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# Patricia Mining Corp.

## Metals & Mining

TSX.V: PAT C\$0.89

**Recommendation: TENDER**

**12-Month Target: C\$1.45**

March 15, 2007

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### Takeover Offer for Ontario's Newest Gold Producer

#### Event:

- Takeover Offer.

#### Highlights:

- Patricia Mining received an all cash takeover offer from EURO Resources S.A. valued at \$1.10 for all the issued and issuable shares, options and warrants of the Company.
- Total deal valued at \$44 million and a 40% premium to the share price prior to the announcement.
- EURO Resources is a TSX listed gold royalty based company, the Island Gold project would be its second gold production based royalty.
- Analysis shows that the offer price is fair based on our estimations of production and gold prices for a third party acquisition.
- Richmond Mines, Patricia's current JV partner, could table a higher bid as the operator and majority owner of the Island Gold project. Its low price may see a combined bid.
- Consolidation in the gold producers extending into the juniors. Look for more.

#### Investment Recommendation:

- We are recommending that shareholders of Patricia Mining Corp. tender their shares to this or a superior offer and realize the value created by this process.

52-week High-Low	C\$1.29-C\$0.62
Shares outstanding	33,299,993
Market capitalization	C\$25,640,995
Fiscal year end	December 31
Major shareholders	Dundee Wealth Management 17% MineralFields 11%



Source: TSX

#### Company Description

Patricia Mining Corp. is a Canadian exploration and development company with a focus on precious metals. Patricia's main program is the development of the Island Gold Project, in the Wawa area, 125 kilometres southeast of Hemlo, Ontario.

## Summary

We recommended Patricia Mining as a **STRONG BUY** seven business days prior to this announcement of a takeover offer. The takeover offer represents an approximately 43% premium to the share price at the time of our recommendation. On this basis we believe the offer is fair and represents a significant appreciation for investors over this short time period.

Patricia holds a 45% interest in the Island Gold project that contains a 254,379 ounce measured, indicated and inferred resource grading 11.04 g/t. Recent surface and underground exploration programs indicate that a substantially higher grade may be extracted during the initial period of a new gold mining operation at the project. Production recently started from the Island Gold Zone and we expect over 60,000 ounces in 2007 from the operations.

Patricia's interest in the operating mine is \$1.45 based on a net asset value analysis. We saw additional value associated with exploration, consolidation of ounces in the Wawa camp and production growth that could increase our target once realized. The takeover offer puts the Company in play and we expect that a suitor will be successful in this procedure. The value that we saw in camp consolidation could be realized by another mining company becoming involved. However the bid price of \$1.10 per share looks fair based on our analysis and valuation work for a third party making a tender for the Company and assuming its obligations. We believe that Richmond Mines could put forth a higher bid price due to its position as operator and majority owner of the Island Gold project. This project is expected to become Richmond's largest gold producer and longest life asset. We believe that Richmond owes it to its investors to make a bid to acquire the remainder of this mine, increase its attributed gold production, build value from the additional properties held by Patricia, and other gold deposits in the Wawa gold camp through this key asset.

## The Bidding Company

EURO Ressources S.A. is a French publicly listed company focused on the acquisition of precious-metal royalty interests and maintaining its exploration assets in French Guiana. Golden Star owns approximately 5.97% of the issued capital. The Company's shares are listed under the symbol "EUR" on the Toronto Stock Exchange-Share Price and on Euronext in Paris-Stock Price.

EURO completed a financial restructuring during 2004 which included the forgiveness of certain debts owed to Golden Star, the joint venture to Golden Star of its principal exploration assets in French Guiana, and the sale of certain data and exploration assets. The Company also consolidated its shares into one class of shares and changed its name from Guyanor Ressources SA to EURO Ressources SA in June 2005.

As part of the restructuring and reorganization, the Company acquired a 10% royalty interest in production at the Rosebel gold mine. The Rosebel mine is in Surinam and is operated by Iamgold. It commenced production in early 2004. The royalty is payable by Iamgold, calculated quarterly on 10% of the gold production, and paid on the excess of the average London PM gold fixing over US\$300 (US\$350 for hard rock).

The Rosebel Royalty was acquired from Golden Star for an initial amount of US\$12 million, with additional payments due in the event that production at Rosebel exceeds 2 million ounces. As at 31st December 2004, the Company paid Golden Star US\$6 million financed by a loan facility provided by Macquarie Bank Limited. The

remaining payments to Golden Star are subordinated to the repayments due to Macquarie.

Management of the Company considers that, based on current production levels, the Rosebel gold mine will exceed the 320,000 annual production forecast by Iamgold. At current gold prices, the Company expects to receive in excess of US\$8 million in revenue from Rosebel during 2006. Management is actively seeking the acquisition of additional royalty interests.

EURO Ressources current trades at \$1.70 on 50.44 million shares giving it a market capitalization of around \$86 million. Their Sept 30, 2006 financial statements indicate a cash position of US\$863,000, restricted cash of US\$228,000 and US\$2.429 million in royalties due from the Rosebel mine production. Their working capital position stood at close to negative US\$6 million with US\$9.2 million in long term debt. The company reported losses on operations. There remains a substantial gold forward sales contract due associated with the loan for the purchase of the royalty on the Rosebel mine. These forward sales hedges are priced well below current market prices and resulted in losses over the contract period thus far. There remains three years of forward sales of 22,800 ounce per year a US\$439.75 in 2007 and at US\$458.50 for 2008 and 2009. At current prices these sales would result in mark to market losses of over US\$4 million in each of the next three years.

This information indicates the EURO Ressources does not current hold the resources on it balance sheet to complete the all cash offer for Patricia Mining. We expect the EURO resources to complete an equity financing and credit arrangement to raise the funds necessary to complete the offering. EURO Ressources holds a substantial asset in its royalty on the Rosebel Mine, a significant and low cost gold producer, as well as relationships with a large banking group in Macquarie Bank Limited.

### **The Current Partner**

Richmont brings significant operational experience in gold mining and resource development. Richmont is a Quebec based junior gold producer with many years of experience in the development and operation of higher-grade, hard rock narrow vein gold mines with production of less than 100,000 ounces per year. Current operations include the Beaufour mine (~25,000 ounces per year) and the East Amphi Mine (~20,000 ounces per year) in Quebec and it operates the Camflo custom gold mill in the Abitibi. Richmont recorded gold sales of 44,866 ounces in 2006. Island Gold is poised to become Richmont's key operation. At year-end 2006 Richmont held over C\$16 million in cash and is an excellent operator for the development of the Island Gold project both technically and financially.

Since Richmont's involvement in the project the mill was refurbished and is currently running processing lower grade stockpiled ore. Gold production since the mill restarted in November 2006 totals over 6500 ounces. The mine development is extended significantly with access to the ore on several levels and veins. As well, the development is now being extended to the east to provide access to the Goudreau Zone for exploration and definition drilling of this mineralized zone. The development also provided sampling results on the five veins of the Island Zone. The average grades for three of the zones returned values higher than resource grades. The average grade for the five zones returned 12.65 g/t, again higher than resource grade and production modeling values. This indicates the potential that we feel this project holds, to return grades higher than the resource due to the presence of very high grade sections.

## Financial Position

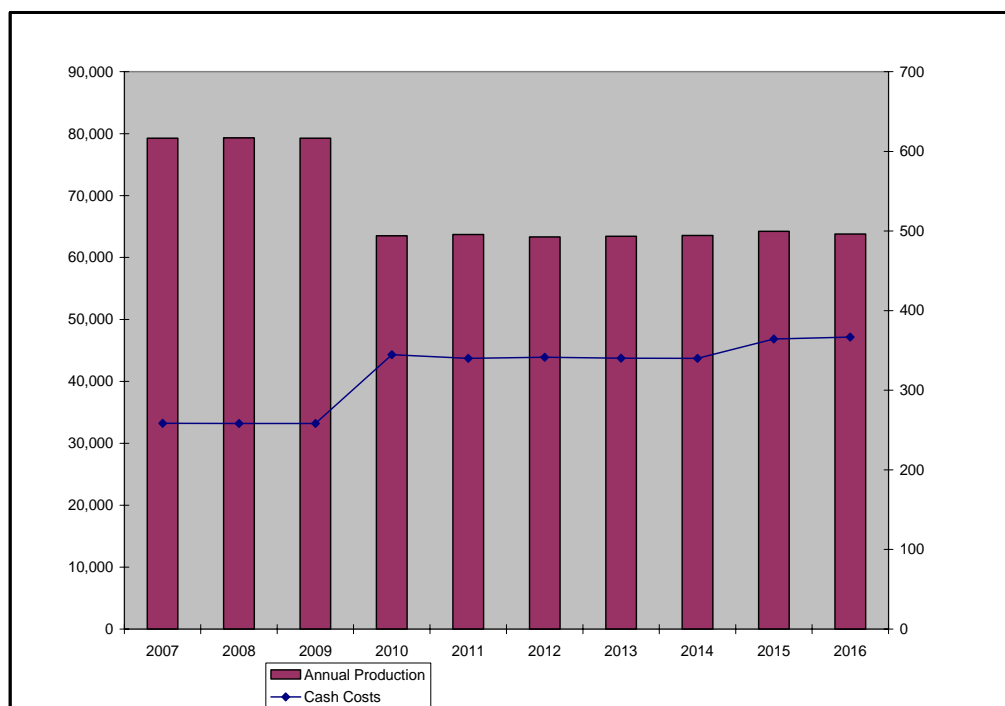
Patricia Mining’s shares outstanding total approximately 36 million with 40 million fully diluted. Their cash position stands at under \$1 million and is expect to start to increase as gold is produced. The Company also holds some debt obligations at this time. A \$2 million debenture is due in July 2007; this is expected to be covered by accumulated cash from continuing gold sales. As well there are additional obligations to Richmond associated with the mine development of \$4.5 million. This too is to be repaid from gold sales. These full obligations will be due to any third party that acquires Patricia Mining. Richmond Mines is the creditor on the \$4.5 million due for development work and completed the work associated with this capital. Our analyses show that the operation could generate approximately \$10 million in net income per year to Patricia in the first few years of operations and average \$8 million over the initial 10 year mine life.

## Valuation

We valued Patricia Mining as a gold producer based on its current 45% interest in the Island Gold project and the existing resource base. This resource base of over 675,000 ounces on the project is sufficient for ten years of production. We expect this resource base to increase with the current and planned drilling programs on the known five zones of mineralization.

Based on the current reserves and grade of the resources we estimated a production profile for the project. This is given below. It shows higher levels of production in the first three years based on the resources from the Island Zone, where grades are higher. Current drilling on the Goudreau Zone and the North Zone are also returning grades significantly higher than current resources. This could lead to the mine producing at higher levels, over 65,000 ounces per year, for a longer period. We did not include this potential fully in our current production estimates, this value could now be passed onto the eventual acquirer.

**Figure 1: Production and Cost Profile**



Source: FCS estimates

Our valuation of the mine's production and its value to Patricia is based on a discounted cash flow model. We vary grades, dilution, recovery, gold prices, mining costs and the exchange rate as part of a model to determine our estimate of the net present value of the project. These parameters are allowed to vary independently and the simulation is run a significant number of times to produce a mean result for various discount rates. The model also provides an estimate of the standard deviation of the mean result based on the variation in the parameters. The results of this analysis are presented below in Table 1. For this analysis our average gold price for the life of mine is \$625 per ounce.

**Table 1: Summary Valuation**

Discount Rate	Net Present Value	NPV/ Share	Standard Deviation
%	[C\$ M]	[C\$]	[C\$]
0.0%	\$81.8	\$2.05	\$0.34
5.0%	\$64.5	\$1.61	\$0.25
7.5%	\$57.9	\$1.45	\$0.22
10.0%	\$52.3	\$1.31	\$0.20
15.0%	\$43.5	\$1.09	\$0.16

Source: FCS estimates

The mean net present value for the project to Patricia is estimated at \$57.9 million at 7.5% discount rate. This equates to a value per fully diluted share of \$1.45 on 40 million shares. This is a significant increase from the share value when we initiated coverage.

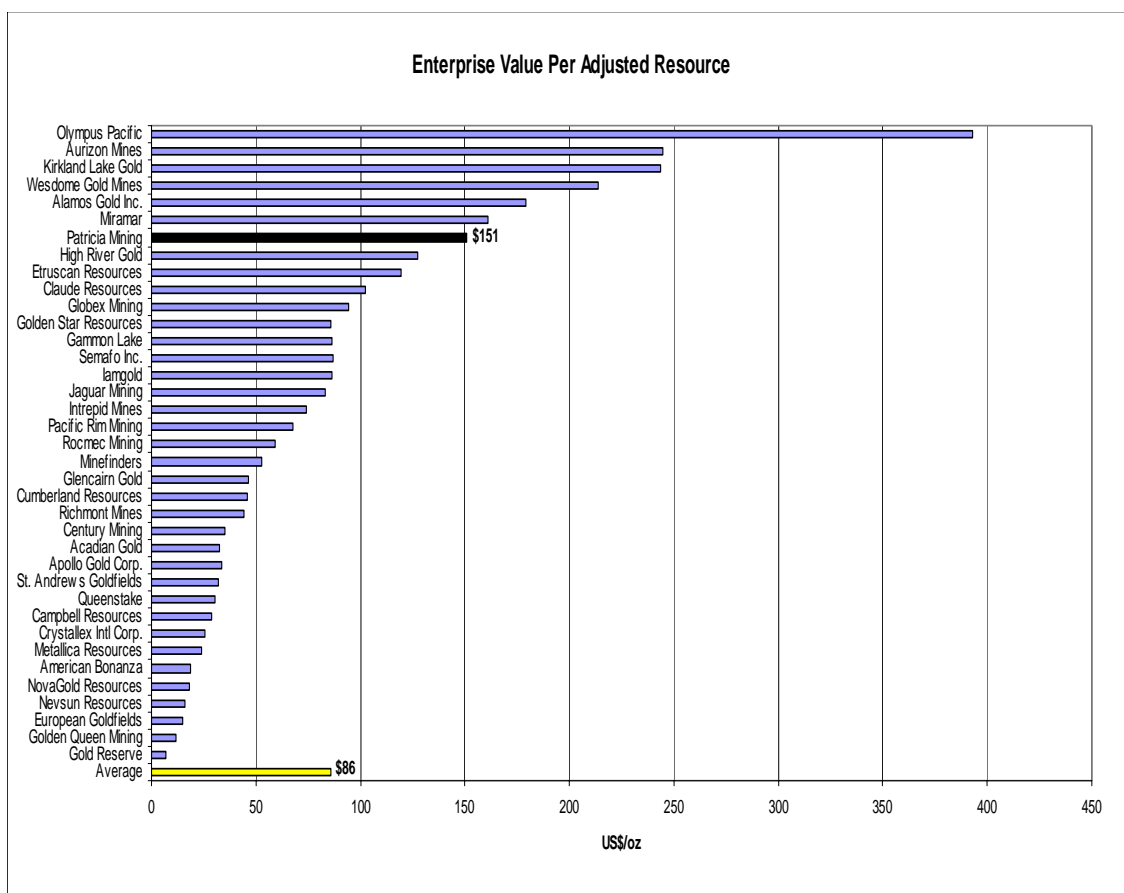
The current offer is at \$1.10 per share, or a 25% discount to our NAV per share estimate and 12-month target. The offer was made only seven business days after initiating coverage. Thus investors who took our advice are getting a significant premium to their investment over a very short period. There is however still a 60 day due diligence period and a 35 day tender period for a maximum of 95 days from March 14, 2006. Due to the short period after publication we need to look at the current value of our target price, discounting back to now it is approximately \$1.35 per share fully diluted. As well we can look at the standard deviation discounted back this equates to \$0.20. Thus the NAV per share currently could range for the most part between \$1.15 and \$1.55. At the lower end the offer price is only a discount of 5%. This shows us that the offer is reflecting fair value for this Company and the value generated by this asset; the risk associated with getting it to perform at expected production and cost levels with a modestly strong gold average gold price of US\$625 per ounce; for a third party acquirer like EURO Ressources while giving them some upside as well. Acquisition costs can not be at full asset value then there is no potential upside for the acquirer.

If we look at Richmond as a potential bidder for Patricia the economics change slightly. Richmond would assume the debt to third parties but would not need to repay itself for development costs. Using the same production model that we used for Patricia's valuation with additional costs for continued development we estimate the Island Gold project could be worth over C\$180 million on a 100% basis at a 7.5% discount rate. Thus the 45% that Richmond does not already own could have a value of over \$80 million. This is well above the current offer price. Even if this value is discounted by 25% to account for production and gold price risks it represents an 18% premium in value to the current bid. Richmond's current share price is around \$2.80. They could make a bid of ½ of a RIC share per PAT share, giving a bid of \$1.40 per PAT share or a 27% premium to the current bid and still retain significant upside in the value of the project due to their position as operator and majority owner. This level of bid would match the value that remains in the project based on an acquisition price versus an asset value price. Richmond could make cash and share bid of some ratio as well.

A share offer from Richmond Mines does not give the investor cash right away that could be used for other investments and involves transaction costs on disposal. We do not have a research recommendation on Richmond Mines. It is currently trading near its 52 week and several year low, so we do not see much more downside in the stock. As well, our analysis shows that the project supports a value for Richmond’s shares well above the current share price.

We also look at comparables in the junior gold producers to see where Patricia stands as an investment alternative. These comparables measure the market’s valuation of the company relative to its resources and to its production levels. From this analysis we can see that Patricia is trading at an enterprise value [EV] of US\$151/oz based on an adjusted resource base. This compares to the group average of US\$86/oz. thus Patricia looks to be a touch expensive on this basis - see Figure 2. Using the bid price of \$1.10 per share Patricia would be trading at US\$222/oz on an adjusted resource basis. The chart shows that this would move Patricia further up the scale to the expensive range. This shows that the offer price is substantial for this junior on a resource basis.

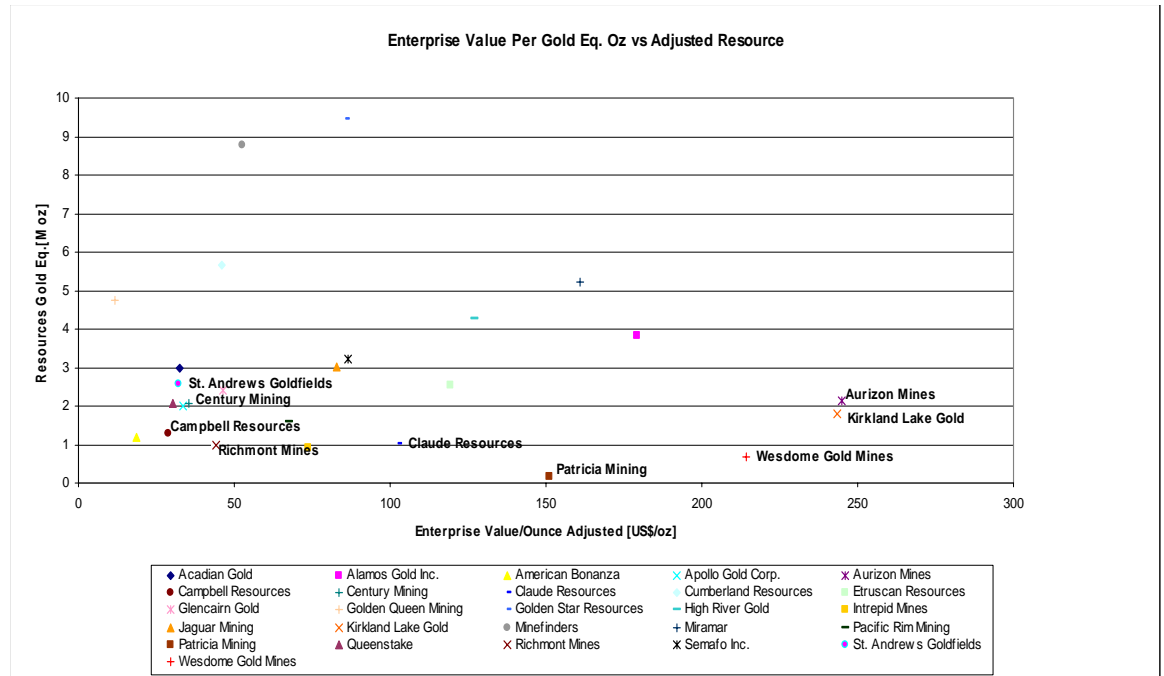
**Figure 2: Junior Gold Resource Comparables – Resource Basis**



Source: FCS estimates

On a resource basis we also look at what the market is paying for in terms of size of resource to see if there is a trend. From this we can see that the market is paying a bit more for some of Patricia’s closest comparables, Aurizon, Kirkland Lake Gold and Wesdome, may be the market is starting to prefer ounces in stable counties like Canada.

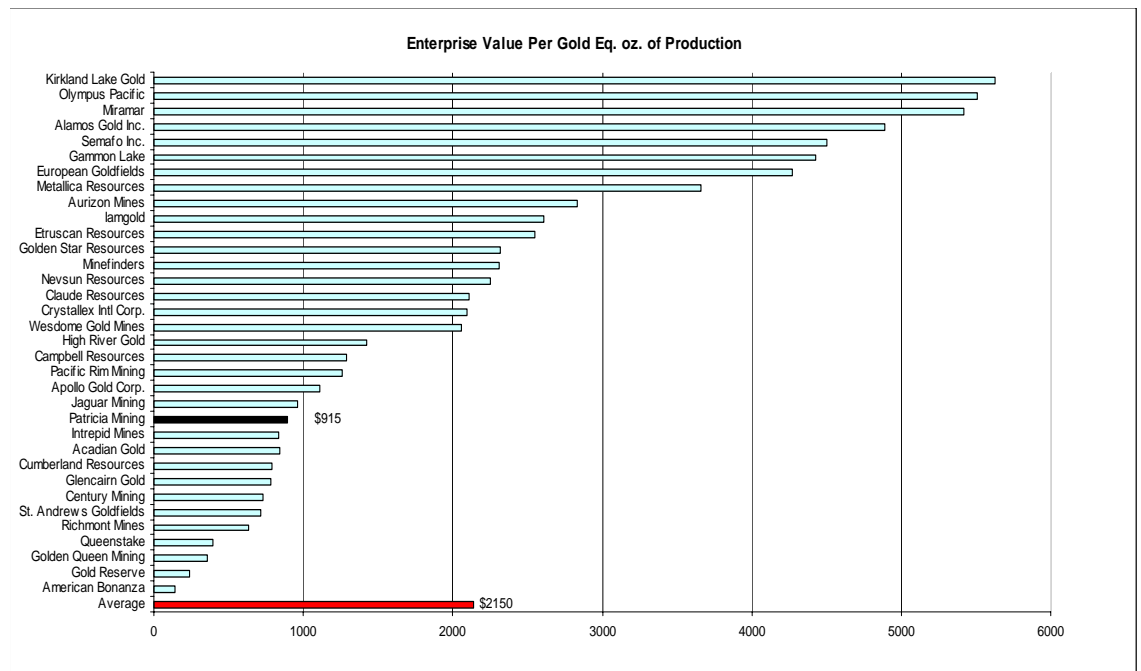
**Figure 3: Junior Gold Producer Comparables – Resource Basis**



Source: FCS estimates

On an annual production basis we also look at comparables and what the market is paying for these ounces. On this basis we used an annual production level for Patricia of 29,250, reflecting our estimate for 2007. Patricia is trading at an EV per production ounce of US\$915 compared to the group average of over US\$2150 per ounce. On this basis Patricia is trading at a discount to the group. We believe that this also indicates value in the shares of Patricia at this time. The group comparables are on figure 4. Using the offer price of \$1.10 the production trading multiple rises to US\$1310 per ounce, still below the average but moving up.

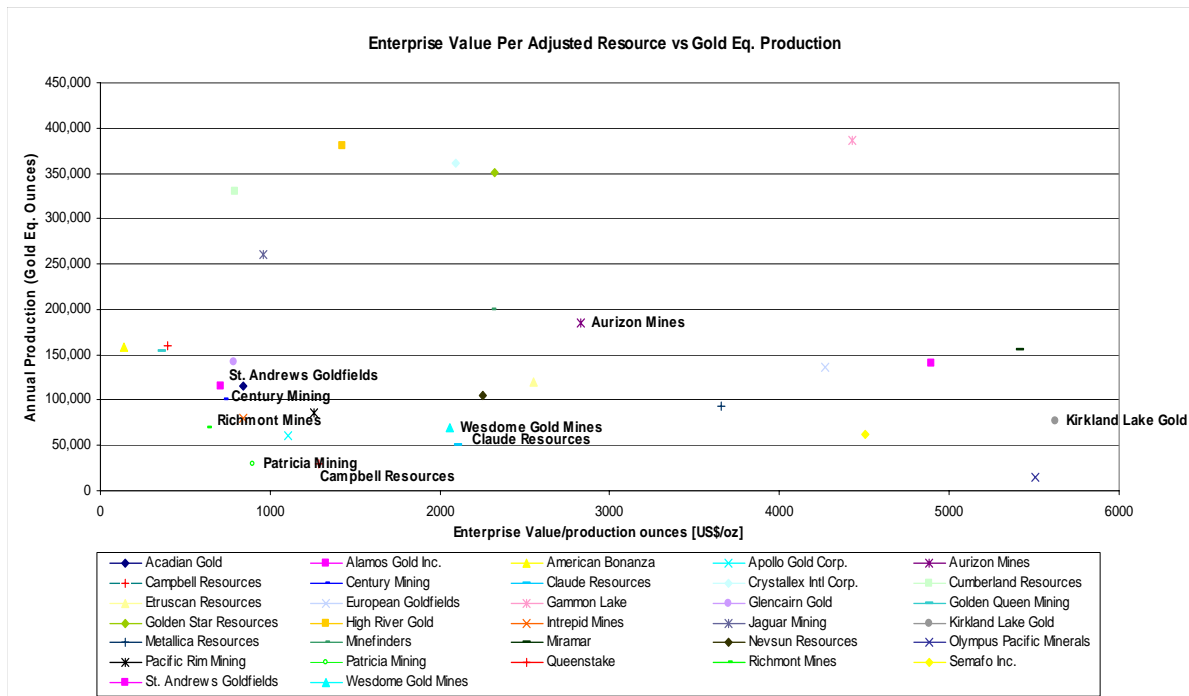
**Figure 4: Junior Gold Comparables – Production Basis**



Source: FCS estimates

Again if we looked at the data to see what the market is valuing higher or lower production or location, we do not necessarily see a trend in this group. We expected Patricia’s valuation on this metric to increase with sustained production levels.

**Figure 5: Junior Gold Producer Comparables – Production basis**



Source: FCS estimates

## RISK FACTORS and CONDITIONS

There remain several risks associated with this formal takeover bid. The agreement is still conditional upon satisfactory due diligence and the negotiation of transaction documents. The proposal is also conditional on the parties entering into a support agreement to include among others the following terms and conditions: the unanimous favourable recommendation of the board of PAT; a break fee provision in the amount of C\$1.5 million; the directors of PAT entering into lock-up agreements; no material adverse change; and notification by PAT to EURO of the receipt of alternative proposals from third parties and the right of EURO to match any such proposal. The completion of the takeover bid would be conditional on a minimum tender of 66 2/3% of PAT's common shares on a fully-diluted basis.

The proposed transaction is also conditional on all regulatory approvals and on EURO obtaining the necessary funds to complete the transaction by the issuance of additional equity and from a third party lender. As required by section 96 of the Securities Act (Ontario) and Ontario Securities Commission Rule 62-503, EURO may not commence the proposed takeover bid transaction until necessary financing is available. EURO has agreed with PAT that it will exercise commercially reasonable efforts to obtain such financing on a timely basis.

No definitive agreements have been reached, other than the exclusivity letter agreement. There can be no assurances that any transaction will result, or its terms.

There are also no assurances that the Company will receive a competing or better offer from another party such as Richmont Mines.

## CONCLUSION

Patricia Mining received an all cash offer for its fully diluted shares of \$1.10 per share for a total of approximately \$44 million. The offer represents a fair acquisition value for the Company based on its assets and obligations associated with the operation of its main property – the 45% interest in the Island Gold project.

We expect EURO Ressources S.A. to complete its due diligence in a timely manner and this will lead to a positive outcome and the negotiation of a purchase agreement for Patricia Mining under the terms outlined above. This transaction continues a trend of consolidation seen in the gold producers that started with the seniors and is continuing into the juniors.

There remains the potential for another bid from a third party. We believe that Richmond Mines is a natural bidder for Patricia Mining as the joint venture partner, operator and majority owner of the Island Gold project. The Island Gold project is set to become the most significant asset for Richmond and increasing its ownership in the mine adds substantial value to their company based on our analysis.

We believe shareholders of Patricia should tender their shares to the takeover offer. The current offer is fair. There could be a better offer from others including Richmond Mines. We also see the potential for a larger transaction with Richmond Mines trading at relatively low price levels historically. There may be a group looking for Canadian production ounces that is looking at Richmond, they may make a bid for both companies to ensure the ownership of this new and growing gold mine operation.

<b>Investment Opinion Definition</b>	
<b>STRONG BUY:</b>	FCS expects the share price to appreciate 30% or more over the next 12 months.
<b>BUY:</b>	FCS expects the share price to appreciate 10% to 30% over the next 12 months.
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<i>Note: Percentages are approximate and ratings are at the analyst's discretion.</i>	

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Within the past 12 months, FCS - Limited Market Dealer Inc. managed a private offering of securities for Patricia Mining Corp.
Within the past 12 months, FCS - Limited Market Dealer Inc. received compensation for investment banking services from Patricia Mining Corp.
FCS - Limited Market Dealer Inc. and its affiliates collectively beneficially own 11% or more of the equity securities of Patricia Mining Corp.

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