Con-Artistry, Fraud and Theft--Only Truth is being Tapered!

Last week, I participated on a panel discussion with Eric Sprott, Eric Coffin and Peter Spina that emceed by Chris Berry. One of the questions had to do with whether or not we anticipated the Fed would “taper” its purchases of government debt. I maintained that it might taper a small amount but in any event, the whole discussion of tapering was a con job orchestrated by Fed propaganda artists to keep market participants from voting in one direction, namely toward endless tapering, which could then lead to endlessly rising asset prices.

I don’t know of any one picture that tells the story of the ruling class and its control over the U.S. monetary policy better than the chart on your left provided by Ranting Andy Hoffman (who will be a guest on my radio show next week). Indeed the major media had the market expecting tapering would take place because of all the happy talk suggesting the economy was getting stronger and that inflation was well under control. But when push came to shove, the Fed absolutely could not withdraw even a small amount of the heroin from the veins of the U.S. financial markets or it would be facing another crash. The bottom line: It is now obvious that the “emperor” is swimming naked. The U.S. economy is way too fragile to wean if off its “heroin” addiction. With labor market participation continuing to decline and with mortgage applications plunging with just the hint of slightly higher rates, it should be obvious to anyone with an IQ the level of a moron that our fiat currency system is near its lethal end and that gold and silver are the only earthly answer.
New Buy Recommendation (09/13/2013):

Scorpio Gold Corporation

**Business:** Gold production and exploration in Nevada

Traded Toronto: SGN
US OTC: SRCRF
Shares Outstanding: 124,948,235
Recommended 9/13/13: US$0.208
Price 9/18/13: $0.22
Market Cap: US 27,488,611 million
Working Capital 6/30/13: $8.5 Million
Six Month Cash flow (EBITDA)/Share: $0.08
Reserves (oz.): 131,000
Measured and Indicated Resource (oz.): 190,800
Projected 2013 Production (oz): 35,000-40,000
Progress Rating: A1
Telephone (Investor Relations): 858-456-7300
Web Site: www.scorpiogold.com

Note: Reserves and resources are for Mineral Ridge Mine Only

Scorpio Gold Corporation holds a 70% interest in the Mineral Ridge Mine in Nevada and it receives 80% of the cash flow from the mine. While most of the company’s current energy is spent on production and exploration on this open-pit heap leach operation, the true blue sky potential for this company may well come from its Goldwedge and Piñon property acquisitions that it picked up, for which it paid $1.25 million, issued 3 million shares, and assumed debt totaling $16.5 million (8% interest amortized over 36 months with no prepayment penalty).

I will talk more about the Goldwedge and Piñon properties in a minute. The bread-and-butter property for this company from which it is growing from internally generated cash flows is the Mineral Ridge Property, which had at one time been owned by Golden Phoenix, a company that was followed in this letter several years in the past. Whereas Golden Phoenix was not successful in turning a profit from Mineral Ridge, Scorpio is in fact doing so during its first full year of production in 2012.

During 2012 the company produced 32,066 ounces of gold, from which it generated earnings of $0.07 per share and operating cash flow (EBITDA) of $0.14 per share. Management is projecting 2013 production to increase to between 35,000 and 40,000 ounces, which, given its current reserve of 131,000 ounces, should enable it to continue producing at this level for more than three years. However, another 40,000 inferred ounces have just been announced, which can no doubt be upgraded to reserves with infill drilling.

Since startup, management has been reducing its cash cost per ounce fairly dramatically, as shown in the slide above, from a peak of $965/oz in the second quarter of 2012, to $713/oz in the latest quarter. Part of the decline in unit costs is due to increased production. But increased mining and production efficiencies along with a higher grade also contributed to this lower cost. An estimate of all-in costs would take total costs up another $200/oz or so, to $913/oz. But even at $1,300 this gives the company’s Mineral Ridge a profit of $387/oz.

From an operating point of view, the company’s performance has continued to strengthen so far in 2013. Its EBITDA for the first six months was $14.5 million, so on an annualized basis, that amounts to $29 million compared to $24.9 million in 2012. However, the company reported an accounting loss due to changing market conditions, which allows the company to write down assets due to
impairment testing using life-of-mine estimated discounted after-tax cash flows, which incorporate the current mining plan and reasonable estimates of future metal prices, operating costs, capital expenditures, and inflation.

During the second quarter of 2013, Scorpio Gold has recorded non-cash impairment losses totaling $9.9 million, including $9.4 million on its producing mining assets based on its assessment. As a result, the company reported an accounting loss of $7.8 million, or $0.05 per share, and loss of $0.04 per share for the first six months.

It may be difficult for some investors to get too excited about this company, given a relatively small operation and reserves of just 131,000 ounces. That’s understandable except for two points. First, I believe Mineral Ridge has the potential to continue producing for a multiple of its current three-to-four-year mine life and by the end of the year we should see an increase in reserves based on ongoing drilling. There are multiple deposits on this 12,380-acre property that are exploration, development, and production levels. So it is my belief that Mineral Ridge can continue to provide cash flow for this company from which it can grow organically.

Secondly, Scorpio’s best projects in the future may be its recently acquired Goldwedge and Piñon properties, which, as noted above, it purchased for cash, shares, and an assumption of debt. The company is paying off this debt from internally generated cash flows.

The Goldwedge Property includes a fully permitted/bonded operational mine and mill facility with gravity circuit currently permitted for 400 tons per day. It is located 16 kilometers south of the Round Mountain Property located in the Manhattan District.

Goldwedge has a small resource of less than 100,000 ounces that is reportable under NI 43-101 standards. Those numbers will likely increase with step-out and infill drilling. Management will make a decision whether to explore the mineral potential on this property on its own or bring in a partner to spend and earn a percentage of this project.

But near term, Goldwedge’s value to Scorpio is its fully permitted 500 ton per day mill. It has the option of processing some of the higher-grade Mineral Ridge ore that is difficult to recover via heap leach and it may also do some toll milling for neighboring mines.

The really exciting upside though in my view may come from the Piñon Property, which is a near-surface oxide gold deposit located on the southern end of the Carlin Trend and is on strike with Gold Standard Ventures’ North Bullion Deposit. Besides its near-surface oxide mineralization, which has had two historical resource calculations ranging between 480,000 ounces of gold and 797,000 ounces of gold, it is the high-grade mineralization trapped beneath the lower grade oxides that provides potential excitement here. As these are not 43-101 compliant, additional drilling will have to be carried out to reach compliance and to continue moving this project forward. But in my view, Piñon has the potential to evolve into something special along the lines of the kind of potential we have talked about for its neighbor, Gold Standard Ventures. Moreover, Scorpio Gold’s management team is comprised of highly successful explorers and well as producers—we can’t emphasize enough the importance of this company’s strong management team.

MANAGEMENT & DIRECTORS

Peter J. Hawley, BSc, BEng, PGeo, CEO, Director - Peter Hawley, founder of Scorpio Mining Corporation, served as CEO of that company from 1998 until November 2010 and is currently interim CEO and Director. He has 30 years of mining-industry experience that spans grassroots exploration through to development and production, and has worked extensively with a large number of intermediate and senior mining companies including: Teck Corp, Noranda Inc., Placer Dome Inc. and Barrick Gold Corp. Mr. Hawley is also highly experienced in private and public company financing and corporate administration.

Steve Roebuck, BSc, PGeo, President - Steve Roebuck began his career in 1995 with Royal Oak Mines Inc. working as a geologist at the Giant and Colomac gold mines in the Northwest Territories and Matachewan gold mine in Ontario. In 2000 he joined BHP Billiton Diamonds Inc. as a production geologist and later promoted to Production Engineer at the Ekati Diamond mine, Northwest Territories. From 2005 to 2007 he was Vice President of Exploration for Forest Gate Resources Inc., exploring diamond properties in Quebec and Saskatchewan. Steve joined Scorpio Gold in 2007 while it was a private company as Vice President of Development and was instrumental in the Company’s creation and property portfolio. From 2008 until present, Steve was Vice President of Exploration for Advanced Explorations Inc., overseeing the feasibility study team for the Roche Bay Iron Ore project in Nunavut. In 2009 he led the team in the discovery of the +500 million tonne Tuktu banded iron deposit and most recently the high grade (+69% Fe) specular hematite discovery.

For a complete listing of the management team and board, visit the company’s website at www.ScorpioGold.com

The Bottom Line

Scorpio is selling at a bargain-basement price. It has a proven management team that is competent in production as well as exploration. The company is selling at around 1½ times EBITDA with cash flows coming only from Mineral Ridge. Additional income may soon be increased with the company’s milling capability from its Goldwedge Property. Longer term its Piñon acquisition provides major blue sky potential for this company. As I have been suggesting all along during this cyclical gold bear market within a major bull market, it is wise to keep some cash on the sidelines to buy quality companies like Scorpio when we are at or near the bottom of this major correction. As such Scorpio Gold will now be included among our A1 companies (producers) and I hope to pick some shares of this company up for my personal retirement account as well.
Stock Pick of the Week (08/30/2013):

Dynacor Gold Mines Inc.

(Traded TSX-DNG/US OTC-DNGDF; 36.3 million shares outstanding; Price 9/18/13 $1.50; Market cap. = $54,450,000 million) – Usually, companies make only bad-news announcements on Fridays, especially in the summer; Wall Street and Bay Street practitioners are off to their weekend resorts. But sleight of hand and deception are not the style of Dynacor and its honest/hard working CEO Jean Martineau. I know of no one in the Canadian mining industry that I have a higher degree of confidence in than Mr. Martineau and the good news that he chose to tell us all about on Friday, even though it wouldn’t get the most attention, underscores the honest traits of this man who has built a very profitable business in Peru by honest, hard work and reinvestment of positive cash flows, rather than by rape and pillage of early shareholders through endless refinancing.

So what is the good news that was provided on Friday, the most inopportune day to get a bigger bang for your buck? The good news is that because of its continued progress in gold production, the company is raising its guidance for 2013 to 71,000 ounces of gold. That’s up from a prior guidance of 66,000 ounces. And if history is a guide to the future, I would not be surprised if the 71,000 ounces are not also bettered.

During July, 2013, gold production at Dynacor's Huanca ore processing plant reached 6,460 ounces of gold, an increase of 13.3 per cent as compared with July, 2012 (5,701 ounces). Also in July, the plant produced 12,526 ounces of silver. As of July 31, 2013, Dynacor has produced 44,381 ounces of gold compared with 31,203 ounces as of July 31, 2012, an increase of 42.2 per cent.

During second quarter of 2013, Dynacor's process engineers have been working on the Huanca mill and have implemented a series of changes that have led to further process optimization. These measures that required a minimal investment have allowed the company to increase its ore processing rate by 5 per cent to 230 tonnes per day, and the plant is currently running at this capacity.

From January to June, 2013, Dynacor has been able to purchase and process exceptionally high-grade ores, which averaged over 1.07 ounces per ton, well above the forecasted 2013 ore grade of 0.88 ounce per ton. In July, 2013, the company processed 6,778 dry metric tonnes of high-grade ore with an average grade of 1.01 ounces per ton, and despite a lower price of gold on the world market, there was no decrease in the availability of ore. Therefore, considering the first seven months of gold production and the increase in the plant's milling capacity, the company has increased its 2013 production guidance to 71,000 ounces of gold. This new conservative target assumes that for the rest of 2013 purchased ore grades will probably revert to the forecasted ore grade of 0.88 ounce per ton Au.

So do you see why I would not be surprised if the company actually produces more than 71,000 ounces this year? This is the style of Jean Martineau. He is a hard working, honest, humble man who also understands the pitfalls of over promising. Over the past couple of years since I have met Jean, I have gained the utmost respect for him and knowing him as I do, I think it is understandable why he has a good relationship with the Peruvian people, which is also a very important part of the Dynacor story. In talking about his company’s success, Jean gave much of the credit to his Peruvian employees.

Keep Your Eyes on Tumipampa

Yes, Dynacor is a growing producer. It buys the highest-grade ore from a small percentage of Peru’s licensed small gold mining companies. These are largely mom-and-pop operators whose production is too small to justify the capital cost of building their own mills. Dynacor buys the ore from them, gives them a fair and competitive price for that ore, but in the process builds in a margin for its operations. The company has earned $0.11 during the first six months of this year and given its business model, its profits do not fluctuate as much with the gold price as for most mining companies. Given the number of miners in Peru that need their ore processed, the growth prospects are very strong for Dynacor, and the long-term relationship that Mr. Martineau has with the Peruvian people is an advantage this company has that cannot be easily or quickly replicated by other companies who may wish to compete
with Dynacor. The company’s current business plan is solid and provides comfort for me.

Dynacor gives me as a shareholder, earning and cash flows during rough times and the prospects of continuing profits for the foreseeable future. That’s why I slept well, owning shares of Dynacor through this difficult time. In fact I took advantage of a depressed market to pick up more shares.

All that is fine and dandy, but what really gets me excited about this company is its blue sky potential from its Tumipampa Property in Peru. Take a look at the neighbors Dynacor has on its Tumipampa Property, on the illustration above left.

The Tumipampa Property is located 60 km south of the Province of Abancay in the Department of Apurimac and approximately 500 km SE of Lima; covers an area of 48.4 km² (4,842 hectares). Dynacor’s Tumipampa Project is located in the heart of a fast evolving mining region of Peru. The Tumipampa Concession strategically adjoins to a large and developing copper-gold resource consisting of 355 million tonnes at 0.62% copper held by Southern Copper. Recently, Southern Copper increased the size of its Los Chancas claim by staking land eastward to within two kilometers of Tumipampa’s border. Dynacor’s new landholding now closes the gap between the two companies’ assets. Currently all of the land around Tumipampa is claimed by major mining companies such as Southern Copper, Buenaventura, Golden Ideal Gold Mining (China), Super Strong Mining (China), and Bear Creek Mining. See more at: http://dynacorgold.com.

The illustration on the previous page right shows two different targets. The really big upside may result from the company’s gold-copper skarn target, which sits atop some 15 veins that have been discovered and, to a limited extent, mined in the past. It is also notable that disseminated gold exists between veins. In keeping with the conservative non dilutive management philosophy of Jean Martineau, the company has been funding exploration and developing the Tumipampa Mine with internally generated cash flow from its ore processing business, which is why after so many years this company still has less than 40 million shares of stock outstanding. The company is budgeting funds for exploring the skarn with a view to joint venturing that out at some point if it begins to look like it has a large viable gold-copper project on its hands. The company is simply not equipped to handle a major gold mining project, so it would cut a deal with one of several major companies if we as shareholders are fortunate to have that happen.

What is a higher probability, however, is the exploration and development of the underground vein system into which underground workings already partly exist and from where underground exploration can take place. Indeed, on July 16, as pictured on your left, Dynacor released results of the sampling in the crosscut on the Manto Dorado vein that is oriented north 58 degrees east dipping 22 degrees northwest. The crosscut, oriented north 72 degrees west, intercepted at 135 meters the Manto Dorado structure which has a width of 23.0 meters. Channel sampling was carried out on the north wall, south wall and on the roof of the crosscut. High gold grades and polymetallic mineralization were obtained over 7.40 meters (true width) on the north and the south walls and over 4.85 m on the roof of the crosscut.

Specifically, the roof sampling returned an average grade of 36.48 grams per tonne (g/t) gold (Au), 1.49 ounces per ton silver (Ag), 0.43 per cent copper (Cu), 0.08 per cent lead (Pb) and 0.12 per cent zinc (Zn) over 4.85 m true width (uncut grades) with one sample returning a maximum gold value of 111.5 g/t Au with 5.14 ounces per ton Ag, 1.13 per cent Cu, 0.26 per cent Pb and 0.23 per cent Zn over 0.75 m true width.
The north wall sampling returned an average grade of 15.58 g/t Au, 0.80 ounce per ton Ag, 0.020 per cent Cu, 0.09 per cent Pb and 0.20 per cent Zn over 7.40 m true width (uncut grades) and this includes an intersection of 4.90 m (true width) grading 22.35 g/t Au, 1.15 ounces per ton Ag, 0.29 per cent Cu, 0.11 per cent Pb and 0.25 per cent Zn (uncut grades).

The south wall sampling returned an average grade of 14.35 g/t Au, 0.37 ounce per ton Ag, 0.03 per cent Cu, 0.03 per cent Pb and 0.06 per cent Zn over 7.40 m true width (uncut grades) and this includes an intersection of 4.75 m (true width) grading 21.26 g/t Au, 0.54 ounce per ton Ag, 0.04 per cent Cu, 0.04 per cent Pb and 0.05 per cent Zn (uncut grades).

Needless to say, these are very strong grades. I believe management is planning to provide a 43-101 resource from this underground work on the Manto Dorado before the end of this year. And while the company has in the past processed ore mined by others, and it will continue to do so into the future, it also plans to process its own ore from Tumipampa in another year or two, which should bring it much higher margins than on the ore it purchases from small Peruvian miners.

The bottom line for me on this story is that Dynacor is still an unrecognized gold mining company with a less risky model than that of most mining companies. It has a growing production and profit profile and it has a chance of outlining something really big on its Tumipampa Skarn Target. These shares are up from their bottom of a few weeks back but Dynacor remains one of my favorite A1 companies because of its ability to under promise and over deliver, because of its growth prospects, and because of the chance for outlining a major gold-copper target without diluting its shareholders from here to kingdom come, which is the biggest risk to investors in the junior mining sector.

Stock Pick of the Week (09/06/2013):

Kirkland Lake Gold Inc.

Business: Gold mining and exploration in the Kirkland Lake area of Ontario.

Traded TSX: KGI
US OTCBB: KGILF
Shares Outstanding: 70,150,912
Recommended 9/28/12: US$12.12
Price 9/18/13: $3.98
Market Cap: $279,200,629
FYE 4/30/12 EBITDA: $23.2 million
FYE Working Capital: $36.1 million
Gold Reserves/Resources: 4,482,000 oz.
Projected FYE 4/30/14 gold prod. oz: 150,000 to 180,000
Progress Rating: A1
Telephone (Investor Relations): 416-572-2116
Website: www.klgold.com

I didn’t do justice to this story when I first recommended it back in September 2012, but not highlighting it may have been a good thing now that I know you can buy this stock at about a 2/3 discount over the past year. The dramatic decline in this stock is largely a reflection of the markets view of the gold mining industry. But also to an extent it is due to some delays the company’s underground expansion program that would have cut unit costs and pushed up production levels.

However, 90% of those expansion plans are now completed and paid for so that FY 2014 is considered a transition year from an exploration company to a full fledged production company. The company has increased the number of mining faces to 49 with 21 being developed and another 30 in the planning stages. And the hoisting capacity grew during the year just ended from 1,000 tons per day to 1,800 tons per day. The company is obviously on its way toward reaching its daily target production of 2,200 tonnes per day.

Expanded production has begun to show up with 4th quarter production totaling 31,503 ounces which is 34% of last year’s production. Projecting that out over twelve months would get the company to over 126,000 ounces next year. But those 31,503 ounces...
were produced from an average grade of 0.37 oz./ton which is below the average ore grade of 0.45 oz./ton. For FY 2014 management has given production guidance of 150,000 to 180,000 ounces in FYE 4/30/14 should be realized. That would contrast with 91,785 ounces of gold production during the year that just ended on 4/30/13. However, due to a considerable amount of grade variation, management warns that production levels and hence unit costs, can be quite variable.

With 91,785 ounces of gold produced last year, the company reported an accounting loss of $3.64 million. On an operating cash flow basis (EBITDA) the company generated 23.2 million. Were it not for a big increase in operating costs from $287/ton ($804/oz.) to $337/ton, ($1,119/oz.) the company would have reported a bottom line profit. A change in an inventory adjustment accounted for approximately $12/ton of that increased cost but the lion’s share of the variance resulted from delays due to technical issues of the construction of the service cage project which is a key to increasing mine production. Given the construction of the cage, men and supplies can be transported in and out of the mine, thus freeing up the hoist for increased mill feed from the mine. But because of that delay, less ore was produced and the grades were lower. During the delay the company pushed ahead with work and hiring related to the mine expansions project. The company’s long term cost target is $250 per ton. Clearly if the company can increased production to target levels and reduce costs along the lines projected, the profit picture for this company should rise significantly.

**Reserves and Resources:**

<table>
<thead>
<tr>
<th>CATEGORY (CAL 2012)</th>
<th>TONS</th>
<th>GRADE (OPT)</th>
<th>GRADE [G/MT]</th>
<th>OUNCES</th>
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</table>

As of Dec. 31, 2012 here were the company’s reserves and resources. Adding up all categories gives a total of 4,482,000 ounces of gold. Given these reserves and resources, management has a sufficient amount of material to keep its operation humming along at 2,200 tons per day for a quite a few years. But that is not to say what you see here is all there is. To the contrary, the consolidation of the entire Kirkland Gold Camp into Kirkland Lake Gold provides considerable ongoing exploration potential and one would think prospects of expanding into and even larger operation if economics warrant doing so. But what the market wants to see now is for this company to start generating some real solid profits. I’m betting management will hit its operation targets and if it does, operating profits and cash flow should rise dramatically. I don’t think the market is focusing on this company at this time, but if it hits its numbers it will. And of course the “real price of gold” rises considerably it could lead to Kirkland Lake revisiting its old highs of around $20. One factor in shareholders favor is a conservative management team that has kept its share count quite a ways below 100 million shares. This is a factor that cannot be emphasized enough. Moreover, this company’s high grade deposits also is an advantage when energy costs begin to rise. Which reminds me, one of the changes management is making to reduce energy costs is its transfer to batter powered underground transport vehicles.

**MANAGEMENT**

Brian A. Hinchcliffe - President and Chief Executive Officer - Mr. Hinchcliffe has decades of experience in the development of mining projects and mine finance. Brian spent the first ten years of his career working at the J. Aron trading arm of Goldman
Sachs, where he was responsible for the mining industry sector, working in both New York and London. Following this, Mr. Hinchcliffe was the founder of American Pacific Mining with Harry Dobson, and then Jordex Resources. Jordex acquired the previously explored Loma de Hierro nickel laterite deposit in Venezuela, which is located, with excellent infrastructure, 65 kilometers southwest of Caracas. Jordex re-verified the reserves and the overall commercial viability of the project, and sold 85% of the deposit to Anglo American Corporation for $65 million with Anglo assuming the responsibility for project financing, development and management. The Loma de Hierro mine was built at a cost of US$500 million and commenced commercial production as a low cost, long-term producer early in 2001. Mr. Hinchcliffe received a BA from the State University of New York, and attended graduate school at the Hagan Business School at Iona College.

Mark S. Tessier - Chief Operating Officer - Mr. Tessier has over thirty years of experience in underground mining in various ascending positions, including seven years overseeing the initial underground mine expansion project and subsequent underground mine operations at Goldcorp’s Red Lake Mine between 1999 and 2006. That operation produced over 600,000 ounces in 2005, and over 2,800,000 ounces from 2000 to 2005. In Ontario, Mr. Tessier has also worked in operations, engineering, or management at the Denison Mine in Elliot Lake, the Dome Mine in Timmins, the Golden Giant Mine at Hemlo, and for JS Redpath Limited out of North Bay. Mark earned a B. Sc. in Mining Engineering with honors from Queen's University, and is also a graduate of the Mining Technologist Program at the Haileybury School of Mines.

For a complete listing of the management team and the respective bios of each, go to http://klgold.com/

SUMMARY – We are now about 10 years into the this secular bull market and so the emphasis now has to be on new gold producers that have growth potential. With Kirkland Lake now turning the corner from a company that has been an exploration company to a full fledged producer, this is a company that I think has the chance become a household name as we enter the next leg up in this gold bull market of a lifetime. Notwithstanding some delays that hurt the company’s FY 2013 performance, it looks like it is on track now to richly reward patient shareholders. I consider this stock to be a strong buy now for investors who are focused on producers as opposed to exploration companies.

Stock Pick of the Week (09/13/2013):

SGX Resources Inc.

**Business:** Exploration and development of gold deposits in the Timmins, Ontario, area. CEO is Dale Ginn of San Gold.

- Traded TSX: SXR
- Shares Outstanding: 126,559,169
- Price 7/5/13: US$0.047
- Price 9/18/13: $0.11
- Market Capitalization: $13.9 Million
- Approx. Burn Rate: $200,000/Month
- Working Capital @ 6/30/13: $1.6 Million
- Major Shareholder–San Gold 33%
- Management: 10%
- Progress Rating: A4
- Telephone: (888) 749-4621
- Web Site: http://www.sgxresources.com

Ten fold gains have been hard to come in the mining sector over the past couple of years during this major correction in this, the gold bull market of a lifetime. But from our initial recommendation price of $0.047, SGX has in my view a very good chance of getting us a gain of that magnitude because it seems to be in the process of outlining a significant high grade near surface gold deposit in one of the best places to mine gold in the world, namely in the Timmins area of northern Ontario.

Last Tuesday, I interviewed CEO Dale Ginn who is also an officer of San Gold. I told Dale that a geologist who has followed the company’s discovery on its Tully deposit which it is joint venturing on a 50/50 basis with San Gold, that a geologist I talked to some time ago suggested this underground but very near surface deposit could contain over 1 million ounces with a grade in the 6 to 8 gram range. Dale said in his view it is not only possible but likely that will be the case, especially since the company has now expanded the dimensions of the known ore bearing mineralization to a depth of 2,000 ft. and a strike length also of 2,000 ft. Dale noted that the deposit bottomed in mineralization with a grade of 8 grams/ton and a mineralized width of 20 ft.

One of the reasons I wanted to make this my stock pick of the week this week was because the company is likely to start reporting new assays from a 1,000 ft. step out to the west. The fact the company’s share price has actually increased during this most dismal time for exploration stocks suggests to me that savvy investors in exploration stocks have their eyes on this story. Once these investors
start to see something in excess of one million high grade near surface ounces on the Tully project this stock could rise dramatically even if we don’t get a near term rise in the price of gold. If we are treated to some really good values, 1,000 ft. to the west and in between recent intercepts, that combined with wide, and high grades at a 2,000 ft. depth should start to tell those in the know that Mr. Ginn is on to something special.

Another factor that make this deposit especially exciting is that it is located around the Timmins area where all requisite infrastructure is available. In addition, there are two gold mills not far away that could come into play in the future, should the company not prove up a deposit large enough to justify its own mill.

Other Properties

While the Tully property is the flagship property for SGX, the company also has a couple of other properties of potential merit including the Edleston property and it holds a 32% interest in the Davidson-Tisdale property with its partners being Lexam and Rob McEwen’s VG Gold. On the Edleston which is 10% owned by SGX, some very impressive near surface grades like 57.4 g/t over 3.3 meters and 68.5 g/t over 6.3 meters have been reported. The Davidson Tisdale project is a high grade near surface discovery and it has a ramp that was driven into the deposit ten years or so ago. Currently a Preliminary Economic Assessment is being carried out on Davidson Tisdale.

The Bottom Line

In my view, the odds are very good that SGX is on to discovering a gold deposit many times more valuable than this company’s market cap. If I’m right we could easily see this stock climb back to the $0.50 mark where it spent some time in the early days of 2012 when the Tully discovery was made and that would give us our “10-bagger” from our initial recommendation price.

I can’t underscore enough the importance of the Tully discovery being located in a major gold camp. Why was it discovered only now after so many years of gold discoveries made in this prolific camp? It’s because the deposit is hidden under overburden that disguised it from explorers. Applying geological theory with geophysics, management was able to identify a horizon of rocks they reasoned could contain vein hosted mineralization. When they tested their theory, they came up with a discovery. Now, it’s looking like it could be a very significant one which is why we think this stock could be ready for a major run. And depending on assays that should be forthcoming over the next couple of weeks, the next move higher could be close at hand. Because I think the time to watch this stock is now, I have chosen it as my stock pick of the week for this week.

Update (08/23/2013):

Allied Nevada Gold Corp.

Business: Gold and silver production from the Hycroft Mine in Nevada

Traded NYSE & Toronto: ANV
Shares Outstanding: 103,940,670
Working Capital 6/30/13: 337,973,000
Recommended 3/15/13: $18.20
Price 9/18/13: $5.08
Market Cap: $528 million
Heap Leach Reserves (gold equivalent): 2.946 million oz.
Milling Reserves (gold equivalent): 17.847 million oz.
2012 EPS: $0.52
2013 EPS (six months): $0.14
Progress Rating: A1
Phone: 775-358-4455
Web Site: www.alliednevada.com

With the benefit of 20/20 hindsight we were way too early getting back into Allied Nevada at $18.20 on March 15 of this year. I thought at the time the floor should be around $15. But as with virtually all gold stocks purchased earlier this year, the bottom has literally fallen out. In fact the stock has gotten beaten up so badly that Chen Lin has recently recommended it in the mid-$4 range. The good news is that with this company’s shares now under $5 they are in my view, a buy of a lifetime! I can tell you that after digging deeper into this company’s story this past week, I added shares of this company to my retirement account.

Why has the stock fallen so hard from $40 toward the end of 2012? First and most important, the company missed some production and cost guidance over the past year. When companies miss their guidance, that begins to erode confidence in future projections. Then as the price of gold began to decline, a switch in general in the mining industry was toward higher grades as companies began to consider closing down lower-grade/high-capital cost projects. The grades on the company’s Hycroft Mine were always quite low,
running between 0.01 oz/ton and 0.014 oz/ton gold and between 0.19 oz/ton and 0.4 oz/ton silver. The company’s shares deserve to be punished for a lower gold price and for not meeting some guidance. But as I looked more closely to this stock, the longer term plans, while delayed by perhaps one year, are still in place to make this one of the largest gold and silver mines in the world! I believe there is a huge disconnect between this company’s current share price and its long term prospects of producing could would reach the equivalent of 1 million gold equivalent ounces per year from the Hycroft Mine in Nevada.

I believe the main disconnect between the market and the reality I see for Allied Nevada is on the question of the company’s metallurgical prospects. I guessing that the missed production guidance by the management which has now largely been replaced combined with announcements that the company is continuing to seek alternative metallurgical processes has the markets convinced that Allied Nevada itself doubts its ability to meet the kind of lofty future production goals projected by the prior management.

I am betting that is a misreading of Allied Nevada’s future because in combing through the company’s public statements, there is no evidence anywhere that any of the metallurgical processes discussed by the company in the past are not economic. What seems completely clear to me is that Allied Nevada is, if anything continuing to research the metallurgy for the Hycroft Mill in order to optimize the economics for the sulfide ore.

Beginning in 2007, Allied Nevada has been examining options for treating Hycroft sulphidic ores. The original focus was on traditional oxidation methods currently employed in the industry, including pressure oxidation, roasting and direct cyanidation. Test work on these processes concluded that each of these options would be feasible, with varying degrees of economic recovery. A mine plan was developed using on-site pressure oxidation to treat one-third of the rougher concentrate, and sell the remaining concentrate as either rougher or cleaner concentrate, for processing in third party facilities.

In an attempt to optimize the flow sheet for processing sulfide ores at Hycroft, late in 2012, the company began a review of other oxidation processes, starting with bio-oxidation. The goal was and still is to determine an economically viable on-site process in rather than building and operating an autoclave, and relying on off-site sales of concentrate. The ability to produce gold and silver bullion on site, especially given the massive scale of production (upwards to 1 million gold equivalent ounces per year) So, BIOX testing was completed by SGS Canada Inc. in Lakefield, Ont., and SGS South Africa Ltd. in Johannesburg, in collaboration with BIOMIN South Africa Ltd. (formerly part of Gold Fields Ltd.). Final results from the BIOX testing indicated that the process was viable, and also identified a number of important characteristics regarding the oxidation of Hycroft concentrates. Most importantly, the ore appeared to require less than complete levels of sulphide oxidation to achieve acceptable gold and silver recoveries, providing potentially significant capital and operating cost savings.

Using this information, a first phase test program was conducted on a suite of commonly used oxidation methods including chlorination, ambient pressure alkaline oxidation, fine-grind with intense cyanidation and the Albion oxidation process. Initial results using each of these methods have been positive. Testing indicates that processing rougher concentrate may be optimal as cleaner concentrates contain on average approximately 10 per cent less metal due to losses in the flotation cleaning process. Thus, a focus on treating rougher concentrate, to maximize overall gold and silver recovery and project economics, will continue.

Ambient pressure alkaline oxidation testing of rougher concentrate at an oxidation time of 24 hours, a reaction temperature of 60 degrees Celsius and a grind size of 44 microns, resulted in a sulphide oxidation percentage of 57 per cent and recoveries of 85 per cent gold and 82 per cent silver. Altering the testing parameters for rougher concentrate to increase temperature to 75 degrees Celsius and significantly decrease retention time to eight hours resulted in recoveries of 82 per cent for gold and silver from 44 micron material. Continuing to refine the optimal operating parameters could translate to a reduction in capital and operating costs without significantly impacting recoveries.

While metallurgical testing is still ongoing, preliminary economics indicate operating costs for an on-site ambient pressure alkaline oxidation process will be less than $4 per ton of whole ore, which includes operation of an oxygen plant. If air was used in place of oxygen, operating costs are expected to be lower. These preliminary operating costs compare favourably with operating costs to autoclave of approximately $9.60 per ton of whole ore.

The Bottom Line:

Given the company’s strong balance sheet and its annual production guidance of 225,000 ounces of gold and 2.7 million ounces of silver over at least the next six years at a cost of $800 to $825 cash cost per ounce of gold production (after applying silver production as a credit), the downside for this company from its current level seems to be minimal. In fact, I believe the market is pricing Allied Nevada only on its open pit oxide production. I like that because it provides cash flow that justifies current or higher prices and thus significantly reduces risk at this time.

That this company’s downside risk is minimal while the market is ignoring the potential for future sulfide production on a major scale provides a fantastic risk/reward tradeoff in my view for those on the long side of this trade. If I did not believe in the potential for the Hycroft Mine to begin producing along the lines it has talked about in the past, I would not be nearly as excited about this company’s prospects as I am now. For the benefit of those who may not be familiar with this story, management has talked about annual production from the Hycroft Mine of 552,000 ounces of gold and 25.5 million ounces of silver. Using traditional oxidation methods
currently employed in the industry, including pressure oxidation, roasting and direct cyanidation and not what looks like lower cost ambient pressure alkaline oxidation process as discussed above, management projected an annual production of 552,000 ounces of gold at a cash cost of $146/oz when applying silver production as a credit. Of course cost estimates will change over time depending a number of factors. They could be lower or higher. But those numbers, which were reported by former President Scott Caldwell in February of this year, should give you a sense that the plans for the Hycroft project are very large even if the new management team is not promoting the future as aggressively as the prior leaders did.

In summary, I view ANV as a tremendous bargain at under $5.00. That said, the ever-alert Chen Lin pointed out to me that The Market Vectors Gold Miners Index ETF (GDX) will soon rebalance the index. If Allied Nevada drops below about $4.35, giving it a market cap below $450-million, the GDX will drop ANV from the index, which most likely result in a still lower share price. With the price of gold rising by $25 on Friday, Allied Nevada closed up $0.24, which means it may be safe for now. On the other hand the price of gold gets hit over the next few days, the stock could fall back to around or below the magic $4.35 which may give you a chance to buy it even cheaper.

On the other hand, if we are in the early stages of a major upturn in the price of gold, it is possible the train could leave the station without you. You may want to hedge your bets and pick up a few shares now and if the stock does get taken down as a result of a GDX exclusion, you may want to buy some more at a lower price.

Update (08/23/2013):

Metanor Resources Ltd.

Business: Gold exploration and production from the Bachelor Lake underground mine in Quebec

Traded Toronto: MTO
US OTC: MEAOF
Recommended 10/14/11: $0.35
Price 9/18/13: $0.20
Shares Outstanding: 277,716,066
Market Cap: $55.5 million
Oz. Inferred: 1,031,967
Progress Rating: A2
Telephone: 819-825-8678
Web Site: www.metanor.ca

A few weeks back when this stock was selling at $0.09 I recommended it for purchase again after a period of time during which I had it listed as a “Hold.” The idea was that the company was getting close to break even as it continued to process lower development ore as it opened up new faces of higher grade material. Once it had enough mining faces to begin to move its production closer to its mill capacity, I reasoned that this stock would start to generate positive cash flows.

In July, the company produced 2,822 ounces of gold, which is more or less akin to what its monthly average has been over the past year. But the following three sentences in the company’s August 20 press release stand out in my mind because I think they suggest significant production could be in the works from now through the end of the year.
"The ounces produced in July came from development and stope ores for a total of 17,403 tonnes of ore at a combined grade of 5.21 grams per tonne with a 96.9% recovery. The grade went up to 5.21 grams per tonne in July from 5.16 grams per tonne in June, after the commencement of the mining of stope 13-0-02 in the last few days of July, according to preliminary estimates. For instance, the mill produced over 166 ounces per day during six separate days in the beginning of August, indicating a grade of 7.29 grams per tonne for those days."

As the company develops faces in the mine, it is forced to mine and process lower-grade rock that it might otherwise not mine. Once the company got more into the "good stuff" from stope 13-0-02, its grades rose significantly, from an average for the month of 5.21 grams/tonne to 7.29 grams per tonne. And during those days, it produced 166 ounces per day from that higher grade ore. Grades similar to that are what the company is counting on to reach its production target of 60,000 ounces per year. To the extent those are the kinds of grades that will be mined and processed on an ongoing basis, this company’s prospects should improve dramatically. Indeed, the rise in the price of this stock over the past few trading days takes it close to the double I suggested it could reach from the $0.09 price it was when I chose to issue a “buy” recommendation.

I think this company can grow production well beyond 60,000 ounces in the longer run both from an expansion of the Bachelor Lake Mine from which current production is coming and production from the Barry Lake property. The illustration above shows the areas that are open in that mine. Also, the company’s Barry Deposit, which is hosted in a structure that stretches out over a 14-kilometer strike length, has the potential to boost production longer term. The company actually has had some small-scale production from this open-pit target as it hauled the ore approximately 60 miles from the mine to the Bachelor Lake Mill. However, transportation costs made this a break-even operation at best. One option may be to build a concentration plant here and then haul a concentrate to the Bachelor Lake Mill. That would significantly reduce transportation costs and potentially allow Metanor to build its gold production up to or well beyond 100,000 ounces per year.

The company put the Barry Deposit on hold while it concentrated on its Bachelor Lake Mine. Metanor needs to carry out a lot more work in the future before determining how to proceed. But the Barry has the potential to host a major low-grade bulk-mineable deposit that could be very valuable. But already this deposit has some 781,000 ounces accessible by open pit to a depth of less than 100 meters and as you can see, from the illustration above, it is open at depth as well as to the southwest and to the northeast.

If the company can get up toward the 5,000-ounce-per-month production level, I’m expecting it will declare commercial production. At that point, I will upgrade Metanor from an A2 company to an A1 company. Some bad luck, combined with lower gold prices, took this stock down hard. But with production ramping up and positive cash flows looking likely before the end of the year, the success I had envisioned back in 2008 for this company may finally be about to take place. Of course, dilution has been a cost of staying alive and that is also why the stock is so low priced. But from the current price upward to $0.25, I see MTO as a speculative bargain.
Update (08/23/2013):

San Gold Corp.

(Traded TSX-SGR/USOTC SGRCF- 337,610,981 shares, Price 9/18/13: $0.19, Market Cap: $64,146,086)

In the July 26 hotline, I published the transcript of a radio interview I did with Ian Berzins on July 23. I have suggested that Mr. Berzins is cutting costs and making infrastructure improvements such as the underground development work required to move ore to the mill by shaft rather than hauling by trucks to the surface. Of course nothing would be more helpful than to see the price of gold climb back toward that $1,900 level and beyond. Much of those benefits will accrue in the future, but even now, under Mr. Berzins’ leadership, the company cut its cost of production from $970 per ounce in Q2 of 2012 to $783 during the like period of 2013. On a per-ton basis, costs were lowered to $105 in the most recent quarter compared to $164 during the second quarter of 2012.

I suggested that this stock was a very attractive speculative buy when it was trading at under $0.10. It has worked out well so far, but frankly, I will be disappointed if, under a rising gold price scenario, we don’t see at least $0.30 by the end of this year.

Here are second-quarter highlights as reported by the company on August 12.

2013 second quarter highlights:

- Produced 22,526 ounces of gold, a 23-per-cent increase compared with 18,241 ounces in the second quarter of 2012;
- Achieved average mill throughput of 1,784 tonnes per day for the quarter, a 39-per-cent increase compared with average mill throughput of 1,281 tonnes per day in the second quarter of 2012;
- Mined ore at a record quarterly rate of approximately 1,905 tonnes per day for a total of 173,350 tonnes, an increase of 1 per cent compared with the rate of 1,709 tonnes per day in the same period of 2012;
- Achieved total cash costs of $783 per ounce of gold sold compared with $970 per ounce in the second quarter of 2012 and realized a cash operating margin of $611 per ounce of gold sold with a realized price of $1,394 per ounce through the quarter;
- Achieved a total cost per tonne of ore of $105, a 36-per-cent decrease compared with a total cost per tonne of ore of $164 in the second quarter of 2012;
- Generated cash flow from operating activities before changes in non-cash working capital of $5.0-million, compared with $5.7-million in the second quarter of 2012, despite a reduction in the realized price of gold;
- Generated quarterly operating income from operations of $3.4-million, compared with income from operations of $2.4-million in the second quarter of 2012;
- Recognized quarterly revenue of $30.4-million on gold sales of 21,796 ounces at a realized price of $1,394 per ounce compared with revenue of $31.6-million in the second quarter of 2012;
- Recognized quarterly total and comprehensive loss of $3.6-million, compared with total and comprehensive loss of $7.8-million in the second quarter of 2012;
- Had a cash and short-term investments balance of $21.3-million as at June 30, 2013;
- Accessed the down dip extension of the 007 zone at depth on 26 level and began silling on the structure;
- Began a program to segregate lower-grade ore in a separate surface stockpile to be milled as an incremental feed source at a later date;
- Completed approximately 74,000 metres of exploration and definition diamond drilling;
- Purchased mineral claims from Wildcat Exploration Ltd. in the subsequent period.
Update (09/06/2013):

Osisko Mining Corp.

Traded TSX-OSK/USOTC-OSKFF; 436.8 Million Shares Outstanding @ $5.53 = $2.42 Billion Market Cap - The company reported adjusted net income of $42.6 million during the second quarter. That’s on the heels of adjusted net income of $55 million during the first quarter of this year. Total gold production from the company’s flagship property, the Canadian Malartic Mine, during the first six months was 205,014 ounces. Management is projecting total gold production at between 485,000 and 510,000 ounces from this property. Cash costs are expected to be in the $780 to $825 range for this year, which is between 9% and 14% higher than in 2012.

Prior to 2009 the company devoted its full attention toward developing and bringing into production its Malartic Mine. At that point, it set out a goal of becoming a 1-million-oz.-per-year producer, which led it to acquire the Hammond Reef Gold Project located near Atikokan in northwestern Ontario. Feasibility work on this project suggests that between the Hammond Reef and the Malartic Mine, the company could close in on its goal of producing 1 million ounces per year. Current economics suggest production of 400,000 ounces per year from Hammond Reef with operating costs of $800 to $850. However, with mining inflation over the past couple of years, the capital cost to build the mine and put it into production would range between $1.5 billion and $1.8 billion, thus rendering the project non-economic, which is why the company took an impairment charge of $487.8 million during the second quarter of this year.

Management is, however, continuing to carry out feasibility work on the project, which has a measured and indicated resource of 5.43 million ounces of gold at an average grade of 0.86 g/ton and an inferred resource of 1.75 million ounces at an average grade of 0.72 g/ton. Management will continue to pursue low-cost permitting activities in the near term and will continue to monitor market conditions, obviously, with a view to moving the project toward production if market conditions warrant doing so.

Osisko is a mid-tier producer now and if it is able to continue producing at current levels at current costs, its balance sheet should strengthen and it should be in a good position to grow once the gold market begins its next leg to higher levels. I would look to be a buyer of this stock in the $3 to $4 range if and when it becomes available at those levels.

Update (09/06/2013):

Starcore International Mines Ltd.

- Business: Mining gold and silver in the San Martin Mine located in Queretaro State, Mexico
- Traded TSX: SAM
- US OTC: SHVLF
- Shares Outstanding: 143,390,465
- Initial Recommendation 2/3/12: $0.33
- Price 9/18/13: $0.23
- Market Capitalization: $33 million
- Gold Reserves: 46,303 oz.
- Silver Reserves: 580,000 oz.
- EPS – 9 Months ending 6/30/13: $0.02
- Progress Rating: A1
- Telephone: 604-602-4935
- Web Site: www.starcore.com

Starcore pays off final $3.68-million of facility

2013-09-03 10:09 ET - News Release - Mr. Robert Eadie reports:

- STARCORE PAYS FINAL $3.68 MILLION OF DEBT
• Starcore International Mines Ltd. is debt-free and now owns the San Martin gold mine free and clear. The company paid off the amount owing of $3,681,119.48 on the credit facility extended to it by Sprott Resource Lending in May, 2012, rendering the company free of debt. See news releases of May 10 and May 15, 2012.

• "We now own the San Martin mine free and clear of any encumbrances," said Robert Eadie, president and chief executive officer of the company. "We retired all of the debt we incurred to acquire the mine, and we did this just six months outside of the original business plan we formulated in 2007," continued Mr. Eadie. "Paying off the debt in an environment marked by economic strains and severe market deterioration is a tremendous achievement. What we have accomplished is the sum of everyone's efforts, from our board of directors and management, to our technical advisers and all of our employees at head office and the mine site. We hope our shareholders will recognize this milestone as a reflection of our focus and commitment."

EDITOR’S COMMENT: In my view this marks a very important point in this company’s history not only because it is debt free but because management has also suggested it would start paying a dividend once it paid off its debt obligations. And if memory serves me correctly we may be looking for a considerable yield. This is what I wrote in my March 29, 2013 review of Starcore:

• Promise to provide considerable dividend yields. Last but not least, as soon as its debt is completely paid, management is promising to pay out 50% of its net income in dividends to shareholders. At current levels of profitability that figures to be about 4 cents per year, which doesn’t sound like much, but given its current share price, that would provide about a 17% yield. Moreover, with higher gold prices and/or higher average grades, profits could possibly double from 2 cents in the past quarter, meaning that on an annualized basis the company could possibly earn 16 cents and pay out 8 cents, which would provide a very significant dividend yield on the current share price. With regard to paying off its debt, the company has about $3 million left to pay Sprott. That’s down from $11 million that it took on last year to get rid of a gold loan. The company has nearly enough money in the till to do that now, but prudence dictates that it keep ample working capital to play safe. It also is about to sell some real estate it owns in Mexico, which would be more than ample to repay the debt it still owes, and certainly from continuing profits it should be able to retire the last of its debt.

• Aside from its small scale production at present and potential for a sizeable dividend yield, I mentioned two other major factors that attracted me to this company as follows:

• Profits and cash flows: Except for the metallurgical hiccup last quarter, the company has been generating cash flows on a steady basis even during this downturn in the price of gold. As such, it does not need to dilute shareholders from here on.

• Exploration success since it acquired the mine from Goldcorp. Starcore has been successful in discovering new gold resources since it acquired the mine in 2006. It discovered the Guadalupe Vein in 2007, the Sam Vein in 2009, the Pilotos West in 2011, and the San Martin Footwall in 2012.

Update (09/13/2013):

GoldQuest Mining Corp.

• Business: Exploration and development of gold and copper mining prospects in the Dominican Republic.

• Traded Toronto: GQC
• US OTC: GDQMF
• Initial Recommendation 12/3/10: $0.339
• Price 9/18/13: $0.330
• Working Capital: $13.5 million
• Shares Outstanding: 143,980,044
• Market Cap: $47.5 million
• 43-101 gold Resource: 406,000 oz.
• Progress Rating: A3
• Telephone: 416-214-9151
• Web Site: www.goldquestcorp.com

• I initially recommended Goldquest Mining Corp (GQC) in December 2010 for two reasons. First, the company was developing a gold deposit in the Dominican Republic known as the Escandalosa, pictured above. The second reason was because key members of this company’s management team had proven it can put into production and operate it successfully in the past. I reasoned that they might do it again with a small gold mine from the Escandalosa deposit. But, as you can see from the stock chart at the top of this page, the market didn’t share my enthusiasm much at that time.
Then near the middle of 2012 the company reported a very exciting discovery that drove the stock from $0.045/share to $2.03 per share in a couple of weeks. The company reported some of the best drill holes in the world at that time. The best hole of several amazing intersections was 235 meters grading 7.9 grams/ton gold and 1.4% copper! There is enough drilling now on the Romero to be assured of a minable deposit and enough to start working on a preliminary economic assessment which I believe will likely be forthcoming early in 2014.

As you can see, a major portion of those 2012 gains have been given back as subsequent drill holes did not measure up to the amazing results of several consecutive holes early in the program. But in my view, the current price of this stock at around $0.30 provides speculative investors with a chance to realize major gains because it appears as though this very attractive deposit could still become very sizeable.

How big this could become remains to be seen, but the thinking is that there might exist continuous mineralization along strike from Escandalosa and to the Romero, which measures 2.5 kilometers long. Note the red blotches provide the location of assays trading over 0.3 grams gold/ton. I would call you attention to those red squares that exist on surface as well as at depth between the Escandalosa and Romero deposits. The thinking is that the area between the two deposits may be mineralized and also that there could be a porphyry engine below the deepest hole that was the engine to this mineralization. If so, we shareholders could be on to something big.

But that isn’t all. By applying ground induced polarization that correlates with gold and copper mineralization on the Las Tres Palmas Trend to another trend on the company’s neighboring claims in the Dominican Republic, management thinks it may be on to another exciting discovery. In fact, based on geophysics, the Guama Trend could host something even bigger. Now there have been several samples taken along this trend that revealed very high copper grades ranging from 10.3% to 34.5%. The red dots record copper readings north of 2% and the blue dots north of 1%. Obviously this trend also begs to be drilled.

I met with the company’s Chairman Bill Fisher this past week at the Cambridge House show in Toronto and he is obviously very excited about...
this project. The company is well financed with $13.8 million in cash at 6/30/13. But Fisher is promising to spend it cautiously as the continues to drill this project. If it starts to look like mineralization is continuous between the Escandalosa and the Romero deposits, that will be a game changer for the markets as would some significant drill results from the Guama Trend.

- The bottom line for me on this stock is that if you have a speculative bone in your body, you should own some shares of GQC. No promises, but in my view the downside is limited from the current price of around $0.30 while the upside could be far above its old high of $2.03.

**Update (09/06/2013):**

**Veris Gold Corp.**

(TSX-VG/USOTC-YNGFF; Shares Outstanding 123.4 million; Price 9/18/13: $0.45 = $55.5 Million Market Cap) - This company reported a 6/30/13 working capital deficit of $87.3 million. That looks worse than it is because some $64 million of it relates not to production costs but to obligations to repay gold from the company’s production that fall due within the next year. Since the company produces gold at prices significantly below the market price of gold, those liabilities are not as significant as they are reported on the company’s books. In fact, if the market price of gold falls, it actually reduces the amount of liability recorded on the balance sheet since the market value of that gold has declined, regardless of the cost of producing and delivering those ounces. And of course when the company delivers the ounces due, the liability is also erased. Here are the major points made in the company’s recent report:

- As of June 30, 2013, the company was obligated to deliver 132,110 ounces of gold to the Deutsche Bank and if I am reading the footnotes correctly, the company is delivering 4,980 ounces of gold per month, or about 40% of the company’s production, now that it is expected to reach its target of 145,000 ounces to 155,000 ounces from the company’s Jerritt Canyon Project in Nevada. That means the company had approximately 26½ months left to meet this gold delivery obligation as of June 30, 2013.

- For the sale of these ounces the company is receiving the spot price minus $850 per ounce. So if gold is selling at $1,350, it is receiving $500 per ounce net of this financing cost, but it is losing money on that production, given current gold prices on these hedged ounces because its cash cost, while down from last year, was still at $1,066 per ounce during the quarter ending June 30.

- In other words, with gold at $1,350, the company is losing $566/oz on about 30% of the gold, or 4,980 ounces per year. On the other 70%, its margin would be positive $284 per ounce and management says it is now well on its way to meeting its $850 cash cost target by year end. If so, the company may be able to report actual positive cash flow earnings by the end of the year. Of course, if gold were to jump above the recent price of around $1,400, that would make a huge positive difference too. And once the gold loans are repaid, then the sky will become much brighter for Veris as well.

- Beyond Jerritt Canyon, the company is generating revenues for toll milling, which has been in its plans all along. It picked up $1.7 million in the latest quarter by processing 12,915 tons of third-party ore. An agreement has been signed with Newmont to mill up to 45,000 tons per month until December 31, 2014. A batch test of 4,763 tons was processed for Newmont during the quarter. The company also processed 8,152 tons of ore from Atna Resources’ Pinson Property during the quarter, and some ore is expected to be processed from the Fire Creek Property owned by Klondex Resources.

- The company increased its proven and probable reserves to 1,145,000 ounces, which is good for a projected six year mine life. Of course, I’m expecting a longer mine life than that from ongoing exploration. The company has arranged equity financing of approximately $8 million through the sale of approximately 15.4 units with a ½ warrant attached. My sense is that Veris Gold can muddle along and improve its picture even with sub-$1,400 gold by continuing to scale up its production and by picking up more toll milling. A rise in the price of gold would do wonders for this company’s profit complexion. And once it gets its gold loans paid off, the sun will begin to shine brightly on this company, which by the way has an asset in Nevada that is very valuable—a permitted roaster facility near an abundance of projects with refractory ore.

- Investors who may want to speculate on a higher gold price might do well to salt a few of these shares away at or around their current price of around $0.50.
Update (09/06/2013):

**Agnico Eagle Mines Limited**

(NYSE-AEM: 173,312,548 Shares Outstanding @ $29.44 = $5.1 Billion Market Cap) - For sure this is the largest market cap company on our list and I consider it to be one of the lower risk companies on our list as well. At the end of the June quarter the company had over $107 million in cash and $461 million of working capital on its balance sheet.

For FYE, the company earned $1.81 per share and for the first six months of this year, management has reported a breakeven accounting outcome. However, that included a first quarter loss of $0.14, which included $0.20 of non cash losses for foreign currency translation gain ($0.06 per share), non-cash stock option expense ($0.02 per share), non-cash impairment loss on available for sale securities and mark-to-market loss on warrants ($0.12 per share), and other non-recurring expense ($0.03 per share).

From all I can see, this is a very good gold mining company that should start to enjoy rising earnings even with current gold prices, given the following guidance provided to shareholders when the company reviewed its 2013 performance:

**In 2013:** In 2013, payable gold production is expected to be within the range of 970,000 ounces to 1,010,000 ounces. Total cash costs per ounce in 2013 are expected to be in the range of $700 to $750. All-in costs including sustaining costs for 2013 are expected to be approximately $1,075 per ounce. Several factors are expected to have a positive impact on production in the second half of the year. At Creston Mascota, stacking of ore has resumed, and the Company expects to resume heap leaching in the second quarter, with full production rates likely to be achieved by year end.

- At LaRonde, additional cooling capacity, which is expected to be installed in the fourth quarter of 2013, is anticipated to have a positive impact on operating flexibility and production at the mine going forward. Furthermore, as LaRonde ramps up production at the deeper mine, the Company expects its gold grade to improve gradually over the course of the year.
- Gold grades at Meadowbank are expected to trend higher in the fourth quarter. As a result, the second half of the year is likely to make a larger contribution to the overall 2013 gold production forecast.

**In 2014:** Agnico-Eagle expects to have significant production growth from LaRonde (improving grades), Goldex (second quarter start up) and La India (second quarter start up). The Company expects payable gold production to be in the range of 1,100,000 ounces to 1,140,000 ounces.

**In 2015:** Further production growth is expected from LaRonde (improving grades) and Pinos Altos (improving grades) with payable gold production expected to exceed 1,200,000 ounces.

For both 2014 and 2015, total cash costs per ounce are expected to be near the bottom of the range forecast for 2013, or approximately $700 per ounce.

Review (08/30/2013):

**The Better of Two Witwatersrand Plays**

South Africa’s Witwatersrand Basin has produced an astounding 1.6 billion ounces of gold since being discovered in 1852, from a unique geological setting. Naturally, geologists and investors would like to find another such deposit, but so far, nothing like it has been discovered, at least nothing close to the scale of that found in South Africa.

**Cosigo Resources Ltd.** - In search for a possible exploration company in the hunt of another Witwatersrand type of deposit, I recommended **Cosigo Resources Ltd.** back in May of 2010. (At that time it was known as Horseshoe Gold Mining Inc.) The company’s target is the Taraira Gold Belt that runs across boundaries between Colombia and Brazil. Although some very high bulk samples have been reported, the company has basically been hamstrung by a very slow Colombian government in issuing exploration permits. While some high-grade targets bulk samples have been reported, what troubles me most about this company is cultural issues and regulatory issues both in Colombia and Brazil, but especially in Colombia.

**Novo Resources Corp.** - On August 9, 2013, I recommended another company in the hunt for the next Witwatersrand play. I had a file on **Novo Resources Corp.** in a pile of companies I wanted to research for the following reasons: (1) the company is headed by highly regarded geologist Dr. Quinton Hennigh; (2) the company had identified a possible massive Witwatersrand type of gold...
deposit; and (3) because of political risk issues, the target being located in Australia. What sealed the deal for me was a discussion I had just prior to August 9 with a highly acclaimed exploration geologist who said he/she had invested heavily on Dr. Hennigh’s bet. I have promised to keep the name of the geologist confidential so I dare not tell you who it is. But suffice it to say, I have a very high regard for that person and once I spoke with him/her, I concluded that I had to get Novo Resources Corp. on my scorecard. Needless to say, I have purchased some shares of Novo for my own account.

My level of confidence in the management of Novo is higher than it is for Cosigo. And I think it is clear that political risk in Australia is better than in Colombia or Brazil, though neither of those two countries is terribly problematic. Also, I think it is worth noting that Novo has an inferred gold resource of 421,000 ounces and that that number could rise significantly toward the end of this year as a result of a 2,000-meter drill program that commenced in mid July. The target is shallow, gently dipping (about 3 degrees), and covers a 4-square kilometer area. While a 2,000-meter program is certainly modest, because these are very shallow holes, it could provide a great deal of bang for the company’s buck. In other words, we could see the company’s resource numbers grow fairly quickly even on this modest program. Results from this 2,000-meter reverse circulation drill program, which will cost only about $200,000, are expected in early September. I’m betting on some very good numbers which should drive this stock higher near term. As a result of this modest program. Results from this 2,000-meter reverse circulation drill program, which will cost only about $200,000, are expected in early September. I'm betting on some very good numbers which should drive this stock higher near term. As a result of this program, I have purchased some shares of Novo for my own account.

A review of Ivanplats/Buy Prophecy Platinum Corp. In January of this year, I recommended Ivanplats Ltd. on the basis of a near surface high grade PGM deposit in South Africa and on the genius of Robert Friedland who has been compared to one of the greatest mine builders in history, namely Cecil Rhodes. Ivanplats may still work out well despite all the political issues facing South Africa. I continue to think Friedland is almost a god when it comes to mining. However, Prophecy Platinum’s Wellgreen PGM project is far superior to the PGM project held by Ivanplats and of course political risk for the Wellgreen project located in the Yukon is a tiny fraction as great as for South Africa. Moreover, while there is only one Robert Friedland in the world, the addition of Gregg Johnson to head up a very competent management team at Prophecy Platinum is a solid team with the requisite skills required to move the world class PGM project toward production. I will be interviewing Gregg Johnson on the September 24th Turning Hard Times into Good Times radio show and I expect to provide an update for my subscribers over the next couple of weeks. To review the major virtues of the Wellgreen project, I would also strongly suggest you review my initial recommendation on May 31, 2013 as well as subsequent weekly commentary.

**PORTFOLIO SCORECARD**

**Gold Stocks**

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<tr>
<th>Security</th>
<th>Exch Ticker</th>
<th>Company Activity/Comments</th>
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<td><strong>PROSPECT GENERATE</strong></td>
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<tr>
<td>Albemarle Minerals</td>
<td>T</td>
<td>AUM AAU A3</td>
<td>Prospect generator in Mexico, Nev., Canada</td>
<td>$3.02</td>
<td>4/20/13</td>
<td>$1.52</td>
<td>-49.8%</td>
</tr>
<tr>
<td>Eurasian Minerals, Inc *</td>
<td>T</td>
<td>EMX EMX A1</td>
<td>Prospect generator for precious metals</td>
<td>$2.04</td>
<td>3/11/11</td>
<td>$1.29</td>
<td>-36.5%</td>
</tr>
<tr>
<td>Millrock Resources, Inc *</td>
<td>T</td>
<td>MRO MLKRF A3</td>
<td>Project generator in Alaska and Arizona</td>
<td>$0.24</td>
<td>7/23/10</td>
<td>$0.10</td>
<td>-45.3%</td>
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<tr>
<td>Miranda Gold Corp</td>
<td>T</td>
<td>MAD MDPPF A3</td>
<td>Project generator in Nevada, Columbia, Alaska</td>
<td>$0.25</td>
<td>9/26/12</td>
<td>$0.17</td>
<td>-32.6%</td>
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<tr>
<td>Miralcel Resources, Inc</td>
<td>T</td>
<td>MRZ MRZLP A3</td>
<td>Project generator in n. Chile &amp; s. Argentina</td>
<td>$1.38</td>
<td>7/12/13</td>
<td>$1.34</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Renaissance Gold Inc. *</td>
<td>T</td>
<td>REN RSGF A3</td>
<td>Explore for gold/metals. Project generator mod</td>
<td>$0.56</td>
<td>2/3/10</td>
<td>$0.24</td>
<td>-57.2%</td>
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<tr>
<td>Riverside Resources, Inc *</td>
<td>T</td>
<td>RRI RVDSPF A3</td>
<td>Gold Exploration in Yukon &amp; Mexico</td>
<td>$0.65</td>
<td>8/27/07</td>
<td>$0.38</td>
<td>-41.7%</td>
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**J Taylor’s Average Gain (Loss) on Prospect Generator Stocks**

-30.03% -48.16%

**GOLD & SILVER PRODUCERS (“A1” Progress Companies)**

<table>
<thead>
<tr>
<th>Security</th>
<th>Exch Ticker</th>
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<th>% Gain</th>
<th>Overall Buy/Hold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agnico Eagle Mines Ltd. *</td>
<td>N</td>
<td>ASM ASM A1</td>
<td>Gold Production - Canada, Finland, Mexico</td>
<td>$4.04</td>
<td>3/29/13</td>
<td>$2.44</td>
<td>-27.9%</td>
</tr>
<tr>
<td>Allied Nevada Gold Corp. *</td>
<td>N</td>
<td>ANV ANV A1</td>
<td>Gold Production in Nevada</td>
<td>$18.20</td>
<td>3/15/13</td>
<td>$18.20</td>
<td>-72.9%</td>
</tr>
<tr>
<td>Dacor Gold Mines *</td>
<td>T</td>
<td>DNG DNGDF A1</td>
<td>Gold exploration &amp; custom milling in Peru</td>
<td>$1.80</td>
<td>13/10/12</td>
<td>$1.50</td>
<td>-15.6%</td>
</tr>
<tr>
<td>Great Panther Silver</td>
<td>T</td>
<td>GPR GPL A1</td>
<td>Exploration/development/production in Mexico</td>
<td>$0.78</td>
<td>5/24/13</td>
<td>$0.78</td>
<td>37.1%</td>
</tr>
<tr>
<td>Kirkland Lake Gold</td>
<td>T</td>
<td>KGCI KGILF A1</td>
<td>Gold mining &amp; exploration in Ontario</td>
<td>$5.89</td>
<td>9/26/12</td>
<td>$12.38</td>
<td>-32.4%</td>
</tr>
<tr>
<td>Mandalay Resources Corp.</td>
<td>T</td>
<td>MDO MNDJF A1</td>
<td>Gold, silver &amp; antimony production - Australia</td>
<td>$0.82</td>
<td>5/13/13</td>
<td>$0.83</td>
<td>1.42%</td>
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<tr>
<td>OceanaGold Corp.</td>
<td>T</td>
<td>OCGL OCANF A1</td>
<td>Gold Mining - New Zealand, project - Philippines</td>
<td>$2.87</td>
<td>2/27/09</td>
<td>$1.79</td>
<td>37.7%</td>
</tr>
<tr>
<td>Orvana Minerals, Corp.</td>
<td>T</td>
<td>ORV ORVMF A1</td>
<td>Gold, silver, copper - Spain, Bolivia, Michigan</td>
<td>$0.94</td>
<td>11/13/13</td>
<td>$0.94</td>
<td>-46.1%</td>
</tr>
<tr>
<td>Osisko Mining Corp.</td>
<td>T</td>
<td>OSK OSKFF A1</td>
<td>Gold Mining - Quebec, Ontario and Argentina</td>
<td>$8.06</td>
<td>9/7/12</td>
<td>$10.55</td>
<td>-31.4%</td>
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<tr>
<td>Petaluma Gold Mines Ltd.</td>
<td>T</td>
<td>PTQ PTQMF A1</td>
<td>Gold production - Panama, Portugal, Spain</td>
<td>$0.46</td>
<td>9/6/11</td>
<td>$0.90</td>
<td>-30.3%</td>
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<tr>
<td>San Gold Corp.</td>
<td>T</td>
<td>SGR SGRCF A1</td>
<td>Gold mining/production - Rice Lake, Manitoba</td>
<td>$0.31</td>
<td>2/22/13</td>
<td>$0.19</td>
<td>-37.8%</td>
</tr>
<tr>
<td>Sandstorm Gold (Wts) *</td>
<td>T</td>
<td>SSL WN XSNF W A1</td>
<td>Warrants-maturity April 23, 2014</td>
<td>$1.79</td>
<td>12/12/07</td>
<td>$0.72</td>
<td>-65.4%</td>
</tr>
<tr>
<td>Sandstorm Gold Ltd</td>
<td>T</td>
<td>SSD XSNF A1</td>
<td>Gold Royalty co. applies Silver Wheaton Model</td>
<td>$11.79</td>
<td>5/22/09</td>
<td>$5.06</td>
<td>-48.6%</td>
</tr>
<tr>
<td>Scorpio Gold Corp.</td>
<td>T</td>
<td>SGR SGRCF A1</td>
<td>Gold production and exploration - Nevada</td>
<td>$0.21</td>
<td>5/22/09</td>
<td>$0.21</td>
<td>-58.3%</td>
</tr>
<tr>
<td>Starcore Intl Mts., Ltd. *</td>
<td>T</td>
<td>SAM SHLVP A1</td>
<td>Gold/Silver mining in Queretaro, Mexico</td>
<td>$0.25</td>
<td>3/1/13</td>
<td>$0.23</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Timmins Gold Corp. *</td>
<td>T</td>
<td>TGD TGD A1</td>
<td>Gold production/exploration - Mexico</td>
<td>$3.00</td>
<td>6/16/11</td>
<td>$1.96</td>
<td>-38.6%</td>
</tr>
<tr>
<td>Veris Gold Corp.</td>
<td>T</td>
<td>VGF VNGFF A1</td>
<td>Gold production/development - Nevada, Yukon</td>
<td>$1.64</td>
<td>11/13/13</td>
<td>$1.64</td>
<td>-72.4%</td>
</tr>
</tbody>
</table>

**J Taylor’s Average Gain (Loss) on Progress A1 Gold Stocks**

-28.58% -11.26%

**GOLD & SILVER EXPLORATION STOCKS (“A2”, “A3” & “A4” Progress companies)**

<table>
<thead>
<tr>
<th>Security</th>
<th>Exch Ticker</th>
<th>Company Activity/Comments</th>
<th>Price</th>
<th>Initial Date</th>
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<th>% Gain</th>
<th>Overall Buy/Hold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aura Gold Corp.</td>
<td>T</td>
<td>AIA AGRDF A2</td>
<td>Explore &amp; Develop gold in Manitoba</td>
<td>$0.58</td>
<td>10/21/12</td>
<td>$0.35</td>
<td>-57.1%</td>
</tr>
<tr>
<td>Gold'n'Rich Mining Co.</td>
<td>T</td>
<td>GRMC GRMC A2</td>
<td>Gold production/exploration in Alaska</td>
<td>$0.07</td>
<td>4/28/13</td>
<td>$0.08</td>
<td>7.8%</td>
</tr>
<tr>
<td>Minalco Resources, Inc.</td>
<td>T</td>
<td>MTN MEAFOF A2</td>
<td>Explore/Develop gold mine in Quebec</td>
<td>$0.19</td>
<td>10/14/11</td>
<td>$0.20</td>
<td>2.0%</td>
</tr>
<tr>
<td>Midas Gold Corp.</td>
<td>T</td>
<td>MAX MDPPF A2</td>
<td>Explore/Develop gold mine in Idaho</td>
<td>$0.88</td>
<td>7/12/13</td>
<td>$0.88</td>
<td>4.3%</td>
</tr>
<tr>
<td>Paramount Gold &amp; Silver *</td>
<td>N</td>
<td>PZG PZG A2</td>
<td>Gold &amp; Silver Exploration in Mexico &amp; Nev.</td>
<td>$2.32</td>
<td>5/28/10</td>
<td>$1.44</td>
<td>-37.3%</td>
</tr>
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</table>

**J Taylor’s Average Gain (Loss) on Progress A1 Gold Stocks**

-28.58% -11.26%
The information contained here in is based on sources, which the publisher believes to be reliable, but is not guaranteed to be accurate, and does not purport to be a complete statement or summary of the available information. Any opinions expressed are subject to change.

Precious Metals & Hedged Funds

Gold

Atlantic Gold Inc.

Aurinia Phosphate, Inc.

Balmoral Resources Corp.

Bravada Gold Corp.

Brazil Resources, Inc.

Calaís Resources Corp.

CantoGold Ltd. *

Carisle Goldfields Ltd.

Clifton Star Resources Inc.

Cloonmore Development Corp. *

Golden Arrow Resources, Corp.

Golden Depression Resources.

Golden Reserve Resources, O.


Golden Quest Mining Corp. *

Great North Mining Corp.

HomeStar Gold & Silver Exploration Corp.

Klondex Mines

Magellan Minerals Ltd.

Marathon Gold Corp.

Meadow Bay Gold Corp. *

Northern Freegold Res. *

Mystic Gold Corp.


Oroco Resources Inc *

Pacific Rim

ProAssure Gold Corp.

Revolution Resources

Riyadh Gold Exploration Inc.

Silver Focus, Inc.

Silver Ventures, Inc.

Silver Williams Consolidated Ltd.

South American Mining Corp.

Southwest Resources Ltd. *

Takoradane Gold Mines Ltd.

Takoradane Resources Inc. *

Tahoe Resources Inc.

Third Avenue Asset Management

Torex Gold Resources Ltd.

Torex Resources Ltd.

Trafalgar Resources

Trelawney Gold Mining Inc.

Tudor Gold Corporation

Vista Gold Corp.

Xanadu Gold Corp.

Yorkson Resources Inc. *

Zimbell Resources Ltd.

Fault Zone Gold Corp.

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