Zacks Equity Research

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Pelangio Exploration (PGXPF-OTCBB)

PGXPF: Zacks Report – OUTPERFORM



Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/16/2010
Current Price (03/11/11)	$0.68
Six- Month Target Price	**$1.25**

OUTLOOK

Pelangio Exploration is a junior gold exploration company proceeding with drilling programs in Ghana on its Manfo and Obuasi properties. Positive assay results from the first Manfo drilling program in late 2010 significantly increased shareholder value with the stock rallying from $0.41 to over $1.00. The first results from the second drilling program appear to confirm a strike length of at least 300 meters of near-surface, high-grade gold mineralization (3.05-to-4.18 g/t Au) over an interval of between 10-to-13 meters. We reiterate the Outperform rating and target of $1.25.

SUMMARY DATA

52-Week High	**$1.29**
52-Week Low	**$0.14**
One-Year Return (%)	**142.4**
Beta	**-0.02**
Average Daily Volume (shrs.)	**24,859**
Shares Outstanding (million)	**123**
Market Capitalization ($ mil.)	**$97**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**17.7**
Insider Ownership (%)	**10.7**
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 2011 Estimate	**N/M**
P/E using 2012 Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining -Gold**
Zacks Rank in Industry	**15 of 35**

ZACKS ESTIMATES

Revenue
(in millions of $ CAD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	0.47 A	0.05 A	0.02 A	4.89 A	5.43 A
2010	4.81 A	1.18 A	1.54 A	1.50 E	9.03 E
2011					10.00 E
2012					10.89 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	$0.00 A	-$0.00 A	-$0.01 A	$0.01 A	-$0.00 A
2010	-$0.01 A	$0.00 A	-$0.00 A	-$0.00 E	-$0.01 E
2011					-$0.01 E
2012					-$0.01 E

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

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KEY POINTS

- Pelangio Exploration is a junior gold exploration company currently proceeding with a second phase drilling program of over 10,000 meters at the company's Manfo property in Ghana. The assay results are expected to be a catalyst. Management has budgeted for further exploratory drilling on both its Manfo and Obuasi properties in 2011.
- 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.
- Assay results from the Manfo drilling program announced in October 2010 indicated intersections of 8 g/t gold mineralization over intervals of 12 meters at Pokukrom West.
- Further drilling results from Pokukrom East were announced on March 4th indicating near-surface, high-grade gold mineralization (between 10-to-13 meters of 3.05-to-4.18 g/t) over a strike length of approximately 300 meters. Management has interpreted the strike length to be in excess of 400 meters. An intersection of 24.7 g/t gold mineralization over an interval of five meters was previously discovered at Pokukrom East.
- We expect Pelangio's stock to react to the announcements of drilling results, both at Manfo and Obuasi, throughout 2011.
- Consult our report dated December 20, 2010 for background information.
- We reiterate an Outperform rating on Pelangio with a target of $1.25.

OVERVIEW

Based in Toronto, Ontario, Pelangio Exploration (PGXPF: OTCBB and PX: TSX-V) is a junior gold exploration company[1] 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 is actively exploring its Manfo and Obuasi properties in Ghana through geophysical and geochemical surveying and diamond core drilling programs. Exploratory results released in October 2010 were impressive, and the company has the potential for new positive exploration announcements in 2011 as a second phase drilling program of over 10,000 meters is currently underway at the company's Manfo property, with a further second phase program expected to commence at the Obuasi property during 2011.

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 Initiation report dated December 10, 2010 for details), management will proactively maximize shareholder value through innovative corporate restructuring, 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, just recently Kinross Gold acquired Red Back Mining[2] for $7.2 billion in September 2010. The Canadian dollar is the functional currency of the company.

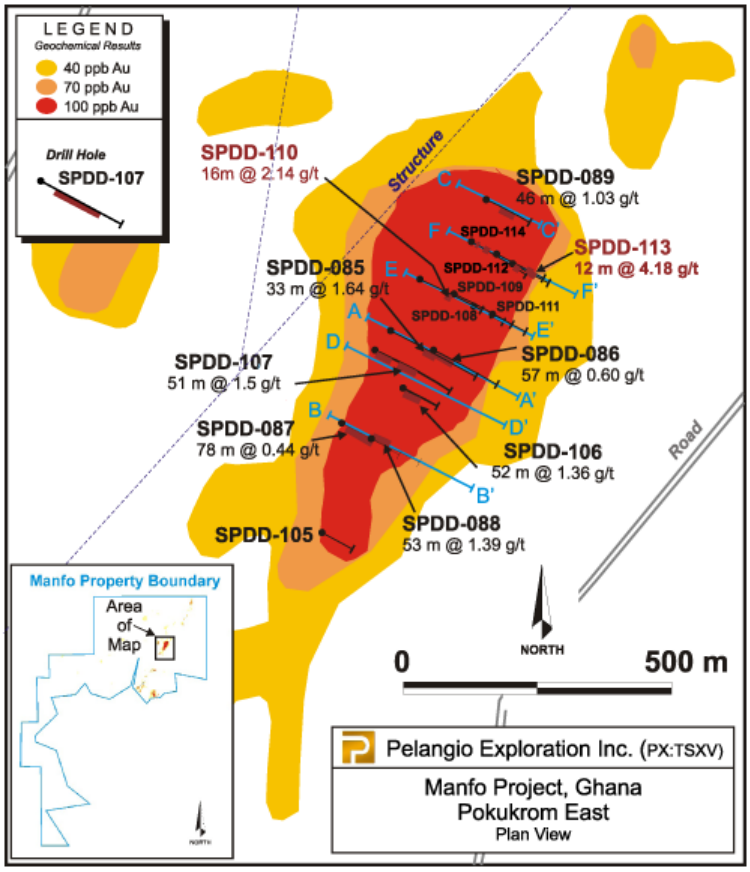
[1] Pelangio is a development stage company, as defined by the Canadian Institute of Chartered Accountants' ("CICA") Handbook.

[2] Owner of the 5.39 million ounce resource at the Chirano mine in Ghana.

MANFO (GHANA) PROPERTY - 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[3], 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).

In August and September 2010, Pelangio completed a diamond core[4] drilling program, and released assay results between September 7th and October 13th 2010. Other results were released on January 24, 2011 and the latest results released on March 4th. **Drill holes** (from the south to north – see map below) SPDD-106, SPDD-107, SPDD-085, SPDD-110 and SPDD-113 **consistently intersected near-surface, high-grade gold mineralization (between 10-to-13 meters of 3.05-to-4.18 g/t) over a strike length of approximately 300 meters.** Management has interpreted the strike length to be in excess of 400 meters by extending the mineralization to SFDD-088 (5 meters of 24.7 g/t). Further drilling is planned to the north and south in order to trace this consistent higher-grade gold mineralization. Investors are still looking for an indication of the strike length of the 24.7 g/t Au mineralization discovered over a five meter interval in hole SPDD-088. Potential bulk tonnage zones continue to be discovered at Pokukrom East.

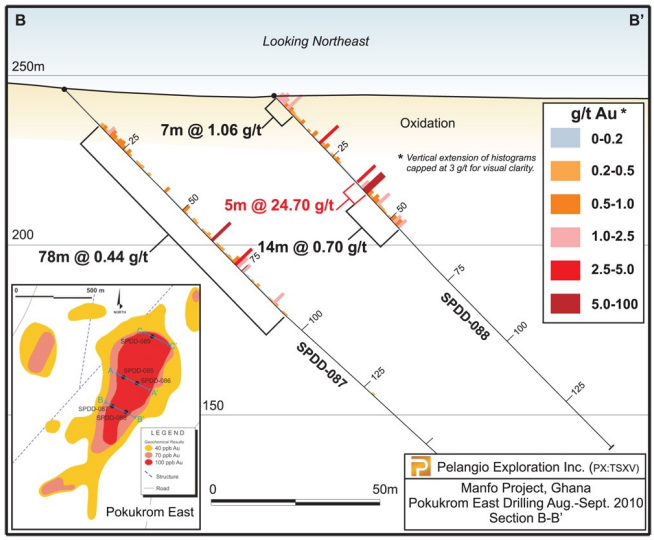


[3] The Sefwi Gold Belt is a 40-to-60 km wide Birimian volcanic belt extending from Ghana to the coast of Côte d'Ivoire. It is located northwest of, and parallel to, the Ashanti Gold Belt.

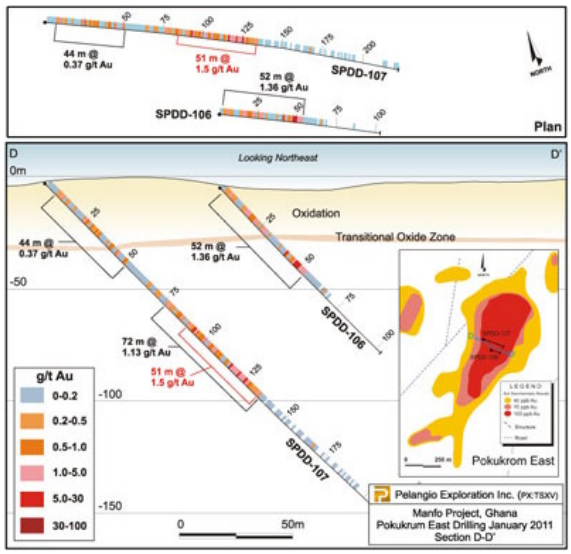
[4] Diamond core drilling utilizes an annular diamond-impregnated drill bit attached to the end of hollow drill rods to cut a cylindrical core of solid rock. Water is injected through holes in the bit. Core samples are retrieved by the use of a lifter tube.

Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)	Hole Length (meters)
Pokukrom East	SPDD-085	98	131	33	1.64	246
	including	116	129	**13**	**3.37**	
	SPDD-086	2	59	57	0.60	180
	including	2	20	18	1.11	
	SPDD-087	15	93	78	0.44	170
	SPDD-088	1	8	7	1.06	144
	and	35	40	**5**	**24.7**	
	including	38	40	**2**	**58.6**	
	and	40	54	14	0.70	
	SPDD-089	56	102	46	1.03	141

Announced October 7, 2010



Pokukrom East
(table above)



Pokukrom East
(table below)

Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)	Hole Length (meters)
Pokukrom East	SPDD-105	22	52	30	0.31	94
	SPDD-105	2	54	52	1.36	103
	including	41	54	**13**	**3.47**	
	SPDD-105	7	51	44	0.37	222
	and	63	135	72	1.13	
	including	83	134	51	1.50	
	including	116	127	**11**	**3.53**	

Announced January 24, 2011

Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)	Hole Length (meters)
Pokukrom East	SPDD-108	54	60	6	0.63	94
	SPDD-109	75	108	33	0.60	180
	including	105	108	**3**	**2.17**	
	SPDD-110	13	27	14	0.51	194
		88	107	19	0.52	
		117	133	**16**	**2.14**	
	including	117	127	**10**	**3.05**	
		148	161	13	0.62	
	SPDD-111	16	27	11	0.33	103
	SPDD-112	53	78	25	0.43	110
	SPDD-113	91	103	**12**	**4.18**	138
	including	96	101	**5**	**9.49**	
	SPDD-114	38	54	16	0.81	170
		132	148	16	0.40	

Announced March 4, 2011

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.

Based on the favorable results to-date, Pelangio has increased the second phase program from 5,000 to over 10,000 meters, which will include further holes at Pokukrom East, Nfante West and Nfante East. Additional assay results will be released as received by management.

RECENT NEWS

On March 4, 2011, Pelangio announced assay results of seven additional holes totaling 990 meters on the Pokukrom East area, which is part of the second drilling program at the **Manfo property** in Ghana. The holes drilled continue to intersect 10-to-13 meter intervals grading between 3.0 g/t to 4.2 g/t gold on a strike length of approximately 300 meters. Two holes at Pokukrom East intersected near-surface, high-grade gold mineralization (SPDD-110 10 meters of 3.05 g/t and SPDD-113 12 meters of 4.18 g/t). In addition, potential bulk tonnage zones continue to be discovered at Pokukrom East. The second phase drilling program has been expanded to over 10,000 meters.

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 though 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 should 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 3.2 times book (C$0.75 and C$1.25) due to the recent announcements concerning the successful drilling program on the Manfo property. With assay results expected on the Obuasi project in early 2011, positive

results could potentially increase the stock's valuation to between 6.0 and 7.0 times book (C$2.30 and C$2.75).

Gold producers have discovered less gold over the last five years while the price of gold has advanced from $492 at the end of 2005 to over $1,400 in December 2010. Consequently, dollar value of gold mining company mergers and acquisitions has increased to over $32 billion in 2010. Another alternative valuation technique is based in context of prior transactions involving the acquisition of junior gold exploration companies by major gold producing firms. However, these benchmark transactions involve gold mining companies with stated reserves, which are not yet applicable to Pelangio.

RISKS

- Pelangio is a development stage gold exploration company. There is no assurance that the company's exploration programs will result in profitable mining operations and the company's exploration programs are dependent upon the company's ability to obtain funds to continue exploration activities and pay administrative costs.
- Pelangio is obligated to make a payment of $750,000 on or before June 19, 2011 for the acquisition of the remaining 49% of the Obuasi property in Ghana.
- The company is committed to cash payments of $160,000 due by September 15, 2012 in order to maintain its interest in other properties.

GLOSSARY AND KEY TO ABBREVIATIONS

Au – gold
g/t – grams per tonne (metric ton)
km – kilometer(s)
NSR–Net Smelter Return aka a payment of a royalty on production
oz – ounce(s) troy
RC – reverse circulation drilling

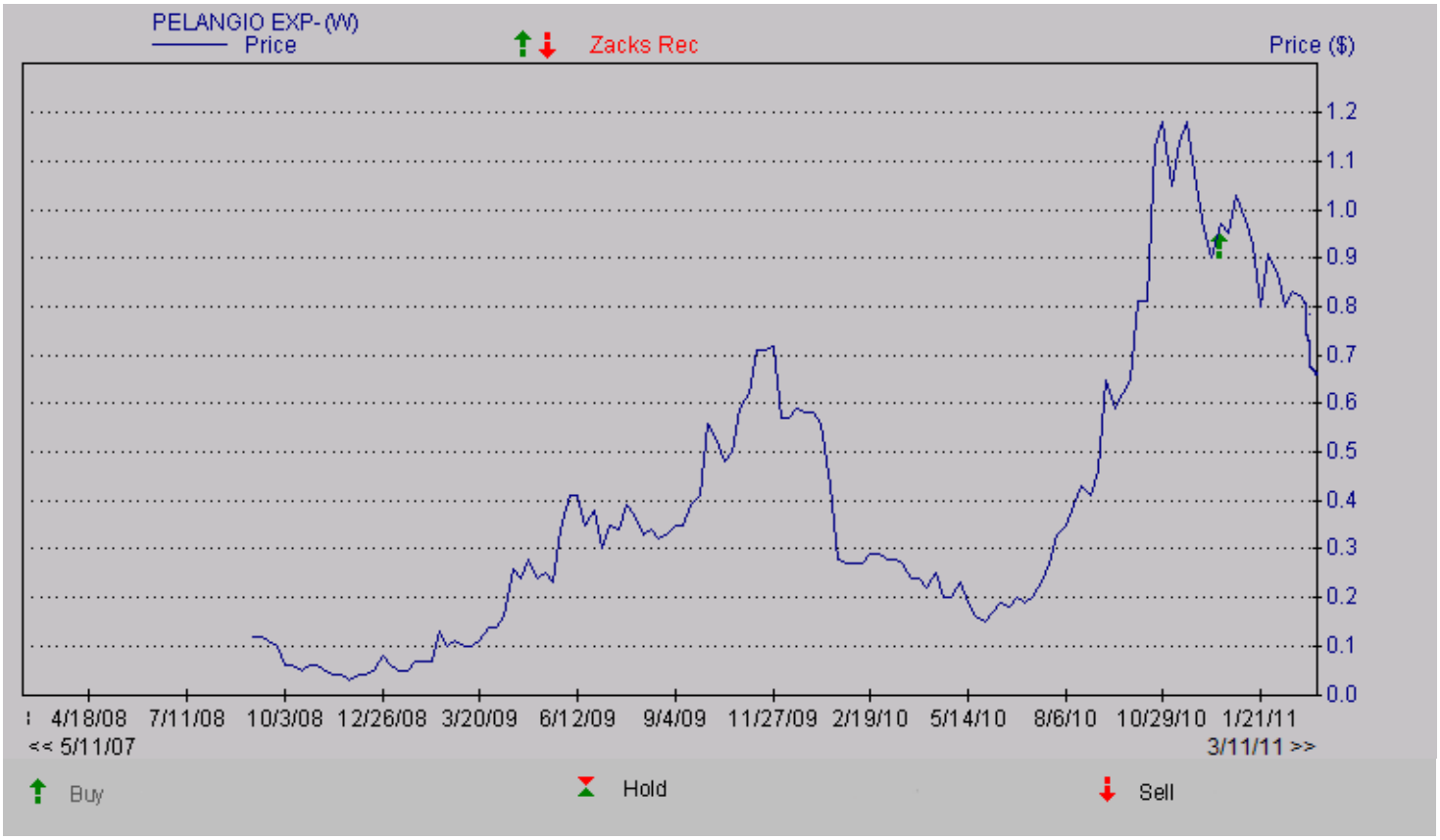
PROJECTED FINANCIAL STATEMENTS

Pelangio Mines Inc.						
Consolidated Statements of Operations and Retained Earnings						
(in $ CAD)						
For the years ending December 31	2006	2007	2008	2009	2010 E	2011 E
Interest	71,886	7,048	13,817	5,428	9,027	10,000
Gain on sale of marketable securities	10,836	0	0	0	0	0
Revenue:	**82,722**	**7,048**	**13,817**	**5,428**	**9,027**	**10,000**
Salaries and employee benefits	220,414	193,270	145,921	621,145	737,781	800,000
Professional fees	170,161	192,044	191,090	261,361	277,776	285,000
Investor relations	384,381	220,292	103,731	337,172	260,523	300,000
Office and general	74,977	126,025	67,363	122,347	190,110	185,000
Consulting services	61,083	94,439	9,047	79,595	116,820	125,000
Rent	48,000	58,295	9,602	61,390	79,490	85,000
Vehicle	0	0	0	596	802	1,000
Transfer agent and filing fees	45,535	16,606	25,919	67,680	47,882	50,000
Insurance	15,369	16,673	16,601	45,463	44,345	45,000
Interest on advance from PDX Resources Inc.	0	0	0	5,250	0	0
Interest on short-term debt	0	0	300,000	0	0	0
Travel	45,016	4,295	14,684	22,612	74,718	75,000
General exploration	0	1,395	8,396	7,323	33,669	35,000
Foreign exchange loss	0	0	21,720	83,874	75,999	30,000
Stock-based compensation cost	35,188	109,974	160,807	377,291	570,413	600,000
Amortization	9,327	25,080	31,309	47,626	76,727	85,000
Total Expenses	**1,109,451**	**1,058,388**	**1,106,190**	**2,140,725**	**2,587,055**	**2,701,000**
Loss from operations	**(1,026,729)**	**(1,051,340)**	**(1,092,373)**	**(2,135,297)**	**(2,578,028)**	**(2,691,000)**
Gain (loss) on disposal of mineral properties	(157,615)	7,305,367	0	1,913,200	0	0
Gain (loss) on disposal of marketable securities	(74,208)	9,002	902,812	0	1,092,536	1,040,000
Write down of mineral property	0	(1,126,959)	0	(270,416)	(198,719)	0
Equity loss from investment in Detour Gold Corp.	0	0	0	0	0	0
	(231,823)	6,187,410	902,812	1,642,784	893,817	1,040,000
Income (loss) before income taxes	(1,258,552)	5,136,070	(189,561)	(492,513)	(1,684,211)	(1,651,000)
Future income taxes, note 10	1,833,000	(1,485)	262,000	167,000	45,000	50,000
Net income for the year	**574,448**	**5,134,585**	**72,439**	**(325,513)**	**(1,639,211)**	**(1,601,000)**
Net income per common share (basic)	0.01	0.07	0.00	(0.00)	(0.01)	(0.01)
Net income per common share (diluted)	**0.01**	**0.07**	**0.00**	**(0.00)**	**(0.01)**	**(0.01)**

Pelangio Mines Inc.					
Consolidated Statements of Operations and Retained Earnings					
(in $ CAD)	1Q	2Q	3Q	4Q E	
For the years ending December 31	2010	2010	2010	2010	2010 E
Interest	4,806	1,179	1,542	1,500	9,027
Gain on sale of marketable securities	0	0	0	0	0
Revenue:	**4,806**	**1,179**	**1,542**	**1,500**	**9,027**
Salaries and employee benefits	187,814	199,723	170,244	180,000	737,781
Professional fees	49,685	130,275	47,816	50,000	277,776
Investor relations	91,111	63,987	40,425	65,000	260,523
Office and general	43,414	37,828	53,868	55,000	190,110
Consulting services	20,845	25,865	45,110	25,000	116,820
Rent	19,634	19,634	20,111	20,111	79,490
Vehicle		473	79	250	802
Transfer agent and filing fees	13,278	9,919	12,685	12,000	47,882
Insurance	11,892	11,435	10,518	10,500	44,345
Interest on advance from PDX Resources Inc.	0	0	0	0	0
Interest on short-term debt	0	0	0	0	0
Travel	21,313	26,172	2,233	25,000	74,718
General exploration	6,369	19,747	2,553	5,000	33,669
Foreign exchange loss	62,062	(30,253)	34,190	10,000	75,999
Stock-based compensation cost	229,394	139,731	91,288	110,000	570,413
Amortization	15,410	17,062	24,255	20,000	76,727
Total Expenses	**772,221**	**671,598**	**555,375**	**587,861**	**2,587,055**
Loss from operations	**(767,415)**	**(670,419)**	**(553,833)**	**(586,361)**	**(2,578,028)**
Gain (loss) on disposal of mineral properties	0	0	0	0	0
Gain (loss) on disposal of marketable securities	0	1,092,536	0	0	1,092,536
Write down of mineral property	(198,719)	0	0	0	(198,719)
Equity loss from investment in Detour Gold Corp.	0	0	0	0	0
	(198,719)	1,092,536	0	0	893,817
Income (loss) before income taxes	(966,134)	422,117	(553,833)	(586,361)	(1,684,211)
Future income taxes, note 10	13,000	(22,000)	34,000	20,000	45,000
Net income for the year	**(953,134)**	**400,117**	**(519,833)**	**(566,361)**	**(1,639,211)**
Net income per common share (basic)	(0.01)	0.00	(0.00)	(0.00)	(0.01)
Net income per common share (diluted)	**(0.01)**	**0.00**	**(0.00)**	**(0.00)**	**(0.01)**
Weighted average common shares outstanding					
- basic	121,831,340	121,831,340	121,831,338	121,831,338	121,831,339
- diluted	121,831,340	121,833,302	121,831,338	121,876,338	121,843,080

Pelangio Mines Inc.					
Consolidated Balance Sheets					
(in $ CAD)					
For the years ending December 31	2007	2008	2009	2010 E	2011 E
Assets					
Current:					
Cash and cash equivalents	2,018,603	379,937	7,178,564	3,387,352	5,000,000
Amounts receivable	16,196	13,764	38,424	24,274	30,000
Loan receivable	0	424,000	0	0	0
Prepaid expenses	31,938	37,182	135,640	111,280	100,000
Marketable securities	12,359,950	2,415,952	1,788,000	1,337,400	1,337,400
Current Assets	14,426,687	3,270,835	9,140,628	4,860,306	6,467,400
Deferred transactions costs	0	0	0	0	0
Non-current prepaid expenses	0	0	0	182,785	50,000
Property and equipment	101,887	95,485	215,340	268,037	320,000
Mineral properties and deferred exploration costs	9,977,472	20,635,810	27,871,067	31,539,935	31,539,935
Total Assets	**24,506,046**	**24,002,130**	**37,227,035**	**36,851,063**	**38,377,335**
Liabilities					
Accounts payable and accrued liabilities	222,087	330,478	278,961	554,804	375,000
Advances from PDX Resources Inc.	0	177,803	0	0	0
Current Liabilities	222,087	508,281	278,961	554,804	375,000
Future income taxes	747,000	395,000	1,536,000	1,814,000	2,100,000
Share capital	0	18,511,438	30,283,689	30,283,689	31,765,000
Contributed surplus	14,030,841	275,950	646,641	1,107,054	1,153,766
Warrants	0	0	947,000	947,000	947,000
Retained earnings (deficit)	2,362,492	2,434,931	2,109,418	1,036,569	1,036,569
Accumulated other comprehensive income	7,143,626	1,876,530	1,425,326	1,107,947	1,000,000
Shareholders' Equity	23,536,959	23,098,849	35,412,074	34,482,259	35,902,335
Total Liabilities and Equity	**77,759,226**	**24,002,130**	**37,227,035**	**36,851,063**	**38,377,335**

HISTORICAL ZACKS RECOMMENDATIONS



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