Zacks Equity Research

September 26, 2011
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Pelangio Exploration (V.PX – TSX-V)

V.PX: Zacks Co. Report – OUTPERFORM



Current Recommendation	**Outperform**
Prior Recommendation	N/A
Date of Last Change	12/16/2010
Current Price (09/23/11)	$0.50
Six- Month Target Price	**$1.00**

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 with the stock rallying from $0.41 to over $1.00. The initial results from the second drilling program are confirming and extending the strike lengths of the discoveries on the Manfo property. Importantly, having made the last option payments, **Pelangio now holds a 100% interest in both the Manfo and Obuasi properties.** We reiterate the Outperform rating and target of $1.00.

SUMMARY DATA

52-Week High	**$1.31**
52-Week Low	**$0.45**
One-Year Return (%)	**-20.6**
Beta	**-0.08**
Average Daily Volume (shrs.)	**150,326**
Shares Outstanding (million)	**138.1**
Market Capitalization ($ mil.)	**$69.1**
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 #Lin Estimate	**N/M**
P/E using #Lin Estimate	**N/M**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small - Value**
Industry	**Mining -Gold**
Zacks Rank in Industry	**24 of 32**

ZACKS ESTIMATES

Revenue
(in thousands 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	2.38 A	9.86 A
2011	1.99 A	9.74 A	7.00 E	5.00 E	23.73 E
2012					25.89 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	-$0.01 A	-$0.02 A
2011	-$0.01 A	-$0.00 A	-$0.01 E	-$0.01 E	-$0.03 E
2012					-$0.04 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 30,000 meters at the company's Manfo property in Ghana. The initial exploratory diamond drill program on the Obuasi property of approximately 5,000 meters began in March 2011.
- We expect Pelangio's stock to react to the announcements of drilling results, both at Manfo and Obuasi, throughout 2011. A non-resource technical report on the Manfo property is expected during the fourth quarter. In addition, an updated non-resource technical report is expected on the Obuasi property by year-end.
- Further drilling results from the Pokukrom East gold zone on the Manfo property were announced in September indicating an increased strike length of bulk gold mineralization of at least 850 meters.
- With the final option payments having been made, Pelangio now has a 100% interest in the Obuasi and the Manfo properties in Ghana.
- 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.
- Consult our report dated December 20, 2010 for background information.
- We reiterate an Outperform rating on Pelangio with a target of $1.00.

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 to-date have been very encouraging, especially at Manfo. The company has the potential for new positive exploration announcements in 2011 as a second phase drilling program of over 30,000 meters is currently underway at the company's Manfo property, and an initial eight-month diamond drill program of approximately 5,000 meters began on the Obuasi property in March 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** 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

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

seeking acquisitions for growth. For example, Kinross Gold acquired Red Back Mining[2] for $7.2 billion in September 2010. The Canadian dollar is the functional currency of the company.

RECENT EVENTS

During 2011, Pelangio is conducting an aggressive, second-phase 30,000+ meter diamond drilling program on the **Manfo property**. The drilling program is designed to confirm and expand the identified zones at Manfo, both along strike and at depth. Also, the Manfo exploration program includes trenching, pitting, auger drilling, line cutting[3], prospecting and soil sampling. **Pelangio now owns a 100% interest in the Manfo property**, having made all the necessary option payments and work expenditures. **An initial non-resource National Instrument 43-101[4] report on the Manfo Property is expected to be completed with the aid of SRK Consulting by the end of 2011.**

During the second half of 2011, Pelangio will continue the Manfo exploration program with extensive diamond drilling. In July, a second drilling rig was added. With two rigs currently turning, management plans to add a third in the fall. In less than one year on the Manfo Property, Pelangio has made five near surface discoveries at Pokukrom East, Pokukrom West, Nfante East, Nfante West and Nfante Central. The aggressive drilling program is confirming and expanding the identified zones both along strike and at depth. Given the aggressive drilling program this year and the significant results announced, management expects that an initial inferred resource report on the Manfo property will be completed sometime in late 2012.

Pokukrom East is a geochemical gold anomaly within Pelangio's Manfo property. Last year, the drill results at Pokukrom East confirmed a 400 meter strike length and an estimated vertical depth of 175 meters. Step-out drilling extended the strike length of low-grade gold mineralization to 850 meters and has confirmed the depth of 175 meters. The company continues with in-fill drilling at 50 meter spacing and to a depth of 200 meters to further define the resource. The geochemical anomaly at Pokukrom East is approximately 1,200 meters in length.

The high-grade near-surface mineralization was assayed from **Pokukrom West** in 2010, and high-grade gold mineralization continues to be encountered in 2011. The results at **Nfante West** in 2010 indicated the potential for bulk tonnage gold mineralization defined over a strike length of 280 meters; we await 2011 drilling results.

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 two holes, both of which 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.

In June 2011, Pelangio made the final option payment on the **Obuasi property**, on which **Pelangio now has a 100% interest**. During 2010, Pelangio identified 36 prospective structural targets, 18 of which are

[2] Red Back Mining owned the 5.39 million ounce resource at the Chirano mine in Ghana.

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

[4] 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.

on the Obuasi Mine trend with five priority targets at Ayaase, Bura, Tikal, Big Vein and Mount Kate South. An eight-month diamond drill program of approximately 5,000 meters began in March 2011, and we await the drilling results.

In June 2011, Pelangio has 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 stage exploration property with a reconnaissance license. Initial prospecting and geochemical and geophysical surveys have indicated the potential for significant exploration discoveries. The property is not expected to be drill-ready for at least a year.

During the first half of 2011, Pelangio received $3,653,271 from a private placement and $6,085,197 from the exercise of warrants and options. As of June 30th, cash and marketable securities totaled $8,083,534.

MANFO (GHANA) PROPERTY

Pelangio' Manfo property lies on the Bibiani shear in the Sefwi greenstone belt[5], 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: Nfante West, Pokukrom West, Pokukrom East, Nfante East and Nfante Central. The sixth anomaly, Sika North, 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[6] and a 2% royalty interest.

In August and September 2010, Pelangio completed a diamond core[7] drilling program, which consisted of 16 holes and totaled 2,379 meters. The program identified discovery grade intersections at each of the four geochemical anomalies that had been drilled, including both high grade and bulk tonnage grade intersections. 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.

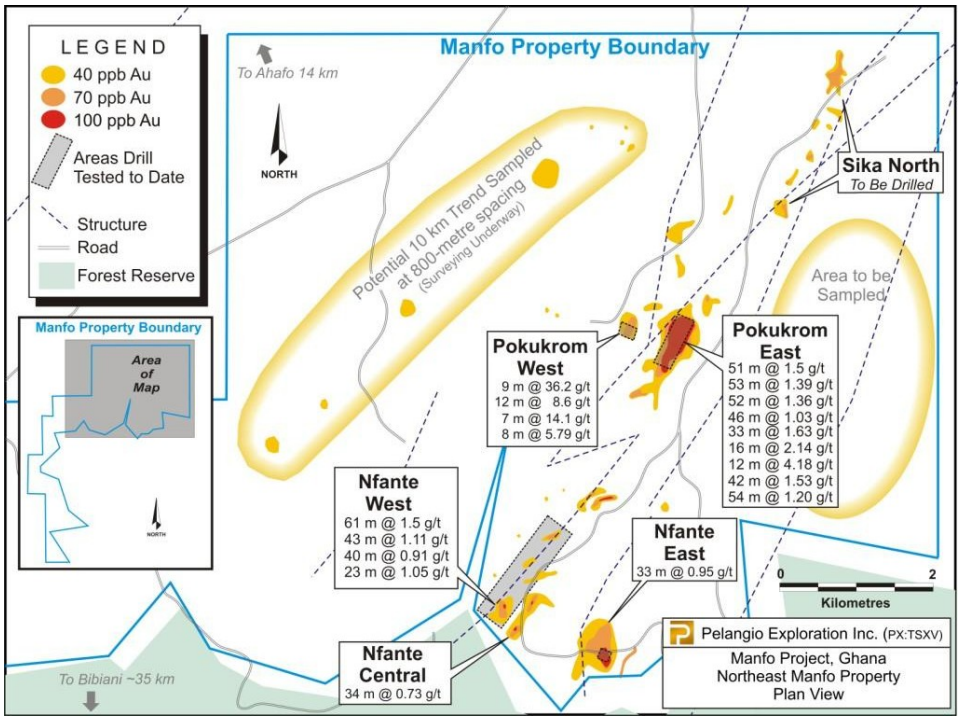
[5] The Sefwi Gold Belt is a 40-to-60 km wide Birimian volcanic belt extending from Ghana to the coast of Côte d'Ivoire. It is located northwest of, and parallel to, the Ashanti Gold Belt.

[6] The Ghanaian government also has the right to acquire a further 20% interest on mutually agreed terms.

[7] 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.

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



MANFO (GHANA) PROPERTY – Updates on Pokukrom East and Pokukrom West

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[8], 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 300 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 175 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.** In 2010, Pelangio completed an initial diamond core[9] drilling program at Pokukrom East. Results from a second drilling program in 2011 were released on January 24, March 4th, May 5th, July 11th and September 8th 2011. **Pelangio has increased the second phase program from 5,000 to over 30,000 meters**, which will include further holes at Pokukrom East, Nfante West, Nfante East and Nfante Central. **Additional assay results will be released as received by management.**

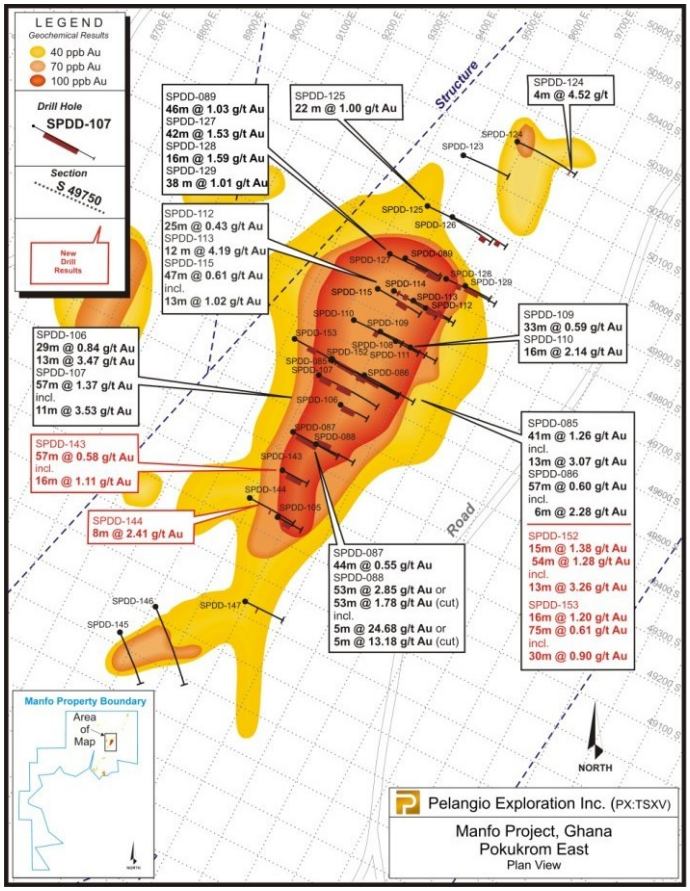
[8] The Sefwi Gold Belt is a 40-to-60 km wide Birimian volcanic belt extending from Ghana to the coast of Côte d'Ivoire. It is located northwest of, and parallel to, the Ashanti Gold Belt.

[9] 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.

High grade intersections at Pokukrom East

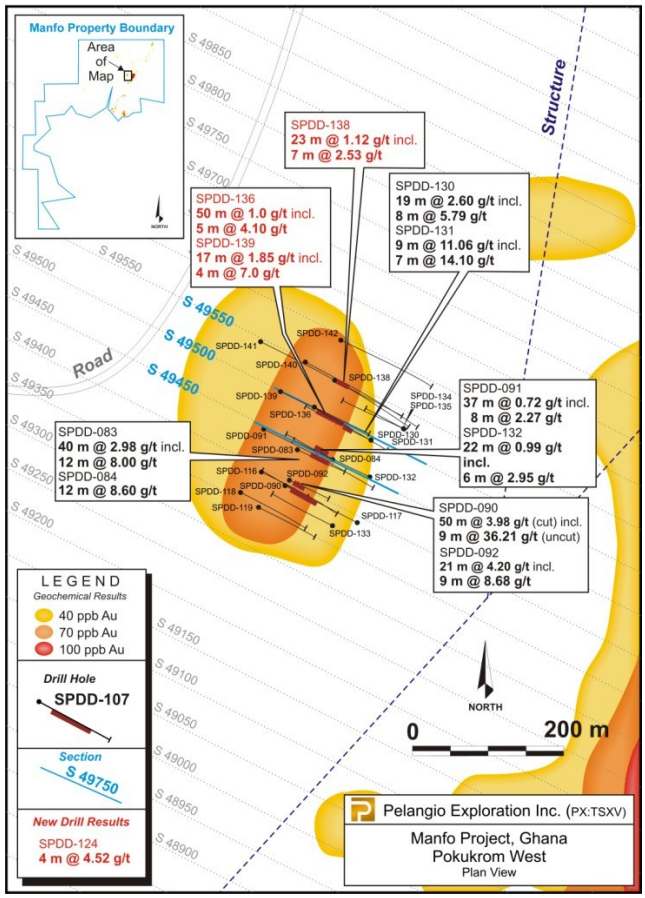
Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
Pokukrom East	SPDD-113	91	103	12	4.18
	SPDD-110	117	133	16	2.14
	including	117	127	10	3.05
	SPDD-153	142	155	13	3.26
	SPDD-085	116	129	13	3.37
	SPDD-107	116	127	11	3.53
	SPDD-106	41	54	13	3.47

Pokukrom East



Courtesy of Pelangio

Pokukrom West



Courtesy of Pelangio

High grade intersections at Pokukrom West

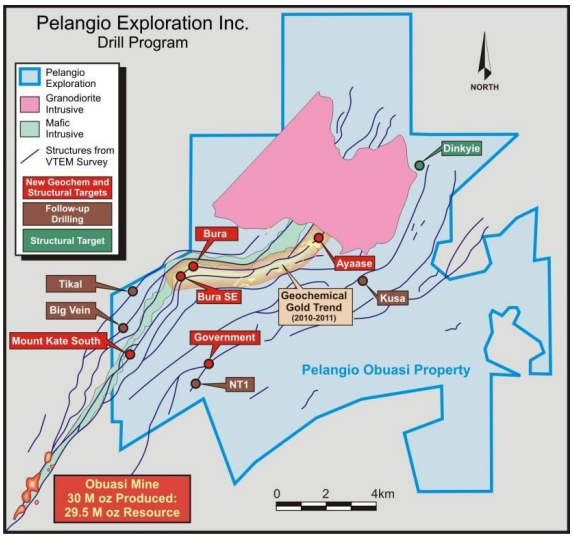
Area	DHID	From (meter)	To (meter)	Interval (meters)	Au (g/t)
Pokukrom West	SPDD-138	13	20	7	2.53
	SPDD-136	39	44	4	4.10
	SPDD-130	69	77	8	5.79
	SPDD-139	136	140	4	7.00
	SPDD-131	131	138	9	11.06

High-grade mineralization has also been encountered 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.

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.

OBUASI (GHANA) PROPERTY

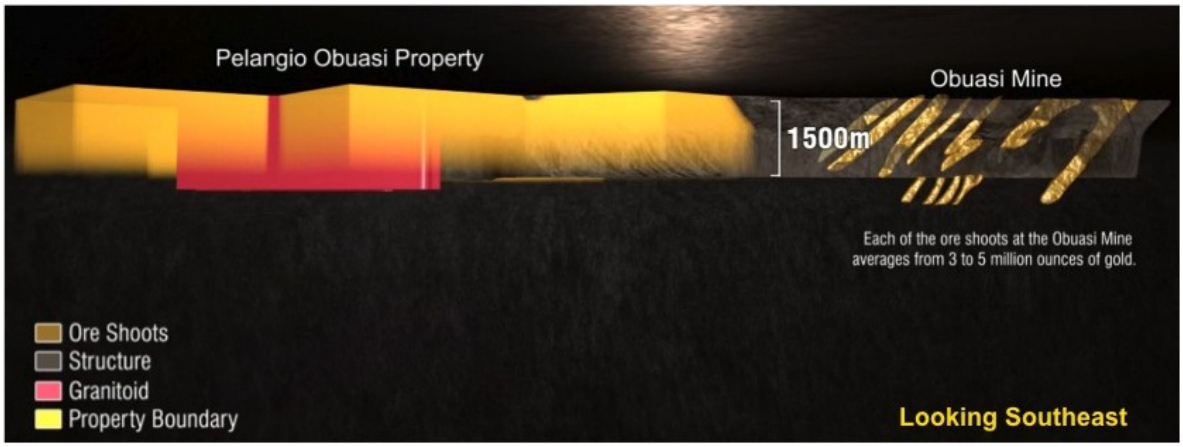
Pelangio Exploration has a 100% interest in the **Obuasi property**. Pelangio Mines entered into option agreements in May 2006 for three early-stage gold mineral exploration concessions (Meduma, Kyereboso No. 2, and Kyereboso No. 3, collectively known as the Obuasi property) totaling 290 square kilometers, 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.



[10] The Ghanaian government also has the right to acquire a further 20% interest on mutually agreed terms.

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, 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 is expected to continue through the end of October. During 2010, Pelangio identified evaluated and prepared targets for this second phase diamond drilling program on Kyereboso No. 2, Kyereboso No. 3 and Meduma concessions. Exploration work included line cutting, prospecting pitting, geologic mapping, trenching, auger drilling and sampling of soils, outcrops and stream sediments. Geophysical and geochemical surveys on Ayaase and Bura/Tikal on the Kyereboso No. 2 concession suggest the continuation of the main Obuasi Mine trend. The **second phase drilling program targets 36 holes**, 18 of which are on the Obuasi Mine trend with five priority targets at Ayaase, Bura, Tikal, Big Vein and Mount Kate South. As of June 30, 2011, 20 holes (totaling 3,107 meters) have been drilled at Ayaase, Bura and Tikal. Assay results are expected to be released later this year.

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. During the second quarter of 2011, linecutting (9.1 kilometers), trenching (191 linear meters), auger drilling (41 holes totaling 186 meters), prospecting (14 outcrop samples and 32 rock chip samples) and geologic mapping have continued. **An updated non-resource NI 43-101 technical report is expected to be completed by SRK Consulting on the Obuasi property by year-end.**

[11] Mineral Resource and Ore Reserve Report 2009 by AngloGold Ashanti.

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 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. 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 2010 (December 31, 2010), Pelangio had $3,300,209 in cash and marketable securities, no long-term debt, and $31,948,634 in shareholders' equity. At the end of the third quarter (March 31, 2011), cash and marketable securities increased 81% to $5,977,902, primarily through the issuance of securities. There still was not any long-term debt; and shareholders' equity increased to $35,451,794.

During the first six months of 2011, the company's cash requirements for exploratory drilling programs, evaluation of assets and additions to equipment totaled $3,560,154 and were funded by $9,738,468 from the sale of securities and the exercise of options and warrants.

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 the first six months of 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.

[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.

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 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 3.7 times book (C$0.50 and C$1.00) due to the recent announcements concerning the successful drilling program on the Manfo property. With assay results expected on the Obuasi project in 2011, positive

results could potentially increase the stock's valuation to between 6.0 and 7.0 times book (C$1.60 and C$1.80).

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 $1,900 in August 2011 to around $1,650 currently. Consequently, dollar value of gold mining company mergers and acquisitions has increased; in 2010, the M&A value exceeded $32 billion. 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.

PROJECTED FINANCIAL STATEMENTS

Pelangio Exploration Inc.

Consolidated Statements of Operations and Retained Earnings

(in $ CAD)

For the years ending December 31	2006	2007	2008	2009	2010	2011 E	2012 E
Interest	71,886	7,048	13,817	5,428	9,864	23,733	14,890
Gain on sale of marketable securities	10,836	0	0	0	0	0	0
Revenue:	**82,722**	**7,048**	**13,817**	**5,428**	**9,864**	**23,733**	**14,890**
Salaries and employee benefits	220,414	193,270	145,921	621,145	830,945	832,954	900,000
Consulting services	61,083	94,439	9,047	79,595	132,035	248,250	175,000
General exploration	0	1,395	8,396	7,323	29,609	14,567	25,000
Insurance	15,369	16,673	16,601	45,463	45,008	43,614	50,000
Professional fees	170,161	192,044	191,090	261,361	279,090	231,135	285,000
Investor relations	384,381	220,292	103,731	337,172	367,403	477,720	375,000
Office and general	74,977	126,025	67,363	122,347	188,023	343,202	500,000
Rent	48,000	58,295	9,602	61,390	79,649	55,904	85,000
Vehicle	0	0	0	596	553	400	700
Transfer agent and filing fees	45,535	16,606	25,919	67,680	39,227	77,144	50,000
Interest on advance from PDX Resources Inc.	0	0	0	5,250	0	0	0
Interest on short-term debt	0	0	300,000	0	0	0	0
Travel	45,016	4,295	14,684	22,612	78,953	36,982	65,000
Foreign exchange loss	0	0	21,720	83,874	118,967	80,361	50,000
Stock-based compensation cost	35,188	109,974	160,807	377,291	1,037,128	1,748,563	2,500,000
Amortization	9,327	25,080	31,309	47,626	77,765	117,464	125,000
Total Expenses	**1,109,451**	**1,058,388**	**1,106,190**	**2,140,725**	**3,304,355**	**4,308,259**	**5,185,700**
Loss from operations	**(1,026,729)**	**(1,051,340)**	**(1,092,373)**	**(2,135,297)**	**(3,294,491)**	**(4,284,526)**	**(5,170,810)**
Gain (loss) on disposal of mineral properties	(157,615)	7,305,367	0	1,913,200	0	0	0
Gain (loss) on disposal of marketable securities	(74,208)	9,002	902,812	0	2,377,304	0	0
Write down of mineral property	0	(1,126,959)	0	(270,416)	(1,109,183)	0	0
Equity loss from investment in Detour Gold Corp.	0	0	0	0	0	0	0
Other income	(231,823)	6,187,410	902,812	1,642,784	1,268,121	0	0
Income (loss) before income taxes	**(1,258,552)**	**5,136,070**	**(189,561)**	**(492,513)**	**(2,026,370)**	**(4,284,526)**	**(5,170,810)**
Future income taxes	1,833,000	(1,485)	262,000	167,000	168,000	458,000	250,000
Net income for the year	**574,448**	**5,134,585**	**72,439**	**(325,513)**	**(1,858,370)**	**(3,826,526)**	**(4,920,810)**
Net income per common share (basic)	0.01	0.07	0.00	(0.00)	(0.02)	(0.03)	(0.03)
Net income per common share (diluted)	**0.01**	**0.07**	**0.00**	**(0.00)**	**(0.02)**	**(0.03)**	**(0.03)**
Weighted average common shares outstanding							
- basic	65,878,728	69,646,697	73,858,277	91,109,890	122,000,341	135,000,000	150,000,000
- diluted	67,690,961	73,102,997	75,980,777	91,109,890	122,000,341	135,000,000	150,000,000

Pelangio Exploration Inc.

Consolidated Statements of Operations and Retained Earnings

(in $ CAD) For the years ending December 31	1Q 2010	2Q 2010	3Q 2010	4Q 2010	2010	1Q 2011	2Q 2011	3Q E 2011	4Q E 2011	2011 E
Interest	4,806	1,179	1,542	2,337	9,864	1,995	9,738	7,000	5,000	23,733
Gain on sale of marketable securities	0	0	0	0	0	0	0	0	0	0
Revenue:	**4,806**	**1,179**	**1,542**	**2,337**	**9,864**	**1,995**	**9,738**	**7,000**	**5,000**	**23,733**
Salaries and employee benefits	187,814	199,723	170,244	273,164	830,945	192,993	208,075	213,277	218,609	832,954
Consulting services	20,845	25,865	45,110	40,215	132,035	35,802	65,441	70,676	76,330	248,250
General exploration	6,369	19,747	2,553	940	29,609	1,397	3,970	4,200	5,000	14,567
Insurance	11,892	11,435	10,518	11,163	45,008	10,891	10,823	10,900	11,000	43,614
Professional fees	49,685	130,275	47,816	51,314	279,090	31,605	39,530	80,000	80,000	231,135
Investor relations	91,111	63,987	40,425	171,880	367,403	205,688	172,032	50,000	50,000	477,720
Office and general	43,414	37,828	53,868	52,913	188,023	119,972	73,230	75,000	75,000	343,202
Rent	19,634	19,634	20,111	20,270	79,649	14,111	13,793	14,000	14,000	55,904
Vehicle	0	473	79	1	553	0	0	200	200	400
Transfer agent and filing fees	13,278	9,919	12,685	3,345	39,227	42,352	14,792	15,000	5,000	77,144
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	21,313	26,172	2,233	29,235	78,953	2,841	4,141	10,000	20,000	36,982
Foreign exchange loss	62,062	(30,253)	34,190	52,968	118,967	63,644	16,717	0	0	80,361
Stock-based compensation cost	229,394	139,731	91,288	576,715	1,037,128	436,477	412,086	450,000	450,000	1,748,563
Amortization	15,410	17,062	24,255	21,038	77,765	28,437	32,027	29,000	28,000	117,464
Total Expenses	**772,221**	**671,598**	**555,375**	**1,305,161**	**3,304,355**	**1,186,210**	**1,066,657**	**1,022,253**	**1,033,139**	**4,308,259**
Loss from operations	**(767,415)**	**(670,419)**	**(553,833)**	**(1,302,824)**	**(3,294,491)**	**(1,184,215)**	**(1,056,919)**	**(1,015,253)**	**(1,028,139)**	**(4,284,526)**
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	1,092,536	0	1,284,768	2,377,304	0	0	0	0	0
Write down of mineral property	(198,719)	0	0	(910,464)	(1,109,183)	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	(198,719)	1,092,536	0	374,304	1,268,121	0	0	0	0	0
Income (loss) before income taxes	**(966,134)**	**422,117**	**(553,833)**	**(928,520)**	**(2,026,370)**	**(1,184,215)**	**(1,056,919)**	**(1,015,253)**	**(1,028,139)**	**(4,284,526)**
Future income taxes	(54,000)	(22,000)	34,000	143,000	168,000	(247,000)	555,000	75,000	75,000	458,000
Net income for the year	**(1,020,134)**	**400,117**	**(519,833)**	**(785,520)**	**(1,858,370)**	**(1,431,215)**	**(501,919)**	**(940,253)**	**(953,139)**	**(3,826,526)**
Net income per common share (basic)	(0.01)	0.00	(0.00)	(0.01)	(0.02)	(0.01)	(0.00)	(0.01)	(0.01)	(0.03)
Net income per common share (diluted)	**(0.01)**	**0.00**	**(0.00)**	**(0.01)**	**(0.02)**	**(0.01)**	**(0.00)**	**(0.01)**	**(0.01)**	**(0.03)**
Weighted average common shares outstanding										
- basic	121,831,340	121,831,340	121,831,338	122,507,347	122,000,341	125,928,192	137,040,872	138,000,000	138,075,000	134,761,016
- diluted	121,831,340	121,833,302	121,831,338	122,507,347	122,000,341	125,928,192	137,040,872	138,000,000	138,075,000	134,761,016

Pelangio Exploration Inc.

Consolidated Balance Sheets
(in $ CAD)

For the years ending December 31	2006	2007	2008	2009	2010	2011 E	2012 E
Assets							
Current:							
Cash and cash equivalents	1,258,676	2,018,603	379,937	7,178,564	3,300,209	4,202,208	6,631,041
Amounts receivable	445,826	16,196	13,764	38,424	62,816	75,000	80,000
Loan receivable	0	0	424,000	0	0	0	0
Prepaid expenses	32,102	31,938	37,182	135,640	114,421	145,000	150,000
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	4,422,208	6,861,041
Deferred transactions costs	263,166	0	0	0	0	0	0
Non-current prepaid expenses	0	0	0	0	182,785	182,785	225,000
Property and equipment	52,433	101,887	95,485	215,340	266,054	375,000	400,000
Mineral properties and deferred exploration costs	11,780,395	9,977,472	20,635,810	26,335,067	30,030,884	35,926,770	31,539,935
Future income taxes	1,833,000	-	-	-	-	-	-
Total Assets	**16,025,598**	**24,506,046**	**24,002,130**	**35,691,035**	**33,957,169**	**40,906,763**	**39,025,976**
Liabilities							
Accounts payable and accrued liabilities	340,956	222,087	330,478	278,961	223,349	543,726	400,000
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	543,726	400,000
Future income taxes	56,000	747,000	395,000	1,444,000	1,836,000	1,528,000	1,700,000
Share capital (no par value)	18,476,557	0	18,511,438	30,283,689	31,239,402	41,288,251	44,000,000
Contributed surplus	1,615,103	14,030,841	275,950	1,443,491	2,335,920	3,000,000	3,500,000
Retained earnings (deficit)	(4,463,018)	2,362,492	2,434,931	815,568	(1,626,688)	(5,453,214)	(10,374,024)
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	38,835,037	37,125,976
Non-controlling interest	-	-	-	-	(50,814)	-	-
Total Liabilities and Equity	**16,025,598**	**24,506,046**	**24,002,130**	**35,691,035**	**33,957,169**	**40,906,763**	**39,225,976**

HISTORICAL ZACKS RECOMMENDATIONS



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