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Pediment Gold Corp Uncovered: The Field Tour Review

A Monday Morning Musing from Mickey the Mercenary Geologist

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I first wrote about **Pediment Gold Corp (PEZ.T)** in a private report delivered on June 18, 2007. Parts of my missive were reprinted by Jay Taylor in his weekly newsletter. At the time PEZ was trading at 79 cents and subsequently went as high as \$3.58.

I again covered the company in a [Mercenary Musing \(July 6, 2009\)](#). It closed at 77 cents that day and traded as high as \$1.98 this past November. It's time for an update, and this is my third report on Pediment.

Pediment Gold has been on my radar screen even before it went public in October 2005. It was founded on a concept that the Mojave-Sonora Megashear, a zone of exploitable gold mines and deposits stretching for over 600 kilometers from southeast California and southwest Arizona across northwest Sonora, had not been explored under extensive shallow gravel cover, i.e., "pediment" surrounding known mines and deposits. This is understandable since the Megashear is a relatively immature province for gold exploration. As such, the area presents a strong opportunity for new gold discoveries that do not crop out.

The Megashear is a fold-thrust belt deforming Mesozoic-age volcanic, intrusive, and sedimentary rocks and Precambrian gneiss and granite. Gold and/or silver mineralization is localized where low-angle shear zones intersect high-angle structures. It hosts tens of millions of ounces of gold production, reserves, and resources including giant mines at La Herradura in Sonora and Mesquite in California. Pediment holds seven property packages in the area:



Mohave-Sonora Megashear Gold Mines and Deposits

I like Pediment Gold Corp for all the right reasons:

It has a well-managed, tightly held share structure, smart management and a chief geologist who knows Mexico's gold districts as well as anyone, two advanced flagship projects, and a *panga*-load of cash in the kitty.

The company has 47.4 million shares outstanding. Fully diluted is 53.4 million shares including 386,000 warrants at 83 cents and 1.61 million at 90 cents that expire the end of March 2011 and 3.94 million options that range from 50 cents to \$1.60 with expiries up to five years. Insiders control 12%, family and friends control about 10%, institutions an estimated 7%, and there is approximately 71% in retail public float. Liquidity is generally moderate with an average of 685,000 shares trading per week over the past year.

The 52 week high and low is \$1.98 and 72 cents, 30 day is \$ 1.53-1.33 and its most recent close was \$1.40. The stock has been range bound for the past two months and has found support in its current trading range of \$1.35-1.50. Working capital stands at a healthy \$12 million. I consider PEZ undervalued at these prices:



Thru out its 4.5 year history, the company has provided trading opportunities for its shareholders. Pediment is one of those companies where savvy investors hold a core position as a long term investment and a trading position to play the ups and downs of the stock.

What more could you want from a junior resource company?

Near the beginning of its last run-up in mid-November, I visited Pediment's two flagship projects in Mexico: **San Antonio**, near La Paz, Baja California del Sur and **La Colorada**, near Hermosillo, Sonora.

I flew from Albuquerque to Phoenix-Guadalajara-Culiacan-La Paz in a scant seven hours and was met by Mel Herdrick, Pediment's ace geologist, and Thom Calandra, the Ticker Trax newsletter writer. After settling into a local hotel on the beach, we enjoyed a nice dinner with Pediment's local expeditor and consultants.

The next morning we made the short drive to the San Antonio project starting at the south end and working our way north. Pediment now controls 50,000 ha in the district.

The first stop was an overview of Mina El Triunfo where narrow, high grade, base metal-silver veins were mined in the past. Herdrick has developed interesting bulk mineable gold targets surrounding the veins. In addition, a small historic oxide gold-silver resource exists in local mill tailings at the old mine and could add to production at San Antonio. A drill program to test these targets will commence near the end of April.



El Triunfo, Smelter Stack, and Mill Tailings

We drove north for an overview of PEZ targets including El Mirador and the Geronimo pit, dug by local *gambusinos* (illegal miners) and 2.2 g/t Au mineralization cropping out along the highway:



Thom Calandra and Mel Herdrick overlooking Geronimo Pit



Sheared and Altered Diorite Gneiss, Dacite Dike, and Gambusino Diggings

Following lunch at a local café, we proceeded to the gambusino workings at the Tajo pit. Pediment is negotiating for this ground with a Mexican small miner:



Two Experienced (Old) Geos Doing What They Love

The next stop was at Las Colinas, where Echo Bay Mines drilled in the 1990's. PEZ has a 43-101 inferred resource of 150,000 oz of gold here. We examined outcrops that are typical of mineralization in the area with iron oxide stockworks in sheared diorite:



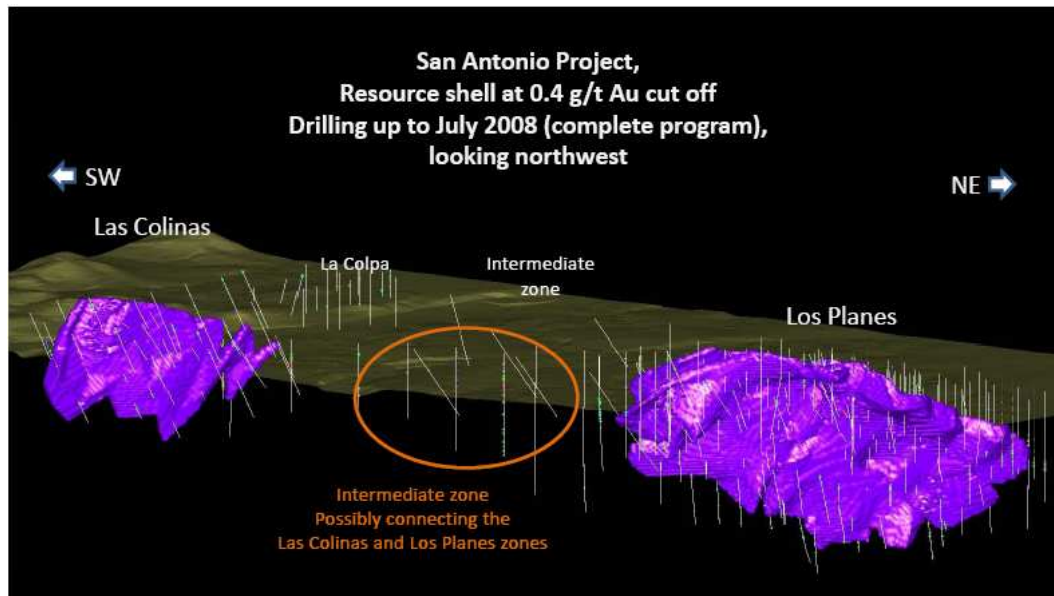
Sheared and Altered Diorite Gneiss at Las Colinas

Our fifth stop was at Pediment's La Colpa target where six shallow scout holes gave up to ten meters of 1.5 g/t Au. We looked at an old hand-dug trench that ran +50 m of 0.8 g/t Au:



Intermediate Zone Mineralization

This area between Las Colinas and Los Planes resources warrants drilling as the diagram shows here:



Our final working stop was at Los Planes deposit. This is a boot leather and drilling discovery (despite what a well-known cowboy geophysicist might claim) and was first tested by two core holes followed by 168 reverse circulation holes.



Rock Hammer on Discovery Outcrop at Los Planes

In the late afternoon we drove north to the village of La Ventana, an old hippie haunt, and down to the beach and the Sea of Cortes. Mel and I left Thom to take his obligatory swim and went to the local *tienda de abarrotes* to buy cold adult beverages and *cacahuates japones*. With proverbial Mexican cooler in hand (a plastic grocery bag with two six packs, filled with ice, and carried in a beer flat), we trod back to

the beach and joined Thom to enjoy a beautiful view of the clear blue sea and east to the mountains of Sinaloa as the sun set to our backs.

We enjoyed another great Mexican dinner in an outdoor restaurant along the beach in La Paz, complete with a lively conversation no doubt aided by shots of *anejo*. The party was cut short in deference to Thom who had to be away to the Cabo San Lucas airport way too early the next morning.

Mel and I had a leisurely breakfast then went to their local house and office compound. We spent the morning looking at core and assay sections (what we geos call “stick” sections, i.e., without geology plotted).

We discussed ideas about the gold genesis and geological controls on alteration and mineralization. At this stage, they are not well-understood by Pediment. I suggested a number of geological studies, including detailed structural mapping, petrography, whole rock analysis, age dating, and mineralogical studies that should be undertaken to understand the nature of gold mineralization at San Antonio. It is my opinion this knowledge base is essential to effective exploration for covered deposits in the district. Mel agreed that a budget to do these studies is needed and I trust that management concurs.

The exploration potential at San Antonio is excellent. There has been historic production from two separate deposit types in the San Antonio region: Mining of silver-gold-base metal deposits in the northeast trending El Triunfo area and limited lode gold mining along a younger north trend south of Los Planes and Las Colinas.

The northern extensions of these two mineralized trends are projected to intersect in a pediment covered area immediately north of Los Planes. This is a prime target for discovery of new deposits. In addition, the past producing Mina El Triunfo is highly prospective for discovery of additional vein type and/or shear zone hosted precious metals mineralization.

Untested targets exist south of Las Colinas at Aurora and La Cruz. Echo Bay had prior success testing the Canada del Agua target which Pediment controls. Results from drilling at Los Planes and Las Colinas also suggest the possibility that these two zones are offset by post-mineral faulting, and separated by the highly prospective Intermediate Area. Pediment Gold is planning to test all these targets in 2010 with 11,000 m of drilling budgeted.

We checked out of the hotel in the early afternoon, stored our bags, and found a quiet little upstairs café overlooking the *malecon* and the beach for lunch. After a few beers, Mel patiently waited while I flirted with the equally flirty waitress; hey I never know when I might be back in La Paz. Then we took a cab to the airport for the trip to Hermosillo via Mazatlan.

The following day Mel and I took a 45 minute drive down the highway from Hermosillo to La Colorada, Pediment’s other flagship project. La Colorada is a very large gold-silver system with historic production and current resources of nearly five million ounces gold. It is a series of epithermal gold-silver deposits hosted by volcanic and sedimentary rocks locally altered to skarn by intrusions. High grade vein swarms cut across these units with surrounding low grade stockwork halos.

I remember driving across this mine in the mid-‘90s on my way to another project in the Sierra Madre Occidental. For over a year, the highway detoured around drill rigs that eventually became part of the El Creston open-pit mine. Folks, that’s good infrastructure:



Turn-Off to La Colorada with Open Pit Mine and Dumps in Center Background

Our tour started with an overview of La Colorada and La Gran Central pits mined from 1993-2002 first by Eldorado Gold and then by a contract Mexican miner. Production from these operations was 353,000 oz gold and 1.3 million oz silver.



La Gran Central Pit Looking NW to Village

We also looked to the north at mine dumps, Merrill-Crowe gold recovery plant, and heap leach pads from the previous operation. The company is encouraged by its initial rotary drill evaluation of waste dumps and leach pads and is optimistic recoverable ounces of gold remain. It envisions screening to eliminate fines, heap leaching extraction, and carbon-in-leach recovery. Engineering studies are in progress:



La Colorada Dump, Plant, and Pad

We proceeded to the El Creston pit for an overview of the high grade veins with surrounding stockworks and sheeted zones that were partially mined by Eldorado. Current resources have a high strip ratio at 5:1 and additional drilling is required to assess economics.



El Creston Pit Looking East

Our next three stops were to the east where we examined surface outcrops at La Noria, and recent drilling at La Verde and Veta Madre where the company is developing additional resources not included in current estimates:



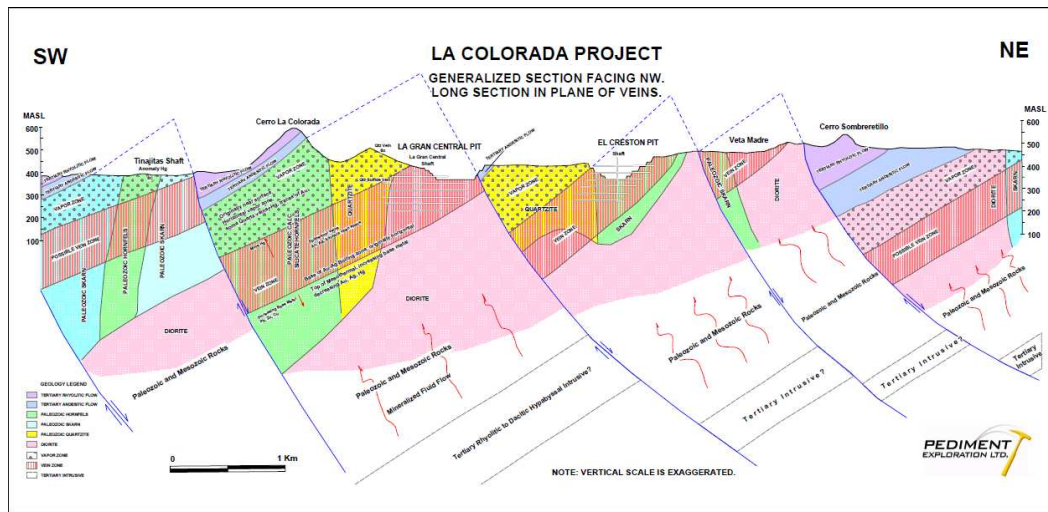
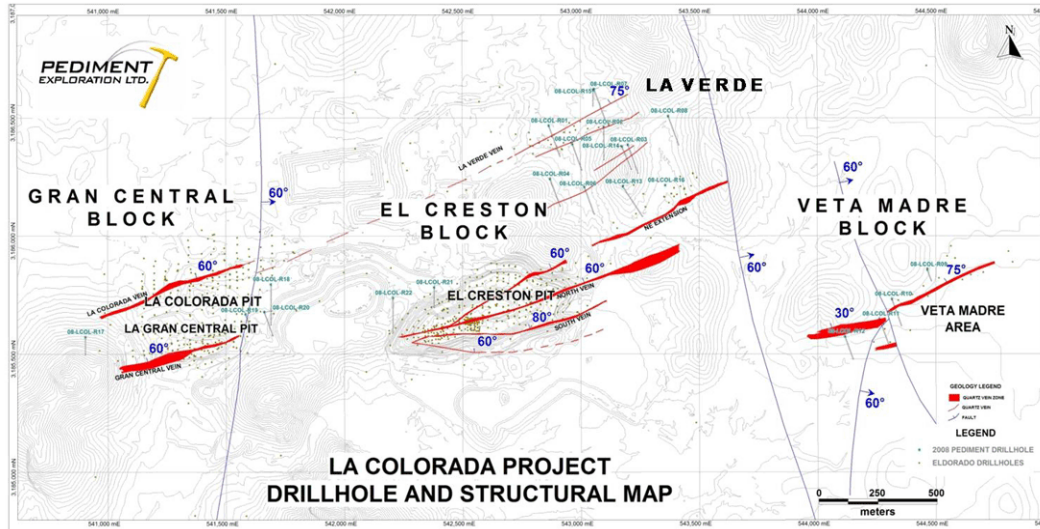
La Verde Drill Hole

Our final stop was along the road just west of the La Colorada pit where the company has sampled up to 20 meters that runs 1.1 g/t Au:



High Grade Gold-Silver Vein with Tecate for Scale

Chief Geologist Mel Herdrick's structural model of the mineralized vein zones at La Colorada is shown in plan and long section below. The gold deposits in each structural block are shown in red on the plan map and red hachures on the section. Please note that scales are not the same due to size limitations of pages in this report.



Pediment Gold's Mexican projects have the following 43-101 qualified resources:

San Antonio Project, Baja California

Type	COG (g/t)	Tonnes		Au (g/t)		Au ounces	
		M&I	Inf	M&I	Inf	M&I	Inf
Oxide	0.4	7,240,000	170,000	0.93	0.59	216,000	3000
Mixed	0.4	6,610,000	190,000	1.07	0.59	227,000	4000
Sulfide	0.4	33,500,000	5,030,000	1.02	0.64	1,096,000	104,000
Total		47, 350,000	5,390,000	1.01	0.64	1,539,000	111,000

From a valuation standpoint, pertinent resources for the San Antonio project are the measured and indicated resources in the oxide and mixed zones. These categories contain 443,000 oz gold. Note that metallurgical testing on the sulfide resource is in progress but process and recovery are currently unknown.

La Colorada Project, Sonora

Class	COG (g/t)	(tonnes)				
			Au (g/t)	Ag (g/t)	Au (oz)	Ag (oz)
Measured	0.30	3,570,000	1.049	11.12	120,000	1,280,000
Indicated	0.30	15,690,000	0.963	7.65	485,000	3,860,000
M + I	0.30	19,250,000	0.978	8.30	605,000	5,130,000
Inferred	0.30	20,070,000	0.903	9.59	582,000	6,190,000

Using a similar treatment for the La Colorada project, the measured and indicated resources are 605,000 oz gold.

Note that the resource calculation methodology for both projects is solely geostatistical. Pediment has not developed a rigorous geological model for either project and both estimates should be considered strictly preliminary in nature.

Recently I encouraged Pediment management to hire a consulting geologist to re-log all the core and cuttings at San Antonio and develop a detailed geological model for new resource estimations. I am happy to report they took my recommendation and the work is in progress. I trust that they will do the same at La Colorada once the San Antonio model is complete.

The measured and indicated resources At San Antonio and La Colorada give a basis for peer comparison with similar projects held by junior resource companies thru out the world.

With present oxide and mixed, measured and indicated in-situ resources of 1.05 million ounces and a market capitalization of about \$65 million, Pediment Gold is valued at \$62 per ounce of gold. Therefore, it is somewhat undervalued with respect to current peer group valuations that average about \$85 per ounce gold in-the-ground.

The San Antonio project is proceeding with surface land and water rights acquisitions and tasks leading to completion of a scoping study (preliminary economic assessment) by year's end.

At La Colorada, four engineering groups reviewed the former mine site and existing infrastructure, integrity of leach pads and dumps, amenability of rock types for underground mine development, conducted environment assessments and a partial baseline study, and provided general recommendations regarding the development potential of the property. The company will start a scoping study and the permitting process and evaluate and acquire additional targets at La Colorada in 2010.

However, the exploration upside PEZ' projects is what really excites me. San Antonio clearly has potential to expand gold resources with several largely untested targets at El Triunfo, Aurora, La Cruz, Canada del Agua, Intermediate Zone, and north of Los Planes.

Potential new resources at La Colorada are present on La Noria, La Verde, and Veta Madre areas. There are compelling untested targets to the east at Sombreretillo and immediately west of La Colorada and La Gran Central pits.

With Pediment Gold Corporation, investors get a two for one: A near-term development story and a mid-term exploration story. That said, PEZ' management and technical teams are financiers and promoters who start companies and geologists who explore and find deposits. They make no pretenses about the

possibility of selling the company to a mining company (and no doubt have entertained offers) but are assembling a staff to take the projects to production. I opine that Pediment Gold is a likely takeover target, in whole or in part, for small to mid-tier mining companies as scoping studies progress and exploration adds ounces to current resources in the coming year.

I think that Pediment's future is bright as the Sonoran desert sun and hot as the sub-tropical Baja monsoon, and additional upside potential to the share price will be uncovered in the next 12 months.

Once again folks, understand that I am currently a shareholder of Pediment Gold and that it sponsors my website. I have a vested interest in a higher share price.

Since launching this business 23 months ago, I have given you, my loyal lay subscribers and casual followers, via my website, newsletter, audio interviews, and video productions, many tools and tricks of the trade to facilitate better investments in the junior resource sector.

All my public products are *free*. Therefore, it is incumbent on you and you alone to research and understand a company before making your own buy, sell, or hold decision.

I encourage you to do diligent due diligence and decide whether Pediment Gold Corporation is a company that meets your goals.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [**Mercenary Geologist Michael S. "Mickey" Fulp**](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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