

BGFEquities Company Research

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Promesa Limited PRA

Review Following Site Visit

Expectations of a Monster Epithermal Gold Resource in Peru

Investment Perspective: Promesa Ltd (PRA) has secured a very exciting epithermal gold project in Peru, similar and close to Lagunas Norte, Barrick's 9 Moz gold project.

There is an element of expectation built into the share price already with the market capitalisation of around \$90m (fully diluted). Rather than say this looks pricey given that there have been no drill holes yet, we prefer to say this points to the expectations that PRA is sitting on a potentially huge gold discovery.

One could sit back and say "let's wait until there are a few drill holes in it" before buying, but before doing this consider those that took this approach with a company like Ampella in the pre-resource stage. There is a big risk that if you don't get on board early, you will miss the train. The market will continually ratchet up the share price on the anticipation of continuing positive results. This is what speculative exploration stocks are all about.

If the exploration targets are achieved we see no reason why the market capitalisation could not exceed \$400m within a year or two, incorporating equity issues of \$10-20m over that period.

Exploration companies try to excite investors with the potential for a porphyry deposit at depth, but they don't know how deep it will be, or how expensive it will be to locate it. Here, PRA has an epithermal zone at surface and it has already identified the porphyry system beneath it, 1,000m down the mountain slope. It has the whole box and dice - the entire geological model.

We rate PRA as a strong **SPECULATIVE BUY** at these levels, with an expectation that the commencement of drilling in June will accelerate turnover and share price performance.

Primary Points

- ✓ The market can pay premiums for promising gold exploration stocks, frequently \$200-300/oz on ASX released resources.
- ✓ Transposing this to PRA, at \$150/oz, says it only needs to find 600,000 oz to justify its market capitalisation.
- ✓ PRA believes it will find 2.5 Moz in the oxide zone alone, which would justify a share price approaching \$2.00.
- ✓ Epithermal gold deposits can be higher grade than the typical West African Birimian deposits, often 1 gpt or more higher. This could justify an even greater EV/oz.
- ✓ Inspiration can be gained from another South American epithermal gold stock - Andean - which was taken over for \$3.5bn with a resource of 2-3 Moz.
- ✓ Lagunas Norte, a nearby mine, has a resource of 210 mill. tons at 0.96 gpt. It processed 22 mill. tons at 1.21 gpt in 2010, to recover 808,000 oz at a cash cost of US\$250/oz. Grades were higher in the initial years of production.
- ✓ Many companies excite the market with suggestions of possible copper porphyry mineralisation at depth, but with PRA there is no speculation. It has been observed 1,000m below the peak, exposed by adits into the side of the mountain.
- ✓ Projects like these are usually found in TSX listed companies. It is unusual, and a rare opportunity, for them to be available to ASX investors.

SPECULATIVE BUY

Current Price 60¢

Target \$1.50



Source: ASX Website

Share Price	\$0.60
12 Mth Range	8¢-70¢
Market Cap'n	\$91m
Listed Shares	50.6 million ordinary
Unlisted Shares	43.3 million ordinary
Total Shares	93.9 million ordinary
Listed Options	43.6 mill. Dec '12, 20¢
Unlisted Options	43.3 mill. Dec/Jan '13, 20¢
Cash Balance	\$1.9m 31/3/11 (Pre-placement)
Debt	Nil
Listings	ASX
Shareholders	Grupo Pegasus SA 21.4%
	Mineroil Energy SAC 21.4%
	Valerie Kathiravelu 4.9%

NB: Not diluted for proposed raising \$12m, via placement of 20 mill. shares at 60¢, with attaching 2 for 5 options (Dec 2012, 20¢). BGF Lead Manager. Shareholder approval 19/5/11.

Potential JORC Resources and Share Prices at Various EV/resource Levels

Moz	\$150/oz	\$200/oz	\$300/oz
1.0	\$0.73	\$0.98	\$1.46
2.0	\$1.46	\$1.95	\$2.93
2.5	\$1.83	\$2.44	\$3.66
5.0	\$3.66	\$4.88	\$7.32
10.0	\$7.32	\$9.76	\$14.63

Assuming all options exercised and the issue of a further 25 mill. shares, raising \$28m

1. Valuation of Exploration Upside in Exotic Gold Stocks

Valuation of exploration stocks is very subjective. It depends on how optimistic you want to be. For those who believe in the geology it is easy to draw comparisons with other similar, later stage projects. Look at the parameters of strike length, width, grade and the whereabouts in the geological model and one can quickly come up with a conceptual resource target. Performance of the share price will initially be determined by the stock market's belief in this being achievable, and thereafter, on actual delivery.

We have seen how the stock market is prepared to pay a premium for the excitement of exploration. The best recent examples of this are the leading West African gold stocks of Ampella and Gryphon. Each have recently boasted market capitalisations in excess of \$600m. We have tabled some of the leading West African gold stocks below, noting the following:

- the market is **prepared to pay a premium** for stocks that have high exploration potential e.g.
 - Ampella \$214/oz, Gryphon \$224/oz (it was as high as \$290/oz and \$376/oz in March 2011)
- the market is not prepared to do the same for imminent production even where the project is fully funded - Perseus is only given \$152/oz, despite the lower risk

There is exploration anticipation built into share prices. We can estimate the level of anticipation by picking a benchmark valuation of \$150/oz, which Perseus has consistently sold at, and calculate how much more gold needs to be found by these companies to justify their current market capitalisation. The following table shows the figures in March 2011, and then in May 2011, after the market had gone through a correction. The level of implied increase in resources has dropped significantly, showing a reduction in speculative appetite over the period.

US\$	March 2011			May 2011		
	EV/ resource	Implied Increase	Extra Moz Implied	EV/ resource	Implied Increase	Extra Moz Implied
Ampella	\$290/oz	94%	1.6	\$214/oz	43%	0.84
Gryphon	\$376/oz	151%	1.8	\$224/oz	49%	0.86
Papillon	\$392/oz	161%	0.7	\$152/oz	n/a	n/a

Table 1: Resource Increases Implied by Premiums Over EV/\$150/oz

Note: Since March, Gryphon has had a resource increase, and Papillon has suffered severe reduction in grade.

		Promesa	Ampella	Gryphon	Mt Isa Metals	Papillon	Perseus
Share Price		\$0.60	\$2.16	\$1.52	\$0.38	\$0.51	\$2.70
Issued Shares		93m	203m	300m	158m	191m	423m
Issued Options		87m	13m	14m	20m	73m	9m
Mkt Cap'n (diluted options)		\$91m	\$460m	\$452m	\$64m	\$120m	\$1155m
Cash		\$2m	\$40m	\$58m	\$17.2m	\$13.5m	\$88m
EV		\$89m	\$420m	\$394m	\$46m	\$106m	\$1067m
EV/resource Figures (on existing JORC resource, and Implied resource at US\$150/oz)							
On Current Attrib. Resource	-		\$214/oz	\$224/oz	-	\$161/oz	\$152/oz
Implied Resource	\$150/oz	0.59 Moz	2.8 Moz	2.63 Moz	0.31 Moz	0.71 Moz	7.11 Moz
Percentage Increase	-		43%	49%	-	7%	1%
Probability	Achievable		Achievable	Achievable	Likely	Achieved	Certain
Current Resource Positions (as released to the ASX)							
Tonnes	Mt	-	42.4 Mt	29 Mt	-	14.6 Mt	232 Mt
Head Grade	gpt	-	1.6 gpt	2.1 gpt	-	1.76 gpt	1.7 gpt
Total Project Gold	Moz	-	2.18 Moz	1.96 Moz	-	0.83 Moz	7.9 Moz
Company Equity	%	-	90%	90%	-	80%	90%/80%
Attributable Gold	Moz	-	1.96 Moz	1.76 Moz	-	0.66 Moz	7.04 Moz
Status		To drill	Ind.53%,Inf. 47%	Inferred	Drilling	Ind.18%/Inf.82%	Ind/Inf
Resource Depth		-	200m	100m	-	100m	200m

Table 2: Actual EV/resource and Implied Resource Increases of Selected Exploration Stocks

2. Valuation of Promesa's Exploration Upside

Building on the observations of the previous page, which show the market's propensity to pay \$200-300/oz for promising exploration companies, we have run a few numbers to see where Promesa could go.

What number of ounces does Promesa need to find to justify its market capitalisation?

- at \$150/oz, it only needs to find 590,000 oz - highly likely
- at \$250/oz it needs even less - 350,000 oz - highly likely

What will the share price be on the discovery of a multi-million ounce discovery?

The following table shows what share price is achievable using current market valuations for multi-million ounce gold discoveries.

- The \$150/oz valuation should be seen as the Base Case.
- The \$300/oz valuation could be relevant in the event of higher grades that can often be found in epithermal deposits and/or if there is a renewal of speculative enthusiasm in the markets.

Moz	\$150/oz	\$200/oz	\$300/oz	Assuming	
1.0	\$0.73	\$0.98	\$1.46	Issued Shares/Opts	180m
2.0	\$1.46	\$1.95	\$2.93	New Issues	25m
2.5	\$1.83	\$2.44	\$3.66	Options & issues add \$28m cash	
5.0	\$3.66	\$4.88	\$7.32		
10.0	\$7.32	\$9.76	\$14.63		

Table 3: Target Share Prices at Different Size Gold Resources, and EV/resource Benchmarks

What if the grade is higher than the West African gold discoveries, as is common with epithermals?

- an extra 1 gpt has the potential to double a profit margin, which could see the EV/oz add at least another \$100. The impact of this on the share price would be dramatic, as shown in the table above.

3. Finances and Corporate

As at 31 March 2011, PRA reported a cash balance of \$1.88m. Funding for the upcoming drill program will be provided by a \$6-12m placement being managed by BGF Equities Pty Ltd, on the following terms:

- 1 share at 60¢ with;
- 2 for 5 free, attaching options with;
- 20¢ strike, December 2012 expiry (same series as that currency trading on the ASX)

A shareholder meeting on 19th May approved the change in the nature of activities from an oil and gas explorer, and to approve the placement of shares.

Upon completion of the maximum of the \$12m raising the capital structure will be;

Issued Shares 113.9 million

Issued Options 95.2 million

4. Directors and Management

Solomon Majteles - *Non-Exec. Chairman*. Mr Majteles has been a legal practitioner for over 35 years, specialising in business, corporate, property and commercial law. He is non-executive chairman of Metals Australia Limited and a non-executive director of Blaze International Limited.

Ananda Kathiravelu - *Executive Director*. Mr Kathiravelu holds a Bachelor of Business and a Graduate Diploma in Applied Finance and Investment and has worked in the financial services sector for over 20 years, specialising in corporate advice, capital arisings and M & A. He is MD of Armada Capital Limited and is non-executive chairman of Transit Holdings Ltd.

Mario Enrique Camacho Bolivar - *Non-Exec. Director*. Mr Bolivar is a qualified mechanical engineer with 15 years experience in project engineering, project co-ordination, quality control and assurance. He is based in Columbia where he is President of Pegasus Group Columbia SA a business management and analysis consulting company.

Alejandro Calderon Chatet - *Non-Exec. Director*. Mr Chatet is a Business Economics graduate with a Masters Degree in Management and Finance from Harvard University. He has been involved with coal trading, the production of bio-fuels and crude oil derivatives, and is based in Columbia.

5. The Move into Peru

Change of Activities Announced in November 2010

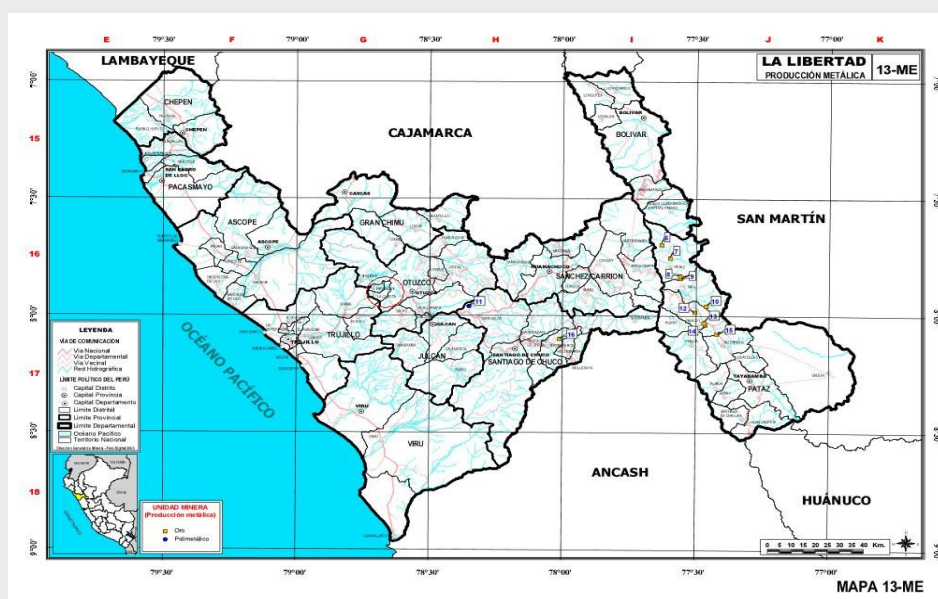
PRA abandoned oil and gas exploration in favour of gold in Peru ...

... acquiring three licences with the most advanced project being Cerro Curunday.

The location is good, near a major city of 1.5 million people and only 50 km from the coast, at a reasonable altitude of about 3,000m.

PRA was originally listed as an oil and gas explorer, in the USA, but lack of success forced it to change its activities in 2010. On 3 November 2010, it signed a heads of agreement with Peru Minerals covering three prospective mineral licences in the Otuzco province of Peru. These are located approximately 40 km NE of Trujillo, the third largest city in Peru with a population of 1.5 million people. The licences are in the gold-copper belt of the Western Cordillera of the Andes at altitudes of 2-3,000m. The licence names are;

- i) Victoadal, which hosts the **Cerro Curunday** gold project in the Otuzco province,
- ii) Baccarat and
- iii) Santa Rosita



The vendors, included South American geologists who have kept a substantial equity position in the Company, suggesting it was not so much as sale as it was a securitisation of their project.

Peru is one of the best countries for mining companies.

Acquisition Details

The purchase of 100% of Peru Minerals SAC was settled 31/1/11, with the cost being;

- i) 40 mill. shares, and
- ii) 20 mill. options with a 20¢ strike and a two year life, with piggy back options with another 12 month life and a strike of 20¢ (i.e. potentially 40 million in total).
- iii) A further 20 million 20¢ two years options were payable to Caldwell, as introducers of the opportunity.
- iv) Cash payments of US\$1m, being a \$200,000 deposit and \$800,000 on completion of due diligence.

At the time of the ASX release the shares were selling at 32¢ having risen from 11¢ a couple of weeks earlier when the market capitalisation was only \$4m.

A Preferred Destination for Mining Companies

Peru is a constitutional republic that has experienced 17 consecutive years as a market economy. Real GDP growth was 8.9% in 2007, 9.8% in 2008, but this fell to 0.9% in 2009 due to the GFC. A recovery to 8.3% was expected for 2010, and growth of 6% is forecast for 2011. The seven year average has been 6.8%. Like Australia, Peru is riding the wave of a resources boom.

Peru has been consistently one of the world's largest producers of silver, gold, copper, zinc, molybdenum and tin. Leading companies that operate in Brazil include BHP, Newmont, Barrick and Freeport.



Diagram 2: Highly Mineralised Country - PRA Ground Circled in Red

Diagram 2 shows just how rich the geology in Peru is, with many mines, exploration and development projects. Of particular relevance is *Lagunas Norte*.

Cerro Curunday - Analogy with Lagunas Norte Mines

Cerro Curunday represents an analogy with Lagunas Norte, a high sulphidation epithermal gold deposit in being mined by Barrick Gold Corporation, 80 km east of Trujillo, at a rate of 22 Mtpa and producing 800,000 oz p.a. from a valley-fill heap leach operation at an altitude of 4,000m.

Another major gold mine is Yanacocha, owned by Newmont. It is producing gold at a rate of 1.7 Moz p.a. Cash costs have been about \$400/oz based on a head grade of 2.5 gpt.

6. The Cerro Curunday Gold Project (PRA 100%)

Prior Exploration Work Conducted by Vendors

Extensive sampling and analysis has advanced Cerro Curunday to the "drill ready" stage.

Since late 2008, Mineral Energy SAC had been conducting exploration programmes comprising;

- i. geological mapping
- ii. rock sampling - 800 samples in the early program
- iii. trenching to depths of 1-1.5m and
- iv. geophysics (magnetometer and induced polarisation-resistivity).

Laboratory test work has included fire assays, thin and polished sections, fluid inclusion studies, micro-thermometry work and preliminary metallurgical studies.

Outcropping alteration and epithermal mineralisation support the view that Cerro Curunday is a high sulphidation epithermal system.



Photo 1. Cerro Curunday Looking South



Photo 2. Sampling Outcropping Mineralisation in Alteration Zones

The Geological Model - Classic Epithermal with Porphyry

Promesa believes it is dealing with a geological model such as the one demonstrated in Diagram 3 i.e. the classic high sulphidation epithermal model with the underlying porphyry system punching higher grade, gold rich intrusives to the surface.

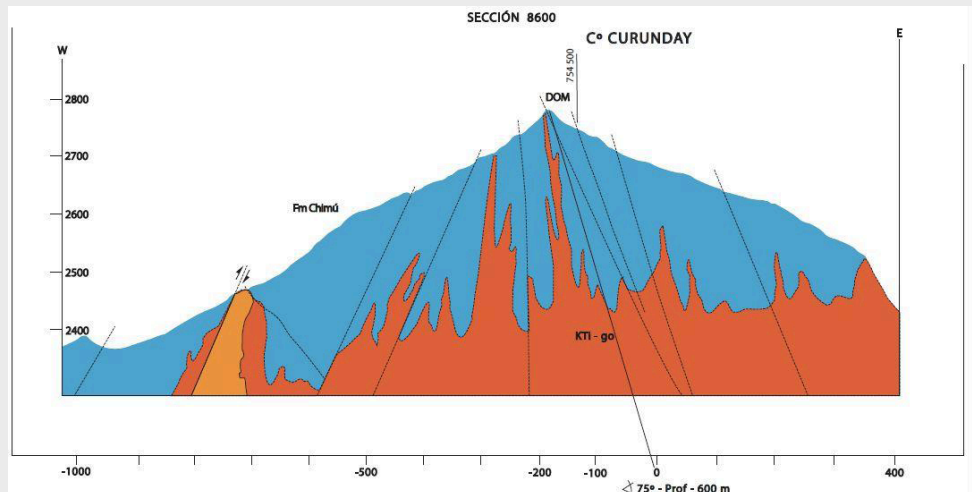


Diagram 3. Cross Section on Cerro Curunday Interpretation

High level sulphidation systems typically comprise;

- i. an upper zone of oxidised gold mineralisation,
- ii. a lower zone of primary sulphides ores hosting copper and gold mineralisation and
- iii. deeper zones of copper and gold rich porphyry mineralisation.

The steep topography has enabled vertical sampling of the system, exposing the epithermal vein at surface and the porphyry geology further down.

Thus, the need to drill to 500-1,000m depths to prove the porphyry, an expensive proposition for most explorers, has been obviated.

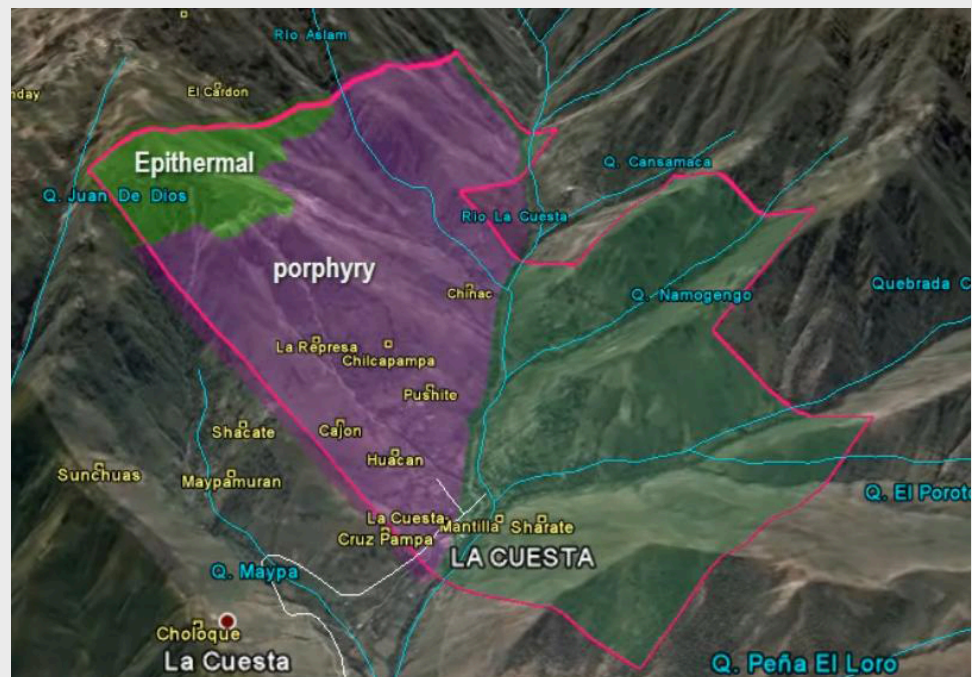


Photo 3. Sampling Outcropping Mineralisation in Alteration Zones

Logistics

While the steep mountainous terrain provides its challenges, the location and logistics and logistics are not unreasonable;

Location - only 50 km NE of Trujillo, a major city of 1.5 million people

Access - a 14 km dirt gravel road is being constructed from La Cuesta to Cerro Curunday at a cost of \$0.55m.

Water - two artesian sources of water have been located 500m and 1,500m from drilling locations. Access rights have been granted.

Nearby Gold Mines - Yanacocha (Newmont) and Lagunas Norte (Barrick Gold)

Recent work has strengthened the belief that Cerro Curunday hosts a major system

Recent Exploration Conducted by PRA

Field work on the western flank of Cerro Curunday has returned high grades of silver at 484 gpt, molybdenum at 260 ppm, lead at 3.5%, zinc and other indicator minerals.

Three main anomalous fields have been identified:

- the gold anomalous centre at the top of Cerro Curunday, with silver and mercury,
- an anomaly with silver, mercury and molybdenum, consistent with the high level sulphidation model, and
- an outer region strong in zinc, lead and molybdenum, which represents a transition to a lower sulphidation environment.

The dimensions of the prospective mineral field have been expanded by this recent work, extending to 2.2 km x 1.5 km, with extensions to the south, east and west.

Drilling will soon extend the depth perspectives of the system prior to more systematic grid drilling for resource calculation

Location of Proposed Drill Holes

Photo 4 below has the proposed drill sites marked on the Cerro Curunday prospect, with Phase 1 comprising first six drill holes for 1,200m, commencing in late May, 2011. A further 24 drill holes (4,800m) will then be drilled to test the oxide material to a maximum depth of 200m.

Ingetrol Peru SAC, an experienced South American drilling company, has been appointed.

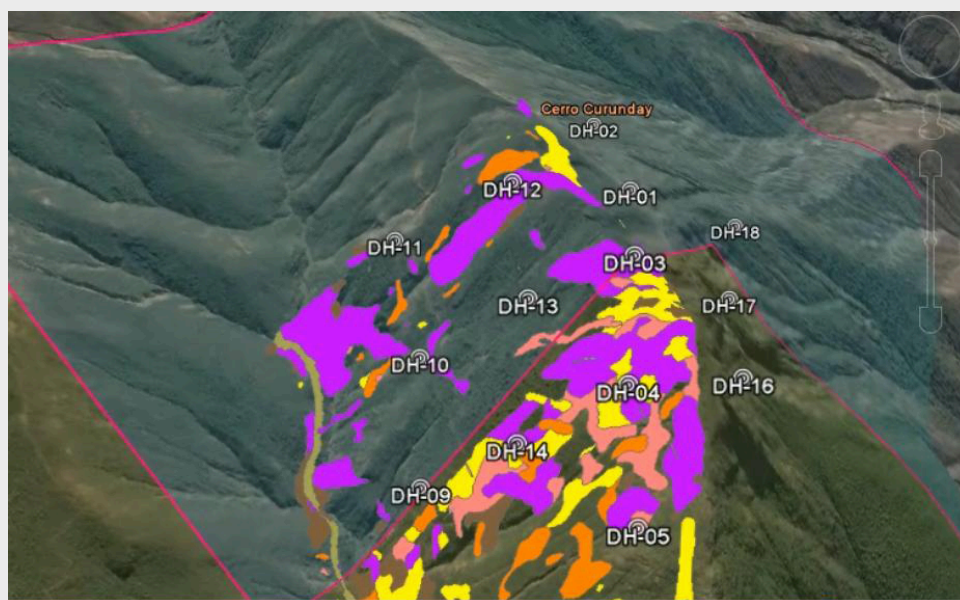


Photo 4. Proposed Drill Sites at Cerro Curunday

Geological Targets

All exploration programs commence with optimism. The Cerro Curunday is no different, but what is notable is the size of the targets that the geologists believe are realistic, given the geological environment and the history of regional gold discoveries. They are described as:

- Oxide Zone - at least 1 Moz, expecting 3 Moz - will require 20,000m of drilling
- Lower Sulphide Zone - perhaps 4-5 Moz, with associated copper
- Porphyry Zone - > 5 Moz plus copper, over 500-1,000m vertical distance

Baccarat and Victoadal Licences

Epithermal gold mineralisation has been found over a strike length of 1.8 km within the Baccarat and Victoadal licences with gold mineralisation extending into the neighbouring licence for 1 km. The licences demonstrate classic gold/copper porphyry system geology of tertiary age granite intrusions into marine sediments.

During the March quarter, a mapping and sampling program on Cerro Las Huacas on the western side identified pathfinder elements, demonstrating the top of an hydrothermal system. High grades of silver (424 gpt) lead (3.5%) arsenic, copper, molybdenum, zinc, and others were recorded from what appears to be hydrothermal breccia hosted in sandstones altered to vuggy silica.

An high density rock chip sampling is now proposed to identify the boundaries. This will be followed by magnetic and IP surveys, and later by drilling. The main anomaly currently measures 2.2 km x 1.2 km.

Santa Rosita Licence

This is a strategic licence located south and east of a Barrick Gold licence. The geology comprises sedimentary rocks intruded by volcanic intrusives, with mineralisation being associated with pyrite, chalcopyrite in veins of silica and gold in quartz veins with sulphides. Analysis suggests hydrothermal alteration and fluid inclusion work supports fracture filling from a porphyry system.

Disclosure Interests associated with the author own shares and options in PRA. There have been no payments made for this research. PRA has agreed to contribute to the costs of the recent site visit. BGF Equities will receive placement fees on completion of the proposed capital raising.

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