

Gold Stock Analyst: Venezuela Trip Report: Nov 14–19, 2004.

GSA's Editor was 5 days in Venezuela visiting Crystallex's and Hecla's mine sites. Here's the email sent to, web access subscribers with some important trip "learnings" after our return (subsequent comments/updates in italics):

KRY's Las Cristinas looks like a Superfund site due to years of small scale mining by as many as 10,000 "artisans" up to Jan-2004 when the Venezuelan Govt began an eviction program. Using water hydraulics and sluices to mine, and mercury to recover the gold, the small miners created a "toxic soup" in the shallow riverbed site that will be cleaned up by the coming construction of the Las Cristinas mine and mill to "first world" standards; *is another reason why Govt should want LC developed ASAP.*

2. A mid-trip meeting with General Rangel, the newly elected Governor of Bolivar province where KRY's and HL's mines are located, left no doubts among analysts that the construction of Las Cristinas will soon proceed. In a 30-minute talk who is the former head of CVG (the Govt entity that controls the Nation's natural resources), said the development of LC is a "point of honor" as he had approved the project when head of CVG.

3. KRY mgmt hinted that financing for Christinas (\$300 mil needed including VAT) would likely come in two tranches, and could be all convertible debt or a similar "mezzanine" instrument. While KRY now was \$60 mil cash, GSA thinks most will be held back for emergencies. GSA sees total \$300 mil bonds issued, convertible at \$6.00 with a 6% to 8% coupon; this would bring potential 50 mil shr dilution on top of current 208 mil fully diluted shrs. For those expecting take-over by a Major, such a financing could be a modest set back. Mutual/hedge funds that would buy the convert would not do the due diligence on Cristinas that would be done with banks for project debt, and thus would not represent the 3rd party verification Major would want to see before bidding for KRY. *GSA learned later that the first finance tranche is likely under \$100 mil straight debt from mutual/hedge funds,*

not banks, and that there will be small equity kicker (~5 mil sirs); final tranche seen as project debt.

4. The look and feel of Hecla's mine operations in the towns of El Callao and El Dorado 125 km to the south (and approx 100 Km to the north of Cristinas) was superior to that of KRY's in El C, which had more of a "mom and pop" flavor. Both companies' operations intertwine with the town of El Callao, but HL's efforts to be a good neighbor were evident to the point of some suggesting that Meridian could use its help with community relations at Esquel. GSA thinks this difference is probably due to the relative import of the operations to each firm's long term plans. Hecla is building a multi-deposit base here, and Venezuela has a key role in its long term growth. Crystallex is focused on getting its huge 20+ mil oz deposit into production and has little top management time to spare for properties that would be quickly jettisoned if a Major was to buy KRY, which many on the trip expect will happen.

Crystallex

The touring group arrived in Caracas by Sunday and listened to a series of Venezuelan Govt presentations on Monday, essentially explaining 1) the Gov't positive posture towards mining, 2) the new mining law of 1999 that allows small miners to coexist when possible on deposits with big mining companies and 3) the Chavez regime's goal of lifting the population from poverty thru large and small scale development of Nation's resources.

Tuesday AM, the 3 dozen analysts, money managers, and Crystallex employees flew in 4 planes approx 400 miles southeast to KRY's Las Cristinas site, not far from the Guyana border.

Placer spent approx \$150 mil on drilling (136km of core stored on site) and built an airstrip, offices, and living facilities for 1,000+ future workers.

But, as can be seen in the pictures, nothing was done by PDG or anyone since to clean up the mess created by thousands of "artisans" mining gold with sluices and mercury recovery, and living on the site in tiny shacks recognizable by the

blue tarped roofs. All this falls within the LC pit and be totally cleaned up by KRY's development work.

The southern portion of the ore body is Gold Reserve's Brisas deposit; it was interesting to note GRZ's land showed fewer workings, as the artisans had apparently concluded that their long days of working in 105 degrees heat with the constant threat of malaria were best spent on KRY's land, as the grade is much higher to yield more gold for the same work effort.

While we visited, some 400-500 miners were still working the property, down from 10,000 at the start of 2004. The reduction had been peacefully achieved by the National Guard, which has a station on the property, checking passports, criminal back-grounds, and enforcing permit requirements for mining materials. Under the Govt's small miner program, the approx 40 with legal licenses will be directed to a portion of the 10,000 acre concession that is not in KRY's mine plan.

The last permit needed to begin construction is the Environmental Permit. This had been expected by now, but there have been changes in the Dept's personnel which has required "bringing them up to speed" on mining in what seems best described as on the job training. In the analysts' meeting with Rangel (discussed above), it was clear that this permit will certainly issue in due course.

Conclusion: The big project expertise of COO Ken Thomas, w/years at senior officer positions in Barrick and Anglo-American, coupled w/Pres Todd Bruce's experience as IAMGOLD Pres when its JV partner Anglogold was building two big mines, will soon bear fruit. For much of 2004, senior operating staff has been on board and integrated into the planning and development of Las Cristinas; the intent is to minimize any construction and mine startup "hiccups" and from GSA's perspective, it looks like they are equal to the task.

Hecla

Wednesday, Day 3 of the tour, began with all meeting w/Governor Rangel (see comments), then the tour group was off to see Hecla's El Callao operations.

We had been Tuesday to KRY's mines on the north side of El Callao and its Revemin mill just south of town. But we were surprised to see that HL occupies offices split off and just south of Revemin; they had been acquired to support HL's Block B concessions in the area.

Here we saw plans and later the ramp being built into Isadora, 7 km to the SW and adjacent the former Chile mine that produced from ore grading 1.5 oz/t into the mid-1940s. HL's recent 120K' drilling

shows 2 veins grading just over 1.0 oz/t for 431K oz P+P and 544K total oz mineraliz.

HL plans to begin mining in '05 and truck 100, then 400 t/day of ore to its La Camorra mill, 100km south; while sounding expensive, it isn't as Venezuela's 20¢ diesel price and average wage under \$10K/y will keep cash cost/oz under \$200. Once full prod underway, and if HL's other area expl bears fruit as hoped, Co will build a new mill to service its El Callao deposits.

Leaving HL's offices we saw many concrete water tanks Co builds (see pix) for locals and toured their small plant where ore is sampled and bot from local miners.

While providing a fair outlet for local production, HL sees this as an exploration eye on what's going on elsewhere in the region, which has produced gold since the late 1800s; HL ests the entire El Callao district has, w/past prod, a 15 mil oz potential.

After flying to eat/sleep in Puerto Ordaz, we reboarded planes Thurs AM to tour HL's La Camorra mine. Having just passed its 1 million oz produced, it's now the only large mine in the town of El Dorado which has also seen mining since the 1800s. HL's ongoing exploration coupled w/past and current small mine production leads HL to guesstimate a 5 mil total oz potential from this region.

La Camorra has two ore veins mined by a ramp between them that now extends to 480 meters and takes 30 minutes to transit. As drilling shows ore to at least 850 meters deep, a shaft is now under constr to 625 meters w/ extension possible to 1,145 meters. This will cut the one-way transport time for ore and workers from

thirty minutes to two, w/cost savings offsetting increases elsewhere to maintain cash costs approx \$200/oz.

Conclusion: HL's operations are well-run by competent and enthusiastic staff and GSA is rooting for the Co to find/acquire a 1+ mil oz deposit to help underpin its long term production and reserves. Go Hecla!

This report was illustrated with a number of photos and maps, including John's plane being stuck in mud, the passengers had to get out and push! Sadly we no longer have clear images.

Note date of report: December 2004. Not current information!

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