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## Taylor MacDonald: The Perfect Storm for Gold

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*A lot of short-term peaks and troughs can make things messy in the resource space, and the associated volatility can whipsaw people out of investments. "Still," says Pathfinder Asset Management Limited's Associate Portfolio Manager Taylor MacDonald, "the long-term picture itself is very much intact." The U.S. dollar is in the process of breaking down, and that will ultimately be supportive of gold. "And when you sidecar the dollar breakdown with quantitative easing, he says, "you essentially have a perfect storm forming for gold." Find out why Taylor expects the junior mining space to shine even brighter in 2011 in this exclusive interview with The Gold Report.*

**The Gold Report:** There was certainly a buzz surrounding junior mining at the recent Cambridge House Conference, but first please tell us a little bit about your mandate at Pathfinder Asset Management in terms of companies you invest in and clients you serve.

**Taylor MacDonald:** Since we last spoke in August, we've evolved from a family office to a registered fund, which just went live on January 1st. We're gradually going to shift assets from the family office to the fund, and initially invite close friends, family and associates—people we do business with—into the fund. We may open the fund to the general public eventually but, for the time being, we're keeping it quite closely held and largely with just people to whom we're close.

**TGR:** So, it's essentially a private fund at this point but will be accepting new clientele as things progress. About how much do you have under management?

**TM:** \$60 million mostly focused on the resource space. I'd say roughly two-thirds of the fund would be some sort of commodity, precious or base metals or oil and gas. The balance would be tech, special situations and a bit of healthcare.

**TGR:** What is it about the resource space that interests you? Do you feel it's an area where investors can get a lot of value in terms of growth in their portfolio?

**TM:** Sure. Of course, a lot of short-term peaks and troughs can make things messy and the associated volatility can whipsaw people out of investments. Still, the long-term picture itself is very much intact. We're still bullish on gold and I think the macro picture is robust. I'd say the U.S. dollar is in the process of breaking down, and ultimately that will be supportive of gold, oil and any other commodity prices.

And when you sidecar the dollar breakdown with quantitative easing, you essentially have a perfect storm forming for gold. Going forward, the U.S. will just continue to print money and debase its currency. Other nations will do the same. Unless you see unemployment down at least in the United States, quantitative easing (i.e., blatant money printing) will remain in place. That's one of the best possible tailwinds for gold.

**TGR:** In light of the continuing currency debasement and flight to hard assets, do you stick with precious metals companies for the resource stocks in your fund, or do you bring in other equities from the sector, as well?

**TM:** We do own some base metal companies, but we're primarily focused in the precious metal space when it comes to mining. While we like the broader gold space, we tend to focus on quality small- and

micro-cap names, looking for significant upside potential. We naturally tend to take larger positions on those we like, and they're always on what we call our shopping list any time the market corrects or these particular names correct.

One we discussed last time was [Otis Gold Corp. \(TSX:OOO; OTCBB:OGLDF\)](#). Back in November, we put more money into the company alongside Galena Asset Management, a well-known mining fund out of the UK, and we are putting even more chips in on the current round. The company has ticked a lot of boxes since we last spoke, including acquiring 100% of the Kilgore Project. It acquired this from [Bayswater Uranium \(TSX.V:BYU\)](#) for just under \$1.8M and 2M shares. A 2% net smelter royalty (NSR) was also eliminated, so about \$3M in consideration all told. It's acquiring these ounces for essentially \$12/oz.—dirt-cheap vis-à-vis the comps. But it's even cheaper if proven resources go well beyond 1 million ounces (Moz.), which is likely.

**TGR:** What leads you to believe that?

**TM:** The company's had some really good exploration success, hitting 88 meters of 1.2 g/t with a 32-meter interval and, within that, 3.5 g/t. Of the 44 holes drilled and released since 2008, 43 have been mineralized. Results of the remaining 12 holes drilled in 2010 are expected within 30 days. An updated NI 43-101 will be released later this year, and this will likely approach 1.0 Moz. Further, the deposit is open in at least three directions. As a result, the Mine Ridge deposit alone will likely overshoot that million-ounce target significantly. If it hits on Dog Bone Ridge, Otis could be one of the stories of the year for sure. From what I hear, the geologists are seeing the right kind of rock. Dog Bone Ridge has five different targets, each with the potential to be as big as the main Kilgore deposit. If we see some good results out of Dog Bone and can continue strong numbers out of Kilgore, I'd expect it to go a hell of a lot higher.

**TGR:** Right. I've been to that property. Idaho seems to be a mining-friendly state, and it looks as if Otis is making progress there in terms of defining that resource.

**TM:** Absolutely. I think we'll see a lot of other companies come to the forefront here in 2011. There's one, a private company right now but I'd watch for it—Midas Gold, Inc. It's developing the Stibnite district in Idaho. It's refractory ore, so it's going to be difficult to process; but I think with Midas and recent success from companies like [Premium Exploration Inc. \(TSX.V:PEM\)](#), Idaho could really come into the limelight in the mining space.

**TGR:** Shifting to the other side of the world, last time you mentioned you felt pretty comfortable with a gold exploration company in the Republic of Mali in West Africa.

**TM:** Yes. That's [North Atlantic Resources Ltd. \(TSX.V:NAC\)](#), which will be no more as of February 16 or so. It's going to be renamed Legend Gold Corp. (TSX.V:LGN). Legend will focus on gold exploration in Mali and is involved in both of the prolific gold belts there. The company is well cashed up, with \$3.4M cash on hand, plus it expects another \$6M from warrants in the near term. If I had to characterize this company, I'd say it's a clean investment with a clear exit strategy. Management will be able to extrapolate a lot of value from its projects.

With multiple work programs ongoing, there should be steady news flow in the coming weeks and months to keep Legend's investors updated and keep the company's face in the market, so to speak. It's got an aggressive drilling program over the next six months—30,000 meters of drilling on two projects between now and June is very aggressive.

The company mobilized drills at its FT Project in December and should be drilling 20,000 meters over the next six months. There's a 600,000 oz. (600 Koz.) resource there at present, but I'd expect that to grow significantly with great success in exploration drilling both at the main zone and on nearby, parallel structures. Back in August of last year, it drilled 0.75 oz. over 6 meters, 13 kilometers away from the main FT zone. I'd expect the company to find more of these structures and possibly grow the resource. I'd anticipate somewhere in the ballpark of 1.5–2.5 Moz. from FT when all is said and done.

At Kantela, the company has a non-compliant resource of 130 Koz. that sits within spitting distance of the Sadiola Gold Mine. There's considerable upside from there. The mine itself is in decline at Sadiola, which is operated by [AngloGold Ashanti Ltd. \(NYSE:AU; JSE:ANG; ASX:AGG; LSE:AGD\)](#). In that scenario, one could easily see Kantela as a tasty morsel for its next-door neighbor, either to partner with or buy outright—especially if the company encounters success with 10,000 meters of drilling slated for this year.

**TGR:** West Africa seems to be getting more and more attention as a mining district.

**TM:** We own companies that have operations in Ghana, Burkina Faso and Mali, and we're comfortable with all three of those countries.

**TGR:** Obviously, Pathfinder's investors are comfortable with some level of risk. Would you characterize all these junior mining stocks as highly speculative?

**TM:** That depends on where they are on the exploration spectrum in the mining cycle. There's a high level of risk with grassroots and early stage exploration, but you can also mitigate that risk by investing early and having a tight structure with a good management team. At the end of the day, you really don't know what's going to come out of the ground but that's also why you're rewarded with much higher torque, much higher leverage and the potential for huge upside.

**TGR:** Can you tell me about any companies you like that fit that description?

**TM:** A Mexican precious metals explorer that we really like of late and falls into that category is [Westminster Resources Ltd. \(TSX.V:WMR\)](#), which recently financed and has \$4 million in cash in the bank. Westminster boasts an underexplored, high-grade copper/gold/silver target in mining-friendly Sonora State where [Alamos Gold Inc. \(TSX:AGI\)](#), [Timmins Gold Corp. \(TSX.V:TMM\)](#) and [Capital Gold Corp. \(TSX:CGC; NYSE.A:CGC; Fkft:CGU\)](#) all have producing properties. This project has never been drilled and it's quite appealing to us because it's a past-producing mine.

**TGR:** Which mine is that?

**TM:** It's the Anita Copper Mine, located on Westminster's El Cobre Property. It was a producing mine up until 1910 when the Mexican Revolution forced all of the American operators off the property and north of the border. Historical reports on the Anita Mine indicate 42,000 tons of "waste rock" on surface on low-grade tonnage yielded 5.8 g/t Au, 52 g/t Ag and 4% Cu in sampling. This is all bulk-sample testing; it's non-compliant but it shows immense potential, and the company has now traced the surface expression of Anita 600 meters. Three kilometers to the south, it has traced Los Amigos 400m on surface.

**TGR:** Will the company be drilling on this asset around the Anita Mine?

**TM:** It's in the process of drilling now and is about halfway through a 3,000m drill program. Several assays are pending and some have been released. It's what I would call a "recognizance-drilling program." Westminster conducted a geophysical survey that shows an anomaly in the hill where the Anita Mine is located. It starts where the old mine shaft is—exactly where the company's pulling out all this high-grade rock. As you move into the hill, the anomaly grows larger and larger. Assays from a drill hole announced on Monday confirmed the potential for high-grade mineralization with the company reporting a 9m intercept of 2.4% Cu, 22.7 g/t Ag and 1.2 g/t Au—translating into \$310/ton rock at current prices. Now, as the company works into the hill, hopefully it'll come up with some longer intercepts.

Assuming this mineralization corresponds directly to the survey, you have up to 40 million tons (Mt.) just based on what the company has delineated so far—and that's just the hillside itself. Who knows if there's a deeper structure, or whether it's connected to Los Amigos and there's something beneath that. But the fact that this "waste rock" grades so high and it's a past-producing mine—these are all the ingredients for success. So just doing an arm wave you could have up to 40 Mt.; even if you get 2 g/t, that's 2 Moz. right there.

**TGR:** Any other companies you want to discuss?

**TM:** Another small-cap gold explorer we're very keen on is [Confederation Minerals Ltd. \(TSX.V:CFM\)](#). It's focused on a high-grade gold exploration project in the Northern Ontario's Red Lake Mining District, which is the Newman Todd Project. It's earning a 70% stake from [Redstar Gold Corp. \(TSX.V:RGC\)](#). The project is right in the middle of one of the most-prolific mining districts in North America—the Greenstone belt, situated within 10 km. of six major present and past producers.

**TGR:** So good infrastructure, too.

**TM:** Yes, needless to say infrastructure is considerable. And there's a skilled workforce. So, the project itself is situated on an underexplored structural corridor 2 km. long. And, something I've rarely seen in the mining business, the company has encountered significant gold mineralization in each and every one of the 24 holes it drilled. But what really excites me is that the structure itself extends over the northeast to the tenement around to [HY Lake Gold Inc. \(CNSX:HYL; Fkft:HYK\)](#). And the [Goldcorp Inc. \(TSX:G; NYSE:GG\)](#) property is on the exact same structural trend. This thing sticks out like an elbow; the company encountered 26.4 g/t over 0.5m last October and also 2.0m of 42 g/t and as high as 168 g/t over 0.5m.

The core itself is geologically and visually very similar to the F2 Gold Zone discovery at [Rubicon Minerals Corp.'s \(NYSE.A:RBY; TSX:RMX\)](#) Phoenix Gold Project. That property has 4 Moz. of 20 g/t with geological potential of up to 16 Moz. And all this is wrapped up in a company with \$3.2M in cash and maybe 27M shares outstanding, with management and insiders owning a total of 9M. It's mostly escrowed; so, you've got one-third of the stock locked up, a great management team behind it and good geological talent. This is cheap by any measure, and the company hasn't missed on a single hole.

Of all the investments we own right now, I'd say I'm most excited about this one in terms of sheer upside potential. This could be monstrous. It's well structured, and between management and us, 40% of the stock is put away. Expect news flow in the next couple of weeks or so.

**TGR:** Any other names that come to mind?

**TM:** [North Country Gold Corp. \(TSX.V:NCG\)](#) is another gold development company that we're very interested in. It has a strong management team and is backed by the Discovery Group, which has an excellent track record for exploring and developing large precious and base metals, [Kaminak Gold Corporation \(TSX.V:KAM\)](#) being the highlight. Discovery is also involved with a couple of other companies, including [Kivalliq Energy Corp. \(TSX.V:KIV\)](#), which is working in Nunavut right now. It's trying to replicate a model that was amply demonstrated by Cumberland Resources Ltd., a privately held coal miner that was bought out by [Massey Energy Company \(NYSE:MEE\)](#), and Comaplex Minerals Corp., which was taken over by [Agnico-Eagle Mines Ltd. \(TSX:AEM; NYSE:AEM\)](#).

So you've got a developing mining district in Nunavut. A couple of majors in the region are looking to consolidate, but this is an open-pittable, high-grade deposit with a very large land package and huge potential. The company's got a resource in its back pocket that it's waiting to pull out. It's fully cashed up and has been drilling this aggressively. From what I've seen and heard, we're likely looking at 3–5 Moz. in average grade at 3–4 g/t. And there are a lot of suitors in the region, Agnico-Eagle and who knows—maybe [Kinross Gold Corp. \(TSX:K; NYSE:KGC\)](#) starts consolidating in the area, as well (as they're starting to do in the Yukon).

**TGR:** Well, we know that Agnico-Eagle and [Newmont Mining Corp. \(NYSE:NEM\)](#) have to replace those ounces as they mine through them. If this deposit looks compelling to them, assuming that the resource continues to be outlined and increased, it could be an acquisition target down the road.

**TM:** Definitely. So, we really like North Country. We've also done really well on another one, [Batero Gold Corp. \(TSX.V:BAT\)](#), and we still think there's a lot of upside left. We were involved early but we continue to buy and will keep supporting the story. The company is exploring and growing its Quinchia Project, which is an attractive series of gold/copper-porphyry assets in Colombia's prolific Middle Cauca

Belt. That's the same belt that AngloGold Ashanti's La Colosa, [Medoro Resources Ltd.'s \(TSX.V:MRS\)](#) Marmato, Titiribi and [Sunward Resources Ltd.'s \(TSX.V:SWD\)](#) La Mina call home. Previous work done resulted in a historic resource—4.4 Moz. gold, and I believe there's potential for up to 2x that.

Batero recently announced a rocket of a hole—452 meters bringing 0.6 tons gold and 0.12% copper from surface. This was a 180-meter stepout from AngloGold Ashanti's discovery hole.

Over the next five months, Batero's very aggressive exploration program will be progressing, as it works seven simultaneous exploration targets with four drills running. With the deposit kicking up gold showings at surface and being open in all directions I really don't want to put a cap on where this could go. Judging from what I've seen, though, I'd say 6–10 Moz. is well within the realm of possibility.

**TGR:** Colombia has a very well-documented mining history, and it just keeps growing and growing. Any other nuggets you'd like to share with our readers?

**TM:** Sure. I can mention a few companies that I would recommend people put on their watch list. [Revolution Resources Corp. \(TSX:RV\)](#) operates in North Carolina. It shares the same belt and has similar geology to [Romarco Minerals Inc. \(TSX.V:R\)](#), which boasts 3.1 Moz. (M&I) and 1.1 Moz. (Inferred), as well as a \$1 billion market cap. And lastly, [Ryan Gold Corp. \(TSX.V:RYG\)](#).

Revolution Resources is part of the same group that built Underworld Resources—a Yukon gold explorer that Kinross took out for \$140M in March 2010. High-grade intercepts at surface in the early part of the drill program show considerable promise. The company just raised \$9M. We took a piece of that placement, and it's financed for years—not months. Some of the top-notch gold funds took part in this raise. A lot of the similar names you see in Romarco. I'd say the best and brightest in this space are definitely involved in this story; it's one to watch. There's a 5,000m drill program underway now, completion of and results for which should be out by the end of the quarter.

Another company being put out by the same group is [Entourage Mining Ltd. \(OTCBB:ETGMF\)](#). It's exploring in the Haile district in Ontario. It's exploring in the shadow of the head frame, which is always one of the best places to go. The company's managed to steal away some top talent from [Barrick Gold Corporation's \(TSX:ABX; NYSE:ABX\)](#) Hemlo property and acquired a great land package around it. Entourage will be exploring it as high-grade deep underground stuff; there's some phenomenal potential there. The gentleman who's running the geological portion of the program won an award for mine development for adding all the ounces he did to Hemlo when everyone thought it was going into decline. I just wanted to make that a very brief mention because it's highly speculative and in a very small market cap.

As for Ryan Gold—the sharpest minds in mining are involved in the story, including Pat Dicapò, Murray John, Ned Goodman, Mike Skead, Sean Roosen and, of course, Shawn Ryan—the legendary Yukon prospector with a wealth of major gold discoveries coming from the stable. If you want to play the Yukon in 2011, this is one of the best bets. It's got a suite of excellent projects and all but guaranteed access to capital in the pipeline to come.

**TGR:** So, obviously you see the junior mining space is advancing even beyond what we saw in 2010 as we move into 2011. You don't see any price-appreciation pullback in the select junior stocks in which Pathfinder's invested?

**TM:** I mean things may get rocky. I think one of the biggest things we have to be cautious about out here, especially in the junior mining space, is that a little bit of selling can really impact the market. In 2010 people made phenomenal money and there's a massive income tax bill coming for a lot of people on capital gains. Come April and May, you're going to see a lot of people selling because they have a tax bill they have to pay.

The Canadian or U.S. government will come knocking; people are going to have to get that cash somewhere, and it's likely to be from their portfolios. While I like the space long term and think you can

never hurt yourself by going with quality, if I had to read the tea leaves here, I'd say that we're likely due for a correction sometime between March and April when people realize the magnitude of what they're going to owe the government. I wouldn't be surprised if the summer is slow, but I think we're going to have a rocking end of the year as long as the world economy holds together. At the end of the day, I really have no choice but to be bullish.

**TGR:** Good conversation. We'll be watching Pathfinder Asset Management as it grows.

*Taylor MacDonald is an associate portfolio manager at Pathfinder Asset Management Limited. He graduated from the Wharton School, University of Pennsylvania with a bachelor in economics in 2004. Prior to Pathfinder, he worked in equity research at Raymond James Ltd. in Vancouver, investment banking with Haywood Securities (UK) Ltd. in London, England and institutional equity sales at RenCap Securities in New York. He has been a CFA Charterholder since 2009 and is a Level II CAIA candidate.*

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