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Atlantic Gold – emerging North American gold producer

A few weeks ago we touched upon the ongoing discrepancy between the performance of physical gold versus gold equities. In fact the divergence is growing, not shrinking. The chart below of the spot gold price (black line) versus the North American Gold & Silver Index (the gold line) over the past 12 months, clearly demonstrates this.



Some of the key factors that might help explain gold equity underperformance include:

1. Investor nervousness about equities generally
2. Higher risk associated with gold equities than metal (i.e. possible operational issues)
3. Influx of funds into ETFs which previously would have gone into gold equities
4. Rising price of gold has been accompanied by rising production costs for gold miners

Nevertheless, sustained strength in gold prices will eventually lead to a re-rating in gold equities, particularly as companies find new and imaginative ways to engender investor interest. Many of the world's biggest miners are ratcheting up their dividends in order to reward patient and loyal shareholders.

A junior gold company that's been on my radar screen for some time is **Atlantic Gold (ASX: ATV, Share Price: \$0.038, Market Cap: \$19m)**. The company boasts a strong gold pedigree, with its board and management team all being former long-term executives and directors of Plutonic Resources, a highly successful Australian gold mining and exploration company, now owned by Barrick Gold Corporation.



Atlantic Gold has taken a different approach to most Aussie international gold players, which typically head to West Africa in search of projects. Instead, Atlantic has sought to acquire projects in North America that have existing gold reserves with near-term development potential.

Accordingly, the company is now focused on exploration and development of its **Touquoy Gold Project and its Cochrane Hill Gold Deposit in Nova Scotia, Canada. The aim here is to effectively combine the two projects and generate a project of considerable size, both in terms of reserves and annual gold output.**

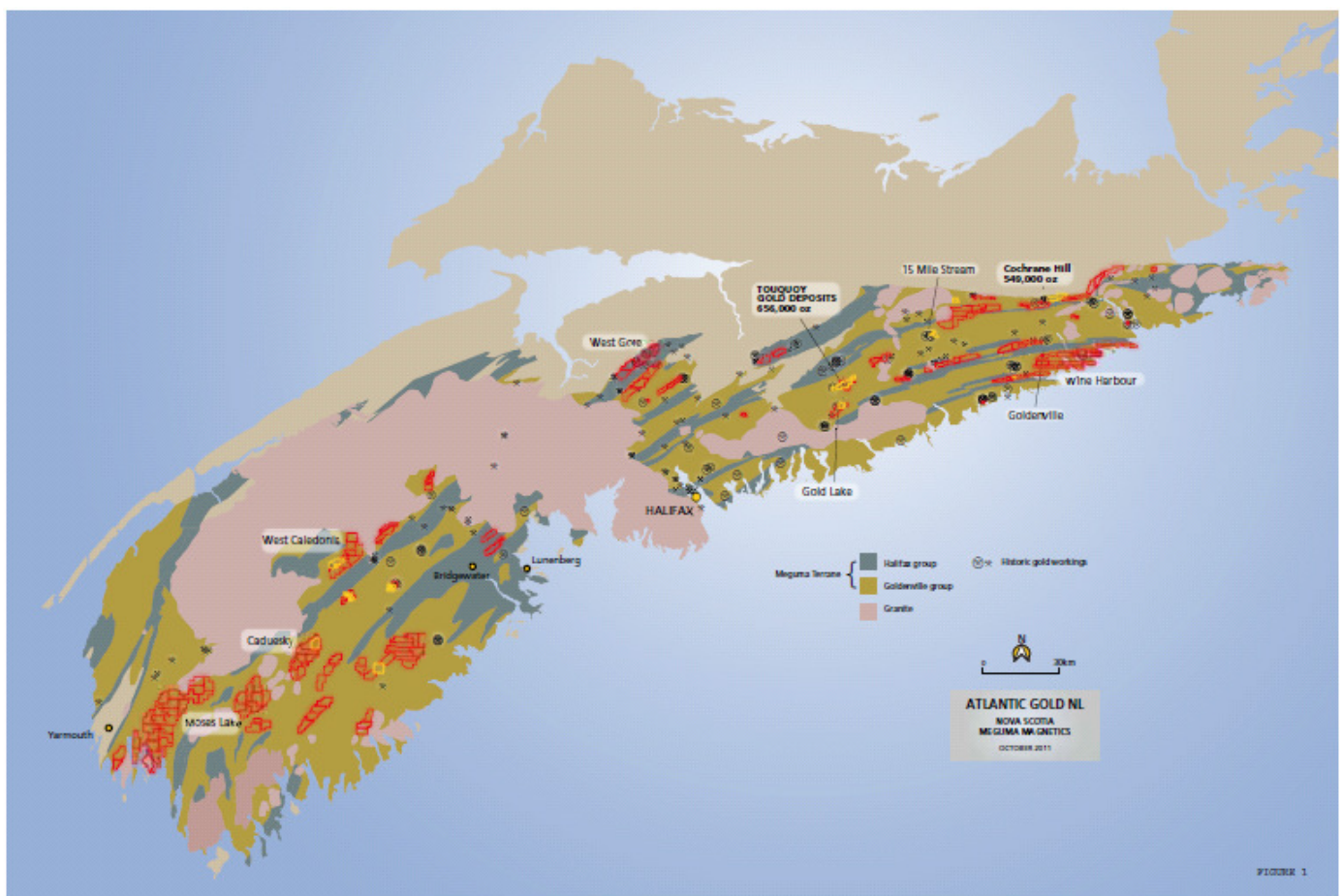
Implementation of this strategy led to the company's focus on developing its Touquoy Gold Project in Nova Scotia on Canada's Atlantic coast, and further expanding the resource base through exploration of the surrounding region. The extensive goldfields of Nova Scotia have never before been systematically approached in this way.

The Touquoy Gold Project is just the start in terms of Atlantic applying its skills in identifying and developing open-pit (and underground) gold deposits in Nova Scotia. To this end Atlantic also got involved

with the Cochrane Hill Gold Deposit, located 80 km east of Touquoy project. The Cochrane Hill resource was recently upgraded to 10.0 million tonnes @ 1.7 g/t for 549,000 contained ounces of gold.

Just recently there was agreement between Atlantic and Scorpio Gold (Canada) Corporation (TSX-V: SGN) to sell its 100% stake in the Cochrane Hill Gold Project to Atlantic Gold for C\$1.6 million. Atlantic has until now been earning an interest in the Cochrane Hill Gold Project under an Option Agreement with SGN.

The opportunity to purchase a 100% stake in the Cochrane Hill Gold Project is a major step in Atlantic Gold's plans for a minimum 1 million ounce gold resource base in Nova Scotia.



Atlantic is examining project financing options, with indicative responses from a range of major banks confirming that conventional debt is available to form the major component of the project funding requirement. In this regard the company is utilizing the services of Brian Bolton, who was Chief Financial Officer of Plutonic Resources and has considerable experience in this area.

A Definitive Feasibility Study was completed on the project back in July 2010 and a revision of costs and revenues is therefore prudent to ensure the most accurate data possible is available for potential financiers. Since the DFS was completed there have been substantial positive movements in currency exchange rates and gold price.

The DFS established Ore Reserves of 9.59 million tonnes @ 1.48 g/t for 454,000 contained ounces of gold using a gold price of US\$1100/oz. These Reserves are defined within an open-pit with a 2.6:1 strip ratio and having a 5-year mine life at a planned throughput rate of 2.0 Mtpa through a conventional on-site gravity/CIL plant. Cash operating costs (at July 2010) are estimated at US\$505/oz with an initial capital cost of \$115 million (C\$123 million).

	TONNES millions	GRADE g/t gold	CONTAINED GOLD ounces
ORE RESERVES*			
TOUQUOY			
Proved	2.49	1.48	118,000
Probable	7.10	1.47	336,000
TOTAL RESERVES	9.59	1.48	454,000
MINERAL RESOURCES			
Touquoy			
Measured Resources	2.8	1.5	130,000
Indicated Resources	7.3	1.5	350,000
Inferred Resources	1.6	1.5	77,000
Total Touquoy¹	11.7	1.5	557,000
Touquoy West			
Indicated Resources	0.9	1.9	54,000
Inferred Resources	0.6	2.2	45,000
Total Touquoy West²	1.5	2.0	99,000
Total Touquoy Project	13.2	1.5	656,000
Cochrane Hill			
Indicated Resources	4.5	1.8	251,000
Inferred Resources	5.6	1.6	298,000
Total Cochrane Hill³	10.1	1.7	549,000
TOTAL RESOURCES	23.3	1.6	1,205,000

The currency exchange rate used for the study – A\$/C\$ of 0.90 – has markedly improved to 1.07 at present, and the gold price has increased from US\$1100/oz to more than US\$1700/oz. However, some increase in capital cost over the last 12 months is to be expected. Perth-based Merit Engineers, which prepared the DFS, has been approached to commence an update of costs and revenues.

A unified production plan for the Touquoy and Cochrane Hill Gold Projects based on conceptual study level modelling has been developed, producing 90,000 ounces of gold over a minimum ten-year mine life. Total potential output is expected to exceed 900,000 ounces at current gold pricing. The production plan involves re-location of the planned Touquoy 2 Mtpa gravity/CIL treatment plant to Cochrane Hill following completion of the Touquoy operation.

The Touquoy Gold Project is located in central Nova Scotia about 70 minutes drive by sealed road from Halifax, the Provincial capital. Halifax is a modern city with a population of about 350,000, which is a major shipping port that supports major engineering and service infrastructure.

With a market value of <\$20 million, Atlantic Gold is a conservatively and professionally run gold play that offers Australian investors something different from the run of African gold plays. The key will be how the company manages project financing, whilst minimizing shareholder dilution at low share price levels. We'll certainly add it to our emerging gold radar screen.

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