

This bearish outlook doesn't mean we aren't looking for base metals opportunities. To the contrary, we are already pursuing them, as base metals like zinc and lead are found in silver deposits and copper often neighbors gold. We will continue to bring you carefully targeted speculations in the industrial metals sector, so stay tuned. Knowing where a trend is likely to go is the first step to avoiding losses, and, if due diligence so suggests, taking positions to profit from it.

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Notes from the Field: French Guiana (and France) Filed by Louis James



French Guiana is not a former French colony but a current department of France. There's not much mining in France, and Columbus Gold's partner, Auplata, is the only company of its kind on the Paris stock exchange. In spite of this, the French do understand the value of gold, and it's common for currency exchange services to also buy and sell bullion.



Currency exchange services in Paris also deal in bullion – does this mean the French recognize that gold is money, consciously or otherwise? (Apologies for the grainy iPhone night-photo.)

Be that as it may, the regulators are in Paris, which is where I met with them. Those in Paris asked few technical questions and seemed mostly concerned that Columbus Gold (V.CGT) had the financial resources to make a serious effort at advancing the Paul Isnard project – I almost got a sense that it was a matter of national pride to see a world-class gold discovery shape up. The officials I met with in the department of French Guiana also gave every indication of being very keen to see responsible mining advance.

This is important because French Guiana has a negative reputation in the mining industry since the current French government, under Sarkozy, shot down IAMGOLD's Camp Caiman project in 2008. As I understand it, IAMGOLD did everything right, including environmental studies, and when it came to the end of the permitting process, the government simply refused.

The unofficial picture I have assembled is that when the government chased out all the evil multinational mining companies, they forgot that nature abhors a vacuum. As soon as the countryside was quiet and deserted, hordes of illegal miners from Brazil swarmed over the border, using footpaths that honeycomb the jungle, and started tearing up the countryside.

I've seen the damage these "artisan" miners can do, in many locations throughout South America. They often use toxic mercury to process gold ore, and they have no qualms about dumping their tailings into local rivers. They throw trash all over the place and make no effort to restore the land to its original condition when done. They use explosives and sometimes even mechanized mining equipment, with little regard for safety, resulting in frequent deaths from cave-ins in their workings. Somehow, this is better to many environmental extremists than the evil multinational companies operating according to international environmental standards, but that's another story.

The government has tried to chase these locusts away, but when they make a show of force, the illegals just melt into the jungle and show up at another spot. In fact, while meeting with the prefect of French Guiana (sort of like a state governor in the U.S., but with more far-reaching powers), he asked the Auplata guys if they could step up their work on the ground where Auplata has mineral rights, so the illegals wouldn't come back to those areas the police had just cleared. Auplata responded that they had permits pending, and that with those granted, they could get to work. The prefect immediately picked up his phone and asked his underlings where those permits were. A very good sign, I'd say.

What about Camp Caiman? Well, there were apparently caimans sunning themselves along the river there (hence the name), and that was the environmental concern that did the project in. I heard there was a new plan afoot that would move the processing (which would involve cyanide) some kilometers away from the mine and the river, pretty much eliminating the risk of accidental harm to any caimans. Be that as it may, the problem was pretty specific to Camp Caiman, and I saw no caimans, nor animals of any other sort, beyond insects, on Paul Isnard. Well, there was a camp dog, with puppies.

I was convinced that the local officials do indeed want responsible mining (which is also tax-paying mining, in contrast with the illegal operations) to boost their economy. The department is not self-sufficient and is heavily dependent on France, which is cutting its budget – this is being felt locally. I was less certain about the regulators in Paris, but they, too, know about the problem with the illegal miners.

The bottom line for now is that mine permitting is a problem for the future for any explorers working in French Guiana.

It's worth noting that Auplata is open pit mining in two locations in French Guiana right now – clear evidence that the government is not hostile to all mining.



A stream of gold particles flowing down the grooves of a vibrating table in the final stages of one of Auplata's gravity separation circuits in French Guiana. Auplata is one of the biggest private-sector employers in the department.

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New Company Recommendation: Columbus Gold

We sent Louis James on a due-diligence tour to French Guiana, to see XL honoree John Prochnau's new gold play there. We liked what he saw there enough to issue an investment alert on the stock, which has since had time to settle back. If you are disciplined enough, you may be able to get in at the same price as alert subscribers, or even lower, if the market corrects even more strongly.

Columbus Gold Corp.			
HM: Au			
V.CGT, CBGDF.OB, www.columbusgoldcorp.com			
Price	Share: C\$0.87	MCap: C\$34.4M	On 2/1/11
Shares	SO: 39.5M	FD: 49.7M	As of: 1/17/11
Warrants	UnEx: 5.5M	C\$0.30	Exp: 11/21/11
Options	Open: 4.6M	C\$0.25-C\$1.68	Exp: 5/24/11-12/6/15
Cash	Est. C\$2M +C\$2M PP	Burn: \$600K/mo	As of: 1/11

BUY UNDER C\$0.80—We are buying back into Columbus, based on the compelling case for unrecognized value in its new Paul Isnard project in French Guiana. However, the company is still advancing the Nevada exploration projects we liked before. This gives us lots of ways to win, something we always prefer in a speculation. By the Ps...

People

Columbus is led by Robert Giustra, a former investment banker who's been working in the resource sector since 1992. Robert's greatest strength may be in team-building – finding the right people to work on given tasks – but he's also shown he can raise money with minimal dilution.

Getting Columbus off the ground, Robert teamed up with Andy Wallace and John Livermore, legendary Nevada gold prospectors (Livermore is the geo credited with the original Carlin discovery in Nevada, among others, and Wallace also has numerous economic gold discoveries under his belt). These two rock stars founded an exploration company called Cordex, which has an exclusive exploration contract with Columbus.

Explorers' League honoree John Prochnau was a founding director of CGT. He's since retired from the board – and management of any companies – but is still actively involved in Columbus, especially with the new Paul Isnard project. He's the one who did the original due diligence on the project and flew with me to French Guiana on my recent trip there. It was clear on the trip that while Robert leads the company, John is leading the project, and it couldn't be in better hands.

On the ground in French Guiana, the Columbus team is working with the team long established in the country by [Auplata](#), the French company from which CGT bought the Paul Isnard project. These people have been working for years in a place others have dared not go, and they have found, permitted and put into operation two open pit mines with gravity mills. These properties are near, but not part of the Paul Isnard deal.

Combine this hands-on experience with Midas Prochnau's geological insight and Robert's ability to raise money and close deals, and you have a great combination that covers all the bases.

What about last time? Columbus was not a winner for us when we recommended it in 2006, it's true – but that was not due to failure on management's part; they did the work they promised. Mother Nature simply didn't cooperate. It happens to the best of them.

This time that's less of an issue, because there's no discovery risk in this play; it's all about doing good work to add value, going forward. We are confident this team will deliver.

Property

Columbus has two properties in Utah and 20 in Nevada, where Andy Wallace and the Cordex team are still very active. Eleven of these will be drilled this year, with about 31,000 meters of drilling planned. These are all exploration plays with merit, and several could add significant value this year, but the focus now is on Paul Isnard, the new acquisition in French Guiana.

We say "acquisition" here only for lack of a better term. Columbus is buying an initial 51% interest, which it can take to 100% by spending C\$7 million and producing a bankable feasibility study within four years. However, Auplata, the vendor, is acquiring 49% of Columbus, partly through a C\$2 million private placement into CGT. This deal is really more like a partial merger that avoids the substantial regulatory complications of formally merging a French and a Canadian company.

What do we get for giving up half the company to these new partners? We go from having nothing in the bag to having 1.9 million 43-101-compliant Inferred ounces of gold, at an average grade of 1.6 g/t – to start with. That's a good grade for an open pit project that appears to be amenable to conventional processing (the mineralization is not refractory). Better yet, that's at a 0.4 g/t cut-off grade, using \$1,200/oz gold, and if you up the cut-off grade to 0.9 g/t, you still have 1.6 million ounces grading 2.2 g/t – very robust-looking numbers.

There are also historical resource estimates, including a 43-101-compliant one in 2004 by RSG Global that tallied 2.93 million Inferred ounces averaging 1.5 g/t gold. Only half a million of these fell in the \$375/oz open pit projected then, so we take those numbers with a grain of salt, but they do suggest that it will be easy for this deposit to get much larger.

Louis went over John's proposed drill plan with him and Auplata's geologists while on site. He saw many areas within the three-kilometer-long resource zone that would currently be modeled as waste, but have not been drilled and shown to be barren. Each one of these that returns positive drill results in the upcoming drill campaign will reduce internal waste and add gold. The deposit is also wide open to depth, with no drilling below some of the highest-grade zones discovered thus far.

Given the consistency of the past drill results and the number of blank areas that simply have not been tested, we believe it should be relatively easy to drill off three million ounces of gold. Four million would not be much of a stretch, even without discovering any new areas of mineralization. And new discoveries are entirely possible, with many targets crying out for testing.

John Prochnau, normally a very calm and understated engineer who tells you the bad along with the good without much emotion, is *very* excited about Paul Isnard. We trust John, and it's clear that to him it's not a question of whether or not the deposit will get bigger, but of how much bigger it will get.

Chief among the negatives John was candid about is that the deposit dips back under a hill. That will impact the strip ratio, a very important cost factor. However, some of the best grades are found towards the bottom of the current resource, and higher-grade discoveries at depth would certainly help pay for pushing the hill back. Plus the deposit is open to expansion internally, as well as laterally along strike, particularly to the west.



Montagne d’Or, “Gold Mountain,” location of the 1.9 million ounces of gold the Paul Isnard project already has. Note the destruction of the jungle in the foreground, caused by illegal miners, chased off by the departmental government.

There is also a gross sales royalty payable to Euro Resources SA on the first 5Moz gold production from the project (10% less \$400/oz Au on the first 2Moz, then 5% less \$400/oz Au on the balance). There is another royalty payable to the Department of French Guiana, for distribution to the local communes (towns), of €224.18/kg gold production for small and medium-sized companies and €448.36/kg for larger companies. This second royalty, to the government, is not too bad as these things go, but the first is more onerous. Management has plans to get it reduced.

The good thing about these liabilities – and every project has some liabilities – is that they will come into play during the feasibility stage of the project’s development. That’s a fight for another day. The basis of the spec now is that Paul Isnard is probably already larger than reported at present, and unless Mother Nature is exceptionally uncooperative, the company has the means to make it much larger in short order.

The big risk here is political.

Politics

Permitting may be an issue in the future, but for now, the government seems inclined to cooperate. See Louis James’ *Notes from the Field* for details.

Paper & Financing

With Auplata buying into Columbus, the situation here is a little murky and won't settle for a while. The main thing to understand is that CGT has a reasonable share structure now, and that new paper created to accommodate its partner is not going to hit the market anytime soon.

Also, in addition to the cash CGT has on hand, there's another +\$2 million coming in from deeply-in-the-money warrants, and \$2 million more coming from Auplata's private placement in CGT (part of the current deal). Further, management reports that key institutional shareholders have already said they will provide additional financing. What this means is that CGT has enough cash to start drilling as soon as logistics can be arranged, and enough cash coming in to complete its earn-in to 100% of Paul Isnard. Full feasibility work will take more money, but that will be some time down the road, and we'll see drill results and a new resource estimate before then, likely leading to a higher share price.

In short, the company has the cash it needs for the work already planned to add value. It probably will finance, but only when it can do so at a higher share price, which would imply that we're already ahead of the game.

Promotion

Columbus shares have more than doubled since the news of the Paul Isnard deal, so the story doesn't seem to need much help getting out there. However, Robert knows that John Prochnau is an engineer, not a salesman, and has told us he's taking steps to get the right people in place to get the story told. We know the company has a booth at the investment shows, and now that they have a more advanced project to talk about, they are getting more attention. So far, so good.

Push

The next big milestone should be the lapse of the period the government has to object to the sale of Paul Isnard, due in two weeks. That could give the shares a significant boost, as investors who remember Camp Caiman may be thinking the government will object to the deal. We think it is unlikely the government will object, but they may ask for an extension of time to consider the deal. If they do, it could hit CGT's share price hard, without actually being bad news – we've met with the regulators and they were favorably disposed, so an extension of the objection period could just be a show of due diligence on their part. Unless they gave some reason to think they were working on an objection, we would see a sell-off on news of such a delay as a buying opportunity. Watch for it.

After that, and shareholder approval (CGT shareholders would be nuts to object to the deal, as it just turned their stock into a winner), it will be largely up to John's drill program. Though Columbus plans to work with its Auplata partners on the project, it's going to take some time to assemble CGT's own technical team and mobilize equipment and field help. The rainy season is coming to French Guiana in a couple months, so it's not clear right now if the company will be able to drill before then, or if it might have to wait until mid-year. However, Robert made it clear that if at all possible, Columbus will get the truth machine turning on John's drill targets before the rain starts, to start showing the market what the project potential is.

Later in the year, there should be an updated resource estimate, and there's plenty of discovery potential along the way.

On a more speculative note, two companies this closely tied will naturally consider a full merger. Columbus shareholders would gain access to any upside in Auplata's other properties in French Guiana. Those are not profitable at present, with under 8,000 ounces of production in 2009, but they have substantial resources and a lot of exploration potential. Auplata would gain access to North American markets, capital, and the substantial hard rock mining experience of Columbus' key people. Both sides are looking at about a 50/50 relationship now, so they don't really have much to lose.

Price

We like this new project. Having been on site with John and gotten a feel for the political risk myself, we think it's selling for a discount it does not fully deserve. That said, there's time to build a position and no need to chase the stock. The current 80-cent price range is a good entry point, but there's every reason to hope for lower prices in the weeks ahead, as gold continues to fluctuate, so we recommend shooting for less than 80 cents. If the French government asks for an extension to its objection period, you may be able to get in for 50 cents or less for a second tranche.

Plan B

Another way to play would be to buy shares in **Auplata (Euronext: ALAUP, €3.05, MCap €51.9M, www.auplata.fr)**. We realize that few subscribers have access to the French market, so this is not a formal recommendation, but we do want to point it out.

Briefly, unlike CGT shares, ALAUP shares remain at roughly the same price as before the deal with Columbus was announced. Auplata is a new miner that has not yet turned a profit, so perhaps that's not terribly surprising. However, if Columbus adds a lot of value at Paul Isnard and Auplata has 49% of Columbus, Auplata shares will have to respond sooner or later.

As stated above, Louis met with Auplata's key people and was impressed by them. Their mines are not yet profitable, largely due to very low recoveries (in the 30% range), but they plan to build a new plant that would boost recoveries significantly. This would still not use typical cyanide processing, keeping the permitting simple. Louis saw a pilot plant that was reportedly successful at boosting recoveries to profitable ranges. Assuming Auplata and Columbus do not merge, and Auplata improves its gold recoveries as hoped, the company should have significant upside of its own, as it swings from losses to profit.

However, the new plant will cost money, so there may be a financing ahead – something to watch out for, or possibly to seek participation in.

[Here's a link](#) to Auplata's Euronext listing in Paris, for those interested.

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