Brent Cook Helps Investors Navigate Rocky Road to Riches

You don't hear a lot about "peak gold," but the fact is that great gold deposits are harder and more costly to find these days. Then getting the few finds into production takes more time and money than ever before. So why bother? Because the occasional success story makes it all worthwhile for the intelligent investor. "It's those few that really keep all of us in this game and keep all the money coming in," renowned exploration analyst and geologist Brent Cook tells The Gold Report readers. Brent, who produces the weekly Exploration Insights newsletter, also offers a few tips for intelligent investing in metals and mining that don't require expertise in mineralogy to put into practice.

The Gold Report: Back in January, you predicted that the economy would not improve much within six or even 12 months but that we might see a market rally. So far, right on. What do you see ahead now?

Brent Cook: We have seen a very strong market rally, stronger than I would have guessed, but I don't believe it's based on a fundamental recovery in the U.S. economy. I believe a lot of it is a "relief rally" plus fund managers forced into the game for fear of missing out on their bonuses. People are out of shell shock and beginning to replace broken items and buy a few new things, but most people outside of the mining industry I know are worried about their debt and trying to reduce it. I believe we were bouncing along the economic bottom. Just because it's not getting worse doesn't necessarily mean it's getting much better. We've got severe leverage and debt to work out of the system, at least in the Western world. China's another story.

TGR: Sticking to the Western world for a moment. If things aren't getting worse and we're just going parallel, what will happen in the market?

BC: We had a massive rally from the bottoms, the biggest in 20 years, and I suspect a lot of that is due to the stimulus the government's throwing into the market. Government spending has added 11% to the U.S. GDP this year alone and makes up about 40% of total GDP. How taking from one pocket to put in another pocket actually creates wealth is beyond me. But when it comes down to actual company earnings, just because they're not as bad as expected does not mean we're in for a major upturn in the economy here in the U.S. When that reality of long-term reduced growth hits, things will level off and drop back down somewhat. That's not original thinking on my part. I'm just looking at the data and reading various experts' opinions.

TGR: Since we bounced off such a massive downturn, is the market now where it should be?
BC: My investment paradigm right now is that we will see the Dow and NASDAQ and such back off into the end of the year. I don't see the real economy getting appreciably better, and I don't see unemployment getting any better. In fact, it's probably getting worse and it's hard to get a recovery going without employment increasing and actual consumer spending.

TGR: And what's your thinking on China?

BC: I do mostly metals and mining and that sort of thing. If I look at the copper market, specifically, I see copper's had a massive rally, from $1.50 to $2.50. From everything I can tell, that's based on speculative demand and inventory buildup in China. In my opinion, China is rapidly getting rid of U.S. dollars and buying hard assets, including copper and base metals. I believe China's investment is what's really taking the copper price up. China has a massive stimulus program going right now, pushing money out as quickly as it can.

The stimulus package amounts to something like 14% of GDP. That's a huge amount of money being pumped into the system. From there much of it goes into those speculative investments and the stock market just as it would here. That's resulting in a massive rally in the stock market. The Shanghai market's up 75% and Hong Kong is up 28% or so.

TGR: If China is stockpiling copper, won't the price top out here shortly?

BC: I believe it will. And then I believe during the remainder of this year we're going to see China slow down buying copper. At that point, I think there's a good chance we'll see the base metal market begin to decline again.

TGR: If China is the major copper buyer, can't they essentially manipulate the market? Can't they stop buying, let the price drop, start buying at a lower price until it gets to a price they don't want to pay, then again stop buying and let it drop?

BC: I suspect their motives may be a bit more sinister than that. Once they reach their inventory goals, the next desirable asset would be the actual metal supply—the mines and deposits. By backing off, metal purchases prices fall; and we all know what happens to the market value of mining companies when prices drop. They're still sitting on $2 trillion in U.S. dollar-backed assets and to some degree it would make sense to plow that back into buying the mining companies. Why not do it cheap? That's just an idea, I have no proof; but what would you do?

TGR: Considering that possibility, what's your view in terms of investing in any of the base metals?

BC: I'm very cautious. It's a long way from a drill hole or even a defined resource to an actual mine. So I'm being very, very selective in the base metal side of things. If there's an asset selling at a significant discount to what it's worth at say $1.50 copper rather than $2.50, I'm happy enough to buy some and hold it. But I'm not aggressively seeking those, and I'm certainly not putting much money into base metal exploration targets.

TGR: Are there opportunities to buy the assets at a significant discount to the market price?
**BC:** Yes, I believe there are some. For instance, a number of copper discoveries have been made over the past five years, and a few of them actually are potentially economic. But the issue is the amount of money it takes to get to production. Money is still tight for major projects and the time and cost of bringing a project to the feasibility stage is daunting for a small company.

Let's say a company's market cap is in the range of $30 million to $80 million range. They've got $10 million in the bank. Yet to advance their projects, once they've defined a resource, it will take tens of millions of dollars. To eventually build it will take hundreds of millions to a billion dollars. A small company can't really do that, particularly in this market. There's not a lot of investment money available for base metals. Gold, no problem; but base metals, problem.

**TGR:** The gold price has held up well, moving in the range of $900 to $970 so far this year. We haven't seen a gold slump this summer, and a lot of people are saying it should take off any time now.

**BC:** I think there are two conflicting forces emerging. One, gold is up because of fear. Fear of another financial disaster and concern that the U.S. dollar is vulnerable. If this current market rally is for real and the economy does get better, I can see a lot of people selling their gold and silver ETFs. That's probably not positive for the gold price.

On the other hand, given the massive stimulus and quantitative easing that's gone into the market, gold could perform fairly well. I believe we're looking at serious monetary inflation that will eventually result in price inflation. And when that happens, I believe that's positive for gold.

If fear and inflation win out, the gold price will continue to rise. I personally don't know why it would rise dramatically over the next year, but I can see a volatile uptrend through the $1,200 mark over the next few years.

**TGR:** What do you think the market will do that would cause people to sell their gold ETFs?

**BC:** If we really are seeing a recovery, with housing prices beginning to rise and unemployment numbers starting to drop, I can see a scenario where people begin selling their ETFs and putting their money back into the stock market. I think we have to see a true recovery first, however.

**TGR:** To your other point, about inflation and the effects of the stimulus on the dollar, you're looking at gold holding up well and perhaps going over $1,200. What does that mean for gold mining if indeed inflation drives up the costs of mining?

**BC:** There's a serious shortage of new gold discoveries and mines going into production. It's interesting. Since 2000, the gold price has risen $600 or so, yet the actual amount of gold produced has declined almost every year since then. That's counter-intuitive, given that when a commodity price goes up, there should be more production. This is telling us something important.

We are flat out not finding and building enough new gold deposits to replace the roughly 80 million ounces of annual production. And if you view gold as money (which I do), the inflation
rate of gold is actually decelerating while the inflation rate of fiat currency is accelerating. So we've got an interesting juxtaposition here between real money and fiat money. The real thing is becoming scarce while the supply of the phony stuff is effectively limitless. I like that scenario because it bodes well for anyone that can fill the gold supply gap.

That's me. I look for up-and-coming gold deposits—early-stage discoveries—that actually stand a chance of becoming economic. I'm not into the hype-pump and dump variety of discovery. There are not many real gold plays out there, but the few I've found are going to be extremely valuable. Especially to the major mining companies whose overall gold production profile has essentially been declining.

**TGR:** Are the declining reserves and declining gold production due to a lack of exploratory activity because it hasn't been economical? Or is there simply less gold to be found?

**BC:** A recent study by Gold Fields Ltd. (NYSE:GFI)(JSE:GFI) suggests about $2 billion is spent per year in gold exploration; I suspect it is higher and have also read that the actual number is over $8 billion. So we are looking hard. The ultimate issue is that it's just getting harder and harder to find gold. We've scanned the earth over the past 20 years with satellite imagery, all sorts of different techniques from the air and on the ground. The outcropping ore bodies are few and far between. We are being forced to look where we can't see and that has increased the cost of exploration substantially while reducing the success rate.

Take Nevada, for instance. People are drilling 1,000-foot holes, looking for deposits that are under gravel and post-mineral rocks—the rocks that have been shoved over where deposits could be. That's an expensive exercise when all you learn from your drill holes is the rock type and whether there's alteration. Essentially what you could have learned decades ago by walking and sampling the surface now takes a 1,000-foot drill hole to get the same information. It's tough, it's expensive. That's why we're finding fewer deposits.

**TGR:** Is gold at $950 enough to make all of that expense worthwhile?

**BC:** Only for the few companies that actually find gold.

**TGR:** Would gold have to go up above $1,000 to $1,200 to improve that picture?

**BC:** That would help. Certainly as more money becomes available through the market there are more people looking, more people drilling holes, and there will be more discoveries. But, considering that once a discovery is made, it's a minimum of five years—and probably closer to 10—before it actually goes into production. You've got to drill it out, do the metallurgical studies, do environmental studies, go through the permitting processes, sometimes deal with political issues and the money has to be raised. All of that has to be worked through. It takes an extremely long time. A company also has to make a guess as to what the gold price will be 5 to 10 years out when they actually will see production from the deposit.
If we take the politics out of it, are we at a point where we have diminishing returns of gold exploration? No matter how much we explore, we're just not going to find as much as we did before.

I think you are correct. I think, no I know, that net-net, gold exploration is a money-losing proposition. You've got to be very selective about where you invest your money to make money in minerals exploration. On the whole, if you gathered up how much wealth was created versus how much has been spent, I think you'd find gold exploration and mining is a losing business. Remember that it was the people that sold supplies to the '49ers during the California gold rush that made the real money. Today that would be the brokerage firms, which win regardless of whether you do or not.

Then why we should consider investing in gold mining companies?

Because the few that actually find economic, high-margin deposits make a lot of money. We're talking companies that can increase 10-, 100-, even 1,000-fold based on legitimate discoveries. It's those few big wins that really keep all of us in this game and keep all the money coming in.

What do you mean by "a few"?

There are more than 2,000 junior mining and exploration companies listed around the world, and most of them are out there looking for gold. Maybe 1% of them are going to find a deposit that actually makes good money. You can make money on the perception of the discovery with maybe another 15% of those companies if you are nimble and recognize the difference between reality and hype. And the rest of them, the 84%, you lose money on in the long run.

Your geology background would come in handy in isolating those precious few. Can you share with us some of the companies that have the potential to find such deposits and convert them into mines?

Let's go to Nevada; it's one of the premier gold provinces but it's a very difficult place to explore. There are two companies that I think are doing excellent work there. The first is AuEx Ventures Inc. (TSX:XAU), which is in my Exploration Insights portfolio. I just left their Long Canyon discovery near the Utah border, which is a joint venture with Fronteer Development Group (TSX:FRG) (NYSE.A:FRG). AuEx owns 49%.

Long Canyon is a new Carlin-style discovery and surprisingly near surface. They drilled out a little over 800,000 ounces of very good grade material, and that has a potential to turn into a much larger deposit. Fronteer is running the program now and they're just beginning to understand the geologic controls and should be able to start drilling some deeper holes within the next month or two. The source or feeder for the near surface deposit is unknown. That unknown is a very good exploration target and one that could potentially be a major deposit. There is also a lot of potentially mineralized ground that lies under gravel or on trend that has not even been...
looked at. Potentially, if they find that source, we could be seeing the beginning of a new Carlin-style trend. So that's one company that's doing great work with a new discovery.

**TGR:** And the second?

**BC:** Miranda Gold Corp. (TSX.V:MAD) is actively exploring in Nevada and doing it intelligently. I've been on their properties many times. I know them well. They're technically competent. They understand the geology and the important attributes of what they're looking for. More importantly, they understand the risks in what they're looking for. So this is a group that develops conceptual ideas and then brings in companies with more money to spend the high-risk dollars drilling those holes.

**TGR:** Has Miranda found some good intercepts in the holes they're drilling that make you think they have a vein or something similar to AuEx so they have a potentially large find?

**BC:** Not yet. They're still looking. They've got a number of joint-venture partners drilling, but I've seen nothing that tells me they're on to a legitimate discovery. They're into the right style of alteration, a Carlin-style alteration system at a number of properties. But as yet they haven't drilled the hole that says, "Bingo; we've got something."

**TGR:** What makes Nevada the premier place to be?

**BC:** The amount of gold in Nevada is quite remarkable. It's a gold province and the deposits there can be massive, especially these Carlin-style systems. The Carlin Trend alone has over 70 million ounces and individual deposits host tens of millions of ounces. If you can find one of those, it's very profitable. If you can do it in a tiny $15million dollar market cap company, well, I'm buying the next round. When you look at Barrick Gold Corporation (NYSE:ABX) and Newmont Mining Corp. (NYSE:NEM), that's where they started. Barrick is still finding deposits in Nevada. In this decade, they've discovered of about 15 million ounces on ground they've had for 25 years. The deposits are there. They just take a lot of work. That's why I think Nevada is one of the better places to be, plus you know the politics, the infrastructure is good, and you can always get a cold beer.

**TGR:** What other companies you're looking at seem to have the right technology or have started making some finds on deposits that interest you?

**BC:** I have a lot of respect for Rimfire Minerals Corp. A good group. They picked up a gold-copper project in Alaska by way of a merger with Geoinformatics Exploration Inc. I have yet to go visit it so reserve final judgment, but they are very intelligent, very good explorationists, and I trust that they've picked this up because they believe it has a lot of potential. They're active in Nevada and Australia, as well as Alaska. Plus, the merger brings a number of what appear to be good projects that could potentially be spun out into other companies and thereby funded outside of Rimfire.
[Editor's Note: The Rimfire Minerals Corporation and Geoinformatics Exploration Inc. merger has been completed. Effective August 5, 2009, the two companies have combined to form a new entity, Kiska Metals Corporation (TSX.V:KSX)]

There's always Virginia Gold Mines Inc. in Quebec, which spun off Virginia Mines Inc. (TSX:VGQ), made a fantastic discovery in Quebec and sold it to Goldcorp (TSX:G) (NYSE:GG). Now they're at it again, another great exploration company. Very good guys.

TGR: Does Virginia Gold have some active prospects?

BC: They don't have any mining prospects. They do, however, have a royalty on the deposit they sold to Goldcorp; it nets them $1.2 million a year, more when it goes into production. They're also sitting on about $38 million in cash. That's an exploration company that's actually making money and they've got a lot of ground out there they're exploring. In this business you bet on smart, honest and hard working people that love their work.

TGR: Who else?

BC: For a mining company that's out there producing, I like CGA Mining Ltd. (TSX:CGA) (ASX:CGX) in the Philippines. They're just now into production with about 3 million ounces in reserves and 8 million in resources. I think people are going to start recognizing it, more institutional investors. They'll be producing around 120,000 ounces a year, then up into 200,000 ounces a year. It's a good deposit.

The richest discovery out there right now is held by a company called Andean Resources (TSX:AND) (ASX:AND) in Argentina. It's in a good pro-mining province, which is important for Argentinean projects. They're drilling out a very high-grade vein system that will be a very profitable project. It's not a cheap company but quality costs money.

San Gold Corporation (TSX.V:SGR) in Manitoba—that's another one that's been in the Exploration Insights portfolio for some time. San Gold has a small mining operation, maybe 80,000 ounces a year. It'll be increasing, but what's important there is that they've been discovering new high-grade veins along trend. It's based on a geologic concept that's working. A number of larger mining companies should be looking at that deposit for the exploration upside and safe jurisdiction.

TGR: So San Gold's mining is near these new veins?

BC: Yeah, San Gold's interesting. It's an old, old mine; been going for quite a while, and they just recently stepped off a new geologic concept and drilled some holes and found a whole new setting for this mineralization. It's averaging about an undiluted 25 grams gold across about three meters and they just ramped right into it. So it's in production right now—and that's over a period of only a year. The thing's permitted, ready to go, they're into in and mining. And they're beginning to find parallel structures with potential. So we're looking at a company that could rapidly not only find and define a resource, but they can put it straight into production.
**TGR:** Any others come to mind?

**BC:** I have Kaminak Gold Corporation (TSX.V:KAM) on my watch list. It's one of the companies that generates ideas, and then vends out the projects to people with more money, thereby keeping your dilution in the company to a minimum. They are a very good group, young guy running it, Rob Carpenter. Very aggressive. I like the way the guy works. He's worked in Canada most of his life and knows it very well. Kaminak has picked up some property in the Underworld Resources Ltd. (TSX.V:UW) area in the Yukon, where Underworld has a gold discovery going. Kaminak is trenching there now. I'm very interested to see what their trenches will come back looking like. The surface geology looks positive, so they've got something there that could warrant drilling. But it is a long way from sort of interesting; I'm willing to put some money on that concept.

**TGR:** When are the trench results expected?

**BC:** I'd guess we'll see those sometime in August. They've also got some property around another company in our Exploration Insights portfolio in Thunder Bay, Ontario. It's Magma Metals Ltd. (TSX:MMB), an Australian company. They've got what I believe is probably the most promising platinum-palladium discovery anywhere in the world. It's under the radar, given it's an Australian company, but this Thunder Bay property is really prospective and something I would suggest anyone look at—high risk but the geology is right.

Kaminak has ground in the same general area. They're doing some work on it now to see if the structures and mineralization continue on to their property. So that's pretty prospective as well. This is Rob's first company; he's got his heart and soul and family into it. I know that over time he will do well.

**TGR:** What about silver plays?

**BC:** The one company is in our portfolio with a bona fide silver deposit is MAG Silver Corp. (TSX:MAG) (NYSE:MVG). I like it because it has a high-grade, high-margin deposit, and those are very few and far between. Most silver companies, I hate to say, are mining or exploring marginal deposits. They go into an old mining district or camp in Mexico or Peru, come into something that's probably been mined off and on for centuries and hope to make money on what the Mexicans missed. On the whole, these deposits average about 250 grams of silver with a bit of gold and that's just barely above what it actually takes to drill it out, develop it and mine it. So it's hard to find good high-grade high-margin deposits such as MAG Silver's. In terms of deposit, that is the best silver deposit out there.

I also just visited Fortuna Silver Mines Inc. (TSX.V:FVI) deposit in Peru. They are actually focused on making money and drilling out new higher-grade silver veins on the property. I believe Fortuna will continue to grow so that is one to watch.

**TGR:** Any other insights you'd like to share with our readers?
**BC:** In terms of a person's portfolio, the exploration side of things is certainly a high-risk proposition, but I think it can be done intelligently. A person needs to really put the work into understanding what exploration is all about, how it works, and then correctly interpreting results. If you can do that you outsmart three fourths of the competition.

I would say half of my portfolio is in the exploration sector. In the newsletter we started, what I called a gamblin' stock portfolio in May, is up better than 140% on six stocks—more if you consider the two dogs I indicated didn't have much of a chance. So it's a good sector for me to be in, and I think in particular gold discoveries are going to be worth a lot more as we move forward. We already discussed the decline in global production and major mining companies needing to replace their reserves. So intelligent investing in the speculative side of minerals exploration is a smart place to be, if you are informed about it.

One thing any investor could do is when a news release comes out or when they're investigating a company, go to the website and see what's there. The website and disclosure provided tells you a lot about a company. Make sure that when a company reports drill results, for instance, that a map's included. They need to report all the drill holes. Often a company reports results from hole numbers 5, 8 and 20. Okay, there's 17 holes there we're not hearing about. Why aren't they reported, and what was drilled in the past? Just seeing how a company discloses information can tell you whether they're honest or not. I think that test alone cuts out half the companies; you won't need to bother with them. If a company doesn't fully report information, assume they're hiding something. Anybody can do that easy test. You don't even need to know what the information means, just know whether they present and report everything.

I've actually written three free reports that are available on my website discussing things to beware of. One's about geologists, one's about drill holes and one's about resources. Each of these is written in such a way that is not difficult to understand and I have tried to throw some humor into it. I think it's certainly worth reading because you can get a sense of the games that can be played.

**TGR:** Anything else you want to pop in here before we say goodbye?

**BC:** In summary, I think I'd just say gold exploration is a good sector to be in, albeit only with your risk capital. Exploration success offers the highest possible returns if you are careful; a bit of luck doesn't hurt either. But you have to be intelligent about it.

**DISCLOSURE:** Brent Cook

*I personally and/or my family own the following companies mentioned in this interview:*

Kaminak, Rimfire, Miranda, San Gold, CGA Mining, AuEx, Fronteer, MAG Silver, Magma Metals, Fortuna Silver

*I personally and/or my family am paid by the following companies mentioned in this interview:*

None

*Brent Cook brings more than 25 years of experience to his role as geologist, consultant and investment adviser. His knowledge spans all areas of the mining business from the conceptual stage through to detailed technical and financial modeling related to mine development and*
production. His hallmarks include applying rigorous factual analysis to the projects and companies he examines, and augmenting his analysis with on-site field evaluations. He has worked in more than 60 countries on virtually every mineral deposit type. Brent's weekly Exploration Insights newsletter focuses on early-discovery, high-reward opportunities primarily among junior mining and exploration companies. Paul van Eeden, who produced Exploration Insights' predecessor publication, claims Brent "has always been my primary source of information and intelligence with respect to mineral exploration investments."

Want to read more exclusive Gold Report interviews like this? Sign up for our free e-newsletter, and you'll learn when new articles have been published. To see a list of recent interviews with industry analysts and commentators, visit our Expert Insights page.