

# HRA Journal

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*Vancouver has just finished its annual week of mining related conferencing, with first the Cambridge House investment conference being immediately followed by the geologically oriented AME-BC convention gabfest and prospect outlining. After months of the funk produced by a market meltdown, this week has been a tonic.*

*Though there were fewer exhibitors at the Cambridge House conference than last year, there were just as many attendees. Our main talk was to a room literally overflowing with people, and this was a crowd seeking out how to prosper from the upheaval. Most were asking thoughtful questions, and seeking out new avenues of opinion. They were there to determine when and how to put funds into the sector, at a time when that is most likely to generate gains.*

*Though the AME-BC conference included a fair number who have gone from overworked to unemployed, this was also a very forward looking group. These are the people who study the global resource base, who know it cannot function at these prices, and who have seen the growth markets it must gear to. They too know resumed spending is an opportunity in waiting mode.*

*We will be hosting a subscriber session at this month's Phoenix conference, and hope to see many of you there.*

**David Coffin & Eric Coffin**

## A Reedy Pulse

After a brief up tick on new capital flow into Funds, markets sold off again today on the news that the US' Democratic government wants to pay market rates for distressed bank assets. Go figure. Abysmal results from the Financial sector was considered "good", but a liberal government seeking market priced solutions to bail them out is not. That focuses on the wrong version of a "free" market.

While more healing is still needed, sorting out has at least gotten underway. The **gold sector** has had what for it is a massive infusion of cash. Just about every current producer has been given extra funding, and much of this in "bought deal" financings. This process is far enough advanced that asset rich juniors with cash to spend have been included in recent rallies.

The yellow metal itself continues to try and turn \$900 into floor rather than a ceiling. The market is sorting out what the future currencies market will look like, and there is arguably too much anticipation of gold

gains to make them easy. Gold, and silver, gains should get easier as the various government borrowing plans are advanced.

**Base metals** prices show signs of joining the bottoming movement despite gains to warehouse stocks. Copper in particular seems to be holding despite rising inventories. The red metal does react well to infrastructure builds and inflationary pressures, and more simply to an improving mood. While market stocks are building its also true that some replenishing of government stockpiles that had run very low is at hand. We do however remain cautious about sustained base metal gains until the market stockpiles begin to decline.

Caution aside, money is flowing out of China into the resource sector. Rapid recoveries in China's equities and (apparently) in iron ore usage does not yet make the western news, but our own watching brief on the source of economic recovery remains unchanged. We're cheering on Chinese consumerism.

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## Empire's Fall

*Fear has generated limited discussion of the very real global shifts that contributed to the debt crisis. A long view is needed to see the way through it. What follows is broad brush historic underpinning that may seem too familiar, is worth keeping in mind for the next few difficult months.*

American politics has become focused on change. Few, rightly, see much reason to fear this. Western banking, and US banking in particular, seems however to be backward looking and refusing to witness the change it is helping to author. The fear in the markets will shift to anger if "Finance" doesn't soon begin to reflect on its misadventures, and on the broader context of history in which they should be placed.

Its true the centers of this crisis, the banking systems in the USA, in Britain and in parts of continental Europe, need fixing to put those domestic economies on the mend. And its true their ties to global commerce are the reason for the broader economic malaise. What isn't true is that these are still "money centers", per se. They are brokerage centers that have failed to properly serve their clients.

The shift of wealth creation centers into brokerage is hardly new. It has been the death of many empires. "Empire" often conjures up

## Upcoming Speaking Engagements:

**Phoenix, Feb 21-22, 2009**  
**Phoenix Resource Investment Conference and Silver Summit.**  
<http://www.goldshow.ca>

**Toronto, March 1**  
**Prospectors & Developers Conference,**  
[http://www.pdac.ca/pdac/conv/2009/ie-delegate.html#Investor\\_Forum](http://www.pdac.ca/pdac/conv/2009/ie-delegate.html#Investor_Forum)

**Calgary, April 4-5, 2009**  
**Vancouver Resource Investment Conference.**  
<http://www.goldshow.ca>

**Saskatoon, April 27, 2009**  
**SaskRocks Resource Conference**  
<http://www.saskrocks.ca>

**New York, May 11-12, 2009**  
**New York Hard Assets Conference**  
<http://www.iiconf.com>

marshal images, but that is not what defines one. Empires are actually built on the ability to combine resources with creativity within a system of stable wealth transfer. Empires persist if they maintain safe and efficient transport and communications networks over a disparate population.

Empires wane as these systems focus more on creating excess taxes and tariffs than on the creativity they should be supporting. As too much wealth is siphoned off by the gatekeepers, clients simply

begin to avoid using the system. Historically, this means roads go unrepaired and docks are left to rot. In short, a lack of support begins to freeze up bits of the system. When we write of "end of empire", it is this freezing up that we refer to.

### **The Rise**

In feudal systems overleveraging was done by the landed gentry. Their plan B was often repudiating loans from merchant class lenders whose wealth had to be liquid since they were not allowed to be land owners. Creation of bad debt by Nobles usually proceeded Europe's various pogroms and expulsions, and China's forcing of merchants into southern migrations. A byproduct of this has been the outgrowth of modern trade and commerce from Italy and Holland that welcomed the merchants, and a more recent recapitalizing of China from the south.

Holland's commerce flowered during its unfettering from the Hapsburg Empire. Reform in opposition to established norms both unlocked a new understanding of the world, and created a sense of "otherness" that allowed it to see opportunity others were ignoring. That sense of otherness was carried into the growth of Britain's empire from its creation of the Industrial Revolution, and the expansion of the USA in its shift away from class consciousness.

The American Revolution also kick started the shift away from a mercantilist system that shifted wealth around based on bureaucratic dictate, to a system of capital owners deciding the best uses of their wealth. This shift has now spread to most of the world. So what has gone wrong?

Capitalism didn't relegate bureaucrats to economic history, as the varied socialisms in the last century proved. Bureaucracy isn't however so much about government as the drawing of a brain trust to a central authority. This can be a breeding ground for hubris anywhere it happens.

### **The Crescendo**

After the Cold War ended the US centered system of finance grew to become the gatekeeper for capital flows, and in turn the de facto central authority for Capitalism despite incongruity of such a notion. At its peak "Finance" represented some 40% of US stock market capitalization. That was large relative to the sector's function. If road tolls were 40% of highway travel costs most would fly, or walk.

That market share was partly attributable to a rapid growth of the *global* market for which American plus British and a few other centers had become the main capital conduits. The large share of these centers in their own markets was part of the relative growth of service sectors in the surrounding domestic

economies as industrial applications moved to lower wage economies. The problem became wanting to maintain these market shares by further skewing a global imbalance between savers and spenders.

Most wealth creation now comes from "emerging economies", BRIC in particular, plus the resource producers who have been able to play catch up because of them. Western "growth" has been increasingly funded on debt drawn against wealth being generated elsewhere. The US moved to an external trade deficit, a large government debt, and a negative savings rate which for some reason seemed to get less comment than the other deficits - precisely the kind of overleveraging that marks the final stages of empire.

However, rather than worry about these debts the gatekeepers focused on focusing incoming funds on the biggest asset class they could. This created a true bubble in housing — rising prices despite oversupply — which was made worse by its seeming fulfillment of popular myth.

The greatest outcome of the American Revolution was expanding land owning from a small gentry to the majority of the population. The US housing market did not need the infusion of funds it got in this century, and it simply could not deal with it. This is the point at which we could

start looking for villains. The truth is that for the most part people simply stoppered their ears and went with the flow.

### **The Finale**

To augment their own bottom lines some of the "investment banks" (those not governed by "bank requirements") lowered their capitalization requirements. The excess capital flowing into Western centers also helped push interest rates down, which further leveraged the flow and expanded inter-bank lending supposedly backed up by impossibly complex insurance derivative. In the end that complexity made realistic risk assessments impossible. The banks and the near banks stopped interacting. Lines of credit on day to day transactions were sidelined with this, which did not simply slow global trade but actually pushed it into reverse.

Notwithstanding what we outlined above, we have found the response surprisingly bureaucratic. Rather than focusing on loosening up the commerce that creates capital, more money has been borrowed by government to shove into the system that created the overleveraging. The system is slowly loosening up, but mainly because cooler heads are seeking opportunity.

### **Solutions?**

Some wonder if the current banking crisis is akin to the conditions that created the dirty 30s. You can build all of

the "lessons learned", "better regulated" and "more transparent" assumptions into the analysis you wish to, but in the end one major difference will stand out. The 1930s depression was about the world's lead growth economy overleveraging itself to a stop. The 2000s banking crisis is centered in the same economy, but real growth has been centered elsewhere for several decades.

Rerouting of the system will take place, but its fundamentals won't be lost. And half a millennium of real human advancement proves it shouldn't be. The emerging markets have been generating most of the new players and the fuel for the system at any rate, so it is simply realistic to look there for most of the thawing to come from.

The shuddering halt generated by the credit freeze has already caused the iron ore stockpiles in China to be depleted. The 2009 iron ore contracts won't be at last year's highs, but they will still be 100s of percent above historic rates. The same may hold for coal and other bulk commodities requiring years of infrastructure build to create sustainable gains in supply. It was lack of infrastructure rather than lack of resource that had caused last year's price spikes.

The funds being tossed at the Western banking system mostly aid in holding the banks from further decline.

What they won't do is fix the mess in housing, nor likely in the financials sector. A bubble is not about pricing, its about supply. The only way to cure an oversupply is to wait for it to be eaten up.

A price bottoming will take place in overbuilt areas, but it will be a long time after that before supply actually normalizes and price *gains* take place. A trillion dollar plan has just been announced to clean up bad loans. That may help banks, but we expect the next move to be tearing down some of the excess and turning it into parkland.

Much comment has been made about the \$18 billion of bonus paid out by US banks last year. The actual number isn't the problem so much as their insisting they have to do this to keep good people. It should be clients with gains that decide which managers are good. For the banks to heal they will have to reestablish some trust, not count fee splits. That would be best done by finding ways to unlock credit lines, even if that means finding bankers in properly capitalized economies to do the job for them.

The first half of this year, at the least, will be rough, but we do expect news from the east to start the circulating of capital before then. We will be more focused on that in future issues.

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# NEVSUN RESOURCES LTD. (NSU-T, Z)

The long-term Nevsun price chart is a study in the ups and downs of breaking new investment ground in Africa's emerging gold districts. Early exploration success during the mid 1990s in west Africa gave way to disappointment from a faltering gold price followed by weak operating results in Mali in an attempt to re-gig costs by developing a higher throughput operation. That development is now behind the company, and its future firmly set on the spectacular Bisha copper-gold discovery in Eritrea that is currently in development.

Though the Bisha discovery has always looked very solid, it too caused problems with the NSU market in late 2004 when the Eritrean government mishandled an attempt to reassess its mineral tenure system in light of strong reaction to results from work by Nevsun and others. We, and we think the market, now accept that was an honest misunderstanding of market reaction by a newly re-emerging state with very little experience of foreign investment. Mine development is now underway, and though the final signatures are still needed on the debt deal announced in October we see no real issues to finishing the mine. When that happens in the first half of next year NSU will have both a payment cheque from its government partner and cash flow from its initial 250,000 gold oz per annum output roughly equal to its current market cap.

**Buy on weakness in the current range for increased value as Bisha construction advances, potential as a take over candidate and as a call on base metal prices . Those concerned about the debt package may want to wait until a complete package is announced which is expect by Nevsun before the end of March though we are not concerned about it.**

## OVERVIEW

The Bisha mine development is in many ways a mirror of the market shifts we expect over the next few years. Its initial two+ years will generate 900,000 oz of gold (60% to NSU) from low cost oxide material, which will be followed by three years of copper output from an enriched blanket, and then a sustained period of zinc-copper output.

Once the operation is making metal the joint venture will resume an exploration focus in a belt that has had only limited exploration to date. The current mine plan has a 10 year life, but this is the first stage in the exploration and development in a mineral system similar to that which created a 60 year mining history for Noranda (now a part of Xstrata) in Quebec.

## Briefing Book

(amounts in \$CAD)

### Nevsun Resources Ltd.

Listed: TSX, Amex: NSU

Share Issue: 128 MM; 140 MM F.D.

Share Float: 120 MM

Working Capital:

\$45 Million, \$70 MM Fully Diluted

52 Week High-Low: \$2.20- 0.35

Recent Price: \$1.28 (on T)

3 mo Av Daily Volume: 700,000 shs.

Phone #: +1-888-600-2200

E-mail: [nevsuninfo@nevsun.com](mailto:nevsuninfo@nevsun.com)

Website:

<http://www.nevsun.com/>

Bisha has all the earmarks of a company-maker project. After struggling despite success for a decade, Nevsun is now well placed to gain from rising gold prices and approaching cash flow, or rising base metal prices from next

year's NPV based balloon payment. As such it has to be viewed as a take over candidate at current prices.

We don't know who funds Eritrea's balloon payment of 30% of project NPV on commencement of production, but we assume they will be looking East, rather than West or South for the funds, as they did in setting ENAMCO up. Funds to make the initial payment to Nevsun and funds ongoing cash calls are part of a USD\$60 million loan package from the China Import Export Bank.

We won't know the amount of the balloon payment until Bisha is valued by an agreed independent, but under reasonable metal price assumption that payment could approach or even exceed NSU's current market value.

## CORPORATE SUMMARY

Nevsun has a fairly long corporate history we won't bother to detail. It was an early entrant in the West African exploration boom in the mid 1990's. NSU was successful there, discovering the Kubi deposit in Ghana and Tabakoto in Mali.

Nevsun optioned Kubi to AngloGold Ashanti which mined it and paid royalties to NSU through 1999—2006. NSU developed Tabakoto and brought it to production themselves. Unfortunately, the mine was plagued with a number of problems from the start, including major grade control issues. A severe drought in the region led to restrictions on water use for the mine and NSU had continuing performance issues with the mining contractor. These issues combined with non payment of tax rebates by the government of Mali led to the decision to put the project on care and maintenance in September 2007.

The chart on this page shows the effect of these problems on the company's share price, culminating in a huge downward spike when the cessation of mining at Tabakoto was announced in 2007. Ultimately, NSU decided to divest all its West African assets, selling them for \$20 million plus royalties and follow up payments.

In October 2007 NSU placed 10 million shares at \$1.50, its



last significant equity fund raising. Operations through the past 18 months have been funded by proceeds of the Tabakoto sale and payments and JV funds advanced by the Eritrean government.

Currently, the company's focus is Bisha, and here too there have been bumps in the road. We won't bore you with the details other than to note that Eritrea is a young country run by a government in the midst of "on the job" training. We think Nevsun has gotten a fair deal and Eritrea has lived up to its side of the bargain completely to this stage. There is no reason to think it will not continue to do so.

After several years of negotiation, NSU announced a new mining agreement for Bisha in October 2007. While some traders reacted negatively, the deal is actually a pretty strong one. Under the agreement, the Eritrean National Mining Corp (ENAMCO)

will hold a 40% (10% free carried and 30% participating) interest in Bisha. The 10% free carried interest is standard fare through much of Africa and comes as no surprise. The 30% is what disconcerted shareholders but here too, the deal is actually much stronger than it may at first appear.

ENAMCO has agreed to pay "owner costs" proportionate to its participating interest, in other words, 33.3% (30 percent out of the 90%). This basically means ENAMCO is paying one third of the capital and development costs that are not funded by debt against the project. ENAMCO has funded its share of costs to date and Nevsun indicates there have been no issues or time lags getting payments when the Bisha JV company issues cash calls.

In addition to its equity contributions, ENAMCO has agreed to purchase its 30% interest in the JV company at

the time of the first gold shipment from Bisha. The price for its interest will be determined by at third party valuation of the project at that time. ENAMCO made a \$25 million initial payment that will be deducted from the purchase price for the 30% interest.

NSU reported in January that \$40 million of the projected capital cost of \$250 million has been spent by the JV company, with NSU and ENAMCO putting up 67% and 33% respectively. The lead lender for the project, Industrial Development Corp of South Africa, has been selected and has committed \$89 million to the lending package. Other banks and government institutions are completing due diligence on the remainder of the debt package, expected to total just over \$200 million. If this total is met Nevsun should not require additional equity for the project.

The table on this page lays out the basic economics of the Bisha mine using different metal price scenarios. Two things about Bisha that stand out immediately are the robust nature of the returns and the way the returns are "front loaded".

The high returns, indicated by quite high Internal Rates of Return even at "low" prices, is thanks to the high grade nature of the gold and copper resource. Equally impressive is the short payback

under all three metal price scenarios. Even at "low price" levels the payback is under two years, far better than average for a mining project of this scale.

The reason for the high IRR and low payback period is the "serial poly-metallic" nature of the operation and the front end loading of revenues.

The table on the following page shows the planned production of different metals through ten years of production. Bisha produces 860,000 ounces of gold and 1.4 million ounces of silver in the first two years of production. At anything like current metal prices, the highest revenue and the highest profits are generated early, which maximizes the Net Present Value of the project.

Using the "base case" pricing in the table and 10% discount rate yields an NPV of US\$309 million. NSU is using fairly conservative pricing, costs and discount rates. After Tabakoto, NSU is trying to make sure they under-promise and over-deliver.

Obviously, we don't know what metals prices will be in a year but if the third party doing the valuation is using

<b>Bisha Economics Under Different Metal Price Scenarios</b>			
<b>Metal Prices</b>	<b>Internal Rate of Return</b>	<b>Cumulative After Tax Cash Flows</b>	<b>Time to Capital Payback</b>
"Base Case" <sup>1</sup>	51%	619M	1.4 yrs
"Higher Prices" <sup>2</sup>	65%	1,050M	1.3 yrs
"Lower Prices" <sup>3</sup>	42%	440M	1.6 yrs

(Assumes \$33.35/tonne operating cost, \$250 million initial Capex and \$ 115 million in expansion capex funded from operations)

<sup>1</sup> Base Case: Au = \$700/oz, Cu=\$1.80/lb, Zn=\$0.50/lb, Ag= \$10/oz

<sup>2</sup> High Prices: Au = \$910/oz, Cu=\$2.34/lb, Zn=\$0.65lb, Ag= \$13/oz

<sup>3</sup> Low Prices: Au = \$600/oz, Cu=\$1.50/lb, Zn=\$0.50/lb, Ag= \$8/oz

three year averages it should look like the base case and perhaps better. Adjusting for an NPV calculation on an in-production asset (2 years of 10% discount removed) yields an NPV of about US\$400 million. If this is the case and Eritrea lives up to the deal they would be writing NSU a cheque for about \$150 million CAD, or roughly the current market value.

There is still execution risk for the mining operation on top of changing metal prices. Even so, as a call on metal prices NSU is a strong one. If the base case scenario comes to pass, NSU owns 60% of an asset with a value in the 100s of millions that pays for itself in under two years and would be sitting on a cash balance of more than \$100 million. That is a pretty good bet in a market like this one.

## REGIONAL/COUNTY SUMMARY

Archeological evidence suggests gold mining was important to this region over 5,000 years ago, and history records ties to the yellow metal during its period as a major trade centre 2 millennia ago. Eretria became Italy's first modern colony after the opening of the Suez canal in 1869 made its location on the Red Sea opposite the Arabian peninsula again of strategic importance. It was from Eretria that Italy launched its colonization in Sudan and Ethiopia, which ended during World War II.

The linkage of Eretria with Ethiopia by the UN was broken after a long civil war with the country becoming separate in the early 1990s. Border disputes between the two continue to be the main concern for Eritrean stability. This and an institutionalized socialism have been major impediments to developing the country's economy that currently generates a GDP of about US\$700 per capita.

The development of the Bisha deposit, and potentially of other deposits, is in fact the main foreign investment into Eritrea. This single mine will add 20-25% to the nation's estimated GDP. Getting it right and thus encouraging similar spending is therefore important to the country, and the market seems increasingly to view this as a plus.

## BISHA

The Bisha mineral belt is in the highlands of western Eritrea. When the country opened up in the mid '90s the area was known to have some mining history but had little modern exploration. Geologically it is part of the prospective Arabian Shield.

Nevsun began grassroots work on the concession in 1998 with a 90% interest, and the government holding 10% carried plus a back-in right. This work located the gold enriched Bisha gossan (a rusty surface zone). In early 2003 NSU announced initial drill results that included highlights of 24.6 m of 5 g/t and of 7.6 m of 32.5 g/t (25 ft of 0.95 oz/ton) gold in the gossan, and of 24 m of 6.3% and of 8 m of 4.9% copper in the underlying supergene zone.

NSU quickly shifted work here into high gear and outlined significant near surface high-grade zones with over 1 million oz of gold and 300 Kt (+600 million pounds) of copper. Deep drilling indicated a very large zinc-copper zone below these, and

two other separate deposits were also located.

Bisha is a large mass of base metal sulphide minerals, enriched in gold, that formed during the venting of metal laden fluids onto the sea floor. The deposit was later folded over on itself by tectonic forces. More recently surface water flow has "weathered" it and removed base metals and other material its near surface section.

## RESOURCE BASE

Removal of other material near surface increased the grade of the gold that was left behind. These gold enriched surface layers contain 4.8 million tonnes averaging 7 g/t gold, in a readily processed form extending to 35 m depth.

## BISHA PRODUCTION SCHEDULE—BY METAL

YEAR	Gold (oz)	Silver (oz)	Copper (lbs)	Zinc (lbs)
1	418,000	518,000		
2	443,000	887,000		
3	39,000	132,000	154,000,000	
4			169,000,000	
5	<i>Note: smaller amounts of gold and silver will be produced during the supergene and sulphide mining phases that are treated as credits against base metal production.</i>		181,000,000	
6			73,000,000	153,000,000
7			40,000,000	238,000,000
8			40,000,000	227,000,000
9			43,000,000	217,000,000
10			49,000,000	255,000,000

Copper removed by this process redeposited at the base of the weathering section in a "supergene enrichment blanket". This layer contains 7.5 million tonnes averaging 4% copper (plus about 200 Kt at 2%), extending to about 65 metres depth. The underlying primary zone that has not been weathered contains a further 26 million tonnes of material, in all categories, that is

largely zinc rich and extends to 450 metres.

The totals above for the two surface sections are Measured and Indicated Resources. The Reserves used in the mine plan are 4 million tonnes @ 8 g/t gold, and 6.35 million tonnes @ 4.4 g/t copper & 0.8 g/t gold. These use metal prices of US \$400/oz of gold, \$1.05/lb copper, and \$6/oz silver. The mine

plan includes primary material mineable from an open pit extending to 240 metres depth, which totals 9.7 million tonnes @ 7.2% zinc, 1.1% copper, 0.76 g/t gold & 54 g/t silver. A zinc price of \$0.5/lb is used for this Reserve. Simply re-running the numbers at current metal prices closer to production should greatly expand the size of this resource. **Ω**

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# Updates

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As predicted in last month's *Journal* gold (and silver) found an intermediate bottom on the day of the January ECB rate decision. Both metals had a good month, even though the US dollar has not been weak. Gold has been trading as a currency in its own right, not just as an "anti dollar". Investment flows into gold have been heavy, particularly on the ETF side. We realize many hard money advocates view gold ETFs with mistrust but we view them as the most likely source of the sort of demand that can move gold much higher. Whatever the reason for buying it, many recent entrants in the gold market and many institutions simply would not buy gold at current levels any other way. Gold prices in the current range are driving off some traditional buyers in places like India, but the flood of money into gold funds and ETFs has overcome those demand drops. Skeptics will view this as "merely" a momentum market. They are right to some extent, but as the tech and housing bubbles should have taught people markets can run on momentum for a long, long time. Momentum buying means gold is being bought simply because it is one of the only things that works right now. We're happy enough about that not to agonize about it. We are still technically in a down-trend in gold prices. There may be yet another correction to the mid \$800s but we expect to see new highs this year. Gold trading on its own accord is very good news, but it makes an already vexatious market even harder to second guess. Many precious metals stocks have had good runs. There is room for more but the market overall is still very treacherous so don't be shy about locking in profits regularly. This market is going to offer up multiple opportunities to buy most things.

Major market earnings are terrible and will remain so for some time. This will drag on everything, but there is some evidence that base metals are finding a bottom. Sentiment is so negative that it would not take a lot of good news to move prices higher and a renewed drop in the Dollar would just reinforce the trend. More evidence is required that the world will go on without high US demand. It will, but there are still good odds of another test of market lows closer to mid year so there is no need to chase things. We have been spending a lot of time looking at new stories and there will be more of those on the way in coming issues. The large amount of money raised in the gold sector this month might also be viewed as mere momentum but the more companies that fund raising positions to deliver good news the more sustainable the sector rally will be, even if the overall equity market simply treads water for an extended period.

**Atna Resources (ATN-T; ATNAF-Qbb; \$0.78 on T)** formally announced a production start at Briggs this month. Gold won't actually start being recovered until April traders were happy with the announcement. ATN also released updates from a number of projects that have been optioned to third parties. Drilling at Clover by Yamana intersected a number of higher grade structures and they plan follow up drilling after BLM approvals are received. Golden Predator reported high grade results from their drilling on ATN's Adelaide property and are planning to drill the Tuscarora property.

Atna's highest profile JV, Pinson, generated news of a different sort. Barrick Gold announced they have completed the US\$30 million in expenditures required to back in to a 70% interest at Pinson. ATN is verifying the spending and awaiting a large number of drill results from the project. Strictly speaking, Barrick is required to present Atna with a formal plan for taking Pinson forward; Barrick is still modeling the deposit to decide if a pit, or a super pit, or just underground mining is the way to go. Until that is done and delivered ATN isn't required to fund ongoing expenditures. Things continue to go according to plan and a rising gold price will be a boon to the bottom line. ATN has a deep portfolio of projects and should be able to attract more JV spending if the financing environment for precious metals continues to improve.

***Accumulate on gold price weakness for continued growth through production and more news on Pinson.***  
<http://www.atna.com>

**Constantine Metals (CEM-V; \$0.)** has begun a small drill program on its Munro-Croesus gold project east of Timmins, Ontario. Croesus is the former extreme high grade producer that has a potential to be a game changer for CEM with a single strong drill hole. While the best result last year was 0.46 m of 12.2 g/t gold, its real impact was to add pieces to the understanding of how to hone this year's work in the search for mate-

rial that could be readily shipped for processing to the nearby Timmins camp.

The planned program is of limited scope, but the company still has a good structure and should have little problem raising more funds if it connects at Croesus. The company's main event is still the large base metals potential of its Palmer project in coastal Alaska, which is in the same waiting for a market mode as most non precious metals assets. We are comfortable CEM is undervalued and with the Munro-Croesus speculation back in play will shift it off "hold or accumulate" to simply accumulate, with the caveat this could include a wait the base metals market to gather strength. Either strong results at Croesus or more life for copper-zinc-silver deals could lead to a stronger near term outlook. ***Accumulate while awaiting results from the Munro-Croesus gold project.***  
<http://www.constantinemetals.com>

**Goldsource Mines (GXS-V; \$1.29)** has put out its first set of drill results from this year's testing at the Border coal project in eastern Saskatchewan. They unfortunately indicate limited tonnage potential in the areas immediately around last year's discovery holes. How such thick sections of coal formed over limited areas is not clear at this point. The company has added a third drill rig and will detail the discovery areas with two while shifting to reconnaissance testing away from the discovery areas with the third.

While lab results indicate the coal does compete with other thermal deposits selling to the North American east coast, it is important for enough material to be outlined to justify start up as a new coalfield. The market is showing its understandable disappointment that this will be at best a long process. More tonnage potential will have to added, from GXS targets or those held by others, to support the market. Notwithstanding its declines from last year's peak pricing, coal is holding up as well as most commodities. GXS has a good structure and healthy bank

account, so from a 0 cost base we will hold on to see the balance of this program.

**Hold at a 0 cost base while gauging tonnage potential.**

<http://www.goldsourcemin.com/>

### **Hathor Exploration (HAT-V; \$2.51)**

got a later start than we and apparently everyone else expected. Notwithstanding the cold temperatures, ice was slow to develop on some areas needed for drill platform and drilling did not start until mid January. Based on that revised start date we would expect to start seeing results in late February. There was a lot concern about HAT's price pulling back but we suspect it is a simple case of margin buying in early January that has been getting reversed due to lack of news. HAT is definitely back in the "buyable" range. That said, its an ugly market so its better to be predatory than prey. If you don't own the amount you want some bids in or below the current range might just get it.

**Accumulate in the current range or take some money off the table if it moves above \$4.00 before new drill results start to arrive.**

<http://www.hathor.ca>

### **Minera Andes (MAI-T, MNEAF-Qbb; \$0.54 on T)**

has found the funds to pay-down both its bridge loan and the cash call from San Jose partner Hochschild Mining. MAI chair Robert McEwen has agreed to do a \$40 million placement, at 33 cents, that would give him a +50% share of the company. To do this in short order the company is using a special provision of Ontario securities rules for companies that are in a distressed financial situation, which puts aside the need for a minority shareholders vote on what is change of control. Hochschild has "responded" to this with a release indicating it had offered to swap some of its stock for MAI at roughly 50 cents US, or make a US\$70 million cash payment for the 49% of San Jose it doesn't hold. Given the cash issue MAI has stems from a cash call by the JV that Hochschild controls, its is difficult to view it as generous. Our information indi-



cates that McEwen's offer came first and was voted on by independent directors.

The market has reacted strongly in favour of the McEwen move, and we would agree with that. The Hochschild move is reminiscent of the Fresnillo move on MAG Silver, except that Hochschild is at least willing to leave some upside on the table with its London listed stock. We don't however expect it to be any more successful. While this level of dilution in MAI obviously puts some limits on its upside potential, it still has a lot of headroom left from current levels. With the caveat that regulatory confirmation that the McEwen placement can go ahead is needed, this does get MAI out of the market woodshed.

**Buy for its expanded low cost gold-silver output and longer term copper potential.**

<http://www.minandes.com/>

**Premier Gold (PG-T; \$1.97)** The following Trip Report is reproduced from the January Dispatch:

*Geraltion is home to the past producing Little Long Lac gold mine that was the namesake operation of Lac Minerals into the 1960s, when it became one of a number of northern Ontario gold camps that couldn't survive the fixed gold price regime. When the gold price began rise in the 70s Lac was focused elsewhere, and was eventually taken over by Barrick Gold in 1994. While exploration in*



*the camp has never stopped, the core areas held by Barrick have seen limited work since its Lac takeover. Premier entered the camp through a joint venture with Roxmark Mines (RMK-V) begun in September '07, which was expanded in December with purchase of core Lac holdings from Barrick (net of a 3% NSR). PG should complete earn-in requirements with RMK to hold 51%, after which it has the option of increasing its interest to 70% by carrying Roxmark to a production decision.*

*Gold camps were the development backbone of northern Ontario and northwestern Quebec, and are tied to power and transport infrastructure because of this. They slowly began to fade on the back of a fixed \$43 per oz gold price (the Canadian government paid an \$8/oz premium in order to maintain its peg), typically because companies could not justify the capital requirement to chase systems to depth rather than because they were mined out. Gold price gains in the 70s breathed new life into camps like Red Lake by allowing them to move to depth, but also by allowing development of low grade surface ore in camps like Timmins. Gold has been recovered at depths of 8,000 feet (2,500 metres) in this region, and there are several smaller camps in which bulk tonnage evaluations are on-going and may generate multi-100,000 oz per annum producers. This and the limited recent exploration set the stage for market interest in Hardrock.*

*Though it has been working on adjacent ground for a year, Premier is still early in its data compilation for the newly acquired Lac holdings. Mining took place in them to about 3000 feet (900 metres) depth in this area. The data from this period predates the digital age and is being converted into computer files. There is sufficient detail on the cross sections and plans I went through to indicate that ore grade material was left in place, and that the system is open to depth. The potential is for either, or both, narrow high-grade mining or moderate grade bulk underground methods to a larger plant.*

*There are a number of surface zones of mineralized porphyry that did get tested after the underground operations closed down and which might be mineable from open pits. Getting to that potential would require outlining sufficient material to capitalize a larger plant, and probably from a series of surface zones in this case. There is also some higher grade material within these porphyry zones that might be included in an underground resource, and a potential to add to surface resources with more linear zones where the high-grade zones surface.*

*At this point, the evaluation of geological and metallurgical details is as important as testing for grade-thickness blocks, and this is work that is just getting underway. Historic gold extraction was done by cyanide leach, which typically means relatively fine gold that was not encapsulated in pyrite or other material. That said, there can be significant variations of ore type within different settings in a gold camp and it is too soon to assume working hypotheses for what "viable" would be in this case. It is however quite possible to follow the main trends and create this detail as the older data is being recompiled and assessed. Premier will have four drills doing that through the balance of the year.*

*Typically the first hurdle achieved in a camp reassessment program of this sort is to outline sufficient high-grade material to justify a small plant build. Smaller plants are less*

*costly, easier to come by, and can be used to test ideas for a larger scale concept. This is the old-school way of doing things, which is well worth keeping in mind in this market environment. At this point the bigger potential appears to be outlining a bulk underground deposit and adding to it with surface material. That testing focus may, and in this setting probably would, locate more high-grade material. Outlining sufficient resource to justify dewatering the old workings would be an initial objective, and is achievable with this year's program.*

*On the whole I expect the drill program will generate a combination of high-grade and broader bulk tonnage level gold intersections to demonstrate both good cost and scale potential. Added to this is the speculative appeal of the 100% PQ ground adjacent to the Musslewhite mine that will see a drill start next month, plus the well established appeal of being in the Red Lake camp. PG has turned over 6.7 million shares at an average \$1.57 (to January 18, 2009) since announcing its \$1.80 flow-through placement in late October, so it is well positioned to gain as an accumulation of good results at Hardrock, or strong initial results at PQ, come to market.*

***Those holding PR as a Wolfden spinout should continue to do so, and as one of the few juniors with multiple large scale programs laid out for this year our outlook would be to accumulate it on gold price weakness.***

<http://www.premiergoldmines.com/>

**Reservoir Capital (REO-V; \$0.35)** got a wake up call after months of trading by appointment. The company announced it has received energy licenses from the Serbian government for the Brodarevo 1 And 2 run of river hydroelectric projects. As we noted in our original review of Reservoir these projects were the initial reason for the company's formation and have been its long-standing "Plan B". The two projects have a combined potential capacity of 48 megawatts of power generation from the flow of the Lim

River in southwest Serbia. The company will now move to updated technical studies and environmental permitting.

REO's management has been involved in this sort of project before and has the skill set to move it forward. Power generation projects are not overnight stories; it will take time to get to the stage of final approvals and financing. Power is a critical issue everywhere and there is a lot of money around for "green" projects within the Euro zone grid. Reservoir raised \$3.5 million last year and still has most of that on hand which should carry it for some time. It also still has a tight share structure and supportive shareholders. Don't expect a flood of news but this is an important development that could greatly add to the company's value as the projects are advanced.

***Hold or accumulate/average down in this range for further developments on the hydroelectric or mineral exploration fronts.***

<http://www.reservoircapital.com>

**Riverstone Resources Ltd. (RVS-V; \$0.18)** announced delays with the title transfer for the Ligidi project. We've talked to the company extensively on the subject and they are not concerned about it happening so much as frustrated by the glacial pace. They are working on it hope for a short term resolution. RVS did surface work plus RAB drilling and a few RC holes at Ligidi last fall. Once the title transfer is done those results should arrive quickly; lab turnaround in West Africa was quick even before the markets blew up. In the meantime, 43-101 resource estimates are being prepared for the three resource areas (Kao, Rambo and Goulagou) that make up the Karma project. We've noted before that we expect these three areas to total more than a million ounces and there is room to expand all of them and a number of other targets. Ligidi is optioned to Teck Corp, which has its own issues that the moment. We don't know what Teck will do, but we don't consider that a large issue; the Ligidi targets have very large scale will see more work on someone's

nickel. Progress has been painfully slow but with a gold market coming back to life and a very low capitalization RVS holds plenty of potential upside.

**Buy in this range for new/updates Karma resource and this year's exploration at Karma and Ligidi.**  
<http://www.riverstoneresources.com>

### **Silver Wheaton (SLW-T, Amex; \$6.31 on Amex)**

Updated shareholders on its expected "production" for 2008, which should come in at 11.1 million ounces at a cash cost of \$3.94. SLW also reaffirmed its 2009 guidance at 15 to 17 million ounces. This came as relief to the market; virtually all production comes from third party mines and SLW pays for most of its ounces up front. With a number of base metal operations shutting their doors just being able to keep production guidance at earlier levels was better than many feared. SLW, like many other producers this month, took advantage of the strong gold silver sector to raise a big chunk of cash. The company completed a bought deal financing of just under 36 million shares at \$8. This allowed them to pay off their revolving credit facility (a concern for many) which now has US\$380 million of undrawn credit for future acquisitions. SLW would have probably had a stronger month in the market but for the selling that accompanies a large financing. That funding is now closed so SLW will be back to trading along side silver.

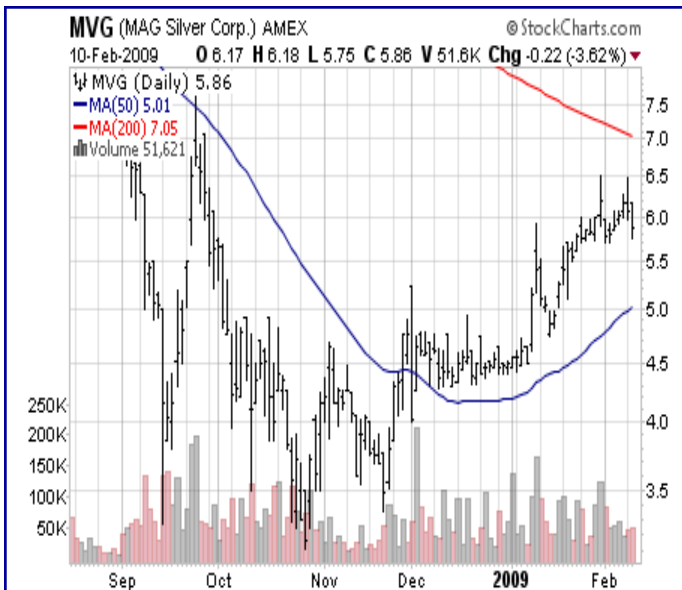
**Hold or accumulate after several weak days for silver as a strong silver hedge and low cost producer.**

<http://www.silverwheaton.com>

## **Updates, After Profits Taking**

**MAG Silver (MAG-T; MVG-Amex; \$5.86 on Amex)** continued its barrage of news this month and as the month wore on and the silver price strengthened MAG finally got some traction. By the time February arrived MVG was trading in the \$6 range on Amex. MAG has released more results from

Juanicipio and Cinco de Mayo and reminded traders there are 12 rigs turning on its projects. The culmination of this news flow was an announcement that MAG has suspended the valuation process because it felt it was not getting full disclosure from Fresnillo. Fresnillo has countered with a demand to the Ontario Securities Commission that it look



into MAG's "delaying tactics". Fresnillo's announcement was met with bemusement by traders (and probably the OSC too). Whatever the truth of MAG's assertions, the process does seem more than moot at this stage. MAG is trading 30% above the Fresnillo offer and if the gold and silver market stays strong that gap is likely to widen. In short, the bid has zero chance of being voted for in this market. We will have to wait and see what, if anything, Fresnillo does for an encore. We don't consider the stock overvalued at these levels but we will leave it on hold until the dust settles. Even though the current price seems fair there may be buyers hoping for a higher offer that would be disappointed if the bid falls apart.

**Hold for further developments and as a silver hedge.**

<http://www.magsilver.com>

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