Casey's International Speculator

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The Zen of Resource Speculation

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Dear Speculators,

Earlier this month, I thought I'd have to spend a lot of time reassuring subscribers that the sky is not falling. Gold has since bounced back, and the concerned emails have stopped. However, I don't think the correction is over – not by a long shot – so I think last month's lessons are worth some careful consideration.

The (not-so-great and short-lived) Correction of May 2011

These are the times that try men's souls… or so it seemed to me a couple weeks ago when the CEO of a company that attended our recent Summit in Boca Raton called me and said: "I've got to hand it to you, your call on the correction was right on the money." I was particularly glad to hear this, because I'd stood in front of the whole gathering and told attendees basically the same thing you read atop our company recommendations last issue:

> Our take is that what's already been done is so bad for the dollar that it's bullish for gold and commodities, and will be for years to come. However, there's a correlation between the QEs and the recent big moves in commodities that's so visibly obvious, many investors are aware of it. So, an end or a retreat from QE could cause many investors and speculators to jump to the incorrect conclusion that the party is over for commodities. If that happens, all commodities, even gold, could take a serious beating.

Then along came the spider of May's correction and sat down beside the little Miss Muffets of the stock market, startling them into dropping their curds and whey. A lot of our Buy Under targets were met, and even Second Tranche targets – I hope you were paying attention. And if you took the profits we encouraged you to take earlier, you should have had the means on hand to act on those opportunities.

This was a classic case of making volatility our friend.

But what happened? My take is that many market participants were already thinking that gold's recent nominal peaks were a sign that the bull market for metals had reached its top. Not just a top, but *the* top for this cycle. I've heard this in the questions I've been getting over the last few weeks from people who've been in this market for a long time. That's especially so among mining company executives, interestingly enough – many of these guys didn't really believe we'd see gold hit $1,500, except on its way to a brief spike like the 1980 peak.

This is probably why some of the larger companies are rumored to be hedging again. The bean-counters in charge of most large companies think visionaries like Doug and me are a bit crazy. Seeing things, as it were. They don't get the fundamentals of the trends driving today's markets because the reality is too extreme for their mainstream thinking. A mind that cannot even contemplate the possibility of a Greater Depression cannot fully grasp what's happening in the world today. No surprise, then, to see such managers try to lock in prices at what they think is a high-water mark for metals.

It may seem alarming that some big industry insiders are hedging or selling, but it's not, really, when you realize who seems to be doing most of the selling. Still, it has alarmed many investors, increasing volatility in our market. Add to this "Sell in May" conventional wisdom and recent strength in the dollar, and we've got to say there are warning signs of more correction ahead.

Looking Forward

What we've seen thus far may well be the opening shots of a strong summer Shopping Season. If you look at Jeff Clark's correction chart in the last issue of *BIG GOLD*, you'll see that the average gold correction this cycle has been about 10.1%. From the new $1,565.70 closing price high, that works out to a correction down to $1,407.56 – and that's just to reach the average correction's depth. May's not-so-great correction didn't go anywhere near that low, and gold is back over $1,535 as we got to press.

The good news is that we really haven't had that much of a correction yet, and yet we were able to buy good companies at discount prices. The better news is that, given the market's violent reaction to May's relatively minor drop, there should be terrific bargains ahead on great stocks, if a bigger summer correction hits.

Why is it good news if I'm saying that many of our stocks are may go down? Because we got some second tranches filled, but not our stink bids for large blocks of our favorite companies.

If you've been with us a while and followed our lead, you've taken some profits and locked them in. If the market gives you a chance to buy stocks you already like and see as winners, but at much lower prices, that's a good thing, and you'll be ready to act. It's like going to the store with a stuffed wallet and seeing prime steaks on sale for 50% off – no one complains about that!

If you're a newcomer to these stocks, a summer discount sale is an even better thing. It enables you to go long at prices as low as, or sometimes even lower than, those paid by speculators who were in earlier – but with the advantage of hindsight about the results of those companies' exploration and development efforts. You get a combination of lower risk *and* lower prices.

That's exactly the kind of environment in which we were able to scoop up shares in companies like Osisko, International Tower Hill and Detour Gold for tiny fractions of their current prices, back in the crash of 2008. I'm not saying we'll see another crash like 2008 this year – but we might, and eventually will, if Doug is right. It's all about buying when prices are low, taking profits when prices are high, and building your portfolio for the eventual Mania Phase that will signal our exit and shift to other markets for a time.

Contra Casey

If we're so smart and saw May's correction coming, why didn't we sell instead of just taking some profits?

Because no one knows for sure. Any number of black swans could have sent gold to the moon last week or last month, so we did not want to cash out and be left on the dock when the ship sailed.

As we keep emphasizing; we're speculators, not gamblers. We almost never go All In or cash out completely.

We seek to balance risk and reward. The primary tool we have for doing that is our strategy to buy in tranches. Generally, that means buying 20% of your desired position in a first tranche, 20% more in a second tranche, and 60% via stink bid when the market fluctuates wildly – *which our market often does*.

Yes, this strategy can be frustrating while the market is rising, because it can leave you with only 20% of your desired position while a stock takes off. However, it also means that you're never exposed more than 40% of your ideal position unless you're given a dirt-cheap chance to buy. It takes patience and discipline to only buy large blocks when they are on the deep discount rack.

An Exercise

Consider this scenario: You buy 20% of your ideal position in a gold stock you like, and it keeps rising: 10%, 20%... Hard not to wish you hadn't taken a much larger tranche! Now there's a big market fluctuation: gold drops 10%, your stock drops 40%. You buy a second tranche 10% below your first tranche. Now you have a more substantial 40% of your ideal position averaging 95% of what you originally paid. The market recovers, and the next time the shares are 20% over your original entry point, you have greater profits on a larger block. If you'd bought 100% of your ideal position, you'd only be up 20%, and you'd likely have sweat bullets when prices were falling.

At this point, if the company makes a major discovery, or the stock goes vertical with the market for other reasons, you have substantial exposure to that upside – chalk up another win. Maybe it could have been bigger, but it's still a win, and one executed in a way that exposed you to much less insomnia along the way.

But suppose, instead of the market shifting into the Mania Phase, there's another major market meltdown of 2008 proportions. Gold drops 30% (which, it's worth noting, would still be above $1,000, a level at which the better projects still make a ton of money), and our gold stock, because it's a good company, drops 75% – shakier companies drop 90%. From 120% of our original entry point, our shares are now at 30%. Nothing wrong with the company, so we buy a larger block, 60% of our ideal position. Maybe we buy more, if we really believe in the story – at 30% of our original entry point, why not?

Let's say the shares initially cost $1, and our ideal position is 10,000 shares, to keep things simple. We now have:

1st Tranche: 2,000 shares (20%) at $1.00

2nd Tranche: 2,000 shares at $0.90

3rd Tranche 6,000 shares at $0.30

Average cost basis ($2,000 + $1,800 +$1,800 / 10,000 shares): $0.56

Now the broader market realizes that gold is the one safe haven it can count on, and the real Mania Phase of this bull cycle kicks in. Our good company delivers on its discovery potential, or achieves production at record-low costs, and joins our "Ten-Bagger Club" shooting up to 1,000% of our entry point. With our cost basis of just over half of our original entry point, we're actually looking at a much larger win: $5,600/$100,000 = 1,685.7% gains

That's more than half again what we would have gotten had we gone all in at the original entry point, and with an incomparably smaller amount of heartburn along the way. Though, in reality, people who went all in and saw those positions decline by 75% would be more likely to be forced to sell by margin calls. Or they would sell out of sheer panic as share prices plummeted – and then would miss the rebound, chalking up losses instead of 17-baggers.

Could this really happen?

In a word, yes.

In a few more words: this is exactly what I think is most likely to happen to our best picks, with even larger gains quite possible.

We all know that the problems that caused the 2008 meltdown have not been addressed in any meaningful way by the governments of the world. All their actions have been bandages trying to staunch hemorrhaging from deep wounds to vital economic organs – if not actually worsening those wounds with ill-advised procedures. The politicians haven't the will nor backing for the drastic surgery needed, so they make a public show of trying to stop the bleeding, and the crisis under the surface deepens.

Think about that for a moment. Really. Right now.

Think to yourself, calmly, and let your mind savor the thought:

> *"I only buy large blocks of shares when I can get them dirt cheap during a fluctuation in a bull market."*

Now try this thought experiment. Say to yourself:

> *"I buy all I can afford of stocks I like before prices get away from me!"*

Now, which of these two thoughts do you think will help you sleep better at night?

Bottom line: remember that you must balance greed and fear, risk and reward. You can *not* just focus on reward, or you'll lose your shirt. Nor can you let fear of risk paralyze you, or there's no point entering the arena. Understanding this, and a little meditation in search of understanding yourself as an investor, goes a long way.

I think of this as the "Zen of Resource Speculation."

More Lessons to Be Learned

You may recall what I reported regarding my recent trip to the Republic of Belarus, where the people feared a coming devaluation. I couldn't find dollars anywhere, not in banks, nor even casinos. Well, the people were right to be afraid; the government just devalued the Belarusian ruble by a staggering 56% – and that's still not enough to get dollars back into circulation. The official rate was set at 4,930 rubles per dollar, but on the street, my sources tell me dollars are going for as high as 7,000 rubles. I hear many people are dumping rubles as fast as they can, for anything they can get: other currencies, food, clothes, etc. The banks stopped selling gold, of course.

I won't rehash everything I said last time about why this is relevant. I'll just ask: what happens when the public suddenly realizes that the USD emperor has no clothes? I don't know, but I'm inclined to agree with Doug: it's going to be worse than even I think it will be.

The takeaway, obviously, is not to let those who think the gold market has topped spook you. All the harsh economic realities underlying the gold bull market (and all things tangible, in the end) are still there, and harsher than ever.

Stay the course.

Speaking Engagement

In case you haven't heard, I'll be speaking at the upcoming [2011 World Resource Investment Conference] in Vancouver. I suppose I should tell you how much fun these shows are and how beautiful Vancouver is, which is true enough, but you know me; all I care about is my work. So it won't surprise you if I say I never miss these events if I can at all avoid it, because they are great places to get a lot of due diligence done in a short period of time. I can meet with dozens of companies in one weekend – it's great. Mostly, I admit, this is to disqualify the ones I won't spend more time on, but happily it's also to get updates on the ones that are doing well and to discover new stories to check out.

You also know my mantra about educating yourself and doing your own homework. So, whether it would be your first time or you are a veteran of such shows, I encourage you to come down and apply the 8 Ps to as many companies as you can. I'm confident it will be time well spent. (And Vancouver is a beautiful, spouse-friendly city.)

As for my public appearances, there are three scheduled:

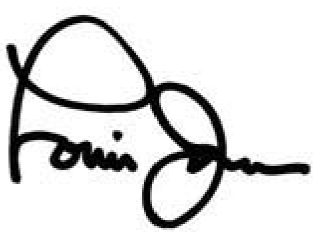
- **Sunday, June 5, 8:30 am**: Panel on Exploration
- **Sunday, June 5, 11:00 am**: Workshop 1: Balancing Risk and Reward in Your Portfolio
- **Monday, June 6, 1:30 pm**: Speaker hall 2: Hottest Metals Trends – Today and Tomorrow

Also in This Issue

Bearing in mind both the possibility of more correction ahead, and our guidance on buying tranches, we do have two new company recommendations for you this month, both Guyana plays. We have my *Notes from the Field* on my trip to Guyana, as well as an economic overview of the place by Andrey Dashkov, also a quick look at gold in other currencies, important Stupidity Watch news on Peru and other places, and our regular departments to enlighten and hopefully entertain you.

We may not all have it in us to maintain the composure of a Zen monk, but striving for that reflective attitude seems like wisdom for speculators; calm, well-reasoned decisions will profit us far more than impulse buying.

Sincerely,



Louis James
Senior Metals Analyst
Casey Research

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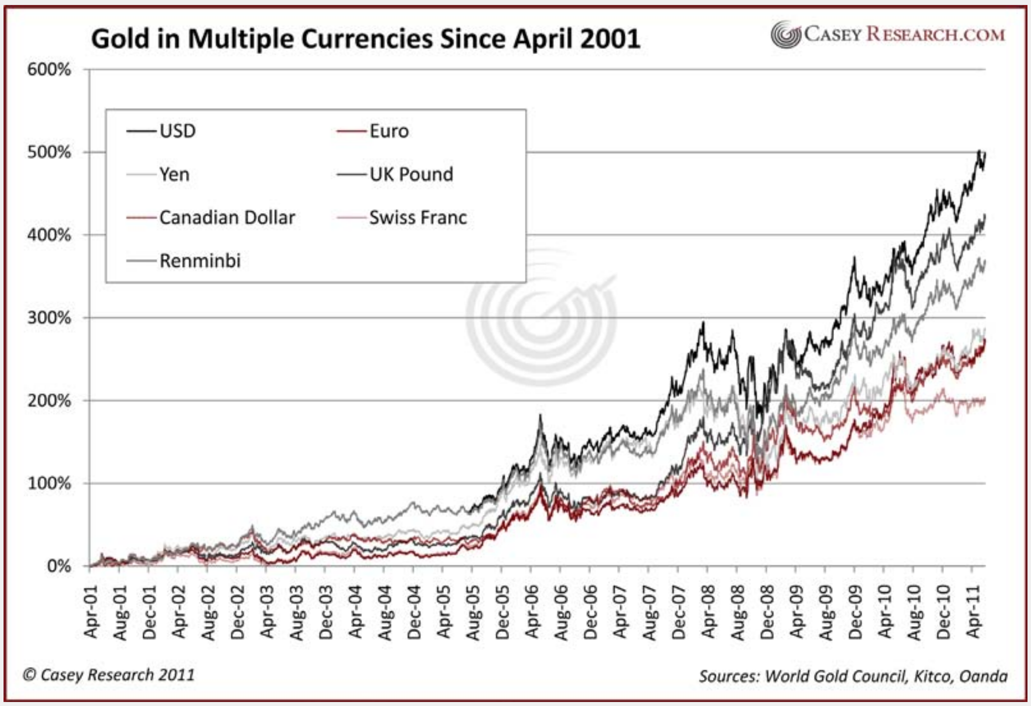
Gold: A Bigger Picture

A lot of our readers are not U.S. based, and sometimes our overseas readers wonder if gold really makes sense for them. After all, gold is priced in dollars – if their currency is rising against the dollar, it could nullify their gains.

This seems like a reasonable concern, but it's really missing the point; you buy gold for security, not speculation – that's what the gold stocks are for. Wherever you're based has no bearing on how the juniors we focus on respond to gold's price in USD.

But just in case you're tempted to believe some other form of paper is going to be as good as gold in the currency crisis that's still unfolding in front of us, consider this chart of gold priced in multiple currencies, since the bottom in 2001. As you can see, the increases differ, but they are there, across the board. Gold is even up 200% against the Swiss franc.



This is just another way of saying that no matter who is winning the race to the bottom at any given time, no paper currency will be spared the impact of the fall of the world's reserve currency, the U.S. dollar. A picture is worth a thousand words, so we'll leave it at that.

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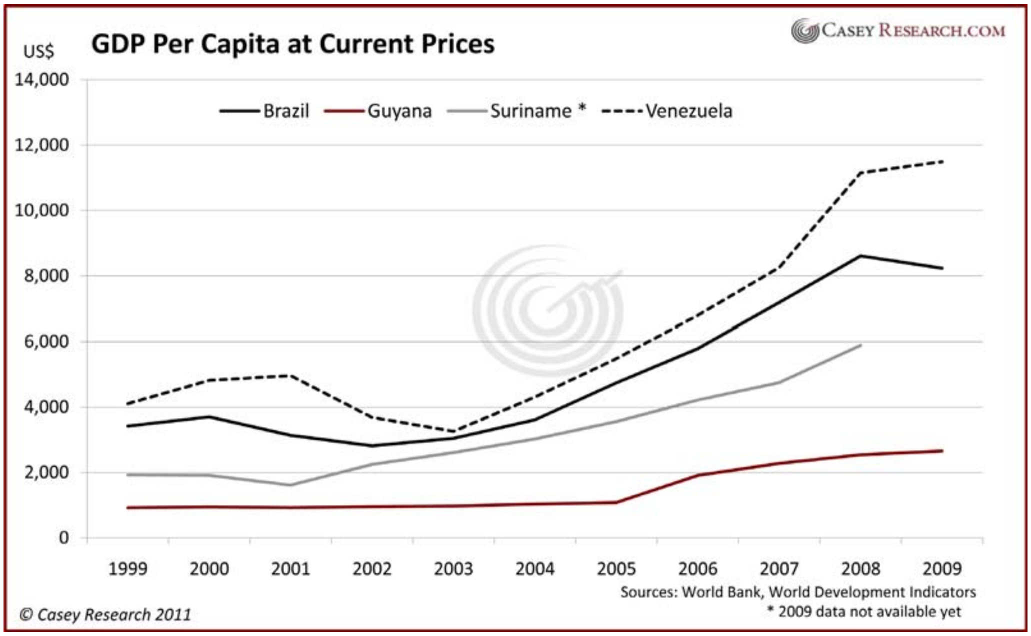
Guyana Overview
by Andrey Dashkov

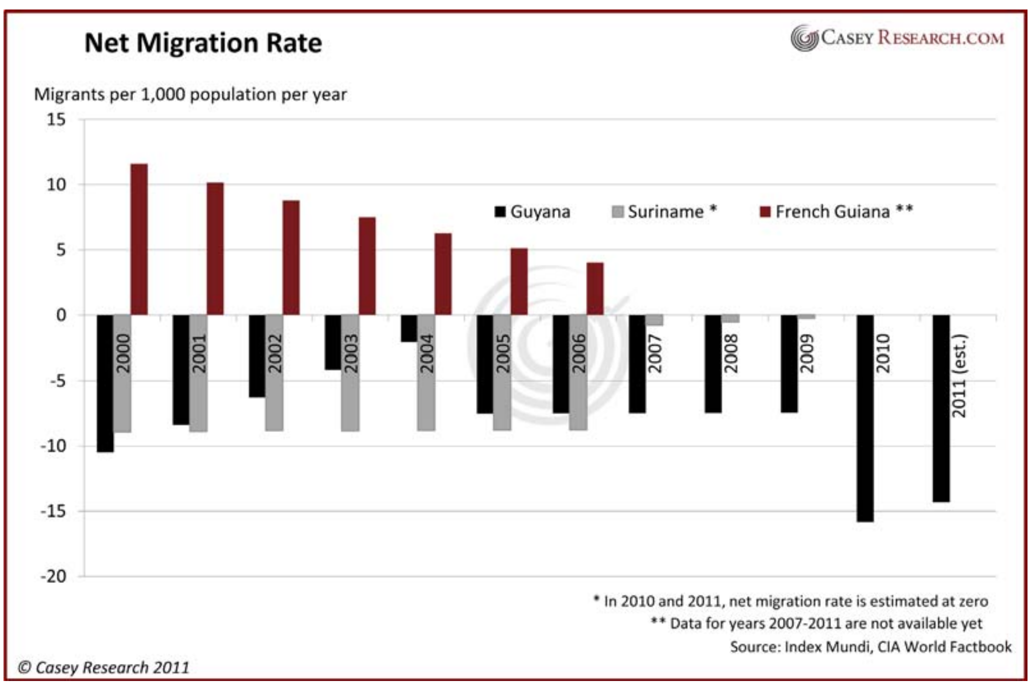
Guyana, formerly British Guiana, should not be confused with French Guiana. Of course, the similarity in names is not a coincidence: in the past, all were part of a cluster of colonies that included Spanish, Dutch, and Portuguese Guianas, now Venezuela, Suriname, and a northern Brazilian state. Even today, Guyana and its fellow French Guiana and Suriname are referred to as "the Guianas."

Guyana, a small country with 745,000 inhabitants, is the fourth smallest in South America, ahead of Surinam, French Guiana, and Uruguay. Its 2010 GDP was US$5 billion (estimate based on purchasing power parity, PPP) or US$2.2 billion using the official exchange rate to the U.S. dollar. GDP grew 2.5% in 2010, 2.3% in 2009, and 3% in 2008. Sixty percent of the country's GDP, per the CIA World Factbook, comes from the export of just six commodities: sugar, gold, bauxite, shrimp, timber and rice. The agricultural sector accounts for fifty percent of this.

Guyana's economy is heavily dependent on the prices of its exported commodities. Given their appreciation since 2008, one might expect a significant increase in national well-being. Not so, unfortunately: since 2008, GDP based on PPP per capita has increased only by 8.4%. Since 2001, the progress is more visible: GDP per capita rose by slightly more than 50%. However, Guyana remains the poorest country among its neighbors, as the chart below shows.



Besides poverty, Guyana's economic development is challenged by a lack of infrastructure (in 2000, only 590 of 7,970 total kilometers of roads were paved) and a labor shortage. The 2011 estimate of net migration per 1,000 persons placed Guyana at 216th among 220 countries surveyed. See the chart below.



Skilled workers continue leaving Guyana seeking higher wages offshore, mainly in the U.S. and Canada. As Guyana's economy continues expanding, demand for labor is going to increase. President Bharrat Jadgeo recently announced an initiative to provide incentives for private companies that recruit foreign labor and the granting of automatic three-year work permits to attract workers with specialized skills.

In spite of these problems, the Guyanese economy has come a long way from the days of infrastructure deterioration, daily blackouts, and food shortages, to that of a relatively stable and growing environment.

The change started in 1988 when then-president Hugh Desmond Hoyte lifted barriers on foreign activity and ownership in the country and launched his Economic Recovery Program (ERP) in partnership with the IMF and World Bank. Reforms included liberalization of foreign currency holding (exporters were allowed to keep a part of their profit in foreign currency) and ending the import prohibition for the majority of items impacted except for food. For what it's worth, in 1998 the Guyanese government proclaimed that they would abstain from nationalization forever.

It's interesting to note that at first the ERP failed to deliver: the IMF and World Bank predicted 5% growth in 1989, when in fact the economy shrank by 3% under the pressure of government debt, massive out-migration, and poor infrastructure. Since 1991, however, positive changes have been happening: the Guyanese government has made progress renegotiating its debt repayment, and increased foreign investment has helped the economy return to growth.

Mining

The mining sector was one of the government's biggest bets. They counted on it to bring in technology, skilled labor, and better infrastructure. Before the reforms started, officially declared annual gold production in the late 1980s in Guyana amounted to about 16,000 ounces, while artisanal mining was estimated at five times that amount. Artisanal mining included smuggling the produced gold into neighboring Brazil in order to escape taxation and royalties and receive a better price for the metal; in pre-reform Guyana, the gold price was artificially low as a result of an unrealistically high exchange rate maintained by the Guyanese government between the local currency and the U.S. dollar.

After the new government initiatives opened the country to foreign investment, no less than ten mining companies started exploring Guyana in the 1990s. The three largest included Golden Star Resources and Placer Dome of Canada, and Paranapanema from Brazil.

In 2010, Guyana reported production of 308,000 ounces of gold, mostly by small- and medium-scale miners. There are currently no hard rock open-pit nor underground gold mining operations in Guyana. Cambior Inc. operated the Omai gold mine in Guyana, but it's been shut down now, having been mined out in September 2005. The Guyana Office for Investment, however, claims that due to higher gold prices, Omai can be restarted and produce 70,000 to 100,000 ounces of gold per year. Its closure raised the question of who is going to be Guyana's next major gold producer, which, coupled with rising gold prices, led to increasing exploration activity in the region.

Today, there are more than twenty companies exploring Guyana for gold.

The government seeks to attract more gold mining with privileges outlined in its Standard Fiscal Regime for Extraction of Minerals that specifically encourage large-scale mining and provide operating companies with a stability clause, among other benefits. The clause affirms no change in duties, income tax, and withholding tax to apply across the duration of 15 years from the time operations commence or the life of the mine, whichever is shorter. This makes planning large-scale mining operations easier and more predictable. Definitely a positive sign.

In short, the Guyana government is pro-mining. Overall, however, Guyana remains a difficult place to do business. The World Bank's 2011 report rated Guyana 100th among 183 countries ranked for ease of conducting business. Yet, compared to its neighbors, Guyana looks favorable: Suriname is rated 160th; French Guiana is currently unranked; Brazil is 127th; and Venezuela is 172nd (the lowest among South American countries).

The Fraser Institute's Mining Company Survey hasn't included Guyana in its ranking yet. We hope that as exploration and development activities expand in Guyana, the country will make its way into this survey.

Another interesting survey, the Global Competitiveness Report prepared by the World Economic Forum, provides insight into a country's global competitive stance. The report is based on a Global Competitiveness Index that was introduced in 2004 and includes such parameters as the development of legal and administrative frameworks provided by local government institutions, transport and communication infrastructure, efficiency and flexibility of the labor market, and others.

Among 139 countries surveyed in the 2010-2011 update to the report, Guyana fared poorly: 100th. Lack of survey data didn't allow the researchers to include Suriname in the report, and French Guiana is absent as well. Brazil is 58th; Venezuela 122nd. According to the report, however, the major obstacle to Guyana's competitiveness is high tax rates. The good news, as we noted above, is that mining companies are offered tax incentives and other privileges.

Guyana's position is also undermined by security concerns and lack of education within the workforce. Regarding crime and theft, we did not find any evidence of them threatening exploration companies. Louis James may have more detail on this based on his first-hand experience in the country.

Conclusion

Guyana remains largely undeveloped and open for gold exploration while the national government favors mining and is open for foreign capital. The mining environment seems attractive as a result. Lack of infrastructure can make development projects quite costly, though, and this is what may be the central issue for the companies willing to develop gold projects in Guyana. But fixed costs are better than fickle governments.

So there are speculative opportunities. I will pass the baton to Louis James for more on this as he was on the ground in Guyana recently.

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Notes from the Field: Guyana

I started typing up my notes in the co-pilot's seat of a small aircraft, flying over the Guyanese rainforest, exhausted but happy. I've flown a little, but I am not a pilot; I was just there because it's often the best seat for taking pictures, and you know I'm a real shutterbug.

I was flying back to Georgetown, the capital of Guyana, from **Sandspring Resources' (V.SSP)** Toroparu gold project, after having spent a sweaty day tromping through red mud to look at drill holes in the jungle. I'd just done the same thing the day before at **Guyana Goldfields' (T.GUY)** Aurora project.

I was happy because the projects look great – and I see enormous upside potential in both, apart from the large, multi-million-ounce gold deposits they've already found. The basic premise is the same as in French Guiana, which we've already discussed; the same greenstone belts that host so many large gold deposits in West Africa continue in Guyana. That makes the country a highly prospective place to hunt for elephants – or maybe anacondas. More on this in our new company recommendations below.

As per Andrey Dashkov's economic overview of Guyana in this issue, and per my comments a few weeks ago in the Daily Dispatch, Guyana is definitely gold mining country. There are no hard rock mines operating in Guyana at present, but there have been, and there's plenty of alluvial mining activity going on, legal and otherwise. This was quite evident flying over hundreds of kilometers of jungle; I saw nothing but placer gold mines – that and the jungle.

There are hundreds, maybe thousands of such small operations. Some are not so small, clearing large swaths of rainforest.

Playing in the mud: alluvial mining operations make ponds of water to separate gold from dirt. In theory, this uses only water and gravity.

The good news, environmentally, is that it's mostly hydraulic mining, so the jungle grows back pretty quick. But many of these small operators use mercury amalgamation to recover their gold – so many do so that mercury has become a street-vendor commodity in Guyana, and as I wrote before, the local charter airlines ask passengers to declare any mercury they might be carrying.

There are so many people carrying flasks of mercury about,
the airlines post such notices right on the check-in counters.

The commonplace presence of mercury is not so good for the local flora and fauna, but it's a very good sign for mining because it shows that mining is part of the local culture. That's important because it means many people understand and are not afraid of mining – and because international agencies will be putting pressure on Guyana to upgrade its mining industry to operators that abide by international environmental standards, like Canadian juniors.

Another positive sign: arriving at Ogle airport in Georgetown, I saw a large Mining Commission banner on the wall – it reminded me of Val d'Or, Quebec. And another: both GUY and SSP have been permitted to build roads over a hundred miles long – right through the jungle – to their projects, and they have done so.

There may be a cultural reason for this friendliness to gold in Guyana, South America's only English-speaking country. The place started out as a British slave plantation, growing sugar cane, a lot of which went to make rum. Then the British abolished slavery, and, oddly enough, the laborers who had been brought in from Africa didn't want to work on the plantations anymore. The British tried importing new labor from elsewhere, including China, but the people kept dying. Finally, they tried shipping in East Indians – both Hindu and Muslim – and found a labor pool that could take the heat, humidity and bugs.

This started 173 years ago. Today, I'm told, the population is about half African and half Indian, with the Indians in the majority. I understand that the two major political parties divide along these racial lines, and that it can get tense during elections, but that in general the Guyanese are as relaxed as they appeared to me to be. That's very important and bodes well for political stability in the country.

I found the mixture of Mosques and Hindu temples in many neighborhoods to be quite interesting – sometimes literally right across the street from each other – and saw Hindus and Muslims working side by side in many places. I wondered how different the world would be if the Hindus and Muslims back in India and what became Pakistan had been able to get along so well.

But the point is that the majority of the population is Indian, and as we all know, India has a great cultural affinity for gold. The Indian wedding seasons typically cause such surges in demand, they impact the international spot price of gold. Again, this is very positive for companies trying to advance gold mining projects in the country; they need social and political support, both of which are easier to get in a place where the locals understand gold.

Like India – and Ghana – Guyana is a former British colony that still shows a strong English influence, right down to cricket matches. As you can see from the stadium above, the Guyanese take their cricket quite seriously.

There are, of course, problems with corruption and lack of infrastructure, torrential rainy seasons, etc., but the government's tax breaks and other policies designed to encourage investment in mining in Guyana help a lot. As noted above, both of the companies I visited already have roads built, so their infrastructure challenges are fewer than for newcomers trying to hack a new discovery out of the jungle. And gold priced in four digits makes many things possible.

In short, I think gold miners have as good a chance of advancing a gold project here as anywhere, though they'll have to pay the price of admission.

More broadly, the "Guyana Shield" concept (that the greenstone belts in eastern Venezuela, Guyana, Surinam, French Guiana and northern Brazil are the same rocks as those in West Africa) has already shown its merit in the discoveries taking place across the Guyanas this cycle. This is elephant country, but less picked over than in West Africa, and with politics more like a combination of Europe, Africa and India than like the rest of South America. We'll be looking for more metals plays in the Guyanas in the future.

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New Company Recommendation: Guyana Goldfields

This is a known high-grade elephant gold play in Guyana we recommended in our alert service several months ago, before a new resource estimate sent the stock sharply upwards. May's correction has created another buying opportunity. We had not been on site before, but now have and are quite comfortable saying that this is the real deal: this is likely to become Guyana's first new hard rock gold miner in many years – if it doesn't get taken over first.

Guyana Goldfields HM: Au T.GUY, FRA.GG3, www.guygold.com			
Price	Share: C$8.69	MCap: C$723.9M	On 5/31/11
Shares	SO: 83.3M	FD: 90.2M	As of: 4/29/11
Warrants	UnEx: Nil		
Options	Open: 6.9M	C$2.69 – C$11.10	Exp: 6/19/11-4/5/15
Cash	C$53M	Burn: $4M/mo	As of: 4/29/11

BUY FIRST TRANCHE—GUY is a successful explorer-turning-developer that has attracted a lot of attention and support, locally and internationally (e.g., World Bank, IFC). It's been a great play with at least one mine in the making and has recently reached important milestones (including an environmental permit). Let's start with the first P…

People

We have no direct past experience with anyone on this management team, which, alarmingly, is led by an individual educated as an economist, CEO J. Patrick Sheridan. Fortunately, Sheridan has spent the last couple decades working in the mining industry and has focused on Guyana. Also worth noting: Sheridan personally owns 6.5% of GUY's stock, so his financial interest is closely aligned with shareholders.

GUY's president and COO is Claude F. Lemasson, a Goldcorp veteran with operations and management experience at Goldcorp's Red Lake mine. Before the site visit, we did some checking through our network, including Goldcorp people, and heard good things. Louis met Claude in Guyana and was impressed with him as a calm and competent individual. Louis also met VP for Exploration Dan Noone, who exhibited the typical enthusiasm of many great mine-finders for the rocks he's exploring.

There are bios on the company's web site (which you can read here). This team's discovery in Guyana also speaks for itself. Short version: we believe they can get the job done.

Property

The company's projects are all in Guyana, not far from Sandspring Resources' (V.SSP) 8.4Moz Toroparu gold project. This is the same greenstone belt as in neighboring Surinam (where IAMGOLD has its 14Moz Rosebel gold mine), French Guiana (where Columbus has its 1.9Moz Paul Isnard gold project), and eastern Venezuela (where Crystallex won the 16.9Moz P&P Las Cristinas gold project and Rusoro is working the 11.1Moz Choco 10 gold mine). Definitely elephant country.

The flagship project is a world-class discovery called Aurora, where GUY has outlined 6.7 million 43-101-compliant ounces of gold, as of February 2011, within an area known as the Golden Square Mile. About 66% of these ounces are in the Measured & Indicated categories, averaging 3.94 g/t gold, with the remaining Inferred ounces averaging 3.98 g/t gold. (This is just gold, by the way, not gold-equivalent.)

About 2.4 million of Aurora's ounces currently fall within an open pit, averaging more than 3.5 g/t gold. That's very high grade for an open pit, but there's also a high strip ratio (9.5:1 in an August, 2009 preliminary assessment, probably less now). The remaining ounces are envisioned being mined underground, averaging more than 4.0 g/t gold, using bulk underground mining methods.

The old preliminary economic assessment on the preceding, 4.6-million-ounce August 2009 resource estimate already delivered some good numbers, including Life of Mine average cash costs are projected at US$364 per ounce. At $1,000 gold, there was a US$777 million NPV at a conservative 7% discount and a healthy 30% IRR, with 3.6 years to payback. At $1,200 gold, which some companies are using now, the NPV jumped to 1.2 billion and the IRR to a pretty juicy 39%, with payback dropping to 2.8 years. We expect considerably better numbers in the full feasibility study underway and scheduled for completion by the end of this year.

Continuing success drilling the Golden Square Mile bodes well for this effort. Recent best results included 178 meters averaging 4.92 g/t gold, starting just 12 meters under surface, including 19.8 meters of 9.69 g/t gold and 29 meters of 6.26 g/t gold. More excellent results like this will add ounces to the next resource estimate, slated for Q311, and should upgrade more ounces to higher-confidence categories. We also expect the infill drilling to convert a lot of what is currently modeled as waste into ore, reducing the strip ratio for the open pit part of the deposit in the feasibility study.

GUY's Golden Square Mile. You can see signs of the drilling to the left of the camp and airstrip, alongside the river. Rory's Knoll, the zone closest to us in this picture, hosts a consistently mineralized high-grade pipe some 200 meters across, now drill tested down to more than 1,500 meters below surface.

One key factor to note: most of the mineralization (over 90%) is in sulfide rock, but it's non-refractory (doesn't require roasting, or other very expensive processing methods). The mineralization has yielded very high recoveries in testing thus far: 96% on average, with 50% recovered by simple gravity, which greatly reduces the amount that needs more intensive processing. This results in relatively low capex for a project of this size: US$540 million in the preliminary study, including sustaining capital. That's likely to increase in the final feasibility, but that will be for a much larger gold deposit.

Less than 30 kilometers from the Golden Square Mile area, GUY recently made a new discovery, called Sulphur Rose, within the company's Aranka project area. This just yielded a first-pass resource estimate of 460,000 ounces averaging 2.1 g/t gold. The mineralization is similar to Aurora's with no byproducts and 91.9% average recoveries, raising the possibility of feeding future ore from this site to the Aurora mill. Drilling to expand and upgrade this deposit is ongoing, with another resource estimate due by the end of this quarter, for possible inclusion in the Aurora feasibility study. Best recent results included 43.5 meters grading 3.27 g/t gold, 46 meters of 3.45 g/t gold and 34.5 meters of 3.81 g/t gold. Excellent.

There are numerous other targets in the Aranka project area (acquired with the purchase of former JV partner Aranka Gold, a couple years ago), as well as back on the Aurora properties, and new JV blocks called Arakaka. GUY plans to spend $15 to $20 million on exploration and development this year, with 10 rigs turning. The company expects to drill 70,000 meters in the first half of this year.

In short, GUY has an elephant gold deposit that looks undervalued already in hand. We expect it to get bigger and better – plus there's excellent blue sky potential for more significant discoveries being tested this year. But even as-is, it's certainly big enough already to interest ounce-hungry major gold mining companies. Top of the list might be IAMGOLD, which operates next door in Surinam, but Newmont is in the area as well.

Push

With a major drill campaign and full feasibility work underway, there's lots of Push in this story this year. There is an updated Sulphur Rose estimate due by the end of this month, and there will be drill results and all the way up to the formal feasibility study by the end of the year. The has already started buying long-lead-time items, as well as more road building and other infrastructure improvement. With the environmental permit already in hand and a formal construction decision expected by the end of this year, the de-risking process is in high gear, and that could attract the interests of potential buyers. All of these milestones can add a lot of shareholder value.

Promotion

GUY is a market darling currently suffering some disfavor, even though the story has only gotten better. We've seen the company conduct an analyst tour, so we know management understands how to get the word out. This is a well-known success, on sale – we're not worried about promotion.

Politics

As per Andrey Dashkov's and Louis' articles on the country in this issue, we're bullish on Guyana and see it as a pro-mining jurisdiction.

Phinancing

GUY cashed up with a +C$70 million financing about a year ago and topped off the till when its share price almost doubled, enabling it to accelerate some warrants. That leaves the company with about $50 million in the treasury, more than enough to take it to a formal production decision and mine financing later this year. We don't expect another financing before then, but if there is one, it will probably be at a much higher share price and on advantageous terms, so we wouldn't wait for it as a buying opportunity.

Paper

In spite of the activity mentioned above, the company has a nice, tight share structure, with the last few warrants cleaned out. The volume is good, and all shares are free trading. There are 350,000 options at $7.24 expire on June 19, 2011, but that's not too far under market and not a very large block. Clean bill of health here.

Price

GUY has recovered about half of what it lost in its more recent slide, but is still well under its $11.79 peak of last November. This is a reasonable time to take a first tranche, but gold's next big fluctuation could take the shares back under C$8.00, where they were just a month ago. Absent any major company-specific problems cropping up, if the summer brings us better prices, we'll just add to our position.

That said, there's no need to chase the stock. Take your time and build a position wisely.

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New Company Recommendation: Sandspring Resources

This Guyana gold pick is big, looks undervalued, and has plenty of discovery potential. We recommended it in our alert service a few weeks ago on a downward fluctuation in the market, but May's correction has priced it even more attractively.

Sandspring Resources Ltd. HM: Au, Cu V.SSP, PK.SSPXF, http://www.sandspringresources.com			
Price	Share: C$2.19	MCap: C$236.5 million	On: 5/31/11
Shares	SO: 108 million	FD: 119.6 million	As of: 5/2011
Warrants	UnEx: 5.6 million	C$0.50	Exp: 11/24/12
Options	Open: 6.0 million	C$0.10-C$3.54	Exp: 5/15/12-1/6/16
Cash	C$37 million	Burn: C$2.5M/mo	As of: 5/2011

BUY FIRST TRANCHE—The Sandspring team is developing the 8.4-million-ounce Toroparu gold-copper project in Guyana. A new preliminary economic assessment yielded a 5% discounted NPV almost three times the company's current MCap, showing plenty of upside potential. The 8 Ps are preliminary, pending onsite verification, but the value proposition here is clear.

People

Abraham Drost, president of Sandspring, was previously president of Sabina Silver (now Sabina Gold and Silver Corp.). During his years at Sabina, he was responsible for the development Hackett River silver-zinc-copper-lead-gold project in Nunavut. Sabina's stock has done well this cycle.

Sandspring's chairman is John Adams, formerly CEO of Energy Fuels Nuclear Inc., the largest producer of uranium in the U.S. during the 1980s and early 1990s. Adams has been involved in developing Toroparu for the past ten years. Louis met Adams on site and was impressed by his ability to get things done in Guyana, where he is still heavily involved in guiding the company. Two of Adams' sons are working for the company, which could be cause for alarm, but in this case, Louis saw no signs of problems.

The company's CEO is Rich Munson, another Energy Fuels Corp. veteran, where he was general counsel before becoming a director at Sandspring in 2009. Louis didn't meet Munson or Drost, but he did meet EVP Greg Barnes, who displayed a great deal of focused energy and expertise.

On the ground, the exploration is being led by VP Werner Claessens, a 30-year veteran with past gold discoveries in similar greenstone belt settings in West Africa. Working with him is exploration manager Pascal Van Osta, another West Africa veteran geo who impressed Louis as being very knowledgeable. The engineering is led by Dennis Kerstiens, a metallurgical engineer, also with a +30-year track record.

We do not know these people well, but they've found a lot of gold, run an efficient operation and are getting a steady stream of positive results, which is what really matters.

Property

The company's single project is the 100% controlled Toroparu gold-copper project, located in Guyana (formerly British Guiana). It lies within the same greenstone belts as Guyana Goldfields' 6.7-million-ounce Aurora project.

The company recently published a new, upgraded and larger resource estimate for Toroparu: 8.4 million ounces of gold in all categories, 9.8 million in gold-equivalent (including copper credits), at a 0.24 g/t gold cut-off. Within this are 4.9 million ounces that fall within an open pit with a 0.5 g/t gold cut-off grade (3.9 million ounces, just counting the gold, no copper) at an average grade of 1.08 g/t AuEq. There's a bit of copper in here too, so the plan is to produce a copper concentrate, which is more expensive than heap leaching, but produces high recoveries (93% to 95% for gold).

Sandspring published a Preliminary Economic Assessment on Toroparu last March. It outlines a 13-year life-of-mine open-pit operation planned to produce 3.8 million ounces of gold and 308 million pounds of copper. Annual production is planned to average 310,000 ounces of gold and 29 million pounds of copper. In years 14 to 17, low-grade stockpiles may be processed for additional cash flow.

The key profitability numbers came in at a base case NPV-5% of $854 million, which is still $667 million at a conservative 7% discount, and $456 million at an even more conservative 10% discount. These figures assume $1,137 gold (which may end up being too low) and $3.13 copper (which may end up not being low enough), and are pre-tax and royalty, so we place greater weight on the more conservative NPV figures, not the base case. Still, the base case produced an acceptable IRR of 24.5%, and that jumps to 30.3% at $1,373 gold and $4.47 copper (current prices at the time of the study). These figures are preliminary, with exploration and optimization ongoing.

And all of this could be just the beginning. On site, Louis went over the data on exploration targets with Pascal and came away with the impression that larger, or higher-grade – or both – zones could well still be found on the company's extensive property package. The evidence is strongly suggestive; it just needs testing.

Drilling on some of these has started already, and road building to drill on more is underway. The company has enough cash to take the known mineralization to the next stage of feasibility, but would like to spend $50 million over the next two years. Management does not want to see the company taken over before they can give all their top targets a good test, feeling that they'd have no idea what they might be giving up.

Toroparu, seen from the air. The lake is a remnant from a previous attempt to mine the gold in the dirt above the hard rock deposit.

So, why is Sandspring on sale? The relatively high copper price assumption may cause some investors some concern, and the project has a moderately high life-of-mine strip ratio of 4.4-to-1. This, coupled with the more expensive (than heap leaching) plan to float a copper concentrate makes the project sensitive to cost increases, particularly fuel costs. That said, the preliminary numbers do show a profitable operation, and there's a lot that can be done to improve them.

For instance, recent infill drilling is going very well, including above-average grades over rather wide intervals, at open-pittable depths. Best results included 181.5 meters of 1.17 g/t gold and 0.15% copper, 138 meters of 2.09 g/t gold and 0.19% copper, 51 meters of 1.47 g/t gold and 0.03% copper, and 81 meters of 1.23 g/t gold and 0.18% copper. All of these hits will help the existing mineralized area, and you get the blue sky potential in regional targets for free.

With by far most of Toroparu's value being in the gold, not the copper, we think the odds are excellent that the company's final feasibility numbers will be even better, and our shares should respond accordingly.

Push

There's potential good news on the way from ongoing drilling, including exploration drilling. Louis saw some drill holes while on site that looked quite good, and assays on those have not yet been reported, but we don't like to gamble on drill-play roulette. The real upside in this story should follow as more detailed economic study results are released. As key components of the definitive study come out, including more detailed metallurgy, it should resolve concerns investors may have with Toroparu's economics, and that should get these ounces revalued. With the NPVs already so far above the company's MCap, each step along this path will likely help move the share price higher. The play is also highly leveraged to higher gold prices.

All of this is assuming Sandspring doesn't get taken over before it can prove its point at Toroparu. The project is certainly large enough to attract the attention of larger companies that need to replace depleting resources.

Politics

As commented in our recommendation of Guyana Goldfields, we're bullish on Guyana. This company has already been permitted to build roads through the rainforest, so we don't anticipate any trouble anytime soon.

Promotion

Abraham Drost is credited with having promoted Sabina successfully during his tenure there. Plus, we know this company has attracted the attention of other newsletter writers and has an effective IR team. No red flags here.

Phinancing & Paper

Last October Sandspring conducted a C$51 million financing that closed with the shares trading 8% above the financing price. No warrants. The company has the cash it needs to advance the project, and there's no wall of cheap paper about to hit the stock, all of which is free trading. The number of shares issued and outstanding is higher than for many juniors, but this one already has its discovery made, and the float gives us relatively good liquidity.

Overall, the capital structure looks reasonable for company with a large and growing resource in hand, and a clear path towards production.

Price

The current share price is an excellent entry point, regardless of a potential Shopping Season in the months ahead, but that's no reason to abandon the tranche strategy. Take a first bite now, then more on the next dip, and wait for a bigger correction for picking up larger blocks with stink bids.

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COMPANY RECOMMENDATION UPDATES: Speculations to Meditate Upon

Our markets are in essentially the same situation as they were a month ago, with the difference of a correction-shot across the bow received in early May. We continue seeing more correction being likely this summer, but the global economy is so shaky, it's also true that it could tip over the edge and send precious metals into a true mania at the drop of a hat.

In short, our general guidance remains the same:

- Take profits when you can.

- Don't buy *anything* unless it's already on sale or there's a very compelling reason not to wait (i.e., imminent news very likely to add value).
- Buy in tranches.

THIS MONTH'S TOP *IS* PICKS:

Alexco Resource Corp (AXU, T.AXR)

Andina Minerals V.ADM)

Columbus Gold (V.CGT)

East Asia Minerals (V.EAS)

Exeter Resource Corp. (T.XRC, NYSE.A.XRA)

International Tower Hill (THM, T.ITH)

Northern Freegold (V.NFR)

Premier Gold (T.PG)

Pretium Resources (T.PVG)

Sunward Resources (V.SWD)

Virginia Mines (T.VGQ)

As usual, specifics on these and all our picks are below. Valuations and prices are as of May 30, 2011. Please click on company names to see the detailed recommendations.

Producers

Company	Share price, 5/30, 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	8.98	1,689.6	1,545.5	0.5	0.1	**3,060.32**	**718.48**	0.31	29.0	414.68	431.8	**3.91**	**3.58**
Silver													
Alexco Resource	7.98	475.1	422.7	0.0	9.5	**n/a**	**8.21**	n/a	n/a	11.79	1,217.1	**0.39**	**0.35**
First Majestic	20.55	2,122.4	2,030.9	47.8	126.1	**42.46**	**5.87**	0.40	51.5	16.18	681.3	**3.12**	**2.98**
Fortuna Silver Mines	5.18	637.1	506.8	54.8	10.6	**9.25**	**4.66**	0.12	43.2	19.72	754.1	**0.84**	**0.67**
Silver Wheaton	37.04	13,066.8	10,683.4	942.0	365.3	**11.34**	**5.93**	0.84	44.1	7.77	15,900.0	**0.82**	**0.67**
Silvercorp	11.15	1,946.5	1,693.7	121.6	140.6	**n/a**	**3.21**	0.18	61.9	14.03	11,461.3	**0.17**	**0.15**

Footnotes	
USD/CAD	$0.98
Gold price, US$/oz	$1,539.10
Silver price, US$/oz	$38.07
Copper price, US$/lb	$4.16

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$7.80	59.5M	64.5M	C$464.1M	C$3.25, 5/06	145.5%	C$3.00-C$9.75

HM: Ag, Pb, Zn / BUY FIRST TRANCHE—Great first set of financial results, growth locked in, and plenty of exploration potential. Our cheapest silver producer. Could get cheaper, but not a stock to be without.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FIRST MAJESTIC (T.FR, NYSE.AG)	C$20.07	103.3M	109.1M	C$2.1B	C$1.85, 2/05	540.3%	C$3.66-C$25.79

HM: Ag, Au, Pb, Zn / BUY UNDER C$14.00—FR delivered terrific earnings growth, rebounding from an almost $10/share correction. It didn't drop enough to meet our guidance – but it could next fluctuation.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FORTUNA SILVER MINES (T.FVI, PK.FVITF)	C$5.06	123M	127.1M	C$622.4M	C$2.13, 12/09	144.4%	C$1.85-C$6.81

HM: Ag / BUY UNDER C$4.00—Fortuna delivered lower profits last quarter, but is still profitable and on track to triple production this year. Peru scare could create buying opportunities – watch for that.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
MEDUSA MINING (T.MLL, PK.MSDMF)	C$8.77	188.2M	189M	C$1.7B	C$3.40, 3/10	130.4%	C$3.30-C$8.77

HM: Au / BUY UNDER C$6.00—Medusa reported exploration progress, but no game-changers, and yet shares are way up. We suspect institutional buying. Great company, but we'd still hold for lower prices.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
SILVERCORP (SVM, T.SVM)	C$10.89	174.6M	177.5M	C$1.9B	C$6.30, 5/06	72.9%	C$6.21-C$15.60

HM: Ag, Au, Pb, Zn, Mo / SEE *BIG GOLD* FOR COVERAGE

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
SILVER WHEATON (NYSE.SLW, T.SLW)	C$36.18	352.8M	365.8M	C$12.8B	C$3.18, 2/05	603.6%	C$18.01-C$45.50

HM: Pure Ag / SEE *BIG GOLD* FOR COVERAGE

Advanced Exploration/Developers

Company	Share price, 5/27, US$	MCap, US$M	EV, US$M	2P, Moz	M&I, Moz	Inferred, Moz	EV per unit of 2P, US$/oz	EV per unit of global resources & reserves, US$/oz	Project	Recoverable (payable) ounces, Moz	Cash cost, US$/oz	Total Capex, US$M	Mine Value (MV), US$M	Total MV, US$M	MCap/MV Ratio	EV/MV Ratio
Silver																
Bear Creek Mining	7.15	657.4	542.1	321.2	81.4	63.8	**1.69**	**1.16**	Corani	173.90	2.87	339.0	5,782.3	**6,991.7**	**0.09**	**0.08**
									Santa Ana	44.00	9.02	68.8	1,209.4			

Click here to enlarge.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
BEAR CREEK (V.BCM, PK.BCEKF)	C$6.98 on 5/27	92M	95.2M	C$642.2M	C$3.97, 4/10	89.3%	C$3.60-C$12.00

HM: Ag, Au, Pb, Zn, Cu / SELL—Unfortunately, BCM has become a political football. As per our portfolio adjustment on May 27, it's time to step out of potential harm's way. We hope temporarily.

Explorers

Company	Share price, 5/30, 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 *	3.71	212.3	180.8	0.7	**252.25**
Andina Minerals	1.27	139.5	118.9	10.1	**11.76**
Bayfield Ventures	0.62	38.7	26.8	0.0	-
Colombian Mines	0.73	23.7	16.6	0.0	-
Columbus Gold	0.80	36.0	32.7	1.9	**17.20**
Corvus Gold	0.67	27.7	19.2	0.4	**47.88**
East Asia Minerals	4.03	311.0	298.7	3.3	**91.07**
Exeter Resources	4.86	422.1	341.4	45.0	**7.59**
Extorre Gold Mines	10.89	962.9	936.1	2.3	**414.02**
Gold Bullion Development	0.51	84.4	74.7	0.0	-
Inter-Citic Minerals	1.59	168.0	161.7	3.4	**47.70**
International Tower Hill	8.28	711.3	589.2	13.3	**44.30**
Northern Freegold	0.33	27.0	23.9	2.5	**9.56**
Pilot Gold	3.19	161.9	153.5	0.0	-
Premier Gold	6.29	654.3	613.3	3.0	**206.25**
Pretium Resources	9.77	947.3	899.7	65.4	**13.75**
Regulus Resources	1.22	44.1	39.6	0.0	-
Renaissance Gold	1.69	51.9	39.9	11.6 **	**3.43**
Sunward Resources	1.54	202.4	136.9	3.7	**37.01**
Trade Winds Ventures	0.26	44.3	33.6	1.6	**21.24**
Virginia Mines	8.45	260.1	213.0	0.2	**1,114.37**
XTRA-Gold	1.95	83.9	73.6	0.0	-

* Almaden is selling its Elk property; transaction not closed yet
** Silver resource at Trinity

Click here to enlarge.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ALMADEN (AAU, T.AMM)	C$3.62	57.3M	63.5M	C$207.4M	C$0.78, 3/03	387.8%	C$0.77-C$5.25

HM: Au / BUY UNDER C$3.25—AMM reported narrower, lower-grade intercepts at Ixtaca, which set the shares back, but this is nothing unusual for a vein deposit. C$3.25 worked last month, and may again.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ANDINA (V.ADM, PK.ADMNF)	C$1.24	109.9M	132.7M	C$136.3M	C$3.94, 6/08	-68.5%	C$1.05-C$1.94

HM: Au / BUY SECOND TRANCHE—Andina went on deep sale for no company-related reason and has since delivered some very encouraging drill results. Volcan is going to get bigger. This is an opportunity.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
BAYFIELD (V.BYV, BYVVF.OB, FRA:B4N)	C$0.61	62M	74.3M	C$37.8M	C$0.55, 9/10	10.9%	C$0.335-C$1.38

BUY FIRST TRANCHE—BYV delivered more encouraging but not spectacular drill results. The company has a major drill campaign underway to attempt to remedy that. Still strong takeover potential, regardless.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
COLOMBIAN MINES CORP. (V.CMJ, CMBPF.PK)	C$0.71	32.6M	44M	C$23.1M	C$0.92, 2/10	-22.8%	C$0.58-C$1.05

HOLD—High-grade surface samples announced from El Dovio last month, but that's still early-stage work. No drill results from flagship Yarumalito project yet. We're holding.

COLUMBUS GOLD CORP. (V.CGT, CBGDF.PK)	C$0.78	45.1M	53.1M	C$35.2M	C$0.87, 2/11	-10.3%	C$0.145-C$1.13

HM: Au / BUY FIRST TRANCHE—Shareholders approved the Paul Isnard acquisition, as expected; great story, still on track. Drill results will be a while yet, so there's time to take advantage of more weakness.

CORVUS GOLD (T.KOR, CORVF.OB)	C$0.65	41.6M	45.3M	C$27M	C$0.00, Spinout	C$0.65	C$0.54-C$1.40

HM: Au /HOLD—Corvus delivered more modest bulk intercepts at North Bullfrog last month. Meanwhile, partners are drilling in Alaska, and there should be first results soon. We are holding.

EAST ASIA (V.EAS, EAIAF.OB)	C$3.94	77.1M	83.6M	C$303.8M	C$5.15, 5/11	-30.7%	C$2.95-C$8.55

HM: Au / BUY SECOND TRANCHE—EAS' first resource estimate delivered 2.6 to 3.1Moz gold, depending on cut-off. Apparently some investors were expecting higher grades. We see an opportunity.

EXETER (XRA, T.XRC, FRA:EXB)	C$4.75	86.8M	98.7M	C$412.3M	C$2.74, 6/07	62.2%	C$4.35-C$7.98

HM: Au, Ag / BUY FIRST TRANCHE—Exeter has rebounded a bit, but is still on the deep discount rack. With the exploration season wrapping up in South America, value-adding news should be on the way.

EXTORRE (T.XG, PK.EXGMF)	C$10.64	88.4M	100.2M	C$940.6M	C$0.00, 3/10	C$10.64	C$2.41-C$10.89

HM: Au, Ag / BUY UNDER C$7.00—XG delivering more high-grade gold-silver at Cerro Moro. We like this project a lot, but a lot of future success is already priced in. Do not chase this stock.

GOLD BULLION DEV. CORP. (V.GBB, GBBFF.PK)	C$0.495	166.5M	181M	C$82.4M	C$0.455, 4/11	8.8%	C$0.35-C$0.93

HOLD—GBB delivered some good drill results, including some high-grade hits over mineable widths, and has again recovered from a strong dip. We're still unhappy about the recent financing, and holding.

INTER-CITIC (T.ICI, PK.ICMTF)	C$1.55	105.9M	118.1M	C$164.1M	C$1.80, 11/07	-13.9%	C$1.12-C$2.37

HM: Au / BUY UNDER C$1.40—ICI has bounced back, in spite of having no news other than a substantial financing. Our Buy Under guidance got filled last month and may work again this month.

INTL. TOWER HILL (THM, T.ITH)	US$8.28	86.2M	91.9M	US$713.7M	US$1.21, 11/08	328.5%	US$5.77-US$10.49

HM: Au / BUY UNDER US$8.00—No major news here, but the story remains on track. Our Buy Under guidance was met a few days ago, showing again the virtue of waiting for the market to come to you.

NORTHERN FREEGOLD (V.NFR, PK.NFRGF)	C$0.32	82.5M	101.5M	C$26.4M	C$0.335, 2/09	44.1%	C$0.27-C$0.42

HM: Au, Ag, Cu, Pb, Zn / BUY FIRST TRANCHE—As predicted, NFR financed. The PP was non-brokered, but we understand that it was not easy to get in. Unfortunate, but perhaps bullish.

PILOT GOLD (T.PLG)	C$3.12	50.7M	54.2M	C$158.2M	FRG spinout, 4/11	C$3.12	C$2.97-C$3.74

HOLD—PLG delivered a great intercept last month, 136.2 m of 4.28 g/t gold, but this is in a project it has the smaller part of. The company is cashing up as well, but it's a brokered deal. Holding for now.

PREMIER (T.PG, PK.PIRGF)	C$6.14	104.1M	110.2M	C$639.2M	C$2.48, 7/08	110.3%	C$4.35-C$8.00

HM: Au / BUY FIRST TRANCHE—Our favorite takeover candidate delivered high-grade results from its Rahill JV (4.5 m of 46.15 g/t gold), but has not recovered from May's correction. Looks like an opportunity.

PRETIUM RESOURCES (T.PVG, PK.PXZRF)	C$9.54	97M	107.8M	C$925.4M	C$6.42, 2/11	70.3%	C$5.75-C$14.19
	HM: Ag / BUY FIRST TRANCHE—Story is largely unchanged, but drill results are closer. We like this story a lot, but note that someone picked up shares for under C$8.00 just a month ago – a good target.						
RENAISSANCE GOLD (V.REN, PK.RNSGF)	C$1.65	30.7M	34.7M	C$50.7M	C$0.00, XAU spinoff	C$1.65	C$0.70-C$2.50
	HM: Ag / BUY UNDER C$1.50—REN lost some JVs last month, but the story remains largely unchanged. The premium management attracts has held up exceptionally well, but shares could easily correct ahead.						
REGULUS RESOURCES (V.REG)	C$1.19	36.2M	38.7M	C$43.1M	C$0.00, ANM spinoff	C$1.19	C$0.70-C$1.60
	BUY UNDER C$1.00—No news yet from REG, but no signs of trouble, either. The share price is closer to our guidance, but not there yet; there should be time to wait for the market to come to us.						
SUNWARD RESOURCES (V.SWD)	C$1.50	131.8M	182.1 M	C$197.7M	C$1.14, 12/10	31.6%	C$0.58-C$2.15
	HM: Au / BUY FIRST TRANCHE—SWD remains unchanged but on sale. New resource estimate should be out soon and should deliver a substantial increase in ounces in the ground, perhaps at better grades.						
TRADE WINDS VENTURES (V.TWD, TWDIF.OB, FRA.TVR)	C$0.255	Est. 169.6M	Est. 184.3M	C$43.2M	C$0.24, 11/10	6.3%	C$0.12-C$0.475
	HM: Au / BUY UNDER C$0.20—Some encouraging drill results from flagship Block A project, but no game-changers. The company remains undervalued, but does not appear about to take off. Wait for lower prices.						
VIRGINIA (T.VGQ, PK.VGMNF)	C$8.25	30.8M	32.7M	C$254.1M	C$5.80, 2/07	42.2%	C$6.71-C$9.80
	HM: Au, Ag, Zn, Pb, Cu / BUY FIRST TRANCHE—Virginia delivered some encouraging drill results, but not world-class. The play remains the same and relatively on sale, a good entry point for newcomers.						
XTRA-GOLD (XTGR.OB, T.XTG)	US$1.95	44.3M	47.6M	US$86.4M	US$1.90, 4/11	2.6%	C$1.05-C$2.51
	BUY FIRST TRANCHE—Our new, cash-flowing Ghana exploration play is delivering good drill results: 52 m of 2.42 g/t gold, 42 m of 2.39 g/t gold. Zone 2 is shaping up, and more zones will be tested this year.						

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Stupidity Watch

Peruvian Peril

In case you missed it, on May 27, we posted comments on the latest turn of events in Peru and recommended selling BCM:

If Humala wins, we expect all Peru plays to get hammered, as he's seen to be in the Chavez-Correa-Morales camp. If Fujimori wins – and we've seen three polls that favor her by slender margins – there's a chance that the Humala faction, backed with support from outside of Peru, could contest the election and cause a great deal of chaos. This is a grim turn of events for Peru, which has been showing much promise.

We have exposure to country risk in Peru in Bear Creek Mining, which is especially vulnerable because it has been targeted for protest by, our sources tell us, outside forces.

Regrettably, the best thing to do now is to bite the bullet on transaction costs and exit – hopefully temporarily. If the trouble blows over, we can reenter if we like, with the risk behind us and a few dollars paid in insurance. If it doesn't, we have no exposure to the likely drops in share prices after the election – and we may still buy back in if the prices drop low enough.

This was posted on BCM's page in our online portfolio, so it focuses on BCM. We see less risk in Fortuna, which should soon have most of its production coming from Mexico, so we did not opt to sell Fortuna as well. If anything, the political scare in Peru could create a buying opportunity in Fortuna shares.

One reader wrote in and asked if we might be overreacting, as Peru has strong democratic institutions and Humala couldn't just waltz in and nationalize everything overnight. It's true: it would take a while for Humala to destroy the place, even if he wins and works as hard at it as Chavez, who's been working on destroying Venezuela for almost 12 years. And who knows; Humala could turn out to be like Lula, with a bark much worse than his bite. But he's already talking about raising taxes on mining, so we're not optimistic.

What does seem certain is that if Humala wins, regardless of what he actually does, the markets will react strongly. It could take quite a while for prices to recover.

Ironically, it could actually be worse for Peru in the short term if Fujimori wins. The close election and already building agitation suggests that Humala may contest the election, perhaps even violently, if he loses. Whereas if he wins, all the protests and troubles rocking the country now, pre-election, would likely melt away like snow in a warm spring.

Be that as it may, Peru stocks sure won't be taking off in the near future, so it makes sense to us to pay the transaction costs as insurance and to step aside during this election. We hope the trouble blows over and we can just buy back in, perhaps even at lower prices, but if it doesn't, we'll sure be glad not to have this exposure.

Trouble in China

You may have heard of the massive protests taking place in Inner Mongolia, China's northern province that borders the country of Mongolia. It turns out there's a mining angle to this. Chinese authorities, like those in many other countries, hold Western companies to the highest environmental and work safety standards, but don't always do so for Chinese companies. Our Louis James has been to Inner Mongolia twice and has seen poorly managed – or perhaps simply poor – Chinese operations that looked quite dangerous and polluted. Add that to the autocratic manner of many Chinese managers, and it's not surprising the local ethnic Mongolians feel they are being ignored and trampled underfoot.

Unfortunately, any new safety or environmental protection measures the Chinese authorities come up with are likely to fall harder on Western companies that are not the problem than on Chinese ones. That's not likely to have an immediate impact, certainly not on exploration plays, but if mining becomes a political hot button in China, it could affect junior exploration companies working there.

Consider this an early warning, not a reason to sell anything today. We will monitor the situation.

Trouble Down Under

New South Wales recently made moves to get tough on mining. The effort focuses on coal mining, but the public tends to see all mining in a similar light, so this could be a sign of other measures to come. We don't have any Aussie plays at present, but this sort of precedent still bears watching.

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Questions For *IS*

Q1: On Colombian Mines (V.CMJ), I appreciate that El Dovio is still early stage, and a few historic drill holes don't prove there's really a deposit there. But what about Yarumalito? Given the footprint of the drilling and the thicknesses of the intercepts reported thus far, I think they might be able to report up to three million ounces, Inferred, in their first resource estimate. Why does the market not seem to care what they have?

> **A1**: Because they may not have it. We like CMJ for being cheap and having something – Yarumalito – with serious size potential. But it remains potential. Drill results have been much slower in coming than we like, and the drill pattern shown on the company web site does not show a regular pattern of drilling that makes it obvious there's a consistent mineralized body being drilled off. Consistency is key. It's not enough that they have good rocks and some good intercepts – how do they all fit together? We are hopeful that the pending drill results will shed some light on this, and that's why we have not given up on the stock, but until they do shed that light, we're not willing to recommend any more buying.

Q2: As a subscriber with Casey Research, I feel I'm definitely getting my money's worth, even though I focus only on Canadian and U.S. companies (about a fourth of the total in your portfolio at present). I'd like to invest in other firms, but I have a concern about labor conditions in some parts of the third world. Can you speak to this issue at all? I understand it's not the main focus of Casey and his team, but I like the idea of generating wealth while also being aware of who gets my money and how it's put to use.

Currently, for example, I live in China, and I see the issues they have among the working classes. So it's not a place where I'd want to invest in a mine or other labor-intensive business. Just a personal choice. In your experience, are there some jurisdictions or mines that are better than others?

> **A2**: It's so rare to find people who care as much about how money is made as making it. Of course, the primary concern when investing has to be ROI, or there will be no ROI, but when that can be combined with other concerns, so much the better.

We note that even in places like China, the employees of Western companies tend to be treated so much better than when working for Chinese companies. We've seen cases of those employees getting very upset when their Western companies get bought out by Chinese companies, whose managers are used to labor being in oversupply. So, it's not really the country or culture that necessarily drives the way employees are treated, but he corporate culture of the individual companies.

Also, even when a first-world company working in a third-world country pays laborers what seems like a disgraceful pittance, that pittance is often several times what those laborers could make doing anything else locally. We've seen this in the Philippines, for example, where workers got paid what might seem like peanuts to us, but these workers were proud of their "high-paying" jobs.

Not all multinational companies are run by very caring individuals, but some are, and even the ones that are not still work to live up to international standards, for the most part. It may sound horribly biased, but my observation is that even the least caring Canadian companies tend to be better employers than most third-world employers in the locations where they operate.

That does not mean they are all good. Some still piss off the locals, especially with arrogant or even abusive attitudes among expat bosses. But this is bad for business; greed tends to drive Western companies, which are held to higher standards in the third world, to treat their employees relatively well, whether management really cares or not.

Some, however, go above and beyond the call of duty, not only contributing income and building local schools and clinics, etc., but training the locals and teaching them valuable skills, even giving them funding to buy equipment like drills, so they can go into business for themselves, and participating in local communities in a concerted effort to make life better for everyone in the area.

It's hard to say which companies are which without going to check them out in person, but on average, we do see Canadian junior miners operating overseas as net positives for local communities.

Q3: Is it true that on Friday the 15th (tomorrow as I write this email), some important figures are to be released in the *CPM Gold Yearbook* that relate to the amount of gold central banks have purchased in 2010? Are these figures already released elsewhere, and will the release of these figures in the *Gold Yearbook* potentially send gold a lot higher? In other words, does it change the whole situation if gold is becoming more and more sought after, pushing up the price?

A3: First, a note to all readers: we try to answer individual questions as promptly as possible, but anything non-routine is going to take some time. It was well after the date in question when we got this message. If your editors are on the road, immediate responses are very difficult. Please be patient with us on this front.

Now, about central bank buying, of course it impacts the price if such potentially large customers are doing a lot of buying, pushing up demand, taking up a lot of supply. Such actions have consequences – but *news* of such actions is not the same thing. Our observation over the years has been that in general, the news about changes in central bank holdings generates more commentary than actual price action. Often, hopes and fears based on these changes prove ill-founded, or produce only temporary fluctuations. Even major changes in central bank policy are sometimes overshadowed by other market forces. Central bank action is all part of the mix, data we consider in understanding the overall market, but only one data point.

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End Notes

Upcoming Events

2011 World Resource Investment Conference

Louis James, Marin Katusa, and other members of the Casey Research team will be speaking at the next Cambridge House resource investment show. Louis has three speaking events that we encourage you to attend if you can. Vancouver Convention Center East, 999 Canada Place, Vancouver, BC, Canada. June 5 – 6. For more information, call 604-687-4151 or e-mail: info@cambridgehouse.com.

Freedom Fest 2011

Doug Casey will be speaking at Freedom Fest 2011, July 14 – 16, at Bally's resort in Las Vegas, Nevada. For more information call 866-266-5101 or e-mail tami@freedomfest.com .

2011 Agora Financial Investment Symposium

Doug Casey will be speaking at this year's Agora symposium, July 26 – 29, Fairmont Hotel, Vancouver, BC. For more information, call 800-926-6575.

CYCLE 11 – DATES CHANGED: JULY 9 – 18

Louis James will be teaching economics and entrepreneurship again in Eastern Europe, but due to facility availability, the dates have been changed to July 9 – 18. July 9 – 11 is an introductory session and July 11 – 18 will be an advanced seminar in building businesses and entrepreneurial skills. We will be returning to the same location in Lithuania as last year, near historic Trakai castle.

Doug Casey and Casey Research CEO **Olivier Garret** will teach via remote link, and other members of the Casey team will join in as available. Louis has lined up some other seasoned investors and entrepreneurs to help teach. The list is not final yet, but we must go to press, so we will add details on the specific teachers and topics to the CYCLE web site as it is finalized.

For more information, please email profitfromfreedom@gmail.com .

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

Term of the Month: Equivalency

A reader wrote and asked if there is a specific formula or definition mineral companies use when they include "gold equivalent" or "silver equivalent" grades or contained metal numbers in their press releases and technical reports.

Unfortunately, there is no single standard. The companies all use their own definitions and formulae, often stated in the notes to figures in press releases, but not always.

The equivalency is a calculated value derived from the price of secondary metals found in a sample of mineralized material, in proportion to their concentrations. For example, if a drill intersection grades 10 g/t gold and 50 g/t silver, and the price per ounce of gold is 50 times that of silver, the intercept could be reported as 11 g/t gold-equivalent (AuEq). If it was 100 g/t silver and 1 g/t gold, at the same price ratio, it could be reported as 150 g/t silver-equivalent.

Some companies will use the current spot prices to calculate equivalencies, some will use trailing averages of differing lengths to derive "less volatile" equivalency ratios.

The key thing to watch out for is that a straight ratio, even at very reasonable price assumptions, may not hold true, due to the different recoveries you'll get for the different metals. A plant optimized for gold recovery, for example, often gets lower recoveries of silver. Silver is much more chemically reactive than gold and usually needs different processing for maximum recovery – but is usually not worth doing that, when most of your value in the ore is in the gold. The tradeoffs between copper and gold can be even greater. Polymetallic mineralization (such as from many VMS-type deposits) can often have very low recoveries of the less economically important metals in their mixes.

There's nothing shady about gold or silver "equivalency," but it can be complicated, so the reported numbers are usually "conceptual" in nature. Even if you could make them more accurate, there would be no point, since the prices of the metals fluctuate constantly, making the actual economic value of the different components in an ore a constantly moving target.

In short, such numbers are useful guidance, but only roughly so.

Laugh or Cry Department

This May Be Completely Irrelevant…

…but it's bound to put a smile on almost any face. The guy in this video found an injured baby humming bird and nursed it back to health – an amazing thing to see. With all the grim news out there, we figure smiles are worth passing along.

And Now for Something Completely Different…

No matter what your age, we often say, you should have a financial plan that spans decades, if not longer. Why bother, if you're beyond the age when insurance salesmen return your phone calls? Because the advances in medicine happening right now really could extend human life expectancy by decades – if not more. Consider this video showing artificially grown organs, including functioning hearts and lungs. More grounds for optimism. And serious financial planning.

No Crying Entry This Time

We covered that in this month's Stupidity Watch, so we'll end on a happy note.

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End Quote

In keeping with our Zen theme this month, your editor thought he'd see if he could find anything relevant to resource speculation in famous Zen words of wisdom. I've never studied Zen, I must say, so I have little to go on in saying how genuine the quotes I found are, but I did find a few that seemed relevant. Strangely, none mention the TSX-V, but no matter; they do reference things like premeditated action, self control, mental discipline, and similar virtues that we frequently extol in these pages:

> You will not be punished for your anger; you will be punished by your anger.
>
> Teachers open the door... You enter by yourself.

> All that we are is the result of what we have thought. The mind is everything. What we think, we become.
>
> We cannot see our reflection in running water. It is only in still water that we can see.
>
> A flower falls even though we love it, and a weed grows even though we do not love it.
>
> Be master of mind rather than mastered by mind.
>
> The journey of a thousand miles must begin with a single step.

This one sounds like a 2000-year-old version of Doug Casey:

> A wise man makes his own decisions, an ignorant man follows public opinion.

This one may not be so relevant, but I love it:

> Do not speak – unless it improves on silence.

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