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In this letter, we conclude the brief overviews of our holdings—answering the question, "Why do we hold this?"—with a look at our junior gold stocks. Given what has happened to the markets in the month since we started this review, there will be more buy recommendations in this list than in our earlier ones, a reflection on prevailing prices. Having completed this overview of all our holdings, next we'll look more in-depth at some with particular developments or near-term catalysts.

MANY JUNIORS UNDERVALUED TO ASSETS, BUT FINANCING A RISK

Several of our junior gold stocks have bounced off their recent lows, but remain very inexpensive, and undervalued relative to their assets. The main risk for most, however, is the need—sooner or later—to raise more money to continue their work.

Vista Gold (VGZ, NY, 3.09) is very inexpensive on resources in the ground (less than $30 per proven and probable ounce, versus well over $200 for most similar companies). The challenge is how to unlock the value, and raise the large amounts of cash necessary to push projects forward in the absence of property deals. The Midas transaction was an excellent example of unlocking value. Though the shares have slipped significantly this year, Vista's shares in Midas are still worth around $110 million. With $15 million in cash, that means Vista's projects are valued at only $90 million. Its Mount Todd, Australia project alone is worth a multiple of that; an updated feasibility is expected by the end of summer.

When I drafted this note a couple of weeks back, to be included with our senior gold and silver stocks, Vista was trading at $2.61, which I then described as "ludicrously inexpensive". After a near-20% jump, it's just plain inexpensive! We are a buyer here, but would look for pullbacks (to $2.90 or less) to *add* to positions.

The prospector generator model minimizes risk

Virginia Mines (VGQ, Toronto, 8.85) is a long-term favorite. If you have been a subscriber any period of time, you know why we like it. It is a prospect generator, though with its growth and balance sheet ($42 million), Virginia is more willing *and able* to pursue more projects for longer itself, before bringing in partners. There are 19 exploration programs this summer (most continuations of successful winter programs just concluded); three of these are with partners, though many of the others are early stage, and we do expect some more to be partnered over time. Virginia also owns a base-metals project, Coulon, where there was an additional discovery just announced; the project continues to grow to a size where it would be economic and then possibly sold.

<u>Cash flow ahead</u>

But most of the current value—and what provides both the near-term certainty and downside protection—is its royalty on the Eleonore discovery it sold to Goldcorp, and which is advancing towards late-2014 start up. We have reviewed this royalty before (see, for example, #446, plus subsequent). As the start-up dates gets nearer, the present value of the royalty increases; now, at today's gold price, the royalty alone is worth more than the entire market cap of the company. With near-term cash flow and a large cash balance, it is appropriate to call Virginia one of the lowest-risk companies on our list.

The biggest risk would be a deeper-than-expected decline in the gold price, reducing the value of the royalty and increasing the difficulty in finding partners. Virginia remains a buy at today's level. It is somewhat thinly traded and can be volatile—trading down to $8.50 the week before last—so there is no need to chase it. But if you do not own it, you should buy it.

Midland Exploration (MD, Toronto, 1.28) is a dynamic and disciplined prospect generator, also in Quebec, which I have called "the next Virginia". It has multiple joint ventures, mostly in gold but including base metals and rare earths, and with well-funded companies. There are currently six high-profile active joint ventures, with encouraging news on most of its projects, including a new gold discovery on a property joint-ventured to Aurizon. Behind that, is a large property pipeline—Midland continues to add properties—and we expect additional joint ventures in coming months. Its disciplined approach gives it $4.5 million in cash and just 26 million shares outstanding. The risk, as with all exploration companies, is the difficulty of finding something of economic value. After a stock price decline from a peak of $1.80 in mid-March, Midland is a buy once again.

<u>Exploring the Americas</u>

Almaden Minerals (AAU, NY, 2.04) is another prospect generator, focused on Mexico and British Columbia, mostly gold and copper. It has top management, a strong balance sheet (over $20 million in cash, plus $2.5 million in bullion), and multiple projects and partners (over 40 projects, 21 of which are in some kind of deal, including properties sold on which Almaden holds a royalty). Two key projects, which could be catalysts for the company, are a gold property (Caballo Blanco) advancing towards production (on which Almaden holds a royalty), and the 100%-owned Ixtaca, a silver-gold property, which continues to grow. The main risks are that many of its partners are small and not necessarily well financed so a prolonged downturn might see some partners struggle. Almaden is a long-term buy here, at an attractive price, with almost half the market cap accounted for by cash, gold bullion, and shares in other companies).

Miranda Gold (MAD, Toronto, 0.32) is another prospect generator, centered on Nevada but with an active program in Colombia and a project in Alaska, in all 16 projects (13 in Nevada) of which nine are under active joint venture. Drilling on three properties has just finished, with results to be released, while drilling is currently underway, or about to start, on two others. We expect to see more activity in target-rich Colombia increase in coming months. So there is plenty of news potential in coming months.

Why prospect generators?

Miranda is a classic prospect-generator company: a broad portfolio, with several joint-venture partners (both senior and junior companies), an ever-increasing property portfolio, plus strong management (including top geological team), and a strong balance sheet (over $6 million in cash, and low burn rate). Miranda is as well positioned as any, yet exploration is always long-odds, and Miranda needs a success. The risk is that it needs another financing before any kind of success to move the stock price higher. But for patient investors, Miranda, with a market cap of only $17 million, is a buy.

> *At a conference in Toronto last month, Miranda held a session with Rick Rule, Brent Cook, Paul van Eeden and myself, wherein we discussed investing in junior and exploration gold stocks. It was an excellent introduction to the subject, with four veterans approaching it from somewhat different angles—Brent the geologist, Rick the financier—with many important insights and advice. Miranda CEO Ken Cunningham concluded by tying the independent advice into Miranda, its approach and activities. The short version focuses on Miranda, while the long version (48 minutes) includes all the commentaries from the four experts and, particularly for beginners to the sector, is well worth the time.*

A somewhat different approach

Cartier Resource (ECR, Toronto, 0.23-0.25), though seeking partners on many of its projects, has taken a different approach, undertaking more work on some properties to build value and seeking more favorable partnership deals. This has not always been successful and has been expensive, leading Cartier back to the trough several times. In March, Cartier itself optioned two properties (Fenton and Benoist), and intends putting most of its exploration budget into these properties, both previously worked with encouraging results. At the same time, it will move more rapidly to joint venture its other projects.

So, more of the company's outlook now depends on a single project than in the past. We are holding because this project looks attractive (and the deal terms were attractive), and it has a meaningful portfolio of other encouraging projects (10 in all), energetic management, and sufficient cash for now. (Like others on this list, Cartier has a very valuable website, under its name.) The risks are that the new properties disappoint, as well as the possibility of further financings. With a market cap under $10 million, Cartier offers cheap options on exploration success. It can be thinly traded so use limits.

Very cheap, but…

Sunridge Gold (SGC, Toronto, 0.31-0.33) has advanced copper-gold projects in Eritrea. We are holding because the sock is very undervalued on these properties. A feasibility on its Debarwa deposit released mid-May was very attractive: IRR of 41% and payback in little over a year (based on very conservative metal price assumptions). Though Debarwa is part of its larger Asmara project, the company may decide to start Debarwa as a small stand-alone project, to generate near-term cash flow; a decision will be made next year. The value of this deposit alone is nearly twice the company's market cap. Though the company has nearly $5 million in cash, it has been spending at a high rate, so another financing will be needed at some point.

The major risk, of course, is the reason the stock is cheap: Eritrea (both the reality and perception). Moreover, despite the value of this large and attractive project, no buyers have stepped forward. We are holding; high-risk investors can buy at these low prices.

<u>Generating prospects in the Balkans and North Africa</u>

Reservoir Minerals (RMC, Toronto, 0.55-0.58) was spun off from Reservoir Capital, with a base of projects in Serbia and elsewhere in Southeast Europe. With eight current properties, and an active joint venture with Freeport among others, Reservoir intends to follow the joint venture model. It is looking for other early stage properties to acquire, mainly across west Africa—it already added projects in Cameroon—which it would joint venture after initial work. It is well financed with well-respected management and board. With diversity in geography, minerals, and project stage, it is spreading its risk.

The main risk, as with all junior explorers, is the need for more financing (by the end of next year) before any particular success. With a treasury of $8.5 million of which about half will be spent this year, Reservoir is in good position. At the current price, the market cap is $15 million, making Reservoir inexpensive and a good bet on long-term success. Although the stock traded as low as 35 cents at the end of April, the current price is still attractive for long-term investors.

Disclosure: Clients of Adrian Day Asset Management hold significant positions in all the above companies, including 5% positions in Virginia, Midland, Miranda, Cartier, and Reservoir. We may buy or sell at any time depending on individual client circumstances.

Our order to buy **Newmont Mining** remains open. Let's maintain the limit for now.

GO AWAY AMERICAN, WE DON'T WANT YOU That's what many foreign banks as well as money managers and hedge funds are saying. And it's due to the impending implementation of what's called the Foreign Account Tax Compliance Act (FATCA), which essentially requires non-U.S. financial institutions to implement U.S. rules, requiring complete revamps of accounting systems and loss of privacy for clients. This follows years of increasing harassment of foreign banks. Now, more and more, are saying, like Su Shan Tan, head of private banking at Singapore's DBS, "I don't open U.S. accounts, period". While condemning the rules as "Draconian". On a recent trip to Singapore I was unable to find a single bank that would act as custodian to U.S. accounts.