

GOLD NEWSLETTER ALERT #283

JULY 19, 2005

Hanging Tough

Gold has held its own this week, despite a steady stream of good news for the dollar.

The equities show life, as the huge amount of money raised in financings begins to convert into news flow.

Plus: The long-awaited scoping report arrives from Southwestern Resources (SWG.T)

Recent signs of U.S. economic growth are breeding dollar bulls across the globe, and this has weighed somewhat on the gold price. But gold has actually weathered this dollar rally quite well, managing to hold close to the psychologically important \$420 level. This relative strength is interesting, considering physical demand, and investor enthusiasm, has been lacking.

And although gold did finish \$0.60 lower today at \$419.50, it remained well within shooting distance of that \$420 mark. Enough so, in fact, that both the Gold Bugs Index and the XAU notched higher. The HUI hit 193.93, up 0.80 points (0.41%), while the XAU added 0.45 points (0.50%) to finish at 90.29.

Such “slack tide” price movements are to be expected, as we languish in the seemingly inevitable summer doldrums for gold. I still expect we will have seen the bottom by mid-August, and the gold price will have begun strengthening for the typical fall rally.

On the equities side, the exploration and development sector is beginning to show signs of life, with the vast capital raised over the past three years finally yielding some results. Given the big headlines the companies on our list have made in recent days, I expect that trend to continue.

Overall, I think the juniors will enjoy a flow of positive news and price performance, along with gold, in the late-summer and fall. Now is the time to position ourselves to maximize our profits

on the impending rebound and several of our more recent newsmakers are priced to do just that...

As I noted last week, **Amera Resources** (AMS.V; C\$0.70) made a big jump on heavy volume, with no news. As it turns out, management had recently completed what has to be considered a very successful road show in Europe. By all evidence, they were able to generate significant investor interest in the stock.

Quick on the heels of the price jump, the company released an update on its exploration efforts. There was little new information provided in the release, except for the announcement of a new acquisition: the optioning of the 800-hectare Cruz de Mayo project in southern Cuzco Department, Peru, and the staking of an additional 2,200 hectares surrounding the western and northern sides of the property.

A total of 52 rock samples, including both chip and grab samples, were collected on the property, with assays ranging from zero up to 14.4 g/t gold (from a one meter chip sample).

Although it isn't conclusive, it seems apparent that Amera is getting more aggressive in Peru, and these efforts may lie at the root of the recent market action.

The price pulled backed significantly today, as investors digested the announcement of a new financing, and the added dilution it will bring. The non-brokered private placement will attempt to raise C\$1.75 million by selling 2.5 million

units at C\$0.70 each. Units will consist of one common share and one warrant, exercisable at C\$0.86 over a period of two years.

While the market reacted negatively to news of this financing, I think it's worthy of note that management is participating in the placement. In short, the insiders are buying their own stock, and I can't think of a better endorsement of the company's prospects.

My advice: Buy along with the people who know what's going on.

After topping the C\$2.00 mark yesterday, **Bear Creek Mining** (BCM.V; C\$1.88) gave back some of those gains today.

Still, the company remains solidly up from the C\$0.66 level at which I recommended it in May, based largely on the excitement surrounding the results at the Corani Silver Project in Peru.

The strong move reflects the significance of the discovery. Not only did silver grades in the initial four holes average 3.0 ounces per ton, but the project also offers considerable scope for expansion of the mineralization. In fact, the project compares favorably with other big silver discoveries, including IMA Exploration's Navidad, when they were at a similarly early stage.

More importantly, though, it reflects the strong demand out there for pure plays on the white metal.

Because most silver comes from base metal operations, the opportunities to invest in silver-predominant projects and companies are few and far between. That so many investors are willing to rush in on Bear Creek, based on very preliminary drilling at Corani, shows how much pent-up demand there is in this sector.

We were on this story from the start, but now it's attracting considerable attention. I doubt we'll see a significant pullback so -- while awaiting the next round of drill results -- we'll call it a hold at current levels, and an "accumulate" on weakness.

Titan Uranium (TUE.V; C\$0.67) has fallen back about C\$0.10 today, as some of the excitement wanes from UEX (UEX.T; C\$2.84) and Cogema's big discovery at Shea Creek.

That's to be expected. Area plays like the one Titan has secured in and around Shea Creek make

those properties -- and the company as a whole -- somewhat dependent on the news flow from the adjacent project.

But since the drilling at Shea Creek is still in its early stages, and since last week's eight meters of 27.4% U₃O₈ was a sign of very good things to come, I anticipate a strong summer and fall for Titan. It continues to be a great uranium speculation at current levels.

Southwestern Resources (SWG.T; C\$10.85) finally released the long-awaited preliminary resource study on Boka yesterday evening. And after an initial bounce, the stock has returned to near pre-announcement levels.

I attribute the market's muted reaction to disappointment resource totals calculated by Hatch Limited: 1.03 million ounces indicated and 4.38 million ounces inferred, taken mostly from Boka 1, with some contributions from Boka 7. Unfortunately, the public perception has been that this is a project in the 10- to 15-million-ounce range.

Frankly, I was worried the study wouldn't meet the lofty expectations in regard to resource size, since the in-fill drilling has been focusing for the most part only on the Boka 1 North and Boka 1 South zones.

But here are the important points to be gleaned from this study: Southwestern's critics have based their arguments on the Boka project's high strip ratio, which the Hatch study projects to be 6.7-to-1 (waste to ore).

That's very high, and just what everyone expected. But the critics didn't expect the economic numbers that Hatch came up with: An operating cost of just \$12.11 per tonne of ore, a cash cost of production of \$143 per ounce of gold, and capital costs of less than \$235 million.

These numbers soundly defeat the argument that Boka's high strip ratio would make it uneconomic. The low costs of doing business in China, plus relatively high grades, consistent mineralization and sheer size, will make Boka not only profitable, but exceedingly so.

In fact, the projected 200,000-ounce-per-year operation would generate over US\$50 million per year in EBITDA over a 10-year mine life. And this is just the open-pittable portion of the project

and the resource. The Hatch study didn't incorporate underground resources, other than to identify the potential for a high-grade underground operation, and to outline options for such a project.

From a resource standpoint, the higher numbers will come (if they aren't in already). Hatch's resource estimates were based only on the 67 holes drilled before April 25. There has been a ton of drilling at Boka since then, and the district-scale project has a wealth of targets yet to be tested. So, putting aside the fact that 5.41 million ounces is nothing to sneeze at, the odds are very good that SWG will hit 10 million ounces or more at Boka.

By the time that happens, Boka's in-situ resource and Southwestern's market capitalization should have both grown appreciably.

Also making news is **Vena Resources**

(VEM.V; C\$0.37), which just put out a resource estimate on Azulcocha, its polymetallic deposit in Peru.

As I anticipated, the economics of the project are extremely attractive. Using a highly conservative 10% discount rate, independent consultants came up with a net present value for Azulcocha of US\$37 million and an impressive internal rate of return of 157%.

Compare that NPV for Azulcocha with the company's current market cap of around C\$15 million, and you can see that, just as we predicted, the project is worth more than the company itself.

So those who buy Vena now not only get Azulcocha at a big discount, they'll also get the rest of the company's vast exploration portfolio essentially for free. Simply put, this is a buy.

— **Brien Lundin**

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