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Mexican Gold's Las Minas has big-time backers

ZACATECAS | Gold-silver deposit debunks 'myth that skarns are difficult'

Jesús Castro (left), president of Geoconsulting Ing., and Brian Robertson, president and CEO of Mexican Gold, at the Las Minas gold-copper project. MEXICAN GOLD

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It all started with a cup of coffee in Zacatecas.

Brian Robertson was swapping stories with a fellow engineer when he learned about 30 historical mines in the cliffs and ravines near the small village of Las Minas, 177 km from the port city of Veracruz on the Gulf of Mexico.

Robertson was president and CEO of Source Exploration at the time, a Canadian junior that was investigating a silver property in the state of Zacatecas in north-central Mexico, roughly 1,100 km away. (Source Exploration was renamed **Mexican Gold** [TSXV: MEX] in April 2017, and Robertson continues as president and CEO.)

But Robertson was on the hunt for new assets, and the account of artisanal miners extracting ore in Las Minas with grades of between 20 grams and 40 grams gold per tonne and up to 15% copper — which was then shipped to smelters in the U.S. and Europe — piqued his interest.

What puzzled him was why no one had drilled the area, so he made arrangements to look for himself.

What he saw when he arrived were old workings in the hillsides dating from 1870 to 1910, and extensive skarn under dense vegetation.

He also discerned that Las Minas, 370 km east of Mexico City, hosted one of the largest, under-explored skarn systems known in Mexico, and that while the region's production history began as far back as the Aztec era, his predecessor had barely explored the area to any depth.

"They were mining what was exposed in the wall rocks in the sides of the valley and didn't mine anything below surface — simply what was outcropping," he recalls. "I could see there was potential for a large, open-pit resource, and

potential for undiscovered high-grade zones they weren't aware of."

After optioning the concessions in late 2009, Source Exploration raised enough money to start drilling them in 2011.

Matt Liard, now the company's senior consulting geologist, remembers being asked to take a look at Las Minas in early 2013 before he started working for the company.

One of his clients, worried about Source Exploration's languishing share price, had asked him to evaluate the project and determine whether he was throwing his money away.

Liard concluded it was far from a poor investment.

Not only were Source's assay results impressive, but with no previous drilling to guide it, the company had hit ore-grade, substantial-length intersections at each of six or seven old showings.

"When I put the drilling into a 3-D modelling software, the first thing I noticed was that I felt we could probably go in there and start drilling for resource right away," he recalls. "I thought, of anything I had looked at in the previous five or six years, Las Minas was one that you could go in with a small amount of money and drill off a resource."

Liard was so keen on the project that he presented it to several of his contacts in the industry, some of whom got behind the project at the start of 2014. "We were able to finance it through some pretty bad times," Liard says, "but that's why we were able to get into this opportunity, when normally we probably couldn't have, because it was a high-quality project."

Source Exploration's fortunes brightened early last year, when Palisade Global Investments, an offshore merchant banking and investment group, became the company's largest shareholder.

Sean Zubick, cofounder of Palisade, got a call in February 2017 from Matt Geiger, a fund manager and founder of MJG Capital in California, who recommended that Zubick and his team take a look at the project.

"He's one of the smartest money runners I've met, and I've made it a personal mission to meet them all," Zubick says, adding that Las Minas, which means "the mines" in English, must be a pretty good place to look for gold.

"After speaking to Matt, we asked our in-house geologist, Denis Lavoilette, to take a deep dive through all the drill data. We talked to management and every board member, and the overall consensus was that it was a fantastic asset," Zubick says. "I still remember the phone call from Denis, who said, 'Sean, there's 1 million equivalent oz. gold here,' and I was staring at a 2-million market cap that had just rolled back 10 for one. So we jumped."

In March 2017 Palisade acquired 6.6 million units at 15¢ a unit for a 12.7% stake in Source Exploration (22.5% fully diluted), and then bumped that up in May to 15.9% (26.7% fully diluted).

Palisade remains the largest shareholder today with a 19.8% stake.

The first thing Zubick and Palisade Global cofounder Collin Kettell did was restructure the company's US$700,000 debt and recapitalize the company.

Palisade also recruited Ali Zamani as chairman. Zamani, managing partner of Overlook Investments LLC, had managed Goldman Sachs' proprietary investments in publicly traded mining and material companies from 2004 until 2012.

In August 2017, Mexican Gold calculated a resource estimate on two of eight known mineralized zones — El Dorado–Juan Bran and Santa Cruz.

The open-pit, modelled resource estimate delineated 304,000 oz. gold equivalent in the measured and indicated category (5 million tonnes grading 1.90 grams gold-equivalent per tonne), and another 719,000 oz. gold equivalent in 10.3 million inferred tonnes at 2.17 grams gold-equivalent per tonne).

The resource is based on 19,600 metres of diamond drilling in 140 holes.

The company has carried out five drill campaigns since 2011 and delivered a 91% success rate, with mineralization found in 158 of 173 holes for a total of 25,600 metres.

"When you do a deep dive in due diligence, and when it comes out with a million ounces of gold equivalent in front of you at a $2-million market cap, you'd better be ready to jump, because these opportunities only come up once in a lifetime," Zubick says in a telephone interview from Machu Picchu in Peru, where he's celebrating his 35th birthday. "Now I'm sitting here staring at a $15-million market cap company and I ask myself: 'Would I buy a million ounces of gold in the ground for $15 million? It's still really cheap."

In November, Palisade brought in a number of well-heeled investors after the company reported assays from resource-expansion drilling that includes a 54-metre interval grading 6.91 grams gold-equivalent per tonne. The intercept marks a new discovery and the area has been named the El Dorado Dike Contact Zone.

Mexican Gold's trading volume that day spiked to a record high.

"When we hit that hole and had that 4.5 million shares being traded we crossed a bunch of long-term investors into the stock with our shares, and we used that capital to exercise our warrants, giving more money into the treasury for the next phase of drilling," Zubick says.

The new investors included Paul Matysek, who over his career has sold six small-cap resource companies for over $10 billion. (His most recent deal was the US$265-million sale of Lithium X to Chinese investment firm NextView in December 2017.) Others were Bob Cross, chairman of **B2Gold** (TSX: BTO); Greg Orrell of the OCM Fund, the OTP Fund out of Budapest; Paradox IR; James Moon of Hampton Securities; Steve Benjamin of Raymond James; Paris Tsirekas of HNW Investor; and Martin Tielker of Haywood Securities.

"These types of investors understand what a high-grade hole — five times better than your resource grade — means, and add credibility and validation to the technical merit of what we have here," Zubick says.

Consulting geologist Liard describes Las Minas as part of a big, mineralized system. The Las Minas diorite intrusive measures 10 km in diameter and underlies the Las Minas concessions, which host near-surface gold-silver and copper-skarn mineralization, and high-grade, gold-silver epithermal vein deposits.

"There is a regional sill that underlies a vast area in this region — between 100 and 150 sq. km, at least — and this sill is at least a couple of hundred metres thick, clearly coming from a larger plutonic system," he says. "There are also several related dike swarms in the area, and there's mineralized skarn associated with all of the related intrusive rocks."

Liard also says Las Minas debunks a common perception about skarns. "There's an old geologists' myth in parts of the industry that skarns are difficult, poddy deposits that are hard to drill and harder to mine," he says. "Of course, you can look around the world and a lot of the world disagrees with that, and veins and porphyries can be like that, too ... proximal copper-gold-magnetite skarns can be very consistent stratiform bodies that can rack up a lot of tonnage. We drilled 17 holes in a row in the northeastern corner of El Dorado and we hit on all of them, and that gave us enough confidence that we were into the right type of skarn deposit."

Liard says that Las Minas is similar to the Media Luna deposit owned by **Torex Gold Resources** (TSX: TXG) in Mexico's Guerrero state, 180 km southwest of Mexico City. The Media Luna deposit is part of Torex's Morelos

gold project, and Liard says that the core from the two projects can look almost identical.

"I went down there and looked at a lot of core at Torex, and I really noted how similar the zoning and the mineralization and the gangue and textures were to what had been drilled at Las Minas," he says. "The core from El Dorado was clearly from the same deposit type as Media Luna."

Liard notes that the El Dorado deposit resource shell is one continuous lens, and there are no blank spots.

"Both Media Luna and El Dorado are essentially the same deposit type, they are proximal copper-gold magnetite skarn, relatively flat-lying, lenticular bodies, and also have a higher-grade, higher-thickness core zone, which pinches and weakens out to the periphery."

The El Dorado and Juan Bran zone outcrops on surface and occurs as a flat-lying to subhorizontal zone measuring 650 metres north–south, by as much as 500 metres east–west. The zone varies from 6 to 49 metres thick. El Dorado–Juan Bran is open for more expansion (as is the El Dorado Dike Contact Zone).

The Santa Cruz zone is comprised of a series of high-grade, stacked, skarn-mineralization lenses that strike northwest and dip 50 degrees west. Overall dimensions of Santa Cruz mineralization are 220 metres by 100 metres.

Highlights from drilling last year include 2.30 grams gold, 19.07 grams silver and 1.57% copper (5.03 equivalent grams gold) over 44.5 metres in the Santa Cruz zone; 1.58 grams gold, 13.85 grams silver and 1.65% copper (4.47 equivalent grams gold) over 4 metres in the Cinco Senores zone; 5.14 grams gold, 8.6 grams silver and 1.46% copper (7.65 equivalent grams gold) over 2 metres in the Las Minillas zone; and 2.84 grams gold, 9.50 grams silver and 1.61% copper (5.74 equivalent grams gold) over 17 metres in the Nopaltepec zone.

This year the company finished a 3,300-metre drill program, focusing on the expansion of the present resource along its periphery and on several adjunct zones and nearby geophysical targets. In particular, the high-grade West Dike Contact (DC) Zone, which has only been outlined since the publication of the maiden resource, has now been traced over 470 metres. Results released in March from the zone included 4.51 grams gold, 16.17 grams silver and 3.33% copper (10.19 grams gold equivalent) over 38 metres. At the DC Zone, mineralization occurs on both sides of the dike, though the west contact zone has gotten most of the attention.

Resource expansion drilling in the Santa Cruz area targeted the upward extension of the zone and its continuation to depth. The deeper holes (250 to 300 metres) intersected an interpreted continuation of the El Dorado (ED) Zone east of Santa Cruz, which shows that the ED zone is more than 500 metres wide from east to west through its entire known dip extent.

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SENIOR CONSULTING GEOLOGIST, MEXICAN GOLD

At the historic mining areas of Cinco Senores and Las Minillas, a moving-loop TDEM survey finished late last year found several potentially contiguous, flat-lying conductors similar to what was seen in an orientation survey at the El Dorado–Juan Bran zone. These targets will be prioritized in the next drilling program.

Mexican Gold has also engaged in fieldwork with two crews, each deployed at the Changaro mineralized corridor and on the Pueblo Nuevo concession. These extensive historic mining areas have received little to no modern exploration, so initial work is mostly stripping, trenching and sampling, Liard explains.

The Changaro zone is a mineralized corridor measuring 800 metres by 500 metres, situated 400 to 800 metres above the extensive skarn zone that hosts the present resource at Las Minas. The company believes the zone is a structurally controlled system of distal, retrograde, gold-skarn development hosted within marble, which forms steeply plunging ore shoots.

The zone is characterized by numerous small-scale mines (more than 13 have been found so far) and mineralized showings. The namesake Changaro mine was mined as a high-grade, dike-related zone over 200 metres high.

Sampling at the Changaro mine in 2011 yielded 8 metres grading 9.92 grams gold, 20.78 grams silver and 0.63% copper (11.45 grams gold equivalent).

In May 2018, field exploration at Changaro yielded 13.04 grams gold, 6.83 grams silver and 0.21% copper (13.48 grams gold equivalent) over 8 metres.

At the Pueblo Nuevo concession, 3.5 km north of the El Dorado and Juan Bran resource area, exploration last year found multiple, high-grade, gold-bearing quartz veins near the same sill contact (and possibly part of the same metallogenic system) as the better known gold-copper skarn deposits at Las Minas proper. Sampling of the Tamiagua 1 vein structure returned 24.86 grams gold and 17.8 grams silver over 0.25 metre.

Historic mines and showings with significant gold values occur over more than 450 vertical metres in the flat-lying carbonates and in the underlying dioritic sill, and veining has been traced for more than 1 km of strike length.

So far the 2018 fieldwork has used mapping, trenching and sampling to find potential parallel vein systems and define potential drill targets. Sampling results from the Tamiahua I vein released in April include 2.2 metres grading 17.01 grams gold and 7.61 grams silver. The Tamiagua II vein sampled 10.65 grams gold and 21.1 grams silver over 0.45 metre.

Since starting in February, fieldwork at Pueblo Nuevo resulted in the discovery of a number of historical gold mines within a cluster of similar mines. These mines feature extensive drifting and stoping up to 40 metres high and up to 85 metres long, often on several levels.

Historical mining was carried out with hand tools through hard granitic rock, followed by packing the raw ore up and down a 500-metre-high ridge with mules, indicating that the veins contained high-grade gold values.

"Finding these old mines that have been lost to the jungle for 100 years really has an 'Indiana Jones' feel to it," Liard says. "It's easy to forget that we're drilling off a paved road a few kilometres away."

Liard says his team finds veins and mineralized structures in trenches by just cutting access pathways through the dense vegetation.

"Everything goes to the lab, as even clean quartz veining or moderate alteration can assay multiple tens of grams of gold," Liard says. "Every geologist has been involved at some point in projects where you spend a lot of money and there's nothing there, so it has been really gratifying to work on a project like Las Minas, with this density and scale of mineralization." TNM