PMI Gold Leads with High Grades and Profit Margins

By Katherine Young

Everyone knows the adage—buy low and sell high, but buying low means buying what few others value. Just a few sellers can attract more panicked selling and, conversely, a couple major shareholders can spur more optimistic buying. Market leaders have the courage and skill to stray from the herd and buy a stock based on its actual value, not simply because everyone else is buying.

The same logic holds true for exploration companies: Create investor wealth by buying and developing properties where others have failed – due to higher commodity prices, market conditions, politics or lack of courage or skill.

PMI Gold's (TSX.V:PMV) President Doug MacQuarrie has had his eye on the Asankrangwa gold belt in Ghana, West Africa since 1994 when he co-commissioned the first modern, geophysical airborne survey flown over the belt. The survey determined that the belt was a major unexplored break, equivalent in features and structure to the prolific Ashanti belt located nearby. The major difference being that although virtually the entire belt had been staked by juniors, the Asankrangwa has had far less production than Ashanti.

So when the gold price fell and the juniors began to drop away en masse, MacQuarrie and his Ghanaian partners followed his contrarian instincts and bought concessions along the Asankrangwa, in the heart of the Ghana Gold Triangle, for a fraction of the price they would cost today.

It's this kind of maverick thinking that put PMI ahead of the curve before the bull market started and continues to distinguish it today.

MacQuarrie plans a mine distinctly different from its peers. Intent on moving to production on its Kubi project, MacQuarrie envisions a small, inexpensive 500 tonne per day operation that targets high-grade gold initially averaging between 12 and 15 g/t, and results in about the same amount of gold produced as in a bulk-tonnage low-grade open pit mine.

Kubi, which PMI acquired in October of this year, has a 43-101* compliant resource estimate of 604,000 indicated ounces of gold and 315,000 inferred ounces. Between 1999 and 2005 the Kubi mine produced 59,000 ounces of gold for AngloGold Ashanti from 500,000 tonnes of ore at an average grade of 3.65 g/t.

Before completing pre-feasibility on Kubi, PMI is focused on raising $50 million in project financing to put both the Kubi and Obotan past producing mines back into production as underground operations. The Kubi project is further advanced and PMI will move on it first, developing toward pre-feasibility as soon as financing is in place. The mining lease has already been issued. The mine is located only twenty minutes south of infrastructure at Obuasi, Ghana's main underground mining district. And because the gold grades are high, MacQuarrie plans to move to production within eighteen months.

Mining high-grade, low tonnage presents the opportunity for lower capital costs, lower financing requirements, and short time lines to production. However, like in the past, when MacQuarrie bought concessions in Ghana at the same time as other juniors were selling off, MacQuarrie appears the contrarian.

"We are serious about putting two mines into production and concentrating on margin," he says. His model is different. It's not large scale, and it's not high tech, but it is potentially lucrative.

And there are side benefits. Mining in a developing country like Ghana, creates the opportunity for providing labour for hundreds of trained but unemployed locals. Instead of spending money on expensive capital equipment such as a jumbo drill rigs which employ few operators, PMI is able to train and pay many unemployed Ghanaians to use and repair cheap low-tech conventional equipment like jack-legs and stopers, while saving on capital costs.

Similarly, instead of processing hundreds of thousands of tonnes of ore in a huge open pit, PMI can keep its environmental footprint light and save on reclamation costs, all for the same net amount of gold. Projects like this, MacQuarrie contends, "are easier to sell to developing countries. You don't end up having to move families and villages, and provide more and longer term employment opportunities."

In addition to Kubi, production at Obotan is on the horizon as well. Past production at Obotan on the Asankrangwa belt totalled 730,000 ounces of gold – 590,000 of which came from the Nkran pit with the remaining 140,000 from the Adubiaso and Abore pits.

While there isn't yet a 43-101 resource estimate for the Nkran project, Golder Associates have been commissioned to prepare one for early 2008. PMI Gold believes there is an exploration target of up to 2 million ounces under the Nkran pit.

Recent assays from a 2,539 m drill program on the Obotan property included highlights from the Nkran pit of 44.5 m of 2.61 g/t gold testing the down dip extension of the orebody. And a drill hole 170 m to the south of the southern end of the pit returned a highlight of 2.7 m of 8.91 g/t gold.

MacQuarrie is confident in his strategy, however different it may be. And he has another plan that should sound good to investors: "Once we've paid back the bank we're going to pay our shareholders a significant percentage of our net earnings, after all the bank debt is retired, as dividends."

PMI stock is currently trading at about $0.24 with a 52 week high of $0.47. Fully diluted, the company has 87M shares outstanding.

About the Author

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