748	54,148,201
Contributed surplus	1,615,103	14,030,841	275,950	1,443,491	2,335,920	4,374,258	4,583,154	5,495,344
Retained earnings (deficit)	(4,463,018)	2,362,492	2,434,931	815,568	(1,626,688)	(5,381,332)	(7,027,737)	(9,437,472)
Accumulated other comprehensive income		7,143,626	1,876,530	1,425,326	0	0	0	0
Shareholders' Equity	15,628,642	23,536,959	23,098,849	33,968,074	31,948,634	46,357,174	45,056,165	50,206,073
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**	**48,244,196**	**52,906,073**

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	34,135
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**	**34,135**
Salaries and employee benefits	220,414	193,270	145,921	621,145	830,945	830,945	856,374	833,469
Consulting services	61,083	94,439	9,047	79,595	132,035	132,035	164,160	172,502
General exploration	0	1,395	8,396	7,323	29,609	29,609	13,936	13,942
Insurance	15,369	16,673	16,601	45,463	45,008	45,008	43,887	47,418
Professional fees	170,161	192,044	191,090	261,361	279,090	279,090	310,159	285,908
Investor relations	384,381	220,292	103,731	337,172	367,403	367,403	647,054	474,153
Office and general	74,977	126,025	67,363	122,347	188,023	188,023	382,946	361,576
Rent	48,000	58,295	9,602	61,390	79,649	79,649	56,884	60,879
Vehicle	0	0	0	596	553	553	473	462
Transfer agent and filing fees	45,535	16,606	25,919	67,680	39,227	39,227	101,677	71,186
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	96,217
Foreign exchange loss (gain)	0	0	21,720	83,874	118,967	118,967	(41,573)	49,688
Stock-based compensation cost	35,188	109,974	160,807	377,291	1,037,128	1,037,128	1,230,057	1,450,199
Amortization	9,327	25,080	31,309	47,626	77,765	77,765	104,852	124,342
Total Expenses	**1,109,451**	**1,058,388**	**1,106,190**	**2,140,725**	**3,304,355**	**3,304,355**	**3,899,562**	**4,041,942**
Loss from operations	**(1,026,729)**	**(1,051,340)**	**(1,092,373)**	**(2,135,297)**	**(3,294,491)**	**(3,294,491)**	**(3,869,386)**	**(4,007,807)**
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)**	**(4,007,807)**
Deferred income taxes (credit)	(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)**	**(4,056,140)**
Other comprehensive income (loss)						(1,425,326)	0	0
Comprehensive income (loss) for the year						**(3,918,696)**	**(3,709,147)**	**(4,056,140)**
Loss attributable to parent company						**(2,442,556)**	**(3,688,354)**	**(4,033,402)**
Comprehensive income (loss) attributable to parent company						**(3,867,882)**	**(3,688,354)**	**(4,033,402)**
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	177,000,000
- diluted	67,690,961	73,102,997	75,980,777	91,109,890	122,000,341	122,000,341	135,452,924	177,000,000

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	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	10,865	7,595	7,305	8,370	34,135
Gain on sale of marketable securities	0	0	0	0	0					
Revenue:	**1,995**	**9,738**	**12,891**	**5,552**	**30,176**	**10,865**	**7,595**	**7,305**	**8,370**	**34,135**
Salaries and employee benefits	192,993	208,075	177,237	278,069	856,374	187,115	205,658	214,052	226,644	833,469
Consulting services	35,802	65,441	19,542	43,375	164,160	62,590	34,972	36,400	38,541	172,502
General exploration	1,397	3,970	4,098	4,471	13,936	852	4,165	4,335	4,590	13,942
Insurance	10,891	10,823	11,006	11,167	43,887	12,768	11,025	11,475	12,150	47,418
Professional fees	31,605	39,530	109,562	129,462	310,159	66,458	69,825	72,675	76,950	285,908
Investor relations	205,688	172,032	123,683	145,651	647,054	89,153	122,500	127,500	135,000	474,153
Office and general	119,972	73,230	80,178	109,566	382,946	53,576	98,000	102,000	108,000	361,576
Rent	14,111	13,793	14,301	14,679	56,884	14,679	14,700	15,300	16,200	60,879
Vehicle	0	0	473	0	473	0	147	153	162	462
Transfer agent and filing fees	42,352	14,792	1,960	42,573	101,677	13,436	18,375	19,125	20,250	71,186
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	69,267	8,575	8,925	9,450	96,217
Foreign exchange loss (gain)	63,644	16,717	(200,901)	78,967	(41,573)	49,688	0	0	0	49,688
Stock-based compensation cost	436,477	412,086	202,745	178,749	1,230,057	295,199	367,500	382,500	405,000	1,450,199
Amortization	28,437	32,027	18,517	25,871	104,852	35,792	28,175	29,325	31,050	124,342
Total Expenses	**1,186,210**	**1,066,657**	**571,694**	**1,075,001**	**3,899,562**	**950,573**	**983,617**	**1,023,765**	**1,083,986**	**4,041,942**
Loss from operations	**(1,184,215)**	**(1,056,919)**	**(558,803)**	**(1,069,449)**	**(3,869,386)**	**(939,708)**	**(976,022)**	**(1,016,460)**	**(1,075,616)**	**(4,007,807)**
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)**	**(939,708)**	**(976,022)**	**(1,016,460)**	**(1,075,616)**	**(4,007,807)**
Deferred income taxes (credit)	247,000	(555,000)	(110,000)	264,000	(154,000)	754,000	(235,222)	(235,222)	(235,222)	48,333
Net income	**(1,431,215)**	**(501,919)**	**(450,295)**	**(1,325,718)**	**(3,709,147)**	**(1,693,708)**	**(740,800)**	**(781,238)**	**(840,394)**	**(4,056,140)**
Other comprehensive income (loss)					0	0	0	0	0	0
Comprehensive income (loss) for the year					(3,709,147)	(1,693,708)	(740,800)	(781,238)	(840,394)	(4,056,140)
Loss attributable to parent company					(3,688,354)	(1,684,213)	(736,647)	(776,858)	(835,683)	(4,033,402)
Comprehensive income (loss) attributable to parent company					(3,688,354)	(1,684,213)	(736,647)	(776,858)	(835,683)	(4,033,402)
Net income per common share (basic)	(0.01)	(0.00)	(0.00)	(0.01)	(0.03)	(0.01)	(0.00)	(0.00)	(0.00)	(0.02)
Net income per common share (diluted)	**(0.01)**	**(0.00)**	**(0.00)**	**(0.01)**	**(0.03)**	**(0.01)**	**(0.00)**	**(0.00)**	**(0.00)**	**(0.02)**
Weighted average common shares outstanding										
- basic	125,928,192	137,040,872	138,130,763	140,711,870	135,452,924	158,360,983	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	158,360,983	164,000,000	169,000,000	172,000,000	177,000,000

HISTORICAL ZACKS RECOMMENDATIONS



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