

Energold rides metals boom

Mineral exploration spending was expected to reach US\$9.0bn globally in 2007, up 470% from a cyclical trough of US\$1.9bn in 2002. In 2008, mineral exploration expenditure is forecast to reach well over US\$10bn, with drilling services representing approximately 40% to 50% of this spending. Energold Drilling Corp has a unique position in the contract drilling industry to capitalise on the boom with its man-portable drill rigs.

The supply and demand led mineral drilling sector is highly cyclical and directly related to the market price of various metals. The price for gold, silver, nickel, copper, zinc and other non-ferrous metals has increased dramatically over the past few years to reach nominal and real all-time highs. In addition, there has been a surge in the price of uranium in the past 18 months and with it a flood of attention from exploration companies and investors.

It is forecast that the supply of many base metals will fall short of demand over the next several years as developing economies continue to expand rapidly. For example, China's economy grew at 10.7% in 2006 and India's grew at 9.2%. In 2007, Chinese growth climbed to an estimated 11.4%, with only a slight dip predicted in 2008 at 10.8%. This means that demand for base metals will continue to rise above historical rates. The supply for key metals such as copper, nickel and zinc have been at their lowest points in the past five years, so even if substantial new reserves are discovered, it

will take many years to bring these online.

With relatively few large resource discoveries in the metals industry, coupled with growing demand for metals globally, spending on exploration should continue to rise. This has provided junior explorers funds to increase their efforts to discover new resources, while the established majors are attempting to replace their depleting reserves. With metal prices remaining

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high, proven reserves bring a big valuation for companies.

There has been ample capital available for junior exploration firms in recent years given investor interest in the mining sector. For now, the easy availability of financing remains in place, despite the global liquidity crisis. This bodes well for mineral drillers, especially smaller ones such as Energold, which are more reliant on exploration activity from junior miners than would be the case for major drilling companies such as Major Drilling Group International Inc or Boart Longyear. With strong industry demand having absorbed most of the drilling industry's capacity, the key to revenue and earnings growth is now rig fleet expansion.

Profile

Energold currently has 42 rigs, which operate on a number of continents including Africa and South America. The company has been growing rapidly over the past two years and is well positioned to continue its aggressive growth path considering the current mining boom. In addition to the drilling business, Energold also owns a 16.4% stake in Impact Silver Corp, which has

Below: drilling at 4500m elevation



several silver projects in Mexico.

Energold is based in Vancouver, and its shares are listed on the TSX Venture Exchange and the Frankfurt Exchange. Since 1999, Energold has transformed itself from a junior exploration and silver producer into a company focused on contract mineral drilling.

All future rigs are expected to be 100% owned. The new rigs cost approximately US\$176,000, but involve a total cost of closer to US\$503,000 when spare inventory and transportation to the customer site is included. Energold tends to operate in developing nations where there is little direct competition and a readily available, inexpensive labour pool. At present, Energold employs over 500 people; of which 60 to 70 are experienced drillers from North America or Australia.

Energold's competitive advantage lies in its specialised portable rig design and its ability to turn around an order within a short timeframe (one to three months). The company is able to transport its portable rigs onto site either by truck, ATV, helicopter, mules, or by hand. The rigs, which weigh between 0.8-1.0t, can be assembled in just 45 minutes and use a drilling pad size of only 16m². To operate each rig it takes two experienced drillers, along with 10 to 25 local labourers. No single part of the rigs weighs more than 181kg and 80% of the rig components are available at average hardware

stores. Inventory spares are also present on-site to lessen downtime, and since the rigs are a proprietary design, improvements can be built into each new rig based on driller feedback.

The latest generation of its rig, the Series III, is capable of drilling to a depth of over 800m. Depths achieved by typical competitive portable rigs are in the range of 200m to 300m. Energold's drillers average 25 to 30m per 12-hour shift. Although larger drilling rigs can attain significantly deeper depths, Energold can compete effectively with most conventional drills in depth capability, and with larger core sizes. Energold operates a fleet of standard and high altitude drills capable of drilling BTW (drill bit core diameter 42mm) to depths of over 800m, NTW (drill bit core diameter 56mm) core to depths greater than 300m and HQ core to depths greater than 100m in most conditions.

Energold is focused primarily on diamond core drilling, however it is capable of conducting reverse circulation and directional drilling programmes should they be required. Some of the large, global drill rig manufacturers include Sandvik, Atlas Copco, and Boart Longyear.



Above: helicopter dropping drill rig

S O C I A L L Y & E N V I R O N M E N T A L L Y R E S P O N S I B L E D R I L L I N G

ENERGOLD DRILLING CORP. is a socially and environmentally sensitive contract drilling company servicing the international mining sector, and industry leader of man-portable drilling rigs. Operations in South America, Africa and Asia.

Strong Growth Fundamentals

- 4 consecutive years of profitability

Strong Financials

- \$21.8 M (US) in Cash; \$35.8 M (US) in Working Capital
- Record earnings in 2006; EPS \$.17 (US)
- No debt on Balance Sheet

Expanding Drill Fleet

- 41 drilling rigs mobilized or in field
- 60% year-over-year growth

Growth Strategy

- Expand in current and existing markets through acquisition
- Rapid expansion of drilling fleet

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Energold
DRILLING CORP.



Energold's president and chief executive Fred Davidson speaks to *Global Capital*

Please tell us about Energold Drilling

"Energold was originally an exploration company that needed some drilling done in an environmentally and socially sensitive area in the Dominican Republic (DR). No drill contractors were interested in drilling in the DR at that time. Energold ended up purchasing a small man-portable drill and moving it onto the project. At the end of the programme, 50 holes were drilled totalling 5000m and not one tree was removed. The drilling programme was conducted in a dense virgin jungle. Energold, noticing that it was on to something good, began building highly-portable rigs. The drill is staffed by two drillers and the rest of the helpers are hired from the local community. As the drill is moved by man-power, the local community often contributes up to 20 people to each job. All of the helpers and labourers are trained in work safe policies and procedures. If the exploration programme becomes successful and a mine is built, it is these workers that have acquired some mechanical experience through us that are first in line for a job."

Can you outline how your business has changed since 2001, including staffing levels, revenue and profit?

"The business has grown tremendously. Revenues have increased from US\$2.5m to in excess of US\$25m in 2007. Profit has gone from somewhat over breakeven to a profit of over US\$5.5m in the first nine months of 2007. The number of drill rigs has increased from the original 4 to a fleet of 42 by the end of 2007. Full-time and contract staff have increased from 38 employees to well over 500 employees."

How many countries do you now operate in? How has this changed in the past 7 years? What regions have seen the most growth?

"Energold operates in Mexico, Dominican Republic, Nicaragua, Brazil, Columbia, Argentina, Peru, Zambia, Democratic Republic of the Congo, Madagascar and Vietnam. Seven years ago Energold was only operating in three countries. Demand is pretty much universal for our rigs. Up to this point, we have focused our attention on Latin America for a significant part of Energold's growth. After eight years, we have yet to service existing demand in Latin America. We believe that we will see continued strong growth in the third world in general as all the low hanging fruit or easy discoveries have been made. Miners have to increasingly explore in more remote or unstable parts of the world. We see much of the exploration money heading to Latin America and Africa, two markets that we think provide Energold with significant growth potential."

Have you been able to cope with demand? What are your plans for growth?

"We have been unable to cope with demand since we started drilling in 1999 with one rig. We have 42 rigs at the end of 2007 and have budgeted funds to bring our total number of rigs to 60 by the end of 2008. All rigs are built and serviced by Energold. Energold grows organically."

How hard has it been to find new staff? What procedures do you have in place to train staff, and describe how you manage to retain these staff?

"Staffing has not been an issue. We provide good pay as well as very beautiful tropical areas to drill in. When drillers have the option of sucking black flies through their teeth in Canada's arctic or drilling in Mexico, the decision is not a hard one. This is the primary incentive why drillers consider us over the competition for long term employment. We have also successfully begun training locals in a number of our countries, which provides them work experience as well as creating a relationship with the local community so further drilling programmes can be conducted. While local drillers are very diligent, they do take a longer time to train."

Can you describe the capacities of your man-portable drilling rigs?

"We drill thin wall cores known as BTW, NTW and HTW. BTW is marginally smaller than NQ core. NTW is marginally smaller than HQ. Our latest Series III models can drill BTW to over 800m in depth. Our first model in 1999 could drill BTW to only 150m. We can drill all types of rock through diamond drilling only. All of our rigs are the same basic design and are highly portable. They can be moved by man or in the cargo hold of a conventional aircraft or even onboard a Bell helicopter. The heaviest component is under 400 pounds. Recent contracts include having drilled IAMGold's Quimsacocha [gold project] from grass roots onward, Aurelian Resources and Candente's drilling at the Canariaco copper project. We also conducted a 10,000m+ programme on the Barrick/Gold Corp Pueblo Viejo gold project, which went to a feasibility study."

Outline how you service and maintain your worldwide rig fleet?

"In any countries that we have more than just a couple of rigs, we hire locals and open an office and warehouse. As the rigs are quite compact in size, we can fit a rig, spare parts and enough down-hole supplies for a 3000m contract into on 20ft (6.1m) shipping container."

How have high fuel costs affected your business?

"Not much. It is more the high steel prices for the rods and tubes that have affected us. We have been able to pass on most of the fuel costs to our clients." 