Casey's International Speculator

Volume XXXII, Issue 3 / March 2011

Are We There Yet?

In This Issue

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Dear Speculators,

It's kind of funny, sometimes… people are always asking me where I think the market will go next.

I kick rocks and pick stocks. I'm a researcher and analyst who specializes in finding value the market has yet to spot.

I believe in a lot of the same values and ideas Doug Casey does, and there are even a few areas where our life paths have coincidentally crossed – we both attended school in Switzerland, for instance – but he's the guru. That is to say, he has more experience watching our old world spin and more years of study, adding understanding to the trends he's observed playing out time and again.

Doug feels the sweep of history in a way that ignites flashes of insight, something we at Casey Research call his "guru moments." My interpretation: he deciphers developing trends that echo others he's seen before, arousing a strong conviction about how the new trends will play out. And he's usually right, though he's the first to caution that the timing is the hard part.

For me, I look for patterns upon which to base reasonable projections. Yet, I don't have the depth of experience watching economies rise and fall that Doug has. That experience instills in him high levels of conviction about probable outcomes. Or maybe I'm just more cautious because, unlike Doug, I am capable of feeling fear. (To my knowledge, I've never broken a bone in my body. To my knowledge, Doug has broken just about every bone in his. See David Galland's "Slippery Slope" story about Doug lacking the fear gene.)

At any rate, I rely heavily on Doug's sense of timing and outcomes, along with input from key members of the Casey Brain Trust: Bud Conrad is great for explaining the currents and tides in the economy, both at surface and fathoms below, and making his own economic forecasts; David Galland has a keen sense of crowd psychology and gauging market sentiment; Terry Coxon has an uncanny feel for probable policy reactions to changing events; and Marin Katusa knows just about everything worth knowing in Vancouver and Toronto, the twin centers of our market sector.

I gather all this input – the Casey Consensus – compare it with my own projections, and then make my recommendations.

But, as I started out saying, I am regularly asked what I see in my crystal ball. When that happens, I give those who ask the Casey Consensus. And even though I always say, "We think..." the questioner always seems to hear, "I think…"

Case in point: I did an interview with Kitco a year ago at PDAC, as did other "experts" who were asked to give projections on where the price of gold would go in 2010. Kitco aired a collection of these interviews, and I was pleased to see that with gold touching $1,426 last December, the $1,450 prediction I gave was closest to the mark. But the point is that if you watch the interview, you'll hear me say "We think…" That's not modesty, it's accuracy.

(You can view the interview collage online at Kitco News. Scroll down the right-hand column to the December 23, 2010 item: Best gold predictions of 2010.)

What's my point? That it's understandable to be asked where the market is headed next. And not just because big fluctuations can be nerve-wracking, but because it makes a big difference how you'd invest today if, for instance, you think there's a big correction ahead (save cash to buy cheaper) or not (load up and ride the wave).

But the reality is that I don't know. Doug doesn't know. Nobody *knows* what will happen next.

That's why it's called speculation.

Further, you can be right about the trend and still get wiped out if your timing is wrong. That's why it's easier to say what is likely to happen than what is likely to happen *next*. And that, in turn, is why we still have quite a bit of concern and uncertainty about a possible correction in the near term, even though the Casey Consensus is unanimous in projecting rising prices for precious metals for years to come.

Many of you are tiring of our cautioning of a "possible correction," "waiting until you see the whites of their eyes," and so forth. I know this because I read it in the email I get from you and hear it in conversations with you.

Some of you wish the market would stop dithering and just head north into mania territory. Or wish Casey Research to stop dithering and just start issuing lots of Buy recommendations. But other, more nervous readers seem to wish we'd just admit that the market has topped and issue a Sell on everything – time to cash in our chips and go home!

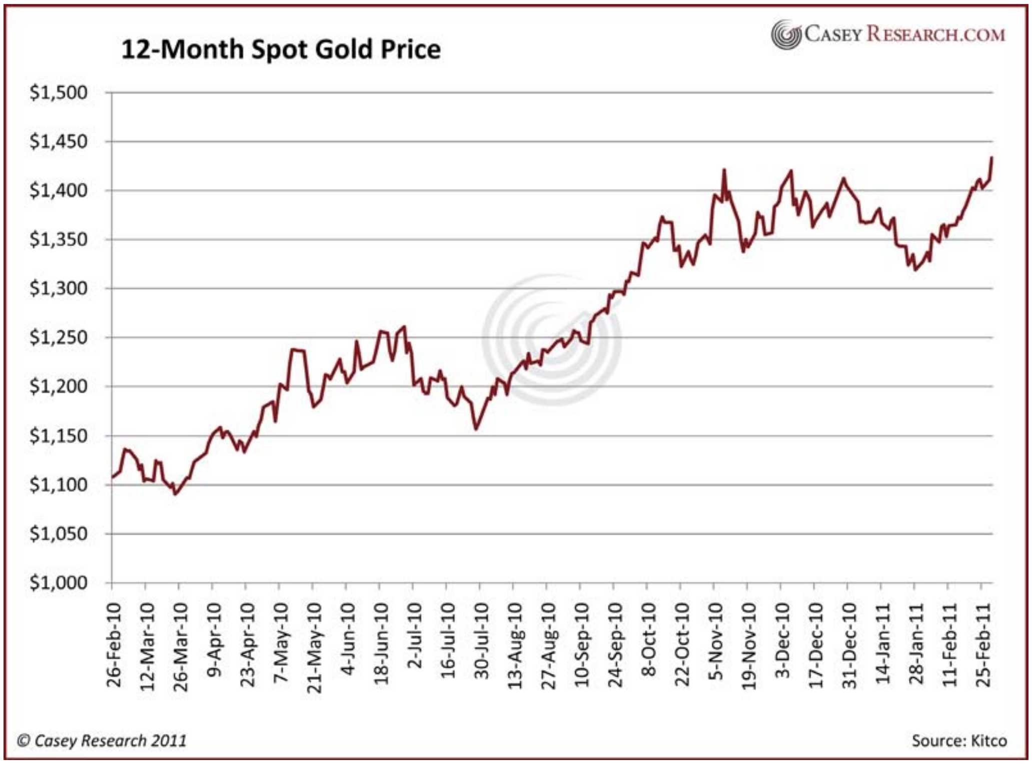
I am sympathetic, but Mr. Market doesn't know our desires and wouldn't care if he did. We would be doing you a grave disservice if we pretended to know which way he'll move next, when we don't. And anyone who claims they do know is likely a former New York bridge salesman.

This is why we've been steering a middle course for some time. We're not out of the market; many of our recent picks have done spectacularly well recently, including on gold's new nominal high (March 2, $1,440, as of this writing). But we're also not all in.

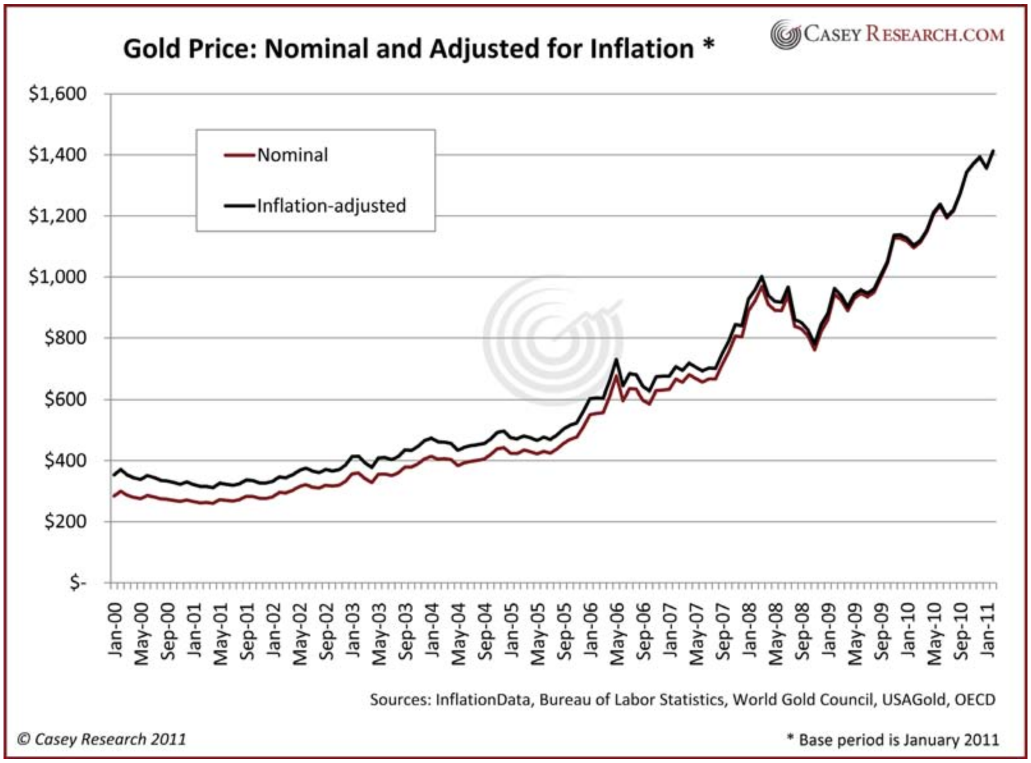
Be honest: would you shrug it off and renew your subscription if I declared this was IT and said to go all in, just before another 2008-style bloodbath?

Forget the paper losses (I wouldn't realize them, because I have no doubt our market would rebound even more ferociously than it did in 2009 and 2010) – I'm not sure I'd forgive myself for not keeping any liquidity free for investing if handed such a great opportunity.

So, let's pull back and look at a simple snapshot of our most fundamental trend, the price of gold. Compare this chart of spot gold over the last year with the one below it, showing the same thing during the months before and after the 1980 spike. Does it appear to you that we've hit the same sort of peak? Me neither.

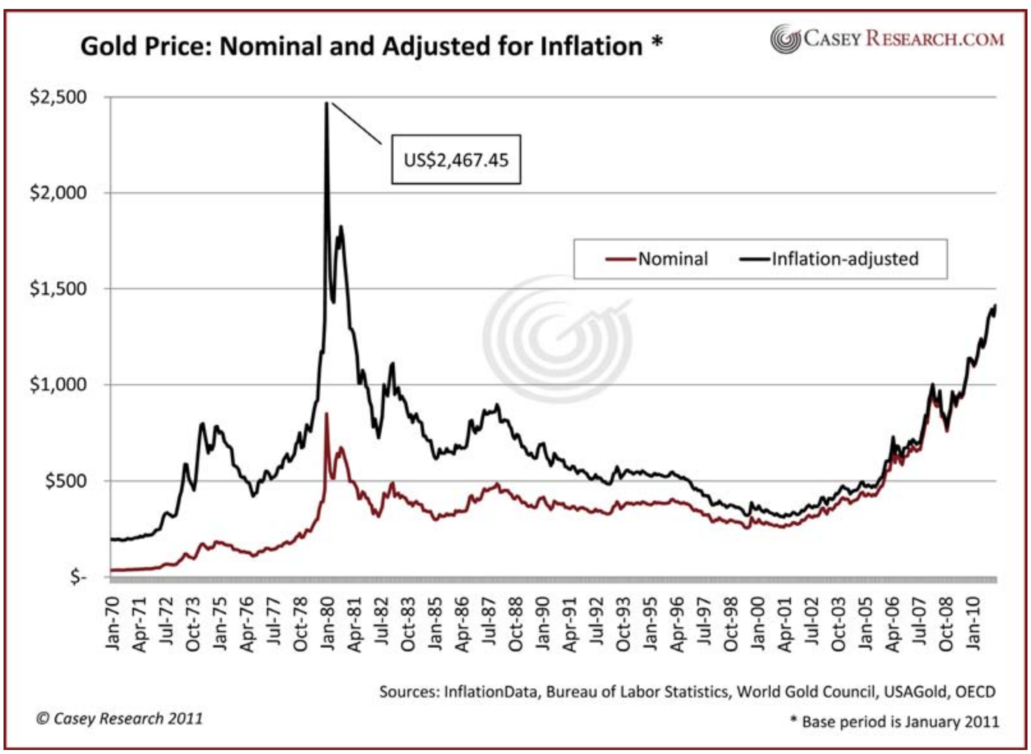


Of course, history seldom repeats, although it does rhyme. Here's a 10-year chart of gold during the current bull market.



This chart looks a lot more like, if not a spike, at least a price peak that could now be set to slide downwards for the next 10 years.

But don't forget gold's biggest picture, the inflation-adjusted price since it was set free by Nixon in 1971.



In nominal terms, gold certainly seems to have scaled its prior peak; in real terms, it's still got a long way to go to beat the 1980 spike.

Most of you know all this, of course, but please bear with me a moment longer. Remember that all of the economic and financial factors that have contributed to this precious metals bull market remain in force, and many of them have worsened. And if a big and broad market correction hits us again, the precious metals and related stocks will get squeezed, if only temporarily. The 2008 crash proved that such a squeeze can be very sharp and painful – even for groups like ours that did see it coming.

Assuming you agree with me, Doug, and the Casey Consensus that this metals bull market is going to produce a gargantuan Mania Phase that lies yet ahead, I'd like you to try a mental exercise:

Ask yourself what would happen if the current sharp rise is actually rhyming with the sharp rise in the early 1970s, ***not*** the big run-up to the 1980 peak. If so, and if history continued rhyming, that'd put us before the biggest gold correction ahead of the mania.

History may not rhyme that much at all, of course, but just think about it:

- If you had bought during the 1974 peak, would you have been able to hang on through the ensuing 50% retreat to profit from the eventual mania? Would you be able to shrug off missing the lower prices available the following years and be content with your future profits based on 1974 buying?

  If you answered yes, and you are certain you won't need the cash invested for a year or two (*no* margin buying), then life becomes simpler for you. Buy the best of the best companies and forget about them until the Mania Phase arrives. If you are this confident – or disagree with us that another steep correction is likely in the next major economic shock – you might worry less about our "Buy Under" guidance and just work on building the best portfolio you can, for profit during the coming mania.

- Or, if you bought the 1974 top, would you kick yourself – hard – for overpaying and not having the cash to buy during the pullback?

  If so, then you should take first tranches of only the best plays and keep plenty of powder dry for the time when the economy exits the eye of this most massive economic storm in modern history. Given the number of agonized vs. serene emails I got during the crash of 2008, I suspect that most of us fall into this group, so this is the context for most of our recommendations. If this rough grouping is yours, admit it, embrace it, and hedge your bets on Mr. Market's erratic behavior accordingly.

Either way, it's crucial for speculators to be honest with themselves about their own strengths and weaknesses. Happily, either way you still want to focus on the best of the best, and that's what the Casey Metals team and I will continue bringing you. The difference is in what you're willing to pay for them, and when.

Incidentally, if we get another crash-induced bottom, I believe it will be the last before the Mania Phase kicks in – the next and last best chance to really back up the truck and position yourself for truly spectacular gains.

A Note on Last Month's Issue

I want to apologize for the confusion that arose as a result of the changed publication schedule for *IS* last month. To serve our subscribers better, our production staff at HQ adjusted the production schedule of all Casey publications to even out the work load. However, the Monday publication date added time between the date all copy was due to proofing, and when the issue went live. It was six days last month, and in that time, gold (and silver) made two big moves upward. That was highly unusual – moderate volatility is normal, but such large swings in such a narrow window are not – and changed the prices on everything in our portfolio.

Unfortunately, that included the prices of the two new companies recommended in the issue. We are changing the production schedule again to minimize the chances of this happening again.

Quite a few of you wrote to ask if news of our recommendations might have leaked, or why the share prices were so much higher than those we recommended. It was simply due to the above timing issue; the markets moved while our art department was creating the web and print versions of the letter. We did post new guidance to our portfolio page right way, but for PVG the share price took off and never came back anywhere near our published recommendation.

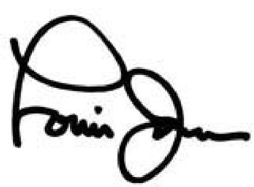
On a related note, I want to remind readers that *IS* is much more than just a monthly newsletter. We use the Portfolio Page on our web site extensively, and recommendations can change between issues when circumstances require it. We can do this on short notice, and, in fact, we review all our recommendations the night before *IS* goes live. So, even though the prices in the tables were outdated when *IS* went live February 7, the detailed recommendations on the Portfolio Page actually took those price changes into account, giving you our latest, best advice.

In This Issue

This will be a brief issue, as our due diligence on the new pick we'd planned to recommend this month uncovered some new concerns, and we've decided to hold off. That may be just as well, with record gold prices lifting share prices on everything we like. But for those looking to buy, we do have a more detailed look at our top picks this month. We also have a look at the shifting landscape of mining royalties, as well as our regular departments to illuminate you. Or at least entertain you.

Just remember: after Doug Casey, discipline and courage are a speculator's best friends.

Sincerely,



Louis James
Senior metals analyst and editor
Casey's International Speculator
Casey Investment Alert
BIG GOLD

P.S. My non-guru sense is that gold should hit $1,800, or better, by year's end. I'm pleased to report that Bud Conrad agrees.

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A Royal Pain, Revived
by Andrey Dashkov

Mining is a for-profit activity that involves substantial risk. A company first struggles to locate and develop economically viable deposits. If successful, it then must spend millions – sometimes billions – of dollars trying to turn them into profitable mines. It takes decades, and the vast majority of attempts fail at the very start.

But most people don't know this. They see record (nominal) gold prices in the headlines and a lot of major gold mining companies reporting exceptional results for 2010: Goldcorp booked a record annual profit while Newmont generated the highest net income in its 90-year history and Barrick increased its net income by 57% year-on-year to set a record.

This is no coincidence: exploding incomes and profits among producers are tied directly to the run-up in gold. Further, as gold prices rise, existing mines leverage the opportunity by expanding capacity, increasing output and profit. And lower-grade projects deemed uneconomic at lower prices are reassessed, turning past write-offs into valuable assets.

To some observers, the profits reported by miners look "too high" amid the slow economic recovery in many of the countries in which they operate. In times like these, the question of whether mining companies should "share" more of their success with the general public via taxation and royalties arises regularly.

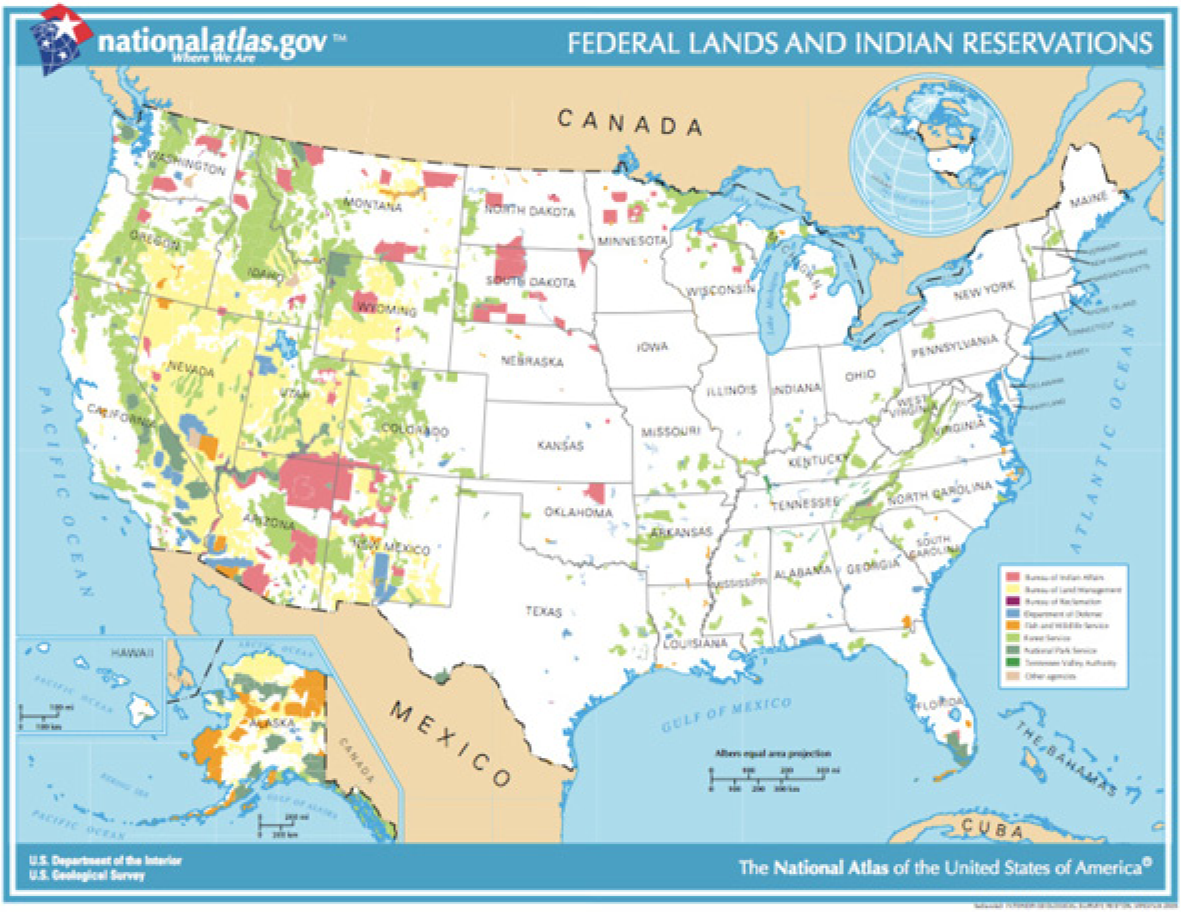
In 2010, for example, several countries considered raising taxes on the mining industry. In Australia an attempt that went too far cost the prime minister his job. Peru is still debating the exact terms of its new mining law. Chile went ahead and changed the national mining tax regime, and now, depending on operating margin, mines are subject to a 4%-9% royalty.

In the U.S., talks of needed change to the country's royalty regime have been ongoing, but have heated up in recent years, as we've reported in the *International Speculator*. Now, Obama seems to have decided that metals miners should be contributing more to the public good as well. Earlier this year, the president's economic team elaborated a budget proposal projected to bring in about US$3 billion in revenue over 10 years. Quoting from the proposal:

The Administration proposes to institute a leasing process under the Mineral Leasing Act of 1920 for certain minerals (gold, silver, lead, zinc, copper, uranium, and molybdenum) currently covered by the General Mining Law of 1872. After enactment, mining for these metals on Federal lands would be governed by the new leasing process and subject to annual rental payments and a royalty of not less than 5 percent of gross proceeds. Half of the receipts would be distributed to the States in which the leases are located and the remaining half would be retained by the Treasury. Existing mining claims would be exempt from the change to the leasing system, but would be subject to increases in the annual maintenance fees under the General Mining Law of 1872.

The proposal would reform the General Mining Law of 1872 under which companies can currently mine federal lands without an obligation to pay a federal royalty. The good news is that existing claims would be exempt from the new royalty scheme. The bad news is that even they would be subject to an increase in maintenance fees. The worse news is that a gross revenue royalty hits the miner regardless of the profitability of the operation, and 5% is a lot of margin for many of today's big, bulk-tonnage operations.

If the proposal becomes law, certain U.S. states will be affected more than others. Take a look at the following map.



(Source: National Atlas)

The colored areas on the map are federal lands (except the cranberry color, indicating Indian reservations). The various colors designate the different agencies in charge of those areas (i.e., Bureau of Land Management, Bureau of Indian Affairs, Bureau of Reclamation, etc.). Federal lands comprise about 30% of all U.S. territory, but are largely concentrated in the country's western states, which is where most mining in the U.S. occurs.

Rank by % of Federal Land	State	Federal Land as % of State	% of Total US Mineral (Nonfuel) Production, 2008	Rank by % of Total US Mineral (Nonfuel) Production	Rank by % of Total US Gold Production, 2009
1	Nevada	84.5%	8.9%	2	1
2	Alaska	69.1%	3.7%	8	2
3	Utah	57.5%	5.9%	4	3
4	Oregon	53.1%	0.6%	35	Not rated
5	Idaho	50.2%	1.5%	24	Not rated
6	Arizona	48.1%	11.0%	1	Not rated
7	California	45.3%	5.9%	3	6
8	Wyoming	42.3%	2.8%	11	Not rated
9	New Mexico	41.8%	2.3%	15	Not rated
10	Colorado	36.6%	2.9%	10	4

Sources: Federal Real Property Profile 2004, National Mining Association, USGS

The table above shows the top 10 states ranked by federal land as a share of total state acreage. The top three are also the biggest U.S. gold producers and, as you can see from the nonfuel mineral production ranking column, many of them are the country's top mineral producers. These top three states (Nevada, Alaska and Utah) are responsible for more than 90% of the nation's total gold output. These are the ones that will be most impacted by the proposed legislation. Bad news for them.

However, this doesn't mean that all mines will be affected. The proposed royalty scheme only applies to properties on federal land. In spite of that being most of the land in these states, many gold projects are located on state, private or mixed land. The latter is the case if a mine or a mill site is located partially on areas under public and private ownership.

The five percent gross royalty may not sound like a lot of money, but taxing gross revenue will be more significant in absolute numbers than if net income was subject to an additional tax. How much income companies will miss – and how much that will reduce income tax payments – is not easy to calculate, since each is so different.

However, to illustrate the potential impact, we selected four large U.S. mines located on federal land and calculated how much they would pay in gross royalty, and what percent of net income that payment would constitute after subtracting cash costs from the mine's revenue.

Mine Name	Location	Majority Owner	Production, Koz, Q4 2010	Cash Cost, US$/oz	Est. Q4 2010 Re-venue, US$M	5% Gross Royalty (GR), US$M	Revenue Net of Cash Cost, US$M	Royalty-to-Net Income, % (RNI)	Multi-plier, RNI/GR
Goldstrike	Nevada	Barrick	290	490	356.1	17.8	214.0	8.3%	**1.7**
Cortez	Nevada	Barrick	210	329	257.9	12.9	188.8	6.8%	**1.4**
Fort Knox	Alaska	Kinross	85	547	113.4	5.7	66.9	8.5%	**1.7**
Marigold	Nevada	Goldcorp	27	787	37.2	1.9	16.0	11.7%	**2.3**
Source: USGS 2008 Minerals Yearbook, company websites									

Depending on a company's cost structure, the ratio of royalty-to-net income vs. gross royalty (RNI/GR) will vary, but the effect on a company's bottom line will always be more than 5%. In Marigold's case it's 12%, as the mine's cash cost is the highest of those we examined. Clearly, companies operating high-grade mines are less vulnerable to the proposed royalty. Makes sense: higher margins can take the cut better.

We didn't include development-stage companies in our analysis since they only have a financial model of future production, and that model can give vastly different results depending on the input parameters. It is just too easy to go wrong here. However, the general observation goes along the same lines: higher-grade projects with open-pit potential located on private land are our preference. We don't have any gold developers in our portfolio currently, but this consideration applies to exploration-stage companies as well.

Fortunately, Obama cannot simply implement his royalty by edict; Congress has to amend the 1972 and 1920 mining laws, which it has failed to do every time it has tried in recent years. The bad news is that Senator Reid of Nevada, having just won his seat again, is relatively safe from the wrath of unemployed constituents now. He was once seen as a bastion of protection for American mining, but has now shown himself to be much less a friend of mining than once thought. The good news is that almost any sensible person can see that raising a top-line tax on mining will be bad for jobs, and those are pretty sacred these days.

The bottom line for the U.S. is that mining is not viewed positively by America's eco-sensitive culture, and few people are miners – or even know anyone who is. That means politicians can gain brownie points with large numbers of people by posturing as being tough on pollution (because everyone knows mining *is* pollution, right?) while bankrupting a much smaller number of people. Not good.

Conclusion

As the price of gold continues rising and mining the metal becomes more profitable, governments in many countries will increasingly eye changes to their tax regimes as a way to grasp at desperately needed revenue.

This action raises miners' costs and makes operations less profitable; it can cause marginally profitable mines to shut down. That would decrease the gold supply, drive prices up higher, and maybe make some of those low-margin mines worth a shot again – until the governments get greedy or desperate enough to start the cycle over again.

Such vicious cycles render a country's investment climate less desirable, but with the current economic crisis being global in nature, there won't be many places to escape to. We believe the net result will be periodic waves of government-induced mine closures and bankruptcies, and ever-increasing metals prices, until the cycle peaks.

For the U.S., where many gold-producing states have significant portions of their land under federal control, the possibility of increased royalty payments, lease or maintenance fees is a real threat.

Exposure to this threat, in the U.S. or elsewhere, is something we actively seek to avoid in our portfolio.

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International Speculator Top Picks

Gold is hot, and so is our market, so this is a time for patience and discipline. But for new readers, there are a few companies we'd draw your attention to, either for buying a first tranche (say, 20% of your eventual desired position) now or for buying more of if the market goes into reverse in the weeks ahead.

We always point these out in the Company Recommendation Updates section of this letter, but this month we'll go into a little more detail on the reasoning for these choices.

Remember: this is not encouragement to go out and chase any of these stocks!

Gold may well retreat from its new highs over the coming days or weeks, as it did in January, or even more steeply, if John Q. Public goes back to thinking that Obama has saved us all and it's onward to Happyland from here. And if that happens, these can and will retreat, perhaps sharply.

The point of this list is merely that if we were looking to buy at this time, this is where we'd start.

Bayfield Ventures Corp. V.BYV, BYVVF.OB, FRA.B4N, http://www.bayfieldventures.com			
Price	Share: C$0.79	MCap: C$42.4 million	On: 3/2/11
History	Rec: C$0.55, 9/10	Gain: 43.6%	52-week: C$0.22-C$1.38
Shares	SO: 53.7 million	FD: 67.8 million	As of: 2/18/11
Warrants	UnEx: 8.7 million	C$0.125-C$1.16	Exp: 10/30/11-8/18/14
Options	Open: 5.4 million	C$0.12-C$1.19	Exp: 10/18/11-2/17/16
Cash	Est. C$8.1 million	Burn: C$542K/mo	As of: 2/18/11

BUY (Under C$0.72)—Bayfield hit more high-grade gold in the high-grade zone it is drilling off on its Burns Block project, just east of its property line with Rainy River (V.RR) in Ontario. It's too early to say how big this zone will get, and it has not yet grown very large – *but it's there*. It's hard to imagine anyone building a giant open pit mine at Rainy River and leave a nice sweet spot like this just beyond the pit wall. Based on this alone, we do think a takeover is a very likely endgame here, whether or not it's imminent.

That takeover potential limits the downside in the play, a good thing, but it's not the only source of potential upside. The mineralization continues open to the east, and drills are turning. No, Bayfield has not found another high-grade shoot, but that doesn't mean there isn't one there. The company is more than half-way into a very substantial, 50,000-meter drill program, with assays pending.

What are the odds of another spectacular high-grade discovery, such as the one that sent the stock soaring just after we recommended it last September? Hard to say, but with the downside limited by the takeover potential, we get to place that bet almost for free.

Which is not to say the stock is cheap, for what the company can say it has in the ground – which is nothing 43-101-compliant, so far. What we are saying is that we see more upside than downside, and an easy double this year, or better, if the drilling is successful.

If we did not own any shares, we'd buy a small first tranche now, and maybe another tranche if the shares drop below 72 cents again. And we'd buy bigger blocks in the 50-cent range if given a chance to do so with no company-specific bad news.

Original Write-Up:

http://my.caseyresearch.com/displayIsp.php?id=201#a2

News & Analysis:

http://my.caseyresearch.com/portfolio/stock-detail/507/

Columbus Gold Corp. V.CGT, CBGDF.OB, http://www.columbusgoldcorp.com			
Price	Share: C$0.94	MCap: C$38.5 million	On: 3/2/11
History	Rec: C$0.87, 2/11	Gain: 8%	52-week: C$0.145-C$1.13
Shares	SO: 41 million	FD: 51.2 million	As of: 2/24/11
Warrants	UnEx: 4.5 million	C$0.30	Exp: 11/11-1/12
Options	Open: 5.7 million	C$0.25-C$1.68	Exp: 5/11-12/15
Cash	C$1.5 million	Burn: C$131K/mo	As of: 12/31/10

BEST BUY—Columbus' new flagship Paul Isnard project in French Guiana is perceived to be high-risk, politically, and right now, that looks like an opportunity to us.

First, remember that the project already has 1.9 million ounces of 43-101-compliant gold, and considerably more, according to one older 43-101 report – and yet the company is trading for less than, say, Bayfield (above), which has nothing in the 43-101 bag.

Now, what about the risk? As reported in our initial recommendation, the French government did shoot down IAMGOLD's Camp Caiman project, so there is good reason for the concern. However, if the government were concerned about what Columbus and its partner Auplata propose to do at Paul Isnard, they could have stopped it cold by objecting to the JV transaction by February 22 – and they didn't.

That's more than a good sign; it means that there should be no really major regulatory hurdles to deal with until it comes time to permit a mine. That's years away. For now, it's going to be all about what the truth machine turns up at Paul Isnard. And that, we agree with John Prochnau, looks very likely to add value. This is not your average drill play – it would actually be difficult for the geology to be so convoluted that all the gold there is to find here has already been found.

Will the market continue discounting these ounces? It might, but it doesn't matter. Even at a discount, as long as the number of ounces increases, Columbus' valuation should increase.

Plus, the company has work, paid for mostly with OPM, advancing on several of its Nevada projects. There's value here, and more probable upside than down. If we weren't long already, we'd buy a first tranche at current market, a second under 90 cents, and larger blocks under 65 cents, given the chance.

Original Write-Up:

http://my.caseyresearch.com/displayIsp.php?id=206#a4

News & Analysis:

http://my.caseyresearch.com/portfolio/stock-detail/179/

Exeter Resource Corp. HM: Au, Ag NYSE.A.XRA, V.XRC, FRA:EXB, http://www.exeterresource.com			
Price	Share: C$5.15	MCap: C$444.4 million	On: 3/2/11
History	Rec: C$2.74, 6/07	Gain: 69.5% (TP @ C$4.14, 4/09)	52-week: C$4.98-C$9.22
Shares	SO: 86.3 million	FD: 98.6 million	As of: 2/8/11
Warrants	UnEx: nil	n/a	n/a
Options	Open: 12.3 million	Est. Avg. C$3.47	Est. Avg. Exp: +3.26 years
Cash	Est. C$87M	Burn: C$2.4M/mo	As of: 2/2011

BEST BUY—Exeter remains the market's whipping boy, among monster gold discoveries this cycle – that's an opportunity. Yes, its Caspiche project is a low-grade, bulk-tonnage deposit, situated in a high-altitude desert, with still-uncertain metallurgy. Good reasons for the discount. But it *is* huge (45 million gold-equivalent ounces), located in a busy mining area so far from anything green, there's little risk of environmental or permitting problems. The altitude is not that great, there's road access and power nearby, as well as a busy mining town and skilled labor – and they have water rights. Plus the company's treasury is stuffed full, plenty of cash to weather the correction ahead, should it materialize.

In short, the discount seems overdone, creating one of the few value plays out there in today's frothy market. The pre-feasibility study now underway on just the upper, potentially heap-leachable oxide portion of the project could deliver an NPV that justifies the company's current MCap on its own – an operation that could potentially fund development of the monster gold deposit in sulfides below.

But Exeter may not get that far. With major mining companies needing to add new ounces to their depleting asset bases, this much gold is going to become an increasingly tempting target with each technical problem or risk factor solved by Exeter's feasibility work.

That's not the only way to win, however; these shares have gotten cheap enough to present serious leverage to rising gold. We think this is too much gold to be left lying around for long, as is, but at $1,500 gold, it looks even better, and the higher gold goes, the less risky these ounces will be.

The current market price is good for a first tranche, and we'd buy more under C$5.00, and look for C$4.50 or less for bigger blocks.

Original Write-Up:

http://www.caseyresearch.com/displayIsp.php?id=111

News & Analysis:

http://my.caseyresearch.com/portfolio/stock-detail/155/

Northern Freegold Resources HM: Au, Ag, Cu, Pb, Zn V.NFR, PK.NFRGF, http://www.northernfreegold.com			
Price	Share: C$0.335	MCap: C$27.6 million	On: 3/2/11
History	Rec: C$0.335, 2/09	Gain: 46.3% (TP @ C$0.66, 3/09)	52-week: C$0.25-C$0.42
Shares	SO: 82.3 million	FD: 101.4 million	As of: 1/18/11
Warrants	UnEx: 12.3 million	C$0.45-C$0.75	Exp: 6/16/11-10/26/11
Options	Open: 6.7 million	C$0.35-C$0.55	Est. Exp: +0.93-4.18 years
Cash	Est. C$4.5 million	Burn: C$500K/mo	As of: 12/2010

BUY (Under C$0.32)—NFR remains the Rodney Dangerfield of Yukon exploration plays – can't get no respect – and that's an opportunity. In spite of a recently upgraded 43-101-compliant resource totaling 1.7 million ounces of gold (2.3Moz AuEq) at the company's Nucleus Zone, a 1.1Moz Au "potential target deposit" at the Revenue Zone (adjacent to the Nucleus Zone) and a small new silver resource at the Burro Creek project, NFR shares have barely budged recently.

Granted, the main asset, the Nucleus Zone resource, is low-grade (0.7 g/t), but the project has infrastructure advantages, including road accessibility. Plus, whatever the "potential target deposit" at the Revenue Zone turns out to be when drilled off to 43-101-compliance, it will add ounces to what would be a single mining operation including Nucleus. And that's not counting the new geophysical targets that suggest more similar mineralization is on the way, nearby. There is genuine multi-million-ounce potential here, as well as serious potential for more higher-grade discoveries.

Why the discount? It seems the market has never forgiven NFR for failing to find more of the bonanza-grade material that catapulted the company into the limelight in late 2008, early 2009 (37.80 meters of 10.41 g/t gold, including 3.25 meters of 100.69 g/t gold, 46.96 meters of 9.6 g/t gold, including 1.23 m of 92.74 g/t gold, and 9.36 m of 70.19 g/t gold, including 1.27 m of 410.00 g/t gold). But now there's the issue of cash – the company has enough to get by, but not really enough to hit its targets as thoroughly as they deserve, this year. They could start working and hope good news drives the share price up enough to be able to cash up at better prices, but it's not a good idea to draw the treasury down that low. If the market goes into a trough, that could end up forcing NFR to finance at a lower price, on terrible terms.

So, we like this play a lot and have great hopes for a break-out year in 2011, but we'd wait to see if we can get in on better terms before buying. If you are an accredited investor who has had success getting into private placements, you may want to wait and see if there's a non-brokered PP you can get into. If not, you may want to see if news of a PP sets the share price back and creates a lower entry point.

Why highlight the opportunity now, then, if the recommendation is to wait for lower prices? Because the opportunity could well arrive before our next issue, and we want those who like this story to be prepared.

Original Write-Up:

http://www.caseyresearch.com/displayIsp.php?id=179#a4

News & Analysis:

http://my.caseyresearch.com/portfolio/stock-detail/201/

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EXPLORERS' LEAGUE COMPANIES *ON THE MOVE*

In this month's dispatch…

- Ross Beaty interview: Pan American Silver, Lumina Copper, Anfield Nickel
- Robert Dickinson & Ronald W. Thiessen: Northern Dynasty Minerals
- Robert Quartermain: Pretium Resources
- Duane Poliquin: Almaden Minerals
- Lukas Lundin: Lundin Mining

ROSS BEATY, PART II

Last month we talked with the "broken slot machine" about his geothermal company. For our second interview with Ross, we talked about Pan American Silver (PAAS), including the odds of the giant Navidad deposit getting permitted, along with the bullion you can purchase from their Mexican mining operations. He also brings us up-to-date on his copper and nickel companies…

Explorers' League Editor Jeff Clark: Ross, tell us the latest about Pan American Silver.

Ross Beaty: Pan American Silver is having the best year of its entire 16-year history, since I founded it in 1994. The company has seven operating mines and is really firing on all cylinders – it's making more than a million dollars a day in operating cash, has $360 million in the bank and no debt, and produced a record 24.3 million ounces in 2010. Silver is selling for over $30 and we're producing it for $6.50 cash costs, so it's a great time to be a Pan American shareholder.

We have our biggest growth project in front of us, the Navidad project in Argentina, which we acquired in early 2010 when we bought Aquiline Resources. It has the potential to more than double our existing silver production, and take us from being the second largest primary silver mining company in the world to the largest. This would, of course, do great things to our balance sheet. We're working hard on the political front in Argentina to get the right approvals to proceed with development, and we hope to see that happening sometime in 2011.

Jeff: What are the reserves at Navidad?

Ross: Navidad holds proven and probable silver reserves of 234 million ounces. We also have 633 million ounces in measured and indicated, and another 119 million in inferred. I'm confident by the time exploration is finished that we'll have way over a billion ounces of silver at the property. It's one of the biggest undeveloped silver properties in the world.

Jeff: The real issue there is getting permitted, because current law doesn't allow open-pit mining.

Ross: The province of Chubut currently says there cannot be any open-pit mining there. However, we're confident that they'll zone the province into areas where there will be no mining and other areas, like ours, where mining will be allowed. We expect that will happen sometime in 2011, about when we're ready to proceed to construction.

Jeff: What makes you confident it will be permitted?

Ross: Several reasons. We've got tremendous support from the local people, as well as strong support from the local governor. There is no lobby in the province against mining Navidad, or even in the country. And there's no other land use where it's located.

We've had lots of support from all sides. There's a new election this spring, and we expect the issue will be clarified after the election is over. It's a political process and will take some time, but we see no reason this will not happen in 2011.

Jeff: I bet not many people know this, but you have a coin program through Pan American where investors can purchase silver produced from your Mexican mines.

Ross: Yes. We started the program about eight years ago and have sold millions of ounces. The silver comes from our La Colorada and Alamo Dorado mines in Mexico. We market them through Northwest Territorial Mint, which actually runs the business. So Pan American itself does not produce the coins or receive any proceeds from the sales, but we supply the silver to the refinery and it markets them under our name.

Jeff: They're pure silver?

Ross: Yes, bars and coins are both 0.999 fine silver. The bars have Pan American's logo on both sides, while the coins have a rock hammer on one side and a miner in action on the other. They're lovely coins. We also have a commemorative coin now, bound in a leather case, celebrating our tenth year in production.

Would we buy Pan American bullion?

Silver rounds lack the cachet of an official coin, though we'd point out that the face value of a coin is mostly symbolic, and if you just want metal, they're just as good. We'd view this as an easily affordable coin-like method of owning silver. Prices start at $1.30/ounce over spot (minimum order 50). That's about half the premium of Maple Leafs and Eagles and is competitive with similar products. Shipping and insurance are free, and the Northwest Territorial Mint has a buyback program in place for the signature product. You can check it out here.

Jeff: I know you're excited about Magma Energy, so how involved are you with Pan American at this point?

Ross: I'm chairman of the company, and so am active in all major decisions. I manage the board meetings, of course, and I'm in close dialogue with management, though I'm not active on a daily basis. So I still have my finger on the pulse of the company, but in terms of time commitment, it's not nearly as time consuming as what I'm doing with Magma.

Jeff: What's your outlook on gold and silver?

Ross: When gold and silver are trading close to multi-year highs, it's not as easy to say they're going to new records anytime soon. However, I have to say, I don't see anything terribly different this year than what's been in the cards the last two or three years – the bullish fundamentals are still intact for silver and gold and for most all commodities.

The dollar is likely to continue to weaken, and the world is likely to continue to grow, especially Asia. So I think precious metals are going to have another good year this year. Silver had a tremendous run late in 2010, so there might be a little bit of correction, but I can see higher prices in the future, and I think we're going to have a nice market ahead of us.

Jeff: Can you give us the latest on Lumina Copper (V.LCC)?

Ross: Lumina is drilling a very large copper deposit in Argentina called Taca Taca and has just increased the drilling program six-fold after some excellent initial results. Lumina also holds a portfolio of shares and royalty interests in several other copper deposits in Argentina and Chile. Our plan for this company is to repeat the success we had with several other copper projects in recent years, where we explored and then sold to large mining companies that are now building large mines on them.

Jeff: And what about Anfield Nickel (V.ANF)?

Ross: Anfield is exploring an enormous nickel deposit in Guatemala that we hope to quantify in size and value later this year, then market to a global nickel producer that would advance it to development. We think it is one of the world's largest undeveloped nickel deposits and expect this will be proven out as we move the project forward.

Jeff: You've been tremendously successful, Ross, so we'll keep watching your efforts.

Ross: Thank you, Jeff. And I have to say, I think Casey subscribers have done very well following the Explorers' League, and I think that's likely to continue.

Jeff: We think so, too. Thanks for taking the time to chat with us.

Ross: Anytime, Jeff. I'm a great fan of you guys at Casey.

Comment: Pan American is very profitable and has a reasonably good valuation at present, but the biggest issue going forward is whether or not Navidad gets permitted. The law will have to change, which depends in part on how elections go there this spring. We'll be watching, because Ross is right: output would more than double if they can put Navidad into production.

OTHER XL COMPANIES ON THE MOVE…

Robert Dickinson & Ronald W. Thiessen

Northern Dynasty Minerals (T.NDM; Amex: NAK) received an updated 43-101 Preliminary Assessment on the Pebble copper-gold-molybdenum project in southwest Alaska. The independent report called it "one of the most important metal producers of the 21st century." Three cases were outlined – 25, 45 and 78 years, with the 45-year "reference" case showing Pebble producing 31 billion pounds of copper, 30 million ounces of gold, 1.4 billion pounds of molybdenum, 140 million ounces of silver, 1.2 million kilograms of rhenium, and 907,000 ounces of palladium. This scenario yields a 14.2% pre-tax IRR, a 6.2-year payback on initial capital investment of $4.7 billion, and a $6.1 billion pre-tax NPV at a 7% discount rate. Northern Dynasty owns 50% of the project.

Comment: This is the first PA done since 2004 and shows how truly massive Pebble is. In fact, the reference case noted above mines only 32% of the resource, so Pebble will likely still be in operation when our grandkids reach our age. The stock jumped 10% in reaction to the news and is up 185% since its July 1st low (as of February 28). While we're definitely rooting for Hunter-Dickinson, the stock is mostly a play on whether or not Pebble becomes a mine and if NDM gets bought out. Activists still object largely on the basis of environmental concerns, but many believe Pebble is too big to fail, starting with the incredible revenue and the number of jobs it would create. Here's a good video of XL-er Ron Thiessen discussing Pebble and what they're focusing on this year.

Robert Quartermain

Pretium Resources (T.PVG) reported a 33% increase in Resources at its Snowfield project, along with a 134% increase at Brucejack. Combined, the deposits now have 55.8 million ounces of gold and 394.1 million ounces of silver in all categories, plus 4 billion pounds of copper.

Comment: With these increases, PVG now has one of the largest undeveloped mineral deposits in North America. And both projects will get bigger. Management says they'll be focusing more on the higher-grade Brucejack project with drilling this year. See our formal recommendation on the stock elsewhere in this issue.

Duane Poliquin

Almaden Minerals (T.AMM; Amex: AAU) had plenty of news last month – drilling commencing at the ATW diamond property in the Northwest Territories and at the Caldera gold project in Mexico – but probably the biggest news was the sale of its Elk gold deposit in B.C. to Beanstalk Capital (V.BEG). Almaden will receive 37 million shares of BEG, making them the largest shareholder (58%), plus retain a 2% NSR in the Elk project.

Comment: Why sell Elk? Well, Almaden is a project generator, and that's exactly what they've done with Elk. This deal puts the project in the hands of a company that can advance it towards production. But make no mistake: AMM still has a huge equity stake in BEG, as well as the royalty. Incidentally, we'll note that XL-er Jim O'Rourke is on the board of Beanstalk, a man who's successfully built a number of mines. See our recommendation on the stock elsewhere in this issue.

Lukas Lundin

There's a bidding war underway for **Lundin Mining (T.LUN; OMX: LUMI)**, as Equinox Minerals (T.EQN) announced an offer to acquire Lundin Mining for approximately C$4.8 billion in cash and shares. This comes on the heels of LUN's proposed merger with Inmet Mining to form Symterra Corporation. Lundin Mining produces copper, nickel, lead and zinc in Portugal, Spain and Sweden.

Comment: As we go to press, management has not commented on the offer from Equinox, but we'll note it does value the stock higher than where it was trading, causing the shares to shoot up 20% the day of the announcement. Big base metal producers are not our focus, but we congratulate Lukas and the Lundin team for generating another win.

To learn more about Explorers' League members, including bios and interviews, use this subscribers-only link: http://www.caseyresearch.com/displayXlArchives.php, then click on any issue and scroll to the bottom. Or click on any XL-er name above to go directly to their page.

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COMPANY RECOMMENDATION UPDATES:
Picks for Uncertain Times

Gold had a banner month, driving share prices on many of our stocks way up, especially our junior producers. This presents new opportunities for taking profits, which we strongly recommend to those who have them – you'll be very glad to have the cash handy, should we see big buying opportunities ahead.

How likely is that? As per the introduction to this issue, nothing is more dangerous than thinking we know which way Mr. Market will move next. However, we don't have to have another big 2008-style market meltdown to see room for correction from the record highs we just hit. Remember the old adage: "Sell in May, then go away."

But there's another expression particular to our sector: The PDAC Curse. The idea is that many companies go all-out to deliver the most and best news possible around this time of year, as the Prospectors and Developers Association of Canada annual conference is getting underway. This tends to result in a quiet season afterwards, which can exacerbate the summer Shopping Season.

The press releases have been piling up in recent days like snowdrifts in Chicago during that last blizzard, so we expect great (and possibly irrational) exuberance at PDAC. That, combined with a retreat being natural after gold's new nominal record high, calls for caution.

Mind you, we are not trying to time the market, nor are we calling this a top. We're just saying that the near term looks particularly risky and encouraging you to plan accordingly.

In fact, for the first time in many months, we're willing to call two picks Best Buys, as you can see in the Top Picks article elsewhere in this issue (instead of the usual box here in our recommendation updates).

In short, stay the course:

- Buy only the best of the best, in tranches, if you can honestly be pleased to see a chance to buy more at lower prices in the months ahead.
- Take profits when you have them, both to reduce risk and to have cash on hand when the next great deal – like Pretium – comes along.

Details below. Valuations and prices are as of March 2, 2011. Please click on company names to see the detailed recommendations, or check the Top Picks article.

Producers

Company	Share price, 3/2, US$	MCap, US$M	EV, US$M	2P, Moz	M&I, Moz	EV per unit of 2P, US$/oz	EV per unit of global resources & reserves, US$/oz	EPS, US$	P/E	All-in cost, US$/oz	Mine value (MV), US$M	MCap/MV Ratio	EV/MV Ratio
Gold													
Medusa Mining	7.08	1,332.5	1,193.5	0.5	0.1	**2,363.37**	**554.86**	0.31	22.8	414.68	382.7	**3.48**	**3.12**
Silver													
Alexco Resource	8.37	495.7	406.8	0.0	9.5	**n/a**	**7.90**	n/a	n/a	11.79	1,087.8	**0.46**	**0.37**
First Majestic	16.42	1,641.8	1,592.4	47.8	92.4	**33.29**	**5.33**	0.40	41.0	11.21	736.1	**2.23**	**2.16**
Fortuna Silver Mines	5.49	673.0	572.1	51.0	0.6	**11.22**	**6.95**	0.09	61.0	16.76	715.9	**0.94**	**0.80**
Silver Wheaton	43.54	15,029.1	12,842.5	932.8	391.7	**13.77**	**7.37**	0.64	68.0	7.81	22,810.1	**0.66**	**0.56**
Silvercorp	13.88	2,419.8	2,167.0	121.6	140.6	**n/a**	**4.13**	0.18	77.1	10.22	11,597.9	**0.21**	**0.19**

Footnotes	
USD/CAD	$0.97
Gold price, US$/oz	$1,435.70
Silver price, US$/oz	$34.68
Copper price, US$/lb	$4.48

Key
EV - Enterprise Value, which is the value of a company's project net of its financial assets and obligations.
2P - Proven and Probable Reserves as defined by NI43-101 standards
M&I - Measured and Indicated Resource as defined by NI43-101 standards
EV per unit of reserves or resources - Enterprise Value divided by the quantity of metal underground
EPS - Earnings per share
P/E - Price-Earnings ratio
MV - Mine Value, an estimate of present value of a mine as an asset
MCap - Market Capitalization, the share price multiplied by the number of shares issued and outstanding
All-in Cost - Total cost per ounce/pound of metal produced
Moz - million ounces
Blbs - billion pounds

Click here to enlarge.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ALEXCO (AXU, T.AXR)	C$8.16	59.2M	63.3M	C$483.1M	C$3.25, 5/06	151.1%%	C$2.93-C$9.03

HM: Ag, Pb, Zn / TAKE PROFITS/BUY UNDER C$7.00—Another high-grade discovery last month, should report good operating revenue soon. Great story, but way up; TP or wait for correction.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FIRST MAJ. (T.FR, PK.FRMSF)	C$16.00	100M	109.2M	C$1.6B	C$1.85, 2/05	430.3%	C$3.04-C$16.74

HM: Ag, Au, Pb, Zn / BUY UNDER C$12.00—Record earning, more growth ahead, and M&A potential as well. Great company, core holding, but not cheap, and no hurry. Worth waiting to see if market corrects.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FORTUNA SILVER MINES (T.FVI, PK.FVITF)	C$5.35	122.6M	127.1M	C$655.9M	C$2.13, 12/09	151.2%	C$1.85-C$5.71

HM: Ag /TAKE PROFITS/BUY UNDER C$4.00—Fortuna had a fantastic month on no news. If you have a double and haven't TP, now is a good time. There's time to see we get a correction before SJ starts up.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
MEDUSA MINING (T.MLL)	C$6.90	188.2M	189M	C$1.3B	C$3.40, 3/10	102.9%	C$3.30-C$7.70

HM: Au / TAKE PROFITS/BUY UNDER C$6.50—Medusa has great growth ahead, but will take time to get there. TP now if you're near a double and see if we get a lower entry point before production doubles.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
SILVERCORP (SVM, T.SVM)	C$13.53	174.3M	177.2M	C$2.4B	C$6.30, 5/06	114.8%	C$6.21-C$13.99

HM: Ag, Au, Pb, Zn, Mo / SEE CGR FOR COVERAGE

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
SILVER WHEATON (NYSE.SLW, T.SLW)	C$42.43	345.2M	358.2M	C$14.6B	C$3.18, 2/05	701.9%	C$15.20-C$42.80

HM: Pure Ag / SEE CGR FOR COVERAGE

Explorers

Company	Share price, 3/2, US$	MCap, US$M	EV, US$M	Total resource, Moz (Au, Ag), Blbs (Cu)	EV/unit of total resource, US$/oz (Au, Ag), US$/lb (Cu)
Gold					
Almaden	4.09	228.0	203.8	0.7	**284.27**
Andina Minerals	1.61	176.1	145.6	13.3	**10.98**
Bayfield Ventures	0.81	43.5	35.4	0.0	-
Camino Minerals	0.48	30.7	22.4	0.0	-
Colombian Mines	0.87	28.4	20.1	0.0	-
Columbus Gold	0.96	39.5	36.7	1.9	**19.34**
Corvus Gold	0.86	35.9	26.5	0.4	**65.81**
Exeter Resources	5.28	456.0	366.8	45.0	**8.15**
Extorre Gold Mines	5.42	474.1	433.9	2.3	**191.90**
Fronteer Gold	14.81	2,232.8	2058.2	6.4	**321.85**
Inter-Citic Minerals	1.98	209.5	201.7	3.4	**59.50**
International Tower Hill	9.40	807.5	685.7	13.6	**50.46**
Northern Freegold	0.34	28.3	24.1	2.5	**9.67**
Premier Gold	7.00	722.9	675.7	1.2	**555.47**
Pretium Resources	12.65	1,081.7	1033.5	47.9	**21.58**
Regulus Resources	1.36	49.4	44.2	0.0	-
Renaissance Gold	1.73	53.2	40.7	11.6*	**3.50**
Sunward Resources	1.92	247.9	174.2	3.7	**47.08**
Trade Winds Ventures	0.31	51.3	41.8	1.6	**26.46**
Virginia Mines	8.69	266.8	219.5	0.2	**1,148.29**
Silver					
Bear Creek Mining	10.26	940.9	840.2	466.4	**1.80**

* Silver resource at Trinity

Click here to enlarge.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ALMADEN (AAU, T.AMM)	C$3.99	55.7M	62.3M	C$222.2M	C$0.78, 3/03	411.5%	C$0.77-C$5.25

HM: Au / TAKE PROFITS/BUY UNDER C$3.50—AMM monetized Elk project, as we hoped, retains equity upside and exposure to cash flow. Truth machine turning on Ixtaca discovery. All good, but not cheap.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ANDINA (V.ADM, PK.ADMNF)	C$1.57	109.3M	132.8M	C$171.6M	C$3.94, 6/08	-60.2%	C$1.05-C$1.94

HM: Au / BUY UNDER C$1.45—New study on Volcan very encouraging at $1,300 gold, but IRR low at base case. This should work out, but the stock retreats periodically, so wait for the next dip.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
BAYFIELD (V.BYV, BYVVF.OB, FRA:B4N)	C$0.79	53.7M	67.8M	C$42.4M	C$0.55, 9/10	43.6%	C$0.22-C$1.38

BUY UNDER C$0.72—First ore shoot on Burns Block proving up, discovery potential still open. See more detailed remarks in Top Picks section of this issue.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
BEAR CREEK (V.BCM, PK.BCEKF)	C$10.00	91.7M	94.2M	C$917M	C$3.97, 4/10	127.3%	C$3.60-C$10.53

HM: Ag, Au, Pb, Zn, Cu / BUY UNDER C$8.00—BCM moving steadily towards production at Santa Ana & has cash to build the mine, but that will take time. Wait to see if correction brings lower entry points.

CAMINO MINERALS (V.COR, PK.CAMZF)	C$0.465	64.3M	66.6M	C$29.9M	C$0, 4/10	C$0.465	C$0.235-C$0.70

HOLD—No news from COR (but that was common with CPQ before, under same management). Truth machine turning, and we'll be meeting with management shortly. Stand by.

COLOMBIAN MINES CORP. (V.CMJ, CMBPF.PK)	C$0.85	32.6M	38.5M	C$27.7M	C$0.92, 2/10	-7.6%	C$0.58-C$1.62

HOLD—CMJ cashed up and results pending. We're optimistic, but happy with the position we already have. When we see something of clearly economic tenor coming together, we'll look to buy more.

COLUMBUS GOLD CORP. (V.CGT, CBGDF.OB)	C$0.94	41M	51.2M	C$38.5M	C$0.87, 2/11	8%	C$0.145-C$1.13

HM: Au /BEST BUY—Political risk discount overdone, regulators seem on board for now. See more detailed remarks in Top Picks section of this issue.

CORVUS GOLD (T.KOR, CORVF.OB)	C$0.84	41.6M	45.3M	C$34.9M	C$0.00, Spinout	C$0.84	C$0.54-C$1.40

HM: Au /HOLD—Corvus partners starting work, but results will be a while. Having just gotten our 75-cent bids filled, we'll wait to see how things develop before buying more.

EXETER (XRA, V.XRC)	C$5.15	86.3M	98.6M	C$444.4M	C$2.74, 6/07	69.5%	C$4.98-C$9.22

HM: Au, Ag /BEST BUY—Exeter excessively discounted. Good corporate communication alone could make this stock double. See more detailed remarks in Top Picks section of this issue.

EXTORRE (T.XG)	C$5.28	87.5M	100.1M	C$462M	C$0.00, 3/10	C$5.28	C$1.30-C$7.34

HM: Au, Ag / BUY UNDER C$4.40—XG adding ounces at Cerro Moro and announced very encouraging results from earlier-stage properties. All good. C$5 bids got filled, so we're waiting for lower prices.

FRONTEER (FRG, T.FRG)	C$14.43	Est. 150.8M	Est. 163.8M	C$2.2B	C$4.96, 4/06	194.8%	C$4.54-C$14.45

HM: Au, Cu, U / HOLD—Acquisition done, holding for spin-out shares in Pilot Gold.

INTER-CITIC (T.ICI, PK.ICMTF)	C$1.93	105.8M	117M	C$204.2M	C$1.80, 11/07	7.2%	C$0.95-C$2.37

HM: Au / BUY UNDER C$1.75—New met testing very encouraging, may increase takeover potential in the play. Ounces in the ground from new zones should be added this year as well, but will take time. Patience.

INTL. TOWER HILL (THM, T.ITH)	US$9.40	85.9M	Est. 92M	US$807.5M	US$1.21, 11/08	374.8%	US$5.52-US$10.45

HM: Au / BUY UNDER US$9.00—No major news here last month, and we remain very bullish on this story, but it is vulnerable to correction if the market retreats. Worth waiting for lower prices.

NORTHERN FREEGOLD (V.NFR, PK.NFRGF)	C$0.335	82.3M	101.4M	C$27.6M	C$0.335, 2/09	46.3%	C$0.25-C$0.42

HM: Au, Ag, Cu, Pb, Zn / BUY UNDER C$0.32—NFR discounted more than justified, has multi-million-ounce potential. See more detailed remarks in Top Picks section of this issue.

PREMIER (T.PG, PK.PIRGF)	C$6.82	103.3M	110.1M	C$704.5M	C$2.48, 7/08	124%	C$3.75-C$7.75
HM: Au / BUY UNDER C$6.00—Our favorite candidate for takeover, should have more high-grade drill results on the way from projects in great mining districts. We just bought, so waiting for lower prices.							
PRETIUM RESOURCES (T.PVG, PK.PXZRF)	C$12.33	85.5M	89.8M	C$1.1B	C$6.42, 2/11	92.1%	C$5.75-C$12.38
HM: Au / TAKE PROFITS/BUY UNDER C$8.00—We realize these shares took off before *IS* went live, but alert subscribers should consider TP. With the new resource out, there should be time for lower prices ahead, for those still waiting to buy.							
RENAISSANCE GOLD (V.REN, PK.RNSGF)	C$1.69	30.7M	33.5M	C$51.9M	C$0.00, XAU spinoff	C$1.69	C$0.70-C$2.15
HM: Ag / BUY UNDER C$1.50—REN cashed up and released a modest silver resource at Trinity (with room to grow). C$1.65 guidance met a couple days ago, look for lower prices for next tranche.							
REGULUS RESOURCES (V.REG)	C$1.33	36.2M	38.8M	C$48.1M	C$0.00, ANM spinoff	C$1.33	C$0.70-C$1.60
BUY UNDER C$1.00—Work starting at flagship Rio Grande project, we believe REG will report a significant gold-copper resource this year – but not tomorrow. There's time to see if we can get in lower.							
SUNWARD RESOURCES (V.SWD)	C$1.87	129.2M	180.2M	C$241.6M	C$1.14, 12/10	64%	C$0.58-C$2.15
HM: Au / BUY UNDER C$1.60—SWD has made great progress, reporting higher-than-usual grades at the Titribi project, and is testing new areas that can add a lot of tonnage. Not as cheap as it was, be patient.							
TRADE WINDS VENTURES (V.TWD, TWDIF.OB, FRA.TVR)	C$0.305	163.8M	184.2M	C$50M	C$0.24, 11/10	27.1%	C$0.12-C$0.475
HM: Au / BUY UNDER C$0.25—Work is progressing here, but at JV partner's pace (and they are busy building a mine). No major milestones in near future, so better to hold out for lower prices.							
VIRGINIA (T.VGQ, PK.VGMNF)	C$8.47	30.7M	32.6M	C$260M	C$5.80, 2/07	46%	C$5.70-C$8.92
HM: Au, Ag, Zn, Pb, Cu / HOLD—Virginia is way up on the back of Goldcorp's work at Eleonore. We like that too, but it's a long-term play, so we'd still like to see one of VGQ's own projects shape up.							

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Questions For *IS*

Q1: How would the proposed merger between the TMX and LSE stock exchanges affect those companies trading on the TSX Venture that are tracked or owned by the Casey portfolios? What are the pros and cons?

> **A1**: There's also the NYSE Euronext and Deutsche Boerse merger – an early spring mating season seems to be in the air for exchanges. It's too soon to say what the specific costs will be, but we'd expect them to be relatively minor, especially compared to the cost of maintaining two separate listings and compliance protocols. The benefits are clear: larger markets = more investors, always a good thing. Access to a larger market doesn't help if you have no story to tell, but for those who do, both of these mergers should be good things.
>
> The Toronto-London deal is particularly good for resource investors because both markets attract resource companies and investors. For an example derived from our portfolio, consider that Medusa Mining has listings in Toronto and London, but (for now) not the U.S. This combination should make for a broader and deeper resource market that will do a better job for companies and investors alike.

Q2: According to Ed Steer, GATA (FT) reported that producers are forward hedging production of 100 million oz of silver into 2013…

> **A2**: First, even if it were true, as reported, 100M ounces over a couple years is not that big a deal. Second, that report says 70% of that figure comes from one single hedge, from one large company we don't recommend. But most important, we look at hedging before recommending a producer – it's not a problem in our portfolio.
>
> Now, if all or most of the primary silver producers were hedging, that would be an alarm signal, for sure. It would be a sign that a lot of people in the know think silver will fall for a long time. Happily for our speculations, that's not the case.

Q3: David Morgan relayed info about possible imminent confiscation of gold and silver. Do you have data about that?

> **A3**: No. And if anyone had proof it was coming, it'd be a huge media story. We do think confiscation is quite possible in the U.S. – it's happened before. It may even be probable, when the odoriferous effluvia really hits the fan, but we're a long way from that yet. Most people don't even know what gold is, as yet.

Q4: I have been doing some research regarding the granting of options to company managers and directors and have come across some *very* interesting and concerning information. What is the advantage of a company granting options to its directors versus the granting of company stock? I have read from several "experts" that it is better for a company to issue stock than options to its directors/managers because this gives greater incentive to make the company better. Whereas, options can be exercised by simply driving up the price of the stock temporarily, allowing the option holders to liquidate at a profit.

I have been doing some research through SEDI and reviewing certain companies within the International Speculator and found that a few have given *way more* options than stock to the directors/managers. Also, noticed that the managers/directors are not buying the company stock, whereas others clearly show a manager or several company administrators buying company stock?

Is this something that should be considered when buying or evaluating a company for one's portfolio?

A4: First, we do not agree with the argument you read for granting stock being better than options. How does it create more incentive to simply give the employee stock, which he can sell immediately without adding any value to the company? That makes no sense. With the options, the shareholders have to see their shares increase in value before management can benefit.

Sure, unethical management and insiders can try to drive a stock price up in an unsustainable way – but so can outsiders. And they could buy the stock on the open market and do the same thing. Cheating is cheating, and it is not made easier by the granting of options.

Of course, we'd rather see management put its own money into the deal, and will, in fact, usually choose not to buy if we don't see management having "skin in the game" alongside us. In meetings, when management points proudly to the percentage figure representing management ownership of the stock, we always ask how much of that comes from granted options and how much was paid for with hard cash.

That said, stock options are a standard business practice and not a reason for alarm, in and of themselves. But you're right to care about this issue, and we do encourage you to ask management how much of their own cash they've put into the deal. Just remember that for a working geo to put in a few hundred thousand in cash is often a much more serious commitment than for a wealthy director to put in a million or two.

Q5: *Casey's International Speculator* used to recommend Cornerstone Capital Resources (V.CGP), but closed the position back in 2007 when the Ecuadorian government placed a halt on all mining. Once in 2008/2009, when the price of Cornerstone was 0.05 cents, you actually discussed this as an opportunity stock to gain a quick double. Cornerstone just received its permits for Gama and is awaiting permit approvals for its other Ecuador properties. Plus their Little Deer copper project seems to be proven up. Do you feel that now that all these projects are moving forward, plus some other projects on the horizon, that this is a stock that you will one day consider to recommend again? Curious about your thoughts since this was a company that you followed for a long time.

A5: We like CGP. It's got good people working on good projects – but once bitten, twice shy. They had permits before and still got crushed, along with everyone else in Ecuador. Little Deer looks good, but not big enough, and it's copper. The risk just seems too high at this time. What could change that? Certainly not any amount of verbiage from the government in Quito. If Kinross can put Aurelian's discovery into production and *not* have the mine confiscated, we'd feel a lot better about Ecuador.

Q6: What is the effect of a mining company moving from an OTC platform or Canada-based exchange to a larger American exchange on the share price?

A6: It's not the same in all cases, but the general idea is that access to a larger market brings your story within reach of more investors, and that's a good thing. Further, institutional investors don't generally buy stocks without a "real" listing. So, growing up and graduating to a "real" exchange is a good thing, just as moving from the TSX-V to the big board in Toronto is a good thing. But such moves, by themselves, don't guarantee share price appreciation. The company still has to deliver added value and promote that success to make effective use of the larger market.

Q7: I am a subscriber to several of Casey letters and recently read something that you had written about attending a Canadian conference on the precious metal mining industry and publicly traded stocks of people in this area. You mentioned the large attendance at this. Do you feel like this enthusiasm might indicate that we are approaching a top in the price of many of these stocks and metals? If you were around in 1980, you would have a great basis for comparison.

A7: I was not in the business as I am now, back then – but Doug was, and I know what he'd say: We're nowhere near the top, because the man on the street still doesn't even know what gold is.

However, I was, as a kid, still involved; I bought silver with my lawn-mowing money at $20 - $25 and was very excited to see it go to $50… but then very disappointed to see it crash afterwards and "never" recover. I remember that lesson well.

But the most important thing is that all the economic factors driving precious metals and commodities up remain in force. Nothing has changed – if anything, those economic problems have only gotten worse.

The excitement at that conference was certainly a sign of a "frothy" market – but prices have gone up since then. Clearly not the top. Are we there yet now? See the introduction to this issue.

Q8: There's been much discussion lately about the upcoming consolidation phase of the junior mining companies. Specifically, the major gold/silver companies taking over junior minors that have discoveries to replenish their depleting resources. We've seen this already with Canplats, Red Back, among others.

During this consolidation phase, do you think we will see majors attempt to take over junior mining companies that are in the process of discovering resources (i.e., good drill results with significant properties, etc.) vs. companies that have proven resources? Do you think that some of these majors will "take more risks" in the near future or even before the so-called "Mania phase"?

For example, a company like Kaminak Gold (just an example) has had good drill results to date, but they haven't come out with a resource estimate. Would a company like this be a potential takeover before they provide a resource estimate? If they keep proven up, they get more expensive for a major to purchase them, and it may make sense for them to get it "cheaper" vs. waiting too long? And could we see majors sweep up many of these companies at one time for the same reason vs. one here and one there?

A8: We've written about what the majors look for in our recent articles on takeovers, and one size definitely does not fit all, but here are some basics:

The majors are mostly run by bean-counters. They are extremely risk-averse and will only take on an earlier-stage project when it's exceptionally rich and the early-stage work is exceptionally consistent, mitigating the risk. A clear example of this would be Goldcorp's purchase of Virginia Gold a couple years ago for $750 million. They did that to buy the Eleonore project – before there was even an Inferred resource estimate on it! However, the drill results at Eleonore were amazingly consistent: bang, bang, bang, high-grade hit after hit. Even without an official calculation, you knew the deposit was there, and it was big, and it was rich. Today, Eleonore looks to rival Red Lake in Goldcorp's future.

But that's very rare. It's much more common to see majors wait for feasibility work to prove up the value of a deposit before making a bid, or sometimes pre-feasibility work. Basically, the majors see the juniors as Other People's Money and are quite happy to let them dilute their shareholders drilling off and proving up discoveries. They do not mind paying top dollar once a project has been thoroughly de-risked. Or, rarely, swooping in to scoop something up before the competition can grab it – but they would usually rather miss an opportunity than buy something and build a mine that does not work out.

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End Notes

Upcoming Events

The Next Few Years: A Casey Research Summit in Boca Raton

Doug Casey, Bud Conrad, Louis James, Marin Katusa, Alex Daley and Terry Coxon will be presenting their latest and greatest ideas for your education, entertainment and profit at our next summit. Seating is limited. April 29 – May 1, 2011. Boca Raton Resort & Club, 501 East Camino Real, Boca Raton, FL 33432

For more information, see our web page, register, or write to: summit@caseyresearch.com

PDAC

Doug Casey, **Louis James, Marin Katusa**, **Jeff Clark** and other members of the Casey team will participate in the 2011 Prospectors and Developers Association of Canada (PDAC) annual conference. Metro Toronto Convention Centre, South Building, March 6 - 9, 2011.

2011 Harvest Celebration, La Estancia de Cafayate

Doug Casey, Olivier Garret, David Galland, Louis James and Terry Coxon will be participating in the 2011 Harvest Celebration at La Estancia de Cafayate, Cafayate, Argentina, March 15 – 20, 2011.

Telephone: +54 387 422 2146
Email: info@laestanciadecafayate.com

Casey Youth Conference on Liberty and Entrepreneurship (CYCLE)

Unfortunately, we did not get quite the critical mass we needed to justify sending the entire Casey team to San Diego for the CYCLE event planned at the end of this month, so it has been canceled. However, Louis James will be teaching at a weekend mini-CYCLE in Kiev on March 26 & 27 and is planning his annual teaching gig in Lithuania this summer. CYCLE11 should be the first week of July. Interested parties should pencil it in, details to follow. Click here for more info.

For more events of potential interest, please see our events page.

Term of the Month: Down-Hole

Several readers have asked about mineral exploration companies' press releases referring to "down-hole" lengths or widths of mineralization intersected in exploration drilling. This is not the opposite of "true width," but what you have when you don't know what the true width is. Depending on how complicated a mineralized zone is, it can take quite a few drill holes to figure out its orientation. Until you do, you really can't say if what looks like a nice thick intersection really is one. By reporting down-hole lengths, the companies are disclosing that it's too early to say how thick the zone may actually be.

Stupidity Watch

Presidential Stupidity

Obama has made a royal pain of himself again, this time weighing in on the idea of imposing a new federal royalty on mining on government land in the U.S. Andrey Dashkov looks into this issue in some detail in this edition, so we won't rehash that here, but this is a big deal, worth emphasizing as a risk factor in your portfolio decisions.

Ngöbe-Buglé Bungle?

Panama recently passed favorable legislation for mining, but now there's an increase in native opposition. We don't think this chief speaks for all Ngöbe-Buglé, because we've met some of them who favor mining. However, if the reports of thousands of natives blocking the Pan American highway are correct, it's a serious problem and bears watching for Panama exploration plays.

Brazil Not So Stupid

Recent comments by Brazil's new president saying she wanted to reduce foreign ownership of mines seem to have been little more than populist xenophobic remarks. The country's new 20-year mining plan looks decidedly more pro-mining, giving explorers more time to find and develop resources. Rhetoric from Brazilian leaders has long been unsettling, but the country has become a relatively stable, pro-mining jurisdiction in recent years.

Stupidity Down-Under Details

Politicians in Australia are celebrating the revenue they expect to receive from their new tax on mining. Sounds like counting chickens before they hatch, but for now, the important thing is that as discussed previously, the tax applies to coal, iron ore and natural gas, none of which are our focus in this letter.

Continuing Education Department

It's Not Profit Until You Realize It

In case you missed it in the February 11 Daily Dispatch, this commentary by Louis James on taking profits is worth a minute of your time. Just scroll down about half way.

The Human Planet

TV producers seem to love producing lengthy documentaries on every variety of plant and animal they can find. That can be interesting when wacky political and economic commentary doesn't drown out the fascination with nature. But human beings are part of this world too – and we and our works are every bit as natural as a termite colony or a coral. Here's a refreshing video clip that reminds us of this fact. (Thanks, Garry.)

http://www.hulu.com/watch/201179/charlie-rose-david-einhorn

Laugh or Cry Department

Atlas Shrugged Movie

Ayn Rand's masterpiece, *Atlas Shrugged* is at long last coming to the silver screen. We're big fans here at Casey Research, of course, but we're not sure whether we'll be laughing or crying after watching the movie next month. The reviews from like-minded people seem positive, but it would be so easy to mess this up… Time will tell. In case you've missed it, you can find out more and watch the trailer on the official movie web site.

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End Quote

With the long-awaited debut of the *Atlas Shrugged* movie, part 1, heading our way on April 15, some Ayn Rand quotes are in order. Here are some of your editor's favorites.

> I need no warrant for being, and no word of sanction upon my being. I am the warrant and the sanction.
>
> I swear by my life and my love of it that I will never live for the sake of another man, nor ask another man to live for mine.
>
> Happiness is that state of consciousness which proceeds from the achievement of one's values.
>
> Learn to value yourself, which means: to fight for your happiness.
>
> Pride is the recognition of the fact that you are your own highest value and, like all of man's values, it has to be earned.
>
> The Argument from Intimidation is a confession of intellectual impotence.

And, of course, there's Francisco d'Anconia's famous intellectual bombshell, the "money speech." Here's how it begins and ends:

> "So you think that money is the root of all evil?" said Francisco d'Anconia. "Have you ever asked what is the root of money? Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or of the looters, who take it from you by force. Money is made possible only by the men who produce. Is this what you consider evil?
>
> "…. Until and unless you discover that money is the root of all good, you ask for your own destruction. When money ceases to become the means by which men deal with one another, then men become the tools of other men. Blood, whips and guns – or dollars. Take your choice – there is no other."

If you haven't read it, you can find the whole thing here – but reading the book is better, of course.

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