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Performance: YTD April 30: '96 116.9%; '97 28.1%; '98 36.4%; '99 39.4%; '00 180.9%; '01 -50.5%; '02 18.7%; '03 28.8%; '04 166.7%; '05 28.2%; '06 153.3%; '07 8.8%; '08 -25.2%; '09 -50.3%; '10 162.3%

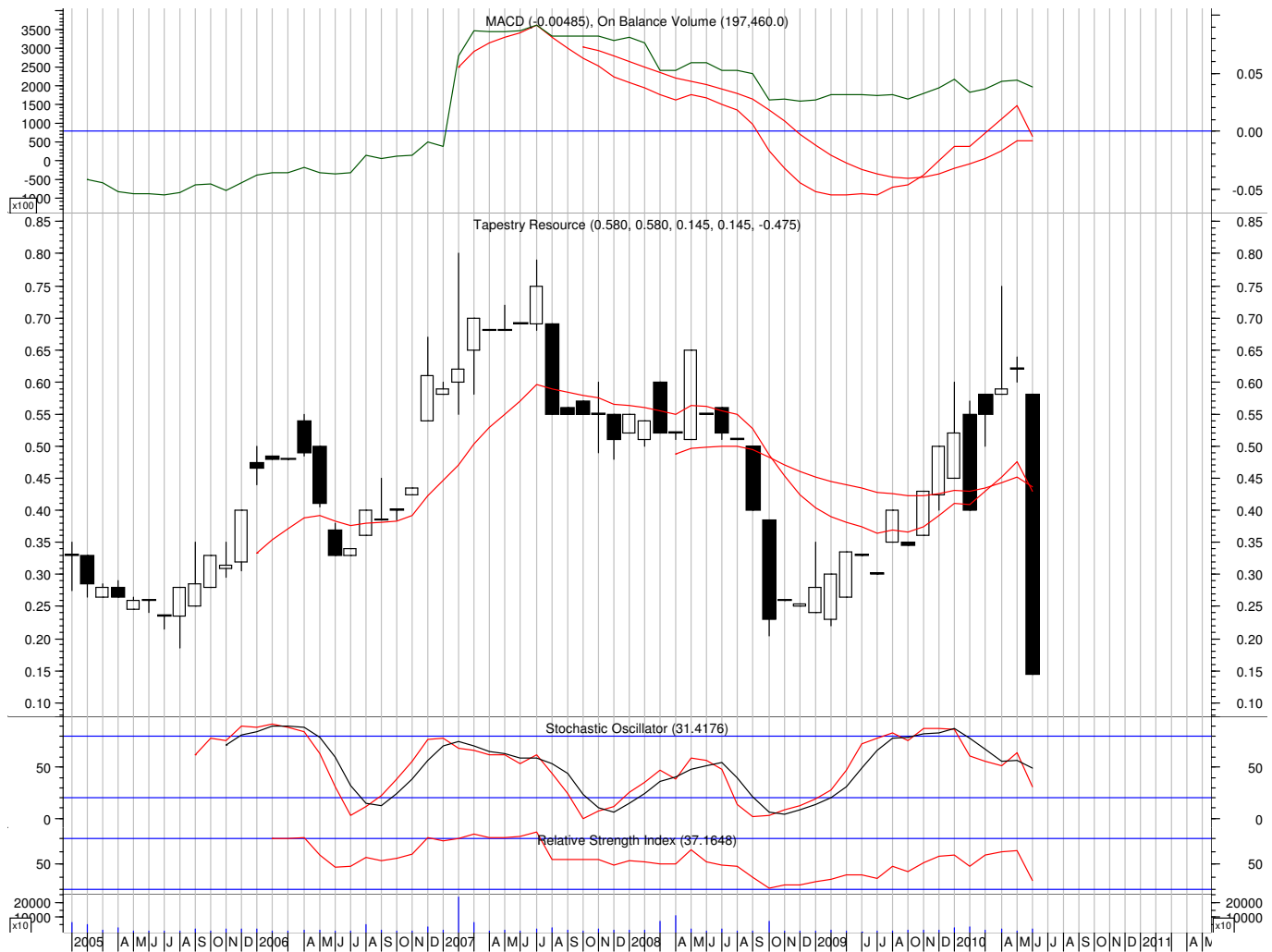
## Junior Gold and Natural Resource Sector Report

August 2, 2010

### Value though Production & Discovery

## GRAN COLOMBIA GOLD

### INITIAL REPORT



**Weekly chart: High \$0.80, Low \$0.145, Last \$0.145**

We have participated in the financing of privately-held gold company Gran Colombia Gold, which has just raised \$275 million at \$0.40 per unit, which includes a one-half share purchase warrant exercisable at \$0.65 per share for 5 years. Gran Colombia's Executive Co-Chairman is Serafino Iacono who says the company hopes to be producing 100,000 ounces of gold or more a year in short order.

Mr. Iacono has been a Co-Chairman of the board of directors of Pacific Rubiales Energy Corp. since January 23, 2008, and was a Co-Chairman of the board of directors of Pacific Stratus Energy Ltd. (a predecessor to Pacific Rubiales) from August 21, 2006 to January 23, 2008. Prior to that, Mr. Iacono was the Chief Executive Officer of Bolivar Gold Ltd., a gold producer, from February 2003 to February 2006.

Gran Colombia is in the process of going public. Gran Colombia is using a company called Tapestry Resource (TPR.H-TSXv) for a reverse takeover transaction (RTO) where Tapestry acquires all of the issued and outstanding securities of Gran Colombia in exchange for the issuance of common shares in the capital of Tapestry to Gran Colombia's shareholders. Tapestry will change its name to Gran Colombia Gold Corp.

It should be noted that Tapestry (the monthly chart of which is displayed on page 1) split its shares on a 4 for one basis effective June 11, 2010, which is why it closed at an all-time low of \$0.145 post split. After giving effect to the split Tapestry had 32.25 million shares outstanding, which of course will increase significantly post-RTO.

Post-financing valuation is about \$330 million Canadian. For Mr. Iacono, a supporter of popular and outgoing Colombia President Alvaro Uribe, the capital raise evidences significant overseas investor support. GMP Securities in Toronto handled the equity private placement and is currently completing their 15% "greenshoe" option, expected to raise an additional \$41.25 million before issue costs.

Gran Colombia has now laid the necessary groundwork to develop the troubled Frontino Mine in Segovia, approximately 220 kms north-east of Medellin in Antioquia, Colombia. Mr. Iacono and his team see the Frontino Mine, once Colombia's largest gold producer, as a "monster." He says he chose the name of the company in homage to his old Gran Colombia, a mid -1990s developer of El Marmato, a gold project in Antioquia and Caldas departments.

Gran Colombia has entered into agreements to acquire interests in four additional mineral projects in Colombia. Mr. Iacono says his team is largely in place. It includes a president, Maria Consuela Araujo, who was Colombia's minister of cultural and foreign affairs. Projects on tap include exploration programs at Carla Gran Colombia, Mazamorra (southern part of the country) and Concepción. This last area alone, in Antioquia, holds four mining concessions covering 3,384 hectares.

### **The Fontino Mine**

The Fontino Mine assets are being acquired through a joint venture company from its liquidator for consideration of COL\$380 billion (approximately US\$200 million), subject to various adjustments. Gran Colombia will provide the acquisition costs, which shall be shared equally by Gran Colombia and Medoro Resources (MRS-TSXv), and any capital required in respect of the Frontino Acquisition, in exchange for a 95% interest in JV. Medoro will have a 5% full carried interest in JV. The mine operator will be Gran Colombia. A success fee of US\$3,000,000, subject to adjustment in certain circumstances, will also be payable by Gran Colombia, at closing, to a company of which Mr. Iacono and certain of his associates is a principal in recognition of the services rendered by Mr. Iacono and his associates in negotiating and completing the Frontino Acquisition.

Medoro will have an option for a period of one year from the closing of the Frontino Acquisition to acquire an additional 45% interest in JV by paying 50% of all costs, including the acquisition costs, capital costs and the success fee paid by Gran Colombia to Mr. Iacono from the date of closing of the Frontino acquisition up to the date of exercise of such option, plus a premium of 25% of such costs.

The Frontino mine has been in production since 1852 and is estimated to have produced more than 4.5 million ounces of gold. FGM currently operates three underground mines (El Silencio, Providencia and Sandra K), and a mill that is operating at about 400 tonnes per day. FGM reported gold production in 2009 of approximately 55,359 ounces of gold from 175,246 tonnes of ore with a head grade of 10.25 g/t.

The Frontino mines exploit a series of mesothermal veins which are predominantly composed of quartz, pyrite, sphalerite, galena, gold and silver. The veins strike north-south or northeast and are hosted by granite of the Segovia Batholith. The Segovia Batholith is exposed in surface outcrops over an area of approximately 270 kilometres north-south by 50 kilometres east-west. The Batholith is limited by the Otu fault on the west and the Nus fault to the east. The Segovia Batholith is also intruded by basic dikes that are used as guides for exploration of mineralized structures.

Gold at Frontino is fine-grained and is associated with sulphides such as pyrite, galena and sphalerite. The highest gold grades are correlated with higher percentages of sulphides. The National Instrument 43-101 - Standards of

Disclosure for Mineral Projects ("NI 43-101") compliant resource estimates for the Frontino Properties are available on SEDAR. The Indicated Mineral Resource estimate and the Probable Mineral Reserves estimate are reported at a 7.1 g/t gold cut-off grade and the Inferred mineral resource estimate is reported at a 6.5 g/t cut-off grade.

Medoro Resources (MRS-TSXv) was originally to raise 50% of the acquisition, but in light of the poor market conditions encountered since May it was adverse to incurring the significant dilution associated with an equity raise, and it also has its hands full with the tortured yet gold-lush mountainside of El Marmato. The Frontino transaction is similar in that it requires an enormous amount of capital, probably another \$200 million. Frontino, like El Marmato, has social challenges with the community of miners, generations of them. Medoro Resources still hopes to participate in the ownership of Frontino ... but the clock is ticking.

## Conclusion

Mr. Iacono has offered no comments on whether Medoro might end up giving the entire Frontino JV to Gran Colombia, which now has the cash for purchasing the assets from government administrators. Mr. Iacono has a track record that includes co-founding and raising money and government support for energy company Pacific Rubiales (PRE-TSX), perhaps one of Colombia's greatest corporate success stories of the past 10 years.

For Mr. Iacono, the three-month process of raising the Gran Colombia money was among the most difficult he says he has had to perform as a financier. "It wasn't easy but I think it says that gold investors still have faith that Colombia is one of the best places for fast growth in legacy gold and copper properties."

Behind the scenes we see the unmistakable handiwork of the Endeavour Financial / Fiore Capital team, which may or may not end up on some masthead as being an arranger, advisor and/or major participant in this deal. These parties are particularly focused on both gold and Colombia, and are in turn busy building similar assets with gold exposure in West Africa (see our June 7, 2010 update report on Endeavour Financial (EDV-TSX)).

We anticipate the name and trading symbol change for Tapestry to be announced shortly, and trading to resume for what should be an exciting new gold venture.

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