

# HRA Journal

HARD ROCK ANALYST JOURNAL • VOLUME 9, NUMBER 05 • MAY 2009

*We are still wrestling with the “sell in May and go away” issue. It’s a sensible move most years, though base metals do tend to peak after the summer not before it. This year is a tougher call, given the major bounce we are in the midst of, which hasn’t run out of steam yet.*

*Usually, when we see summer rallies they are in exploration and development level companies. Short of a couple of really major discoveries, these require rising commodity prices to keep the momentum going. Those have cooperated recently but expecting metal prices to just march upwards for another four months requires too much optimism.*

*When metal prices reach levels that allow companies with superior results to get attention, this provides the trickle down to juniors, and after a downturn can allow for a stable summer if the major markets aren’t falling away. We have reached that level with gold and are probably close to it with copper and uranium. Gold explorers are starting to raise money again. There has been little financing on the exploration side for base metals, though producers have been raising plenty. For now, we won’t go farther than “very cautiously optimistic” and still suggest regularly harvesting profits as we go through May.*

**David Coffin & Eric Coffin**

## Compare and Contrast

Commodities, and metals in particular, continued to surprise many observers by doing pretty much what we had expected. Warehouse stocks for copper and zinc continued to fall through the month, with copper seeing a 30% drop from its peak level earlier this year.

Some have minimized these moves as “mere” supply and inventory management by Asia. Some of this buying may be that, but inventory leaving London is not showing as Shanghai availability, so its either getting consumed or getting put away for a rainy day.

Those that consider the latter form of buying unimportant are missing the point made earlier in this secular cycle. Yes, there will be more bumps and dips in the road as the world tries to recover from the Great Contraction (to coin Michael Berry’s phrasing). But the world’s preeminent user of metals feels it will have to pay more for those commodities later, for good reason. If its own growth doesn’t force prices higher, *supply contraction will.*

Ironically, this month’s market also has an example of traders reacting in the opposite way to a *producer* stocking up.

Much of the recent rally in uranium stocks is attributable to Cameco (CCO-T, CCJ-N), the preeminent producer of the energy metal. In its earnings conference call CCO management stated they have been buying U in both the spot and more expensive contract market. They expect uranium prices will lift enough to allow resale at a profit later. Its fair to say that CCO knows the uranium market as well as anyone, so a bullish view from this news is not surprising.

It’s interesting that traders find it easier to get bullish about producer buying, from a vested interest in higher prices, while consumer purchasing that would obviously prefer lower prices is met with skepticism. Is it just mistrust of those making cash outlays when we know the world is supposed to be run on debt?

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## RALLY CAP?

The chart below depicts the relative performance of the S&P, DJIA, TSX and TSX-V indices since the start of the year. The TSX, which had a slightly smaller drop than the NY indices, also came out of the trough more quickly. Much of that outperformance is thanks to resource stocks, though oil and gas stocks weren't pulling their weight until the past few sessions.

The other reason Toronto managed to bounce better is the Canadian banking sector is not a disaster. The TSX Capped Financials index is off about 30% vs. the US BKX bank index which is off 55% and probably too optimistic at that level.

After bottoming at 666 (not that we're reading anything into that number, mind you)

the S&P has rallied an impressive 36% in under two months. That sort of rapid ascent is characteristic of a bear market rally, though the market confounded skeptics by strengthening again in the past few sessions after appearing to be topping out. Can it keep going?

It's too early to tell, but there has been a lot of "good" news on the US economy. Consumer sentiment and housing stats are ugly, but there was legitimate good news in some of the numbers like spending and forward looking sentiment measures. Even the Q1 GDP, which came in at an awful -6.1% annualized, didn't phase the market. This is due to the large impact of inventory draw downs that accounted for 2.6% of the decline. We view that as good news.



Production won't stabilize until inventories get run down, so the sooner the better.

For most statistics, the improvements are from abysmal levels, and many of the diffusion indicators like ISM manufacturing and service sector readings are still below the expansion/contraction line. They *are* better however, which is as much as one can hope for at this point.

While many companies' reporting beat estimates, the bar was set pretty low and the move in the indices has increased the P/E ratio substantially. The market is healthier but many sectors are not really "cheap" so it will take external factors to keep things moving upwards.

We continue to think optimism may build based on improving economies offshore. As you know, this is what we expected since this whole disaster started. Although there was a slowdown in lending this month in China (probably good — loans were growing too fast), most stats out of Beijing have been better than expected.

After viewing the country warily, a number of independent researchers have lifted their 2009 GDP growth targets to the 8% level again. There has been some growth during the past month in exports by both Korea and Japan, and China's version of the Purchasing Managers In-

dex has now moved above the 50 expansion/contraction line. India's similar index also moved above 50 this month, and its "new order" index moved most strongly. Local consumer spending and demand for basic materials has also held up much better than expected in India.

Of note is the rise in the Yuan/Dollar exchange rate, now at a seven month high. It would be easy to dismiss favorable comments on the economy by Chinese politicians, but we do not believe China's rulers would allow the Yuan to appreciate unless they felt the worst was over for exports. The slow appreciation of the Yuan as another facet in the move to a convertible trade currency.

Increases in commodity prices help cushion the blow for a number of producer nations, notably most in South America. We don't know yet what metal base levels will be, it would be better for all if oil didn't rise, but the impact of firmer commodity prices on South America is large. This certainly won't save the region from recession, but for those that have had stronger growth this decade it adds an important psychological lift that can be a large help.

We are aware that our analysis does not square with the those that expect no real improvement unless the US economy does all the heavy lifting. We note again however that the models in use

## ***Upcoming Speaking Engagements:***

**Saskatoon, May 8, 2009**

**SaskRocks Resource Conference**

<http://www.saskrocks.ca>

**New York, May 11-12, 2009**

**New York Hard Assets Conference**

<http://www.iiconf.com>

**Las Vegas, May 11-14, 2009**

**Las Vegas Money Show**

<http://www.moneyshow.com/lvms/main.asp>

**Vancouver, June 6-7, 2009**

**World Resource Investment Conference.**

<http://www.goldshow.ca>

by organizations like the IMF have the same issues as those that predicted limited mortgage losses. They still run econometrics based on old assumptions. The world has changed immeasurably in the past decade.

Trade, currency flows and government balance sheets look very different across the globe than they did during past major recessions. That isn't enough to ward off the contraction, but it does limit its geography. The rest of the world can't fix the US economy or banking system, but it can provide enough stability so that its at least much less of a burden. That may be enough to carry the market if the US can navigate the worst of its own crisis.

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## BE THE BID, BEN

The previous section dealt with some of the reasons the market is stronger. Now we move to some of the danger zones that still need to be navigated. The banking industry Stress Test results and the official April unemployment numbers for the US are out soon after you get this.

There is a great deal of hand wringing in the market over the stress tests, thanks to multiple leaks and trial balloons on the subject. While there might be a couple of individual nasty surprises, we don't expect the overall scale or order of banks from best to worst to be much of a shock. Analysts have been stirring these entrails for months.

Despite improvements in independent numbers already out, unemployment will not look "good" for a while. Employment is a lagging indicator. Markets turn well before unemployment peaks, but it still has an impact. Everyone expects a bad number so there is room for an upside surprise. Even if there is, the number will have to get much better before the aggregate income for Americans is reducing debt loads. The US economy won't see anything like potential growth before that happens.

Speaking of debt, we should note that some credit market indicators we watch have seen big improvements this

month. The TED (treasury-Eurodollar) spread is down to 74 bps, a level not seen since last summer and LIBOR is back below 1% for the first time in months as well.

One rate that doesn't look so good is the TNX or ten year note yield shown in the top graph. 3% was thought to be Bernanke's "line in the sand" which prompted his quantitative easing announcement in mid March. The rate is now at 3.18%, a six month high, and it will be tough to hold it there with so much new treasury paper being sold.

After the last Fed meeting, Bernanke said he did not expect to add to debt purchases. We're not buying that thanks to that TNX chart. It's not about growing the money supply, it's about holding treasury rates down. Ben has to be the bid, or US rates could easily run far higher as new treasury debt swamps the market. The US absolutely cannot afford skyrocketing interest rates for the next couple of years. We expect a lot more money supply creation.

The combination of expected new money supply and moves to riskier assets is impacting the Dollar, as shown in the bottom chart. The dol-



lar index is currently sitting right on the trend line it has held every since the dollar bottomed last July.

Looming supply and generally better numbers in other economies could push the USD index down through the trend line. That could happen as soon as the stress test and employment numbers are out. Most currency traders are chartists; violating the trend would generate more selling, and in turn gains for both base and precious metals and other commodities. That should generate some higher highs in the resource space, at least in May. **Ω**

# Evolving Gold Corp. (EVG-V, EVOGF-Qbb)

## New Review

Evolving Gold had one of 2008's biggest shifts in momentum, which was no mean feat last year. Early in 2008 the stock spiked to \$2.60 in anticipation of results from work attempting to locate a parallel system to Nevada's famed Carlin gold trend, then crashed. By the time focus had shifted to the program that most interested us, Rattlesnake Hills in Wyoming, the debt crisis sell-off was in full swing. Despite some strong results at Rattlesnake there was little headroom to be found last fall. This review is prompted by a well funded EVG about to resume testing at Rattlesnake.

Rattlesnake is an "alkaline" gold system, one of a series of such systems found in the eastern cordillera of the USA. The best known of these is Cripple Creek in Colorado that has generated 24 million oz and continues to produce about 300,000 oz per annum from an average grade of 0.75 g/t. The 2008 Rattlesnake drilling located a core of higher-grade material at bulk tonnage scale, and demonstrated excellent potential for a multi-million oz system.

**Buy on gold price weakness for results from this year's expanded Rattlesnake Hills drill campaign.**

## OVERVIEW

Evolving Gold has focused on western US gold exploration. Its large land package in Nevada will see some further focus this year. Work on it has demonstrated extensive mineralizing systems, but not so far located a zone on which to hang the company's hat. Its near term fortunes will be determined by the Rattlesnake acquisition it made early last year, and that will be our focus.

Though alkaline systems are a small proportion of gold's global resource base, they can be low cost producers and they can be large scale. Better results last year from Rattlesnake were of the 100+ metres of 2.5 g/t gold variety. Drill results of this tenor plus evidence the gold is "free" indicate a core of material that would be expected to have a low operat-

**Briefing Book**  
(amounts in \$CAD)  
**Evolving Gold Corp.**

**Listed:** TSXV-EVG, Qbb-EVOGF

**Share Issue:** 84 MM; 106 MM F.D.  
**Share Float:** 70 MM  
**Working Capital:**  
\$ 17 Million, \$ 31 MM Fully Diluted

**52 Week High-Low:** \$1.02-0.16  
**Recent Price:** \$0.35 (on Toronto)  
**3 mo Av Daily Volume:** 220,000 shs.

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Website: <http://www.evolvinggold.com>

ing cost. It also helps in getting the message out to the market.

This is within a much larger system that may have other separate centres with higher grades. Drill testing this summer will better outline and attempt to expand on and the extent of the higher

grade material, and will also follow-up potential to build the resource scale with broad lower grade results.

It seems likely that EVG will show a multimillion oz potential at Rattlesnake this year, but details will be very important. If the higher grade material is expanded, and as importantly is expanded in the near surface portion of the system, valuation will grow more quickly. We believe last year's work pulled the project significantly above the current EVG enterprise value of \$15 million. We consider it a strong contender for speculative gains as this summer's work gets underway.

The company is starting a major drill program now, with initial results expected to start arriving in late June to early July.

## CORPORATE SUMMARY

Evolving Gold started out as a CNQ company, Canada's version of the Bulletin Board through a computerized trading platform. Early focus was on Nevada, with a large number of projects staked and acquired, notably from Newmont.

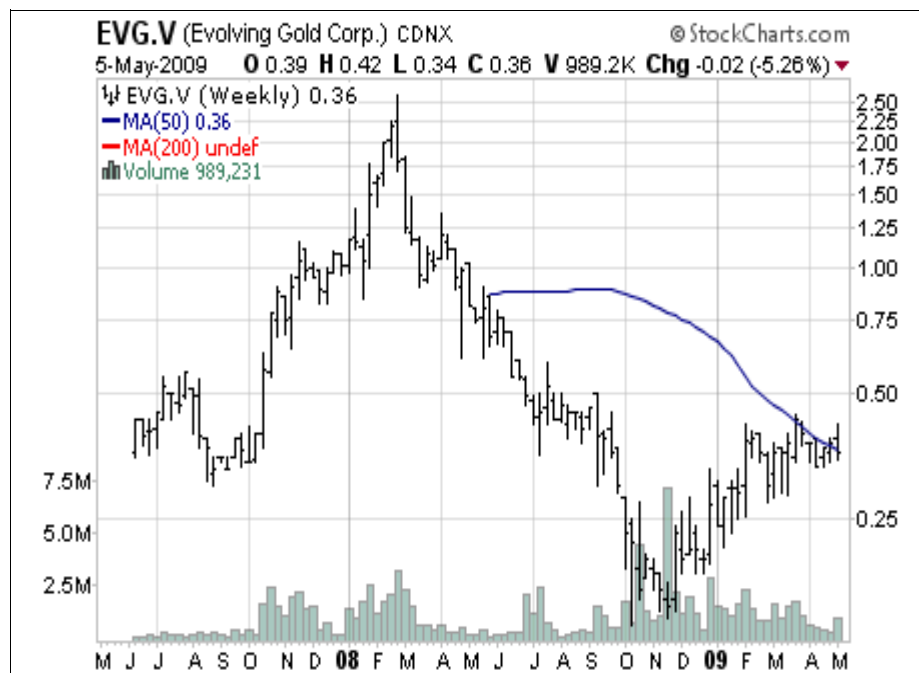
The company carried out a lot of early stage work meeting with the most success at the Winnemucca Mountain project which was optioned to Meridian Gold in 2006.

The shares were not gaining much ground however, and management was finding itself snowed under by multiple exploration projects.

EVG helped solve these problems in 2007 by expanding the board and bringing on a new CEO, CFO and moving the stock listing to the TSX Venture. More Nevada projects were added through 2007 and drilling began at the Sheep Creek project in Nevada and the Malone project in New Mexico.

The move to the Venture exchange and a deeper management team allowed EVG to increase the size and price of financings in late 2007, but the real move came early in 2008.

Evolving was working in late 2007 on the Sheep Creek project where it believed it was on the trail of a new Nevada "trend" parallel to the Carlin. When deep drilling



intercepted formations that host much of the Carlin trend gold with the right looking alteration and sulphides, EVG's market took off. Large financings were offered and the company accepted, completing a brokered and non-brokered placement of 20 million units at \$1.00 in February 2008. This placement plus warrant exercises during the share price run account for EVG's healthy bank account.

As the chart above shows, the euphoria was short lived. After running to over \$2.50 the shares slid on disappointing drill results, and then got decimated with the rest of the market. This period also marked some further changes in management, with Quentin Hennigh becoming President in addition to his duties as Chief Geologist. Hennigh has moved the exploration focus to Wyoming, which is both more ad-

vanced and more efficient to explore. The company has a \$17 million (\$0.20/sh) working capital position and should retain at least \$12 million at year end even after extensive exploration at Rattlesnake.

### Management

**Quentin Hennigh**, President and Chief Geologist, joined EVG after a number of years as Senior Research Geologist for Newmont. Hennigh has worked world wide in the exploration field with a focus on gold projects. Hennigh directs the exploration side while **Robert Barker** handles the CEO duties. Barker, also a geologist, came to EVG after spending 14 years at Newcrest as its General Manager for American exploration.

Chairman of the Board is **Robert Bick** (yes, the family that started the pickle em-

pire), an entrepreneur and venture capitalist.

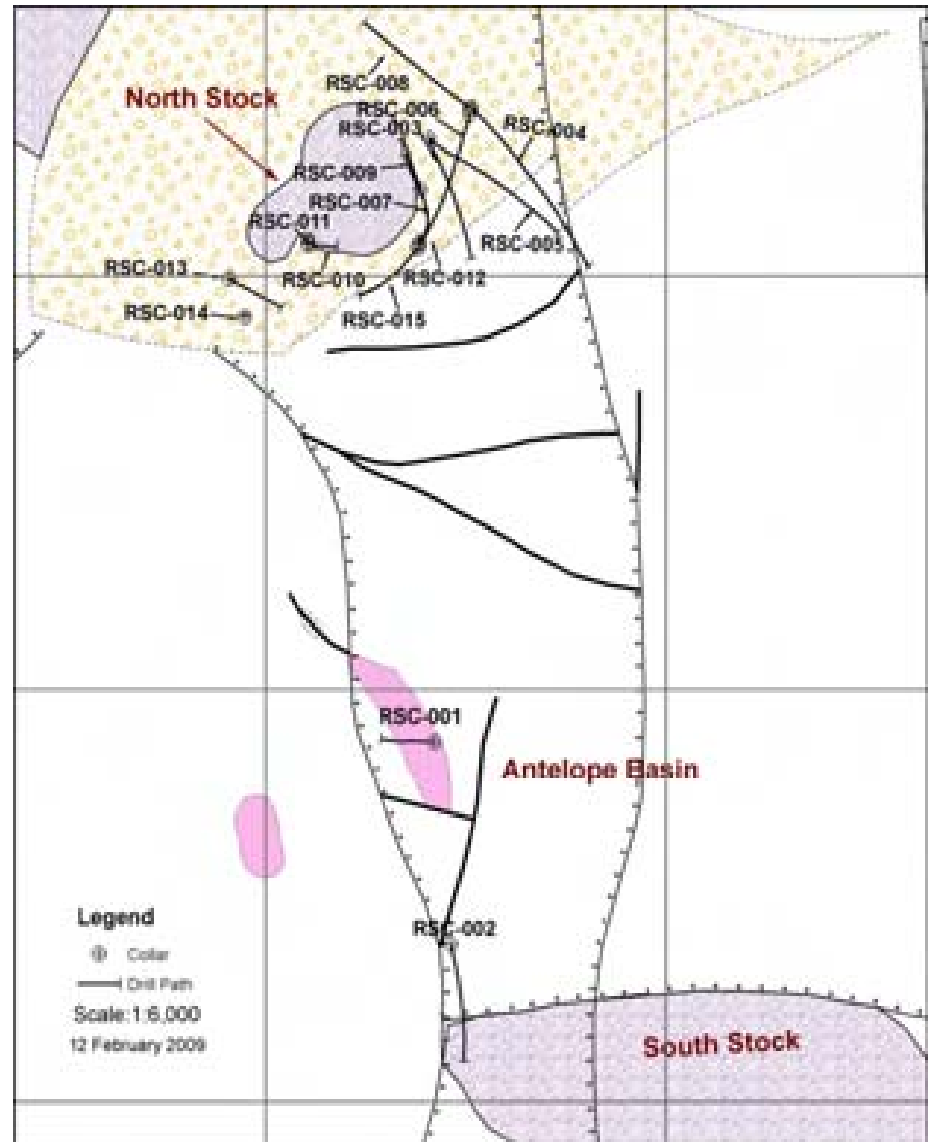
The Board of Directors is rounded out by **Gilles Arsenault** whom many in the industry would recognize as the Geologist who re-viewed 43-101 documents for the TSX; **Bill Majcher**, a merchant banker and former RCMP Intelligence officer; and **William Lindqvist** a PhD geologist who spent much of his career at Gold Fields and now serves on the boards of a number of exploration companies. The management composition seems designed to allow the explorers to manage the field with strong oversight and administrative back up by technical management in Vancouver, a good set up for a serious explorer.

## PROJECT SUMMARY

### Rattlesnake Hills

The project is located about 70 km (40 miles) west of Casper Wyoming. EVG is earning 100% of the project, net of 4.5% NSR, for 3.4 million share shares through 2011 and US\$200,000. While the NSR are relatively high, more results like those from last year's work will make them manageable, and owning 100% of the project has its own advantages.

The property contains a series of Oligocene aged alkaline volcanic stocks intruding much older Achaean aged schist. Alkaline, or alkalic,



indicates rock created by relatively dense magma from depth. This is the same setting as Cripple Creek, except that the volcanic layers created by magma extruding onto the surface are eroded away at Rattlesnake Hills.

The EVG testing is focused in and around two volcanic vents that filled with magma and then solidified, referred to as the South Stock and North Stock. The current surface appears to be just below the surface level during the volcanic eruptions

and deposit formation. These are pipe shaped bodies that include sections of "breccia", masses of rock fragments created before the magma fully solidified. The spaces between fragments in the breccia allowed more room for gold to be deposited, and hence higher gold grade.

Earlier testing by previous operators at Rattlesnake had included a focus on a separate deposit type in the older host rocks. In the mid 1990s Newmont did test the North

Stock breccia and returned a best result of 148 metres of 1.44 g/t gold, plus shorter sections with 10 g/t gold in associated veins.

The North and South Stocks are separated by gold bearing alteration and veining dubbed the Antelope Basin target. The two stocks and the Antelope Basin separating them are a system of over 2 km strike length, and a half km across. EVG is treating this as three separate target areas, though they would all contribute to a single operation if each and the project as a whole proves to be viable.

EVG focused its testing last year on the North Stock, and generated two strong higher grade holes: **146 metres of 2.92 g/t gold** starting 149 m down-hole; and **131 m of 2.84 g/t gold** starting 105 metres down-hole. The best result away from the higher-grade was 360 metres of 0.9 g/t gold. This is evidence of a strong system, though the details will still be important.

The system is cut and shifted about by faulting, and getting a better handle on these movements will part of this year's program. EVG has an interpretation of this movement that indicates the higher grade breccia may come closer to surface. If it does, this would be a major advance. Higher grade starter material with which to write down capital cost quickly is a major considera-

tion in valuing a deposit. But we do feel last year's results as they stand justify the company's current enterprise valuation.

A single hole into the Antelope Basin returned an aggregate 174 metres of 0.63 g/t gold, which confirms a broad distribution in this part of the system but requires follow up to determine its real potential. A single test of the South Stock cut lower grade material. Beyond this there is a much larger area containing alkalic volcanic rock that needs further work.

While it is too soon to say Rattlesnake Hills is a sure thing, the combination of potential and funding make it compelling.

## Other Projects

Evolving Gold's work in the northern Nevada gold district is perhaps best viewed in contrast to other work there this cycle. Gold deposits in the region are associated with a number of "trends", with the Carlin trend being the most famous in part because much of its wealth has come from a fairly confined portion of it. This is one of the most heavily studied and explored gold districts on the planet. Much of the district's exploration focus this decade can be broadly split into two camps.

One is the deposits-extension work, such as that by Atna at

the Pinson joint venture that has outlined high grade within what was a bulk tonnage mine. The other has been testing of known ore hosting target types with deep drilling programs, work we have watched from a distance. The main EVG focus has been a middle ground of attempting to locate new trends. Both deep testing of known trends and the attempt to locate new trends have generated market excitement, but not so far major exploration success that kept the excitement going.

The work by EVG has located alteration patterns with potential and low gold values on its Nevada holdings, but will need to show concrete results to impact the company's valuation. Management recognizes that even though gold prices are high the market is still a bit fragile for deep wildcat holes, particularly after the rollercoaster ride EVG has given traders already. If the company choose to drill in Nevada this year, we will focus on those details when that happens.

For now the company's focus, and ours, will be the Rattlesnake Hills project.



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# Updates

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We don't know about green shoots elsewhere but there was a lot more green on the screens of resource stock followers this month. Not quite enough optimism to really move the juniors, though we are at least seeing widespread averaging down now. Producers have continued to fill their coffers and close debt deals. If copper manages to break through to the upside it could generate another up leg that would probably pull zinc and nickel along in its wake. That might be enough to generate the funding window many base metal juniors need.

The window is already open for gold juniors if they have projects with demonstrable potential for asset growth. It will open wider if the Dollar rally really is over. That would help precious metals companies but don't forget that base metals are also hard assets. A Dollar down leg would be pushing up all commodities, and a strong enough move might just give us a summer rally. Trading costs down still makes sense while watching for news of new exploration programs. There needs to be enough news flow to generate volume, but now at least that can fit the axiom that "volume precedes price" if work is on-going, and successful....

***NOTE: The updates on HRA companies have been removed from this special issue.***

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## THE HRA (HARD ROCK ANALYST) ADVISORIES

*The Gold Standard In Resource Stock Analysis—Since 1995*

Thank you for taking the time to request and read this abbreviated issue of the *HRA Journal*. The share price of the company featured, Evolving Gold, has increased 50% since it was featured in the Journal, but still has a lot of potential based on results from the large drilling program it is currently undertaking at Rattlesnake Hills. Of course, our regular subscribers will continue to receive updates on the company including any change in our views, as drill results are reported over the next several months.

HRA covers companies in precious, base and energy metals and minerals. We look for companies that have the potential to at least double in the next 12-24 months based on exploration success, project development and/or profit and revenue growth from new mine start ups or expansions. We select companies strictly on merit. HRA publications are 100% subscriber supported.

HRA produces three publications; the *HRA Journal*, the *HRA Dispatch* and the *HRA Special Delivery Alerts*. The *Journal* is the base level publication, a monthly newsletter with editorial content, updates of companies followed by HRA and the bulk of the extended corporate reviews. The *Dispatch* is the next level up; *Dispatch* subscribers receive the *Journal* plus the *Dispatch* which gives additional and more frequent corporate updates and some additional editorial content. *Dispatch* issues may also include "trip reports" on mining projects David visits world wide. Companies in Trip Reports may or may not be added to the HRA list, but these features give you added insight into the many active exploration areas David visits each year. The *Special Delivery Alert* is the highest level of HRA service. In addition to the *Journal* and the *Dispatch*, "SD" subscribers receive periodic Alerts, usually 30-40 per year. Alerts are event driven, issued to highlight market news or new results from companies HRA covers that can rapidly and significantly alter the value of a company we follow. Most of the new companies added to the HRA coverage list appear first in the *Special Delivery*.

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We've been publishing the HRA newsletters for 15 years. Thanks to our loyal subscribers, we've been able to keep delivering news and views on superior resource producers and explorers.

The markets are now emerging from the worst bear market in decades, and its going to take time for the financial system and developed economies to heal themselves. When the markets dived last year, everyone proclaimed the secular commodity bull market dead. They were wrong. Yes, the hedge funds and speculators dived for cover (or were margined out of their positions) but the fundamental shifts in the world economy that created the commodity bull at the start of this decade have not changed. As we predicted early this year, metals appear to have bottomed and several are now trading well off their lows. Warehouse inventories of metals have not seen anything like the increases so many others predicted. This is no surprise to us. The developing economies are the drivers for metal prices and will be for the next few decades. Looking to Wall St for direction in these important markets is a waste of time. This same shift in the world's economic centre of gravity is impacting the US Dollar too. As the Dollar weakens, even more upward pressure is put on commodity prices, especially precious metals. This won't be a one way trip. There are still plenty of problems and the markets are likely to correct along the way. We keep our readers informed and aware of periods when the markets might turn south.

If you want to take advantage of the gains to come in resource stocks, you need the insight you can gain from an HRA subscription. HRA's editors have over 50 years of direct experience in the mining and exploration sector. That's the sort of experience that helps HRA readers find superior companies exploring and advancing new discoveries or growing their production and delivering gains to their shareholders.

In conjunction with Mike Campbell of MoneyTalks radio, we are offering a 3 month trial subscription to the HRA Journal at a substantial discount, AND we are adding our mid level Dispatch service to the subscription at no additional charge.

Through this special offer, you can receive BOTH the *HRA Journal* and the *HRA Dispatch* for the next three months for only US\$39, **a 56% savings off the usual price for these two services!**

Early each month you'll receive the acclaimed *HRA Journal*, our monthly newsletter. In addition, you'll receive the *HRA Dispatch* in the middle of the month that will provide additional and more frequent updates on the companies HRA follows plus added editorial content.

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This special offer is STRICTLY TIME LIMITED. It will expire on July 10, 2009. In order to take advantage of this special pricing you must order before then.

To order this special trial offer for the *HRA Journal* and HRA Dispatch, simply [CLICK HERE](#) to go directly to the order page.

If you would like to learn more about HRA you can visit the HRA home page by clicking [HERE](#).

Thanks again,

David Coffin and Eric Coffin  
Editors, HRA