Casey's International Speculator

Volume XXXII, Issue 8 / August 2011

Win-Win

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Dear Speculators,

The squabbling in DC seems resolved for now as I write. It's almost a pity; I was hoping the government would "shut down" for some time – which would arguably have been the best possible outcome. Better yet, shut it down and never restart it. Good riddance.

Alas, alas, 'tis but a dream. The crooks in high office will not give up on their gravy train so easily. And even if they had "shut down," we'd just have gotten a recycled "close the Washington Monument and scare those on entitlement programs" type of shutdown we've seen before. The spending would have – and will – continue. No big deal. Just more political grandstanding, while the lowest of the low curry favor with a largely ignorant, misinformed, or actively kleptomaniac electorate. Business as usual in the Belly of the Beast. Yawn.

However, to the degree that gridlock-spawned uncertainty in Washington contributed to recent high prices for precious metals, it's interesting that the resolution of same appears to have sent gold yet higher, rather than back. Could it be that mainstream investors are finally getting a clue that the U.S. government is well and truly stuck between the rock and hard place we've been describing here at Casey Research for years? Is it finally as obvious as it should be that all is not well in Mudville?

Mmm… Nah. Too much incentive to believe – no matter what the data say – that the economy is recovering. Wall Street must believe; the alternative is too terrifying – and obviates the need for many of the jobs held by current believers.

But, subconsciously or otherwise, I think people do know that all is not well on Main Street in Mudville. In spite of the reassuring, hopeful noises emitted by the chattering classes on the nightly news, the reality of our world today is too damned scary not to penetrate even the thickest skulls, to some degree. And bad news does sell newspapers.

Dropping the metaphors: Truth from Washington and honest reporting may be hard to come by, but fear-mongering is not.

Remember our basic premise: Gold is a fear barometer. The reality of bad economic policy usually takes time to become obvious to all, and the immediate appearance of "doing something" can alleviate fear even when it should do the opposite. So, we may see gold dip on apparently positive economic news from time to time, but the doom of the U.S. dollar and other paper currencies of the world looks sealed at this point.

That being the case, any more corrections we see should be treated as buying opportunities. Even a major, 2008-style market crash – *especially* a major, 2008-style market crash. That will be the best time to buy, and perhaps the last chance to get bargains on the best companies.

So… What Now?

The Summer Santa didn't bring us the Shopping Season I'd hoped for, but it did bring us some good buying opportunities. PMI Gold (V.PMV), last month's pick, is up only modestly, which makes it still a good buy. However, Guyana Goldfields (T.GUY) from the previous month sold off substantially – offering us great prices for first and second tranches – before recovering in recent weeks and regaining upward momentum. If you averaged down with us, you're in the black now. And Sandspring (V.SSP), recommended at the same time as GUY, has gained 20% and seems poised to head higher – good thing we bought first tranches rather than stand aside. East Asia (V.EAS) is the one (with hindsight) I wish I'd held off on, but given the assets in hand, that too looks like an opportunity.

The point is that judicious buying can work out, even in a rising market. So, what now? Answer: Stay the course. That means discriminate buying only: Prices are high, so we must shop carefully and stick with the tranche buying strategy.

And… What Next?

I have no more a crystal ball than Doug does, but it's pretty clear to me and the rest of the Casey Brain Trust that the dollar is riding for a great fall. There is no politically feasible solution that will save it. Whatever Congress does next, it won't be good. And things look even worse for the euro, which could well be the first big currency domino to fall. That means that whatever gold and silver prices do next, their future will be good.

And that means that, unless we chicken out in a big correction, we're going to make a lot of money. If we do get that correction, we get to back up the truck for large blocks at lower prices, adding a whole lot of upside to our positions.

It's a win-win.

The only way to lose is by losing our nerve – which we won't do.

A Personal Note

In case you didn't see my note in the July 15 *Daily Dispatch*, I've got to let you know that your editor has just returned from his annual teaching gig in Eastern Europe, totally energized and ready to go for another year of rock kicking and stock picking. It was a great ten days with some of the best and the brightest young minds you'll meet anywhere in the world.

I'm blown away that one young man who attended last year went home, turned down a sweet job offer, wrote a business plan, raised $2 million, and now runs a consulting agency. He works part time and makes four times the salary the job he turned down would have paid him. Who knows what this year's crop will yield?

I'm so excited – and hopeful for the future. For all the world's myriad problems, there are also smart, honest, hard-working, creative people like this young man, striving to make it better. I have hope that, perverse as the world seems at times, our various individual endeavors are *not* futile – and I include you, my dear readers. There is hope for your posterity. And that makes it easier – for me at least – to get up in the morning and continue doing my best to deliver value.

In This Issue

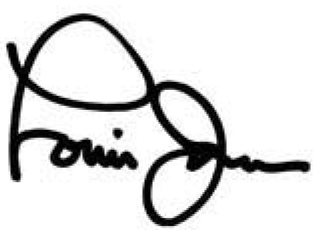
As per the above, our tranche strategy has kept us prepared to take advantage of any coming correction, but we don't want to be caught short, so we continue with judicious buying. That includes a new recommendation on a growing gold producer with operations in West Africa that has had some very good news since my May site visit, as well as updated recommendations on our portfolio picks.

With gold showing staying power over $1,600, we've also updated our "ounces in the ground" numbers for you, plus our usual departments to entertain and enlighten you.

Until next time, remember to Buy Low and Sell High, regardless of what the market is doing.

And keep some powder dry.

Sincerely,



Louis James
Senior Metals Analyst
Casey Research

P.S. As sometimes happens, gold has moved significantly during our publication process, and some companies have had significant news. Please check our portfolio pages for the latest details and recommendations.

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Mali: Capacity Meets Opacity
by Andrey Dashkov

Mali doesn't look vibrant at first sight. Nor does it from the second or any subsequent look. It is a proverbially poor African country with few potential drivers of economic growth: It is landlocked, and thus lacks a coastline to attract tourists on holiday; a significant portion of its land is not arable – the northern half of the country lies in the heart of the Sahara – and natural resources are difficult to come by.

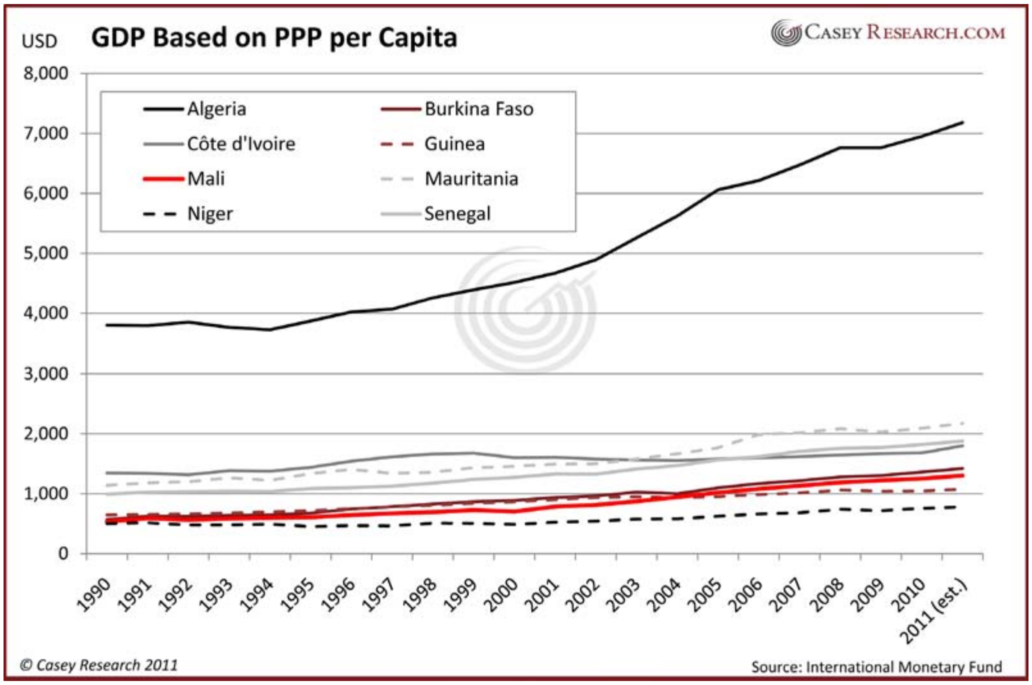
But mining offers new hope for Mali as its largely untapped mineral potential starts to be explored and exploited.

Economy

Mali's economy is defined by its geography – about 65% of Mali is desert or semi-desert (have a look at this satellite picture). The vast majority of domestic agricultural production – mainly cotton – abounds near the Niger River in the southern part of the country. With a heavy reliance on a single export good, Mali's economy lacks diversification. More than 80% of the population is engaged in agriculture and fishing, and the income of small farmers and the growth of GDP directly depend on the state of the global cotton market.

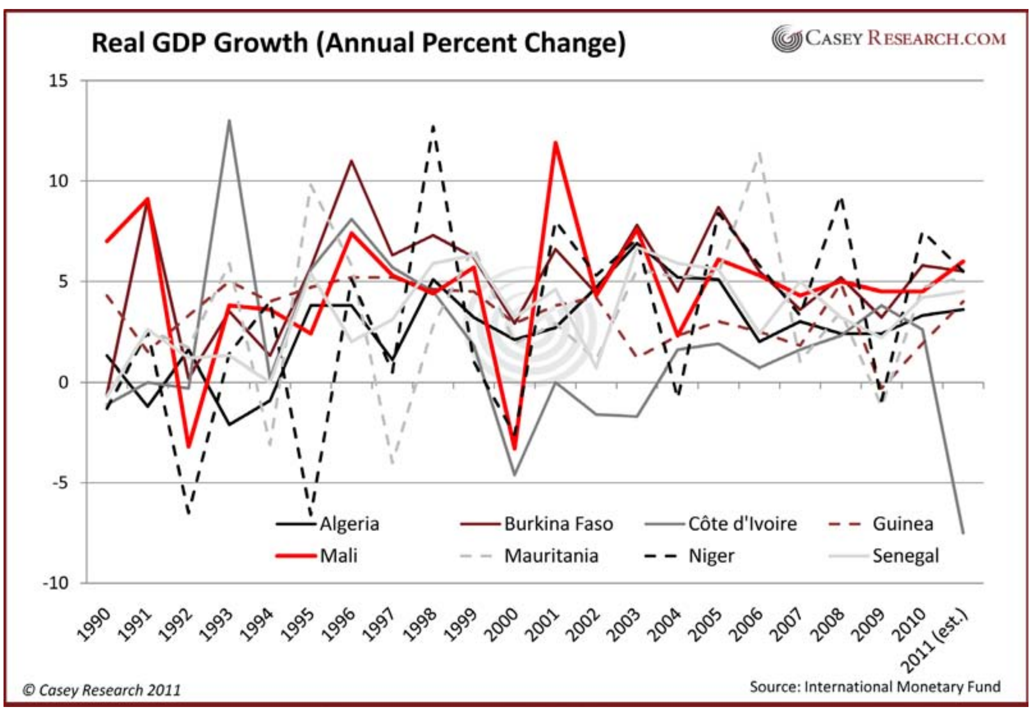
Besides cotton, Mali produces millet, rice, corn, and vegetables, as well as cattle, sheep, and goats. Droughts, however, are common here. The most recent one happened in 2010 – the worst in 20 years – killing vast numbers of sheep, cows, and donkeys, rendering the pastoral nomads' lives ever more difficult.

But it's not only nomads, who comprise 10% of Mali's 14.2 million population, who live a tough life. The country is one of the most poverty-stricken in the region and among the world's ten poorest nations. More than 36% of the population live below the poverty line (2005 estimate) and the average annual income per capita is US$1,200 (2010 estimate). In terms of GDP per capita, Mali placed 208th out of 228 countries ranked, standing between Haiti and Rwanda. Neighboring countries look marginally better in comparison, with Algeria, an oil producer, significantly ahead of the group, as shown in the chart below.



Mali is… not a prosperous country. Of its neighbors, only Niger and Guinea are worse off.

And yet, the country's GDP – displayed in the next chart – grew at a commendable 5% annual rate over the past several years despite volatility stemming from fluctuations in international demand for its crops, livestock, gold production, and other exports.



Unlike economic volatility, political tensions are largely a thing of the past. Since 1992, Mali has been quite stable – in today's Africa, Mali is among the continent's most politically stable jurisdictions. Political continuity does not necessarily translate into a booming economy. But it is good for mining.

Mining

Mali has a long association with gold production. Historically, alluvial gold was exported from Mali to the Mediterranean countries across the Sahara desert. Modern mining history in the country has had its ups and downs. The important "up" period started in the late '80s and early '90s when the country relaxed its mining code and attracted international capital and mining companies. By the end of the 1990s, Mali was Africa's third-largest gold producer, behind only South Africa and Ghana. Out of the country's total mineral production, gold accounted for about 80% in the mid-2000s.

Started by BHP in 1990, Syama was one of the first new gold operations after the country became more mining friendly. By the mid-1990s, Syama produced at an average annual rate of about 200,000 ounces, representing a generation of mines that went operational before the current bull cycle. It was shut down in 2001, a time when gold was so cheap – the bottom for gold, in fact – it made Syama uneconomic. The mine was revived when rising gold prices once again made the operation economic, and is currently operated by Australian mining company Resolute Mining Ltd. In financial 2010, it produced 78,000 ounces from 1,311,475 tonnes at 2.69 g/t gold and 68.7% recovery.

Check out the below table of other mining operations currently active in Mali.

Ownership and company name(s)	Mine name	Type of mine	Proven and probable gold reserves, million ounces	Average grade, grams per tonne	Annual output in 2010, thousand ounces of gold	Total cash cost, USD per ounce
80% Avion Gold 20% Mali Gov't	Tabakoto/Segala	OP & UG *	0.9	Stockpile/Open Pit: 2.9 Underground: 4.5	88	657
41% IAMGOLD 41% AngloGold 18% Mali Gov't	Sadiola	OP	Proven: 0.2 Probable: 2.1	Proven: 3.0 Probable: 1.8	118	653
40% AngloGold 40% IAMGOLD 20% Mali Gov't	Yatela	OP	78,000 oz	1.6	60 **	780
40% Randgold 40% AngloGold 20% Mali Gov't	Morila	Stockpile treatment	0.6	1.4	238.6 ***	669
80% Randgold 20% Mali Gov't	Loulo	OP & UG	6.5	4.5	316.5	712
80% Resolute Mining 20% Mali Gov't	Syama	OP	1.6 (P&P + stockpiles)	3.0	77.9	1,001
80% Avnel Gold Mining 20% Mali Gov't	Kalana	UG	0.2	13.8	10.7	1,103
40% Endeavour Mining 60% Resolute Mining	Finkolo	OP ****	0.2	3.0	—	710

* OP — open-pit; UG — underground;
** Mine life ends in 2011
*** Mine life ends in 2013
**** Based on a feasibility study for Tabakoroni deposit

Sources: Mbendi, company websites

As noted, some of the mines are close to depleting their resources. The overall situation is not bad at all, however: Mali's government understands how important gold mining is to the national economy, with officials citing Ghana (to their south) as a pro-mining role model. We expect that new exploration and development permits will continue to be obtainable with due process respected. Indeed, new projects have already started emerging, such as Gold Field's Komana discovery at its Yanfolila project where it outlined 0.7 million ounces of gold last year – not to mention Avion Gold, our new pick this month, discussed elsewhere in this issue.

In 2010, Mali produced a total of 1.6 million ounces of gold, 92% of which came from industrial mines and only 8% from artisanal miners. And that's a good sign: To be able to operate a mining complex like Randgold's Loulo, one has to be sure that one's investment is safe.

By Comparison

Although Mali's economy is fragile overall, it has seen growth since the beginning of the 1990s that can be attributed to the liberalization policies adopted by the government. Most of the reforms took place between 1992 and 1995. Having targeted the country's financial troubles on the macro level, the reforms helped create a stable and quite predictable climate in the country, both politically and for investment.

Today's Mali shows mixed results when compared to its neighbors as measured by our usual benchmarks. Please note that lower numbers correspond to higher positions in the rankings. Bold indicates the highest-ranked country within each category among the eight included in the table.

Indicator; number of countries or jurisdictions covered	Mali	Algeria	Burkina Faso	Côte d'Ivoire	Guinea	Mauritania	Niger	Senegal
Mining Survey (79) *	29	—	**24**	—	51	—	43	—
Doing Business (183)	153	**136**	151	169	179	165	173	152
Registering Property	88	165	118	151	166	**73**	84	167
Protecting Investors	147	**74**	147	154	173	147	154	167
Corruption Perceptions Index (178)	116	105	**98**	146	164	143	123	105
Infrastructure ** (155)	125	122	137	85	116	—	97	**59**
Global Competitiveness Index 2010-2011 *** (139)	132	**86**	134	129	—	135	—	104

* Fraser Institute's Survey of Mining Companies, http://j.mp/qTpCkd
** Based on the Logistics Performance Index developed by World Bank: http://j.mp/oVQCDk
*** Global Competitiveness Index developed by World Economic Forum: http://j.mp/oYa1sB

Mali didn't score particularly well by the above parameters, but did not find itself on the bottom either.

For example, Mali's 29th position in the Fraser Institute's Survey of Mining Companies is a good result, as is its 88th position in Registering Property, a subranking in the Doing Business report. In contrast, the Protecting Investors measure places Mali in 147th place of 183 countries surveyed. Mali has a weak showing in the Infrastructure category as well (125th position in the Logistics Performance Index, Infrastructure subindex).

The worst showing for Mali is in the complex Global Competitiveness Index (GCI), a comprehensive examination of a country's competitive stance. The current GCI reveals that Mali has a lot of room to grow – few countries have more room than Mali, actually, as it ranked 132nd out of 139. This and Mali's reputation as a nexus for illegal drugs and human trafficking are among the greatest concerns – but the illegal activities appear to be concentrated in the Saharan region to the north, away from the mining boom in the southwest.

The best showing for Mali – and where it beat all seven neighboring countries – is in two quite important GCI subindexes: Transparency of Government Policymaking and Efficiency of Legal Framework in Challenging Regulations. That sounds reassuring, but not reassuring enough to draw a positive conclusion from the data above. When viewed from different angles, Mali can alternately look quite good and rather bad, but never ugly. "Opaque" seems to sum it up well…

Conclusion

… which, as we often reiterate, does not mean one cannot make money by exploiting the opportunities Mali offers. Going where others fear to go can be very profitable, if we can determine that the fear is overdone. Although the overall investment climate in Mali looks unattractive and is complicated by lack of infrastructure and overwhelming poverty, gold mining is a very important part of the national economy; and the people and politicians know they need foreign investment. Badly. Are we cautious about Mali? Yes. Scared? No. Where there is risk, there is opportunity – fortune favors the bold!

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Notes from the Field: Mali Gold
Filed by Louis James

Mali is an hourglass-shaped country right in the middle of West Africa. The southern part is greener but pretty dry outside of a torrential rainy season, and the northern part stretches into the heart of the Sahara. I was given to understand that the government has a smaller presence in the northern part of the country, which is where the drug and human trafficking is said to take place… Well, okay, I was told it's become a lawless no-man's land and was warned quite emphatically not to go there.

That actually sounded pretty interesting to me – I'm sure my mentor, Doug Casey, would have charged off to the north at once. But unlike Doug, I have kids waiting for me at home and decided that caution was better in this case.

I flew in from Liberia – over the southern part of Mali – to the capital of Bamako. It was just after sunset, and I have to say I was deeply impressed by how few lights I saw. Instead of the usual splashes of lights from towns as I flew over, even small ones, I saw a vast, vast darkness, with rare pinpricks of light – I felt that I had truly penetrated into Africa's heart of darkness. I could *see* the economic stagnation… statistics from Andrey Dashkov's country report brought to life.

Outside of Bamako, it's largely subsistence farming that supports the populace, but there is a long history of gold mining. I saw massive garimpeiro workings, though in Mali, they call them "galamsey" – some as big as anything you'd see in Brazil or elsewhere in South America. But these are not semi-mechanized operations with dozers and shovels and hoses to wash down the dirt: These are large swaths of narrow pits in the ground, usually less than a meter across, straight down and deeper than the eye can see. In some places, these informal miners have been so active that whole hillsides are caving in, sometimes exposing rat holes that don't seem large enough for a man to breathe in, let alone work in.

Galamsey shafts exposed by the cave-in of an adjacent larger informal working. Notice the handholds carved into the dirt walls of the rat holes. There were holes like this as far as the eye could see, and people underground – under my feet – even as I saw the cracks in the ground around me.

I had to wonder how many men get trapped in such cave-ins every year. It was hard to imagine how anyone can crawl into such a hole, with the ground visibly cracking all around. And yet, that's exactly what I saw. I was later told that some of these miners use drugs to slow their breathing and calm the sense of claustrophobia. I also understand that some of the smaller tunnels are worked by children. I didn't see any children crawling out of the holes in the ground, but I did see plenty of them helping their mothers work the ore that the men brought up; and I saw toddlers playing in the waste heaps, surrounded by the uncovered holes, yawning black, all around.

Galamsey miner. Notice the wood pick hammer he's carrying, one of the tools of his trade: that, some iron spikes, a small flashlight (batteries cost money), and some sacks. The mud dried on him quickly in the 110°+ heat.

I heard of a legendary king of Mali who spent so much gold on his way to Mecca that it actually depressed the price of gold at the time. True or not, because there is such a long history of mining in the country and all this active traditional mining now people are not afraid of mining or exploration, the way they are in some other places. That's good. However, when exploration companies find something to drill, the galamsey swarm the place like locusts and cart off a surprisingly large amount of the higher-grade, near-surface ore. Not good.

The galamsey pose a safety hazard to themselves as well as anyone who walks the ground afterward, and leave the environment trashed – literally – for others to deal with. The law actually encourages this by giving the galamsey the right to mine anything they can using "traditional" means – wooden mallets and the like. This holds true even where exploration companies have mineral rights and are actively exploring: One can only legally force the galamsey away when one has an exploitation license, builds a mine, and puts a fence around it.

This sounds crazy, but the idea was that if the locals could continue mining by their traditional methods, they would not be able to take much, and would not feel so strongly that white people came and stole their gold. That actually makes some sense; these people's ancestors have mined the area for gold for centuries – and would not have been able to mine the hard-rock stopes at depth. But, of course, the galamsey do sneak in some jacklegs, trip hammers, and other mechanized equipment. I even saw holes in the ground lined with tarps, in which ore was being soaked in sulfuric acid. It was whispered that foreigners had come in, bringing mercury amalgamation with them as well.

So Mali has problems, just like anywhere else – but it is clearly mining country, with a long history and acceptance of gold mining, active gold mining today, and a government that is trying to accommodate the industry. What I heard on the streets (or dirt paths, as the case may be) is that Mali, Africa's third-largest gold producer, sees Ghana's success and wants to overtake them someday.

For what it's worth, it wasn't the company execs who were most adamant that the government would never expropriate them, but rather the locals I conversed with in French. They insisted it was impossible because they had rule of law, and the law includes an investment security clause that fixes tax and royalty rates for 15 years, or life of mine (LOM), if less than 15 years. I'm generally pretty skeptical of claims that the law will restrain a rapacious government, but in this case, I have to admit that there are several operating mines in Mali, and they don't seem to have had the rules of the game switched on them.

There are no ironclad guarantees, but my sense is that those who run the show in Mali, corrupt or not, know they need mining to pull the country out of the stone age. The people certainly seem to care more about work than preserving the environment or fearing chemicals – I saw galamsey working those acid leach pools with bare hands and feet.

But what if the government changes, or the whole country is engulfed in chaos, as seems to happen in Africa periodically? Well, Mali has had two changes of administration since the military overthrew the last dictator in 1991 and then stepped aside for elections in 1992. Term limits have been respected. So, though a Muslim country with a *lot* of poor people, it's not now a despotism that has been languishing under the iron fist of one ruler for decades. It's this sort of despotism that has been running into trouble in Muslim Africa lately, not all governments in Muslim countries. Things can change quickly anywhere, but they look fairly stable in Mali – much more so, frankly, than I expected.

Why bother? Because others would not dare, not so long ago, and there are emerging opportunities to take advantage of, as you can see in our new company recommendation in this issue.

Sunrise over Bamako. Hopefully a metaphor for what mining can do for Mali.

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New Company Recommendation: Avion Gold

Avion Gold is the company our Senior Metals Analyst Louis James went to see in Mali in May. Louis liked it then, but we did not have much track record with management and were still a bit nervous, given the then-brewing political trouble across the border in Burkina Faso. We did recommend the stock in our Alert service at that time, as Alert subscribers are used to higher levels of risk.

Since then, trouble has not spread from Burkina Faso, and the company has delivered excellent exploration results, upgraded its resources and reserves, and increased production. This is all positive news that makes the play more secure, but still leaves plenty of upside ahead, particularly in the form of a doubling of production in the works. We see a potential double within 12 months, and so are now taking the plunge in the *International Speculator*.

Avion Gold Corp. HM: Au T.AVR, OB.AVGCF, http://www.aviongoldcorp.com			
Price	Share: C$2.00	MCap: C$812.4 million	On: 8/1/11
Shares	SO: 406.2 million	FD: 437.1 million	As of: 7/22/11
Warrants	UnEx: 1.0 million	C$0.60	11/2/11
Options	Open: 29.9 million	C$0.20 – C$1.71	Exp: 3/22/12-3/24/16
Cash	C$19M + $13M AU	EPS: C$0.03	As of: 3/31/2011

BUY (FIRST TRANCHE)—Avion Gold is a new, undervalued, profitable gold producer working primarily in Mali, with growth on the runway and excellent exploration potential. Here are the 8 Ps…

People

Avion is run by John Begeman, formerly with Zinifex/Wolfden, a company we made a lot of money on early on in this cycle. Louis didn't meet John on site, but knows people who've worked with him in the past; they say he's a straight shooter. Louis did meet a lot of the team, including COO Andrew Bradfield and country manager Pierre Matte, who showed him a well-run operation. Louis missed VP for Exploration Don Dudek, but spent considerable time with the geos running the exploration work on the ground.

Louis was favorably impressed all around, but we have more than his subjective evaluation: these guys turned Nevsun Resources' (T.NSU) former money-losing disaster, Tabakoto, into a profitable mine and are discovering more ore as they go. They have our confidence.

Promotion

Avion has analyst coverage from half a dozen sources, including large firms that cover our sector, so we believe the company's future successes will get noticed. Indeed, we've seen this already in the last two moths. Ultimately, the numbers will speak for themselves, and there are some good numbers on the way.

Property

Avion's flagship project is the Tabakoto gold mine in southwestern Mali, near the border with Senegal. This was a $100 million project Nevsun (T.NSU) built to show the market (and bankers) that they could build a profitable mine before attempting to finance their much larger Bisha project in Eritrea. Things did not go as planned, and not long after start-up in 2006, Nevsun pulled the plug on Tabakoto, then sold it to Avion in 2008 for $20 million. Avion now has an 80% interest, with the other 20% being held by the government of Mali. There was an NSR, but it was bought back.

The Tabakoto gold mine plant. Bought in 2008, now up and running and pouring gold at $462/oz. That's COO Bradfield, to the left.

When we first heard this story, we were quite skeptical; what made these guys think they could succeed where Nevsun – which did, in fact, go on to build Bisha successfully – had failed? And they talked about putting ore from another deposit (Segala) through the mill – would that even work?

Well, what made them think they could do it was in large part a better geological theory, with better engineering and cost controls on top of that. It turns out Nevsun had the controls wrong on the ore zones, which do strike in a certain main direction but are enriched by cross-cutting structures in a different direction that Nevsun missed. Result: The waste-to-ore ratio went way up, the grade went way down.

Avion obviously got it right, as you can see from the $12.56 million in income the company generated in Q1 and gold production up roughly 25% since then. Some keys to this were opening up new zones and starting a second and now a third open pit – with more on the way. This way the company does not to have to rely solely on more expensive underground mining for growth. But the company is developing more higher-grade underground material as well as new open pits, all to keep the mill fed when they double capacity from about 100,000 to 200,000 ounces per year.

Ground has already been broken on the plant expansion, and long lead-time items like a large SAG mill have already been ordered. Avion has cash and cash flow, but also has a credit facility (not yet drawn upon) if needed to ensure the plant expansion gets completed.

Tabakoto expansion under way. This is not pie-in-the-sky, but a rational basis for expecting a double within 12 months, even if the team makes no major discoveries.

In addition to brownfield exploration under way near and under the existing pits, there's a major greenfield exploration effort under way to expand on new gold zones and discover more. This will add ounces to the company's current 3.34-million-ounce total tally: 913,000 ounces P&P (averaging 2.9 g/t open pit and 4.5 g/t underground); 1.4 million ounces M&I (averaging 3.4 g/t gold); and 1.1 million ounces Inferred (at 4.2 g/t gold). Thus far, the company has drilled off more gold than it has mined, always a good thing.

Most of these ounces come from the Tabakoto mine and surrounding satellite deposits, including the Djambaye zone, where Avion just yesterday announced 7.6 g/t gold over 7.0 meters and 26.4 g/t over 3.0 meters. Other recent intercepts in the Tabakoto area include 15.7 g/t gold over 4.9 meters, 20.9 g/t over 5.7 meters, 36.0 g/t over 3.0 meters, and 10.0 g/t over 6.1 meters. Clearly, more good news is on the way here.

About half a million of Avion's ounces come from Avion's Kofi project, which is adjacent to and on trend from Randgold's 11.4-million-ounce Loulo gold mine. Kofi has 293,000 ounces Indicated, at 2.55 g/t gold and 368,000 ounces Inferred at 2.18 g/t gold, all within 15 to 38 kilometers of the Tabakoto mill. Avion gets about 94% of these ounces, with the remaining fraction going to the government. Drills were turning on substantial step-out holes at Kofi while Louis was on site, and new zones are slated for testing as well. Results are pending, and an updated resource estimate for Kofi is due out by the end of the year.

Avion also has the Hounde project, across the border in Burkina Faso. Due to political turmoil there, where one man has ruled for decades and there is a large majority of very unhappy people, we're not terribly keen on Burkina plays at this time. However, Burkina has good rocks, and we get exposure to the upside without great risk, since Avion is primarily a Mali play. Drilling at Hounde is ongoing (including follow-up on a 47.5-meter intercept that graded 3.84 g/t gold), working on the company's goal of delivering a million-ounce resource by the end of this year.

Altogether, the company plans to spend $10 million in exploration this year, drilling 60,000 meters or more. With a lot of this drilling expanding discoveries in hand and drilling off ounces, it should be relatively easy for the company to take its current resources and reserves to four million ounces by the end of this year. If things go very well, global resources within the company could top five million ounces within a year.

Regardless of what the ounce tally comes to in the near term, ounces are being added, mine life is being extended, and we believe Avion will deliver on its goal of doubling production. That alone, without any new discoveries, should deliver a double in our usual timeframe – or better if gold keeps rising, as we expect it to.

Push

There are drill results from multiple project areas pending – some are imminent, and more should keep flowing all year long. The company also expects to deliver new resource estimates later this year. Production is also still ramping up at the current plant (before expansion), so we should see more profit records in the quarters ahead. All of this is pretty solid, but there is blue sky in the form of discovery potential in the play, as well as takeover potential as they add ounces and increase production.

Politics

We think much of Mali's tarnished image on the world stage comes from the criminal activity in the northern, Sahara part of the country. There's corruption, poverty, lack of infrastructure, and other Third-World problems, but those seem to be improving. Most important is that the place looks stable by African standards, and that the country has shown itself to be a place where miners can work. (In addition to Randgold's Loulo, AngloGold Ashanti and IAMGOLD jointly operate the 13.1-million-ounce Sadiola mine in the Tabakoto region as well.) Plus, when the government is a 20% partner, it has an interest in helping one move ahead.

Burkina Faso is more concerning, but our sources familiar with the country tell us that even if there is more political turmoil and a regime change, it will not likely affect mining concessions. Those have long been respected in the country. That means Avion can keep exploring on Hounde and wait to see how things shake out before making any major capital investments in the project.

This is not Ontario and Quebec, that's for sure, but we rate the risk level in Avion – which is in production and making money now, unmolested by the state – to be acceptable.

Phinancing & Paper

Avion has healthy cash flow, net income, and gold in inventory. The company currently has no debt, but it has secured a credit facility (at 7% interest) mentioned above.

It's good the company has cash, because early shareholders had to endure quite a bit of dilution to get Avion to where it is now, as you can see in the 406.2 million shares issued and outstanding. That's a lot more paper than we like to see out there, but with the dilution behind us, it's the market capitalization that matters most now. And that MCap is relatively low for a profitable 100,000-ounce-per-year producer with growing resources, well on its way to becoming a 200,000 OPY producer.

Plus, a significant number of cheap warrants have been cleared up, so there's no imminent pressure from cheap paper about to hit the market. Also on the plus side, the large float makes for good trading volumes, which makes this an easier stock to enter and exit than most juniors – a very good thing.

Price

Avion has good assets in hand, a high probability of added value in the near term, good news flow ahead, and is a good value at this morning's price. We're not counting on the assays pending to send the stock up in the very near future, but that is possible. This does not, of course, mean these shares cannot go on sale this summer if we see gold reverse its recent gains – they could and would. But it's also possible that gold could leap rather than fall in the weeks ahead, so we recommend taking a first tranche now. But do remember to buy in tranches – the best way to mitigate against the extreme volatility our market is prone to. You'll be glad to be able to lower your cost basis if presented with a chance to do so.

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Ounces in the Ground Update: Gold Up, In-Situ Value Mixed

By Andrey Dashkov

While many investors are on vacation, having "sold in May," the summer is our Shopping Season; and we are very busy looking for undervalued companies. One way of doing that – but certainly not the only way – is to determine how much value the market has assigned to an ounce of gold it has in the form of NI43-101 compliant resources and reserves and compare that to what any given company is getting for its resources.

That and the fact that gold recently shot well above another milestone – $1,600 per ounce – makes it time for another "Ounces in the Ground" update. For this update, we examined 140 companies traded on the Toronto Stock Exchange and its Venture subdivision that had resources that fell into the three broad NI43-101-recognized resource category groupings we use:

- **Proven & Probable (P&P)**: These are bankable mining reserves – basically Measured and Indicated resources with established commercial value. This is what most producers actually mine.
- **Measured & Indicated (M&I)**: These higher-confidence categories have been sufficiently drilled to establish their geometry and continuity reasonably well.

- **Inferred**: The lowest-confidence category, based on just enough drilling to outline the mineralization. In many cases, Inferred resources (as the name suggests) are really just guesses at what might actually be there.

This May, right before the "sell in May" started, the result of our "ounces in the ground" review was as follows:

- **Inferred**: US$61.20 per ounce (up 179.5%)
- **M&I**: US$69.30 per ounce (up 56.4%)
- **P&P**: US$232.70 per ounce (up 1%)
- **Average value of global resource (total of P&P, M&I, and Inferred)**: US$87.10 per ounce.

Where are we today?

Gold has risen 6.1%, from US$1,535.50 on May 2 to US$1,628.50 as of July 29. Within the same time frame, the TSX-V Index fell 10.3%, from 2,207.40 to 1,979.10, and the TSX declined by 7.1%.

As of July 28, here is what we have:

- **Inferred**: US$67.04 per ounce (up 9.5%)
- **M&I**: US$65.05 per ounce (down 6.1%)
- **P&P**: US$120.61 per ounce (down 48.2%)
- **Average value of global resource (total of P&P, M&I, and Inferred)**: US$85.84 per ounce (down 1.4%).

So What?

Clearly, companies with gold in the riskier Inferred category are drawing greater interest from the speculative community; juniors with NI43-101-compliant Inferred gold in the ground seem to be valued higher today than in May – so much so that today an ounce of gold in the Inferred category is valued slightly more than an ounce of M&I. The difference is not great – and it could just be a methodological oddity created by the small number of companies that clearly fit our groupings – but the fact remains and is interesting to note.

The shocker in our survey results is that while the gold price rose the past several months, share prices of companies with gold reserves – the closest to having and profiting from the physical metal – fell almost by half. Remember, our measure is not a precise instrument; instead, it is more like a telescope used to explore the not-so-huge universe of Toronto-listed gold companies. For greater accuracy, we need a more comprehensive toolkit. Nevertheless, it is remarkable that on a rising gold price the value of an ounce of gold reserves in the ground fell sharply while Inferred ounces are up. It's striking to see the market's appetite apparently shift away from the relative security of producers with established reserves towards the riskier juniors that typically benefit more from discoveries – this could be a sign of a substantial new speculative surge getting under way.

Specifics

Keeping in mind that juniors can be valued quite optimistically under current market conditions, let's have a look at the specifics.

	MCap on 7/29, US$M	Value of Gold Underground, US$M	Implied Growth, %
Almaden Minerals	193.9	47.8	-75.4%
Andina Minerals	141.9	1,026.1	622.9%
Columbus Gold	77.9	127.4	63.4%
Corvus Gold	22.8	16.6	-27.1%
East Asia Minerals	167.6	219.9	31.2%
Exeter Resource	370.6	2,945.3	694.8%
Extorre Gold	1,176.3	148.4	-87.4%
Guyana Goldfields	705.4	467.4	-33.7%
Inter-Citic	185.7	251.7	35.5%
Intl Tower Hill	650.1	870.5	33.9%
Medusa Mining	1,458.8	202.1	-86.1%
Northern Freegold	32.5	164.6	406.9%
PMI Gold	108.4	103.8	-4.3%
Premier Gold	655.3	195.6	-70.1%
Pretium Resources	935.3	4,264.7	356.0%
Sandspring Resources	286.9	653.7	127.8%
Sunward Resources	257.1	248.0	-3.5%
Trade Winds Ventures	51.8	103.8	100.5%
Virginia Mines	279.4	12.6	-95.5%

AMM: Almaden continues to look quite expensive per ounce of metal, but that is understandable: The company is making consistent progress at its key targets, including the front-runner Ixtaca zone, which hasn't delivered official gold resources yet but clearly will. New drill results expanded the Ixtaca zone, and a geophysical survey suggests there may be other similar gold-silver systems on the property besides Ixtaca. That's all to the good, but as you can see, the market is well aware of this, and some of the company's future success is already priced in.

ADM: Andina remains one of the top companies based on its implied value. The latest drill results (such as 1.00 g/t Au over 266m released late May) continued proving that mineralization at Ojo de Agua has a high-grade core that should benefit the economics of the Volcan project. Gold trading north of US$1,600 makes quite a good case against those skeptical of the economic merit of Volcan.

CGT: Columbus Gold completed its acquisition of the Paul Isnard gold project recently and delivered decent drill results from one of its Nevada properties. The rainy season should finish in Guiana soon, and we will be expecting new drill results from Paul Isnard. For now, CGT looks undervalued.

KOR: Since our last update, Corvus delivered some consistent, shallow oxide intervals at its North Bullfrog property in Nevada, where we see a more respectable resource estimate shaping up. Drilling in Alaska is in full swing and we should see the results soon. Corvus' partner First Star resources hit some good intercepts at LMS (Alaska), but until it is clear how the new intervals fit into the overall picture, we remain cautious. No new ounces added yet, so the situation remains similar to our last review: KOR looks overvalued – perhaps on positive expectations from current drilling programs in Alaska and Nevada – but there is value building in the play.

EAS: The company's flagship Miwah project in Indonesia yielded a first-pass resource estimate in May of 3.14 million ounces of gold at around 1 g/t, and 8.95 million ounces of silver at 2.7 g/t, both in the Inferred category. The mineralization is shallow and open to very substantial expansions with similar showings kilometers from the current resource area. We continue to see a lot of growth potential at Miwah. As the implied value figure suggests, these ounces appear modestly undervalued, where the company was once very expensive for what it could say it has. That's clearly driven by the company's recent share price meltdown, which we see as an opportunity.

XRC: Exeter is the star in the above table. After an initial prefeasibility study released early June, Exeter updated us on the development study at the Caspiche project that covers both oxide and sulfide portions of mineralization processing. The company is exploring various mining scenarios and introduced initiatives that can potentially improve the project's economics. There has been no game-changing news from Exeter recently, but from what we observe and according to the implicit value data, the company's resources (some of them recently turned reserves) are a screaming bargain.

XG: Extorre continues to look overvalued. A Preliminary Economic Assessment should have been released in mid-July but apparently is still in the works, hopefully to be released soon. In the meantime, drilling at the newly discovered Zoe zone delivered some very good grade results, including 8.4 g/t Au and 1,332 g/t Ag (35.0 g/t gold equivalent) across eight meters. The Puntudo project, located near the Joaquin silver project owned by Coeur d'Alene Mines (T.CDM) and Mirasol Resources (V.MRZ), also delivered some high-grade results, including three meters of 695 g/t Ag and 0.66 g/t Au (728 g/t silver equivalent).

There is ample potential for Extorre to add value. However, much of its future success is factored into the company's share price already. The company plans to update the Cerro More resource estimate in Q4. That should include the new Zoe discovery, which is good, and though the new zone is also high-grade, there's a risk that the size of the next resource estimate may be smaller than the market is expecting, making the company look overvalued per ounce.

GUY: Guyana has NI43-101-compliant resources in two projects: Aurora and Aranka. Aurora hosts 5.3 million ounces of gold at an average grade of 3.9 g/t Au in the Measured and Indicated category and 1.3 million ounces in Inferred, at an average grade of 3.98 g/t Au. Aranka has 460,000 ounces of gold at an average grade of 2.1 g/t Au in the Inferred category.

Aurora (the flagship project) has a preliminary economic assessment dating back to August 2009. In it, the project NPV at a 7% discount rate and US$1,000 gold is US$777 million, increasing to US$1.2 billion at US$1,200 gold. The company's MCap is close to the initial NPV at the moment, but our implied growth number suggests that it is moderately overvalued. As was mentioned in the initial write-up on GUY, the company is working on an updated resource estimate plus drilling and preparations for a formal feasibility study. Some of it may have made its way into the company's share price already, but we believe the 2009 numbers understate Aurora's value, and there is a lot of upside to this play.

ICI: Inter-Citic updated its Dachang resource estimate in June. Now the project hosts 1.88 million ounces of gold at 3.14 g/t Au in the Measured and Indicated category, and 1.93 million ounces at 2.83 g/t Au of Inferred. In spite of the increase in the company's gold in situ, ICI looks a bit more expensive than it did in May. That could possibly be because Inferred ounces, as we pointed out earlier, are being treated better today than they were in the spring, and the June resource estimate mentioned above added 400,000 more Inferred ounces to the previous resource count. A bit of a backwards result. We continue to believe that more definitive economic numbers are what this story needs, and understand that they are on the way.

THM: Investor confidence seems to be building in THM, as the company appears to be valued higher now than in our last update. There were no radical changes to the story: THM continues delivering good intercepts from Livengood and continues working on its prefeasibility study. That may have clicked with the market and persuaded it that THM has more value than its capitalization reveals. Or not – sometimes the market works in mysterious ways.

On the value side, drill results published in June made quite a compelling case that the higher-grade core that would make up the starter pit once Livengood goes operational is getting bigger – certainly a good sign and a reason for increased investor confidence. We do not think that THM is overvalued, but as the market starts noticing its merit, we will be ever more cautious about deciding when to buy.

MML: Even considering that Medusa increased its total resource by about 30% in a recent Co-O update, it continues looking overvalued per ounce of gold underground. Again, we think the main reason for this is that Medusa derives its value not from the number of gold ounces in various resource categories, but from production and consequent earnings. The company's latest quarterly activities report boasts another annual production record of 101,474 ounces. Not only is the amount of ounces produced in the quarter remarkable, but so are the gold grade and costs. Average recovered grade at Co-O was 12.63 g/t Au and cash costs amounted to just US$189. That's below cheap.

And that's why Medusa still looks expensive: There is no company-specific reason to render the stock cheap. It continues to be a super-profitable producer expanding its resource and production base. Eleven drill rigs are turning at Co-O, and recently delivered grades were very good and expanding the Co-O vein system. All of that is positive, but our conclusion here is that MML doesn't look like a bargain for the gold ounces it has – only compared to the doubled production it will have.

NFR: Northern Freegold did not release any news relevant to its project value recently and looks about the same as it did last time: undervalued. The difference between past and present implied value is quite significant, though, surely driven by management changes within the company. That's a red flag for us too, so, in spite of the apparent bargain, we can't recommend buying shares at this time.

PMV: PMI Gold is one of our newest picks. Its core property is the Obotan mine located in Ghana. Obotan is a decent-grade mine with historical production that achieved more than 90% recoveries. The company is exploring these legacy pits, and this makes its ounces more valuable. Obotan's resource count includes 156,000 ounces of gold in the Measured and Indicated category at 1.6 g/t Au and 1.1 million ounces Inferred at 2.2 g/t Au. Another resource-bearing property PMI owns is Kubi, which hosts 233,000 Measured and Indicated at 5.5 g/t Au and 115,000 Inferred at 5.3 g/t Au. Kubi is located in a different gold trend 110 kilometers from Obotan, so these ounces are not the same.

As our implied value data show, the market values PMI's gold at about par with its current MCap. However, we see a lot of potential in PMI (see our initial write-up on PMI in the July issue of *IS* for details), including drill results, resource expansion and a prefeasibility study. So – as with many other stocks – we take the numbers lightly. No red flags here.

PG: Premier Gold again looks overvalued per ounce of metal, perhaps because we're not alone in seeing it as a takeover target. High-grade drill intercepts continue coming; and the recent agreement to acquire GoldGroup (not closed yet) for the sake of securing 100% of the Hardrock project both adds value and adds to the takeover potential. We would reiterate that the premium over the company's in situ value (and we take that with a granule of NaCl, remember?) is justified by its potential.

PVG: Pretium's numbers are still suggesting a lot of upside, and with good reason: In May, the company released metallurgical results for its Brucejack project that outlined 92% to 95% recoveries for gold and 73% to 76% for silver. Moreover, the higher-grade West zone achieved a terrific 99% recovery. These numbers are preliminary, but look great nevertheless.

Then PVG announced the results of a Preliminary Economic Assessment for Brucejack. At a 5% discount rate and US$1,000 per ounce gold and US$21 per ounce silver, Brucejack scored US$662 million NPV and 27.1% IRR. At US$1,536 per ounce gold and US$37.86 per ounce silver (current spot prices at the date when the PEA was released), the project's NPV soared to US$1.4 billion and the IRR to 48.3%.

But Pretium also has Snowfield, an adjacent project of comparable size. Given how much gold the two host together, PVG has room to grow – based only on the value of ounces in situ, if nothing else.

SSP: Sandspring is another new pick of ours. Its only project, Toroparu, is located in Guyana and contains a total of 8.4 million ounces of gold. That includes 3.5 million ounces at 0.72 g/t gold in the Measured and Indicated category as well as an Inferred resource of 4.9 million ounces of gold at 0.71 g/t gold. Toroparu also has 565.2 million pounds of copper in the M&I and Inferred categories.

In a recent Preliminary Economic Assessment, Sandspring outlined a plan to mine 3.83 million ounces of gold and 308 million pounds of copper at an average annual production rate of 310,000 ounces of gold and 29 million pounds of copper. The project's pre-tax NPV-5 was US$854 million and an IRR of 24.5% – estimated using US$1,137 per ounce gold and US$3.13 per pound copper.

In short, these are quite good ounces, and the company's MCap is way below that NPV. No wonder implied growth numbers tell a similar story: Toroparu is undervalued.

SWD: Sunward's story remains on track with no ounces added at the flagship Titiribi gold-copper project between updates, though they are clearly on the way. Some good bulk-grade intercepts, including 183.6 meters of 0.56 g/t gold from the Chisperos Zone, bolster that confidence. A resource update should be coming soon. Until then, the company's ounces may look fairly valued, but that's focusing on past numbers, not those that lie ahead.

TWD: Like Sunward, TWD shows similar implied growth to the one we calculated for the previous update. The company delivered a lot of good infill drill results, but no game-changers. Per ounce of gold underground, TWD looks good.

VGQ: Virginia is a complex play that already makes money on one project (Eleonore) and is ready to explore for others, but the value proposition here does not (yet) reside underground in the form of potentially mineable ounces in the company's own projects. We value VGQ for cash flow and its successful exploration team. In late May, VGQ delivered pretty good grade results from its Lac Pau project (5.5m of 3.56 g/t Au) and has committed C$17 million for 2011 exploration. We maintain our trust in the team and look forward to the drill results.

Parting Thought

Since we started producing these "ounces in the ground" updates, we have diligently reminded you that ounces in the ground are but one parameter of a project along with its location, infrastructure, specific metallurgy, etc.; and their valuation can vary wildly because of these factors. Further, the value the market is willing to assign to a project as a whole is closely related to its potential, and vice versa. But we can't invest in the shares of projects themselves – it's the shares of *companies* we are making money on. And that is a whole different story with a lot more variables at work and risks to consider.

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COMPANY RECOMMENDATION UPDATES:
Winning Picks

Shopping Season hasn't brought us as many bargains as we'd hoped for, and that may yet happen, but with the fall Surge Season ahead, we don't want to hold our breath. This does *not* mean it's time to throw caution to the winds and go "all in," but rather, that gold looks to have more upside than downside for the remainder of the year. Unless we get another 2008-style crash… which did happen in the fall, after all.

So, we're buyers, but cautiously, with great emphasis on growing resources in hand and enough cash in the bank to survive a major correction. We're taking first and second tranches when fluctuations are to our advantage, but still keeping stink bids in mind for larger blocks of our favorite stocks, if given a chance.

Key point: The way things are going, especially given gold's excellent performance this year, good companies with cash to survive corrections should come out winners – and not in the very distant future.

THIS MONTH'S TOP *IS* PICKS:

Alexco Resource Corp (AXU, T.AXR)

Andina Minerals (V.ADM)

Columbus Gold Corp (V.CGT)

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

Fortuna Silver Mines (T.FVI)

Guyana Goldfields (T.GUY)

International Tower Hill Mines (THM, T.ITH)

Premier Gold (T.PG)

Pretium Resources (T.PVG)

As usual, specifics on these and all our picks are below. Valuations and prices are as of July 29, 2011. Please click on company names to see the detailed recommendations.

Producers

Company	Share price, 7/29, 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	7.96	1,498.5	1,346.0	0.5	0.1	**2,665.38**	**515.72**	0.31	25.7	414.68	468.1	**3.20**	**2.88**
Silver													
Alexco Resource	7.47	448.2	394.2	0.0	18.0	**n/a**	**6.13**	n/a	n/a	11.79	1,624.1	**0.28**	**0.24**
First Majestic	22.54	2,341.5	2,247.1	47.8	126.1	**46.98**	**6.50**	0.41	54.8	16.65	719.0	**3.26**	**3.13**
Fortuna Silver Mines	5.79	714.5	584.1	54.9	10.6	**10.64**	**5.36**	0.12	48.3	19.72	826.7	**0.86**	**0.71**
Silver Wheaton	36.25	12,808.7	10,425.3	942.0	365.3	**11.07**	**5.79**	0.84	43.2	7.77	16,718.8	**0.77**	**0.62**
Silvercorp	10.45	1,830.1	1,590.2	101.9	173.9	**n/a**	**2.83**	0.41	25.5	10.26	15,098.9	**0.12**	**0.11**

Footnotes	
USD/AUD	$0.91
USD/CAD	$0.95
Gold price, US$/oz	$1,628.50
Silver price, US$/oz	$39.63
Copper price, US$/lb	$4.40

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$7.09	60M	64.6M	C$425.4M	C$3.25, 5/06	134.6%	C$3.10-C$9.75

HM: Ag, Pb, Zn / BUY FIRST TRANCHE—Alexco delivered new high-grade resources last month that were not rewarded by investors amid market jitters. Story is better, stock is down, that's an opportunity.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FIRST MAJESTIC (T.FR, NYSE.AG)	C$21.39	103.9M	109.2M	C$2.2B	C$1.85, 2/05	575.9%	C$3.84-C$25.79

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

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
FORTUNA SILVER MINES (T.FVI, PK.FVITF)	C$5.50	123.3M	128.9M	C$678.2M	C$2.13, 12/09	154.7%	C$2.08-C$6.81

HM: Ag / BUY FIRST TRANCHE—Fortuna had a good month last month, with production, recovery, and prices all up, with more good news likely soon. It's not as cheap as it was, so buy first tranches only.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
MEDUSA MINING (T.MLL, PK.MSDMF)	A$7.22	188.2M	189M	A$1.4B	A$3.74; 3/10	89.8%	A$3.63-A$8.71

HM: Au / BUY FIRST TRANCHE—Medusa has recovered from its TSX delisting, and continues adding resources and pouring gold at exceptionally low costs. Great company for those with LSE or ASX access.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
SILVERCORP (SVM, T.SVM)	C$9.92	175.1M	178M	C$1.7B	C$6.30, 5/06	57.4%	C$6.73-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$34.41	353.3M	355.4M	C$12.1B	C$3.18, 2/05	575.8%	C$19.47-C$45.50

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

Explorers

Company	Share price, 7/29, 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 *	3.36	199.0	166.5	0.7	**232.31**
Andina Minerals	1.29	141.7	120.7	10.1	**11.93**
Bayfield Ventures	0.77	47.8	39.2	0.0	-
Colombian Mines	0.63	20.6	13.3	0.0	-
Columbus Gold	0.86	76.9	70.5	1.9	**37.11**
Corvus Gold	0.55	22.8	14.0	0.4	**35.04**
East Asia Minerals	2.15	175.2	154.1	3.3	**46.99**
Exeter Resources	4.30	374.4	293.7	45.0	**6.53**
Extorre Gold Mines	12.91	1,178.4	1134.1	2.3	**501.59**
Gold Bullion Developme	0.40	66.7	56.7	0.0	-
Guyana Goldfields	8.43	702.1	650.0	7.1	**91.10**
Inter-Citic Minerals	1.58	185.7	161.0	3.8	**42.25**
International Tower Hil	7.58	656.4	547.7	13.3	**41.18**
Northern Freegold	0.32	32.4	23.2	2.5	**9.31**
Pilot Gold	2.41	142.4	105.2	0.0	-
PMI Gold	0.55	108.3	74.2	1.6	**47.67**
Premier Gold	6.26	655.3	624.5	3.0	**209.81**
Pretium Resources	10.77	1,059.6	994.8	65.3	**15.24**
Regulus Resources	1.23	44.6	40.0	0.0	-
Renaissance Gold	1.91	58.5	46.6	11.6 **	**4.00**
Sandspring Resources	2.66	287.0	258.2	9.9	**26.13**
Sunward Resources	1.95	278.3	208.9	3.7	**56.46**
Trade Winds Ventures	0.31	51.8	42.9	1.6	**27.14**
Virginia Mines	8.96	277.6	232.4	0.2	**1,216.08**
XTRA-Gold	1.96	86.2	75.9	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$3.19	59.2M	Est. 63.7M	C$188.8M	C$0.78, 3/03	360.3%	C$0.93-C$5.25

HM: Au / BUY FIRST TRANCHE—AMM delivered more thick bulk-grade intercepts with narrower high-grade intervals at Ixtaca. Our C$3.25 guidance got met last month, so we'd shoot for that level again.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
ANDINA (V.ADM, PK.ADMNF)	C$1.22	110.2M	132.6M	C$134.4M	C$3.94, 6/08	-69%	C$1.10-C$1.94

HM: Au / BUY FIRST TRANCHE—Andina is largely unchanged, up yesterday, but still on sale. We continue seeing the flagship Volcan gold project as likely to deliver the goods.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
BAYFIELD (V.BYV, BYVVF.OB, FRA:B4N)	C$0.73	62.2M	75.7M	C$45.4M	C$0.55, 9/10	32.7%	C$0.39-C$1.38

BUY FIRST TRANCHE—BYV continues taking flak for the way it reported its most recent drill results, but the fact remains they had a great hit. Takeover potential still strong. We'd buy if we didn't own any.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
COLOMBIAN MINES CORP. (V.CMJ, CMBPF.PK)	C$0.60	32.6M	44M	C$19.6M	C$0.92, 2/10	-34.8%	C$0.445-C$1.05

HOLD—More high-grade underground samples announced from El Dovio last month, but still no drill results. We're still holding, but note the stock is up a bit – an opportunity for those looking for an exit.

COMPANY	Price	SO	FD	MCap	REC	gain	52-week
COLUMBUS GOLD CORP. (V.CGT, CBGDF.PK)	C$0.82	89M	95.9M	C$73M	C$0.87, 2/11	-5.7%	C$0.145-C$1.13

BUY FIRST TRANCHE—No news, great story remains on track. The truth machine should start turning on the flagship Paul Isnard project soon, but there's still time to take advantage of more weakness.

CORVUS GOLD (T.KOR, CORVF.OB)	C$0.52	41.6M	46.1M	C$21.6M	C$0.00, Spinout	C$0.52	C$0.485-C$1.40

HM: Au / BUY FIRST TRANCHE—Corvus largely unchanged. We think the North Bullfrog shallow oxide gold project is likely undervalued, but the market is looking to Alaska for results. First tranche here works.

EAST ASIA (V.EAS, EAIAF.OB)	C$2.04	81.5M	87.6M	C$166.3M	C$5.15, 5/11	-60.4%	C$1.98-C$8.55

HM: Au / BUY IF YOU DARE—EAS has, frankly, been a train wreck for us, but the value is there and the work is under way to add to it. We're averaging down and see the sell-off as a contrarian opportunity.

EXETER (XRA, T.XRC, FRA:EXB)	C$4.04	87.1M	99.8M	C$351.9M	C$2.74, 6/07	50%	C$3.99-C$7.53

HM: Au, Ag / BUY—Exeter still the best bargain in our portfolio. We may have to be patient while the company shakes off market skepticism, but we think 40+ million ounces of gold is worth the wait.

EXTORRE (T.XG, PK.EXGMF)	C$12.25	91.3M	102.6M	C$1.1B	C$0.00, 3/10	C$12.25	C$2.81-C$14.84

HM: Au, Ag / HOLD—XG delivered more great, high-grade gold-silver results from Cerro Moro. We love the company, but still see too much of the upside already factored in to buy at present.

GOLD BULLION DEV. CORP. (V.GBB, GBBFF.PK)	C$0.38	166.5M	197.6M	C$63.3M	C$0.455, 4/11	-16.5%	C$0.35-C$0.93

HOLD—GBB released some decent drill results, par for the course. We still have issues with management, so are not recommending any new buying, but are willing to play the hand out and see how it goes.

GUYANA GOLDFIELDS (T.GUY, FRA.GG3)	C$8.00	83.3M	90.2M	C$666.4M	C$8.69, 6/11	-7.9%	C$6.82-C$11.79

HM: Au / BUY—Our call to average down on GUY last month has turned out very well. No news, but a simple exercise in Shopping Season buying. Now we'd wait for the next dip for more tranches.

INTER-CITIC (T.ICI, PK.ICMTF)	C$1.50	117.5M	135.6M	C$176.3M	C$1.80, 11/07	-16.7%	C$1.19-C$2.37

HM: Au / BUY UNDER C$1.25—ICI cashed up, but otherwise unchanged. Absent a major new discovery, real value added will likely depend on feasibility work at this point, and that will take a while. Be patient.

INTL. TOWER HILL (THM, T.ITH)	US$7.50	86.6M	93.3M	US$649.5M	US$1.21, 11/08	299.6%	US$5.77-US$10.49

HM: Au / BUY—THM had a good month in July, right up until the market volatility at the end set it back hard, so it's relatively on sale again, but remains a great story. This is a core holding.

NORTHERN FREEGOLD (V.NFR, PK.NFRGF)	C$0.30	102.5M	131.9M	C$30.8M	C$0.335, 2/09	43.3%	C$0.28-C$0.42

HM: Au, Ag, Cu, Pb, Zn / HOLD—NFR still uncertain, as management transition drags on. Massive dilution as the company financed has not pleased us, but this remains the prime undervalued Yukon play.

PILOT GOLD (T.PLG)	C$2.29	59M	62.5M	C$135.1M	FRG spinout, 4/11	C$2.29	C$2.14-C$3.74

HOLD—PLG unchanged: cashed up, drilling, and on track, but we're still waiting for a clear flagship project we can get excited about to emerge. Holding for now.

[PMI GOLD (V.PMV, ASX.PVM, OB.PVMGF)]	C$0.52	197.7M	260M	C$102.8M	C$0.52, 7/11	0%	C$0.30-C$1.08
HM: Au / BUY (FIRST TRANCHE)—PMI is a new pick that has already delivered great results from flagship Obotan project (57 meters of 3.5 g/t gold). Shares up, but not much. We'd buy if not long already.							
[PREMIER (T.PG, PK.PIRGF)]	C$5.94	104.7M	113.3M	C$621.9M	C$2.48, 7/08	106.3%	C$4.61-C$8.00
HM: Au / BUY FIRST TRANCHE—Our favorite takeover candidate is up over last month, without any game-changing news, but is still relatively cheap. Buy on the dips.							
[PRETIUM RESOURCES (T.PVG, PK.PXZRF)]	C$10.22	98.4M	109.3M	C$1B	C$6.42, 2/11	75.6%	C$5.75-C$14.19
HM: Au / BUY FIRST TRANCHE—Pretium delivered more super-high-grade gold results (0.5 meters of 4,060.0 g/t gold) and saw its shares rise last month, but it still has a lot of upside.							
[RENAISSANCE GOLD (V.REN, PK.RNSGF)]	C$1.81	30.7M	34.7M	C$55.6M	C$0.00, XAU spinoff	C$1.81	C$0.70-C$2.50
HM: Ag / BUY UNDER C$1.50—No major changes here, just one more JV poker in the fire. Drills are turning, but having bought already, we'd wait for lower prices before adding to our position.							
[REGULUS RESOURCES (V.REG)]	C$1.17	36.2M	38.8M	C$42.4M	C$0.00, ANM spinoff	C$1.17	C$0.70-C$1.60
BUY UNDER C$1.00—Drills have started turning on the flagship Rio Grande project, but no results yet. Story remains on track. No need to chase this one.							
[SANDSPRING RESOURCES (V.SSP, PK.SSPXF)]	C$2.52	108.1M	120.5M	C$272.4M	C$2.19, 6/11	15.1%	C$1.25-C$3.75
HM: Au, Cu / BUY FIRST TRANCHE—Sandspring delivered more long, bulk-grade gold intercepts, but the story remains basically the same. Shares have pulled back a bit from a good rally last month.							
[SUNWARD RESOURCES (V.SWD)]	C$1.85	142.8M	193.1 M	C$264.2M	C$1.14, 12/10	62.3%	C$0.58-C$2.15
HM: Au, Cu / BUY UNDER C$1.50—SWD delivered more bulk-grade gold intercepts and the share price is up strongly. We like the story, but would wait for the next retreat for buying.							
[TRADE WINDS VENTURES (V.TWD, TWDIF.OB, FRA.TVR)]	C$0.29	Est. 169.6M	Est. 184.4M	C$49.2M	C$0.24, 11/10	20.8%	C$0.13-C$0.475
HM: Au / BUY UNDER C$0.25—TWD delivered good, though not great drill results from the flagship Block A project, but still no game-changers. The stock is doing well, however, so hold for lower prices.							
[VIRGINIA (T.VGQ, PK.VGMNF)]	C$8.50	31M	33M	C$263.5M	C$5.80, 2/07	46.6%	C$6.71-C$9.80
HM: Au, Ag, Zn, Pb, Cu / BUY UNDER C$8.00—Virginia off recently with no major news. Not quite down to our Buy Under guidance, but that could happen on a bad week for gold. Wait for market to come to you.							
[XTRA-GOLD (XTGR.OB, T.XTG)]	US$1.96	44M	47.6M	US$86.2M	US$1.90, 4/11	3.2%	C$1.20-C$2.51
HM: Au, / BUY UNDER US$1.70—No news here, but the story remains on track. Shares are up, so wait for the next retreat before buying more.							

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Term of the Month: Smearing

There has been a lot of press recently about "smearing" drill results to make them seem better than they have. One of our picks – Bayfield Ventures – has been cited for this and made to look doubtful by a restatement of drill results forced by regulators.

First, yes, there is such a thing as smearing – meaning "smearing" narrow, high-grade results out over barren rock to make it appear that broader, more robust mineralization has been intercepted. Usually this refers to drilling, though it could apply to channel sample results or anything else that gives you a mineralized width.

For example, if a company intercepts one meter of 15 g/t gold surrounded by completely barren rock, but reports three meters of 5.0 g/t, it may make the hit look more robust. And, mathematically, it would even be true – but not really representative of the rock in question, since the three meters are not mineralized; only the one, high-grade meter is. This is a sort of false advertising, lying with the truth, and something to be aware of in press releases from unscrupulous companies.

So, did Bayfield smear their results?

The company did report 79.5 meters of 8.66 g/t gold, including 11.2 meters of 60.05 g/t gold. Now, 79.5 x 8.66 = 688.47 gram-meters and 11.2 x 60.05 = 672.56 gram-meters. That's close enough that it's pretty evident there was very little gold outside of that 11.2-meter high-grade segment.

Management argues that they reported the 79.5-meter interval because, while it carried almost no gold, it was mineralized – meaning, it was the same kind of altered rock that carried the high-grade, not just untouched country rock. They further argue that this was an exploration hole, in which it's too early to say what parts might end up included in eventual ore, and not a resource definition hole, in which one must exclude material that will never be mined. They say the regulators applied the stricter, resource-definition standard to their exploration hole.

That may be so, but we would not have reported the results in the way the company did – and we're sure they'll be more careful in the future. But does that mean BYV's results are a scam? Hardly. The 11.2-meter hit they are said to have smeared carries gold in every subinterval, and the aggregate result is still a terrific hit. Anything in the range of a couple ounces per tonne is probably economic, even over less than a meter width – let alone 11.2 m. And this is in a hit that extends a known high-grade shoot over 600 meters, making it a very significant discovery.

Bottom line, yes, beware of smearing, but also don't let yourself get stampeded by critics seeking to make names for themselves as would-be whistle-blowers.

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Questions For *IS*

Q1: Okay, let's get down to business... Somewhere along the line I read out in the blogosphere two things about Exeter that I found disturbing, and this was back when it was trading in the mid-$5.00 range, trending down. 1) That Exeter cannot do this project alone, that they don't have the resources. That they need a big partner to step in. 2) That the CEO was cheesy enough to state that a takeover was imminent, when obviously it wasn't. What are your thoughts?

A1: First, it has long been evident – almost from the discovery hole – that Exeter would not build Caspiche itself. This is a major, multibillion-dollar project, and a bank would never lend a little junior that kind of money. So what? If Exeter can get a partner to build the mine and hold on to a substantial percentage, as with Northern Dynasty (T.NDM) or one of these other megaprojects, that'd be great for Exeter.

Second, I can't really speak to gossip, but I've never heard the CEO claim a takeover was imminent. I do recall that Extorre (T.XG) was spun out because at the time the market wasn't giving the company anything for its non-Caspiche assets, and they did not want to get bought out and get nothing for Cerro Moro. Even though Exeter has not been bought out, it was a good move that has obviously worked out very well for shareholders.

Q2: I'd like to know why Auplata SA is dropping like a rock. does it have the same dynamics as Columbus Gold, and should I be buying any shares of Auplata gold?

A2: Auplata retains 49% of the Paul Isnard project, so it would seem that the market should treat it almost the same as Columbus Gold (V.CGT), but there are differences, particularly the saprolite gold mining operations that were losing money in the past. Auplata may or may not have a good solution for that; and Auplata trades in France, which is not a market with deep experience in the resource sector. So this is a risky approach, but actually, we like it. At some point in the future, there's a decent chance Columbus and Auplata will merge. If they do, Auplata shareholders are likely to receive CGT shares for their Auplata shares. It's hard to say what the terms will be, but they should be advantageous to Auplata shareholders. This is a highly speculative way to play this story, but it could work our very well for those brave enough to try it.

Q3: Assuming we experience a dramatic fall in the U.S. dollar, and perhaps at some later point even the Canadian dollar, what would happen to the stock value of junior mining companies who had been, previous to the dollar fall, "cashed up" adequately to complete preliminary investigative/quantification work such as drilling? Despite the likely commensurate dramatic rise in gold/silver prices caused by a dollar crash, mightn't such junior companies be put out of business by the loss of value of their cash needed to get an actual mine into production? Would this tend to favor producers over juniors as an investment?

A3: Interesting question – good thinking outside the box. We would not worry about this too much, for the basic reason that if the currencies die and gold and silver go nuts, gold and silver companies in need should be able to raise whatever cash they need (in whatever kind of cash is circulating). The bigger risk would be if companies held a lot of cash in USD but had their operating expenses in some place where the currency did not crash – say, Norway. There are not a lot of stories like that, but currency appreciation risk is certainly something to keep in mind. For the most part, we think all major currencies will stay in the race to the bottom, so while commodity prices will rise, foreign exchange rates will fluctuate less between currencies, mitigating the problem of being able to pay for exploration work with paper money.

All of that said, there's a reason we have focused on adding emerging producers and advanced explorers to our portfolio, and your question is certainly part of it.

Q4: Another advice publication is highlighting a recent mining discovery of gold fields using NASA-based space technology to discover geologic formations that represent large potential finds. Are you aware of this, and if so, can you cover this in the next *International Speculator*?

A4: There are frequently excited stories about new satellite-based technologies that "find gold" in the ground. There's no such thing, not yet. There are systems that help identify potential targets, but that's it – you still have to go and drill and see if there's a volume of potentially economic mineralized rock there.

The specific technology you are probably referring to is called LIDAR, a laser system that maps the surface of the earth with extreme accuracy. This can show geologists structures, as you say, that may not be evident to the naked eye. Combining this with other field work, particularly surface samples assayed for gold, or whatever you're looking for, can be a great way to target exploration drilling. But it's still up to the old-fashioned Truth Machine at that time.

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End Notes

Casey Research Ethics

Is an alert service ethical?

We've had questions from some readers about the propriety of having an alert service. Apparently, some subscribers have felt treated in a "second class" manner because subscribers to our Alert service hear about some opportunities first.

That is true – it is an *alert* service, after all. Some opportunities move very quickly, and won't wait for a monthly newsletter. Since anyone who wants to sign up for *Casey Investment Alert* is welcome to do so, we see no ethical problem with this. (The Alert service does have a limited number of seats – but as they open up, we offer them to everyone interested, on a first-come, first-served basis.)

There are other reasons for the Alert service to exist. Some opportunities are just too illiquid to bring to the attention of the larger monthly list, which would blow them out of the water (statistically speaking, "no one" would get in at a good price). Other opportunities are enhanced by private placements, open to qualified investors only – and that tends to be Alert subscribers. Also, some people simply prefer a monthly pace – they don't have time to follow up on investment opportunities at the drop of a hat as Alert subscribers do.

And that is why we have an alert service; it's there to enhance results for those who have the time, money, and inclination to step up to the high-stakes table. Learn more about it, and join the queue for a *CIA* subscription if you desire. But rest assured that we value our monthly subscribers highly, and work diligently to deliver value far in excess of the cost of subscription. The bottom line is: Do you make money with us? That's what really counts – and we sure hope so.

Upcoming Events

Freedom Fest 2011

***When Money Dies:* A Casey Research Summit**

Doug Casey, Louis James, Marin Katusa, Bud Conrad, Olivier Garret, Alex Daley, and more will be presenting our latest research and thoughts on the USD and other fiat currencies at this Casey summit in Chandler, AZ, from October 1 to October 3, 2011. For more information, call (802) 253-8767, ext. 105; email summit@caseyresearch.com; or see our website.

Mines and Money Australia 2011

Doug Casey will be speaking ath the Mines and Money Australia conference in Sydney, Australia from October 10 to October 12, 2011. For more information call +852 2531 6130, Email: lstemp@beaconevents.com or see the conference website.

2011 Silver Summit

Louis James will be speaking at the 2011 Silver Summit, at the Davenport Hotel in Spokane, WA from October 20 to October 21, 2011. For more information call (604) 687- 4151, Email: info@cambridgehouse.com or see the summit website.

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

Stupidity Watch

Peruvian Stupidity in Disguise

In case you missed our update in Casey's Daily Dispatch, we remain skeptical that Ollanta Humala, Peru's president is as pro-business as he's now claiming to be. Our sources on the ground tell us that in spite of the appeasing headlines, Humala's actions as he gets his government going do not bode well. He's stiffed election-time pro-business allies and continues promising socialist goodies while saying investors will be respected. Buyer beware, be very aware.

On the Bright Side

The three-ring circus in Washington has been so busy trying to bail out the sinking U.S. economy, they haven't had time to kill mining in the U.S. with a new federal royalty. And next year is an election year, so we may be spared for some time to come. We'll continue keeping an eye on this situation.

Continuing Education Department

What is Big Brother Watching?

Ever wonder about all the snooping all the feds do? It's a pain in the posteriour to file a Freedom of Information Act request to find certain things out, but here's a web site where you can find interesting historical documents pertaining to what the FBI has been keeping tabs on. For example, their files on one of Doug's favorites, H. L. Mencken.

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End Quote

Everyone loves it when we pick a winner, but to do it consistently requires more than luck. This is why we keep reiterating the lessons of discipline, strategy, and patience for speculators. Here are a few related quotes that come to mind.

> "We all love to win, but how many people love to train?"
>
> —Mark Spitz (1950-) U.S. former Olympic swimmer, 7-time gold medalist

> "It's not the will to win, but the will to prepare to win that makes the difference."
>
> —Coach Paul "Bear" Bryant (1913-1983)

> "You were born to win, but to be a winner you must plan to win, prepare to win, and expect to win."
>
> —Zig Ziglar (1926-) U.S. author, salesperson, motivational speaker

> "Winning is not a sometime thing; it's an all the time thing. You don't win once in a while, you don't do things right once in a while, you do them right all the time. Winning is a habit. Unfortunately, so is losing."
>
> —Coach Vince Lombardi, 1913-1970

And one from The Master of Those Who Know, Aristotle:

> "I count him braver who overcomes his desires than him who conquers his enemies; for the hardest victory is over self."

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