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S&A Resource Report

Mining the Riches of the Golden Triangle



Stansberry & Associates

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Mining the Riches of the Golden Triangle

By Matt Badiali

My first visit to the Golden Triangle required a flight so beautiful and harrowing, I tell people it was as close to skydiving as I'd like to get.

I flew up to this remote corner of British Columbia in the summer of 2007 to visit the largest gold deposit ever found in Canada. The site is far from anything. To be specific, you can only reach this outpost by taking a helicopter ride from the mining town of Stewart, British Columbia (pop. 700).

From the front seat of the helicopter, I watched the mountains soar above me, while glaciers, striped like pulled toffee, stretched out below. We'd be 100 feet above snow, often with a ragged ridge of rock on either side. Then suddenly, the ground would drop thousands of feet down to the valley.

The region is endowed with more than its fair share of gold, copper, and molybdenum. The barren cliffs look like a geological textbook open to the chapter on giant copper-gold porphyry systems. Whole mountainsides stand out, orange and stained. From the helicopter, the minerals looked like a giant ribbon of orange sherbet swirled through the mountains.

We flew past several streams stained bright blue from copper leaching out of the rock. You often see that kind of staining on copper building facades, but I saw it on sheer mountain faces. I've never seen anything like that coming from rocks before. It was awesome.

The kaleidoscope landscape reflects the vast mineral wealth trapped in the Golden Triangle.

One of the gold veins in the Golden Triangle is so prolific, one geologist called it "the highest grade gold I've seen in my career... and I've been in the business since 1976." And the deposit grows with each land survey. Since its initial discovery, reserves have increased by almost 500%.

Another deposit, located practically right next door, contains even more gold. In fact, a *Vancouver Sun* article recently described it as "the largest gold deposit ever found in Canada."

And Pierre Gratton, CEO of the Mining Association of British Columbia, calls yet another find, "Too large to ignore."

Altogether, this tiny area holds an estimated 15 world-class gold deposits – UNTOUCHED.

It's why the British Columbian and Canadian governments are spending nearly \$300 million to run a 200-mile electrical line through the region. The power line will kick off a mine construction boom that will generate hundreds of times the cost in taxes over the next decade.

This mineral-rich zone has been virtually off-limits to mining companies for the past 150 years because of its remote location and lack of power infrastructure. But that's about to change...

Better yet for investors like us, we can invest in three small mining companies that control huge assets

in the Golden Triangle. A few years ago, this unique group of companies began buying prime deposits in the region at dirt-cheap prices, anticipating the infrastructure would eventually reach the Golden Triangle.

These small companies knew if a power grid were ever built in the Golden Triangle, the land there would be worth an absolute fortune.

In the next 12-24 months – when the new power grid is scheduled to go online – one of the greatest untapped sources of wealth in Canada will finally be open for mining.

And each of these companies control deposits worth several times the value of their businesses.

Today, you can get in on these projects before they become operational. As I'll show, the biggest gains are likely to come as word of this development reaches the mainstream press.

In pages that follow, I'll detail everything you need to know about this opportunity... the group of mining companies involved... their upcoming mining projects... how much they stand to make... and why this development hasn't yet been factored into their share prices...

What Is the Golden Triangle?

The Golden Triangle is a section of northwestern British Columbia roughly the size of Connecticut that holds about 935 documented mineral occurrences. That means initial fieldwork turned up 935 locations that could have mineworthy concentrations of metals.

Not all of them will pan out... maybe one, maybe 100. It's too early to tell. But 935 is a huge number for an area the size of the Golden Triangle – that's a whole lot of leads to follow up on.

Of those, another 67 projects are promising enough that the companies holding their rights have taken the next step and calculated a resource. These range in size from thousands to millions of tons in volume. Many of those are large-volume and low-grade gold- and copper-rich “porphyry” deposits.

Porphyry deposits are the second-most economically important type of mineral deposit (after iron ore). They occur all over the world and can contain gold, copper, molybdenum, tungsten, and tin. These deposits usually contain metal concentrations between 100 and 10,000 times normal rock... and they can be gigantic.

Porphyries can run anywhere from 10 million to 10 billion tons. The world's largest underground copper mine, El Teniente in Chile, is a porphyry deposit. So is the Grasberg mine in Indonesia, the world's largest gold mine (and third-largest copper mine).

The Golden Triangle is pimpled with these giant deposits. Some of them are barren – just huge expanses of iron pyrite (fools gold). However, others contain enough gold, copper, silver, molybdenum, and other metals to make excellent mines.

This region is abnormally endowed with these deposits thanks to the “Ring of Fire.” The same process that forms the giant volcanoes that ring the Pacific Rim also caused these porphyry deposits to form. It heated up the water, filled it with metals, and sent it blasting into the rocks.

You might ask, “If the Golden Triangle is so great, then why aren't the mines already there?”

The answer is infrastructure. These projects are far... very far... from roads, people, and power lines. Those facilities are as important to a mine's feasibility as ore grades. Those problems actually sank one Golden Triangle project in spectacular fashion in 2007.

NovaGold Resources' Galore Creek is a typical low-grade copper/gold porphyry deposit. At \$3-a-pound copper and \$1,100-per-ounce gold, a ton of rock at Galore is worth about \$40 (\$10 of gold and \$30 of copper) before operating costs. Sounds good... until you look at the capital costs...

The cost to build the project, because it was so far from roads and power, rose to \$5 billion. It takes a whole lot of tons... at \$40 per ton... to pay off a \$5 billion loan. So in late 2007, the project came to a screeching halt, and NovaGold share price collapsed from \$20 to \$6 in about a month.

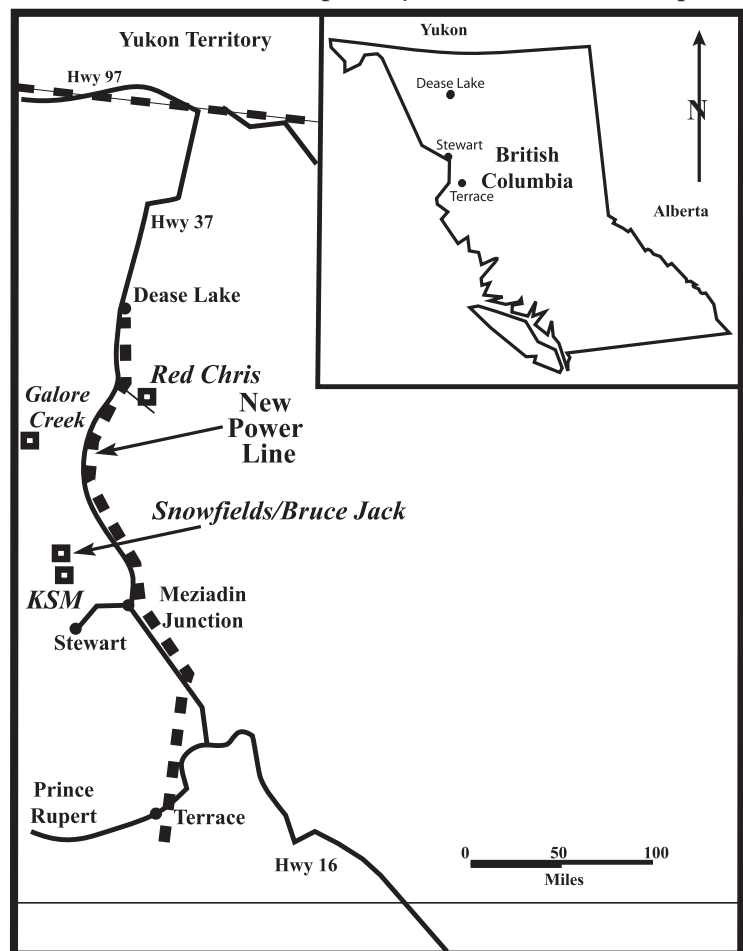
But now... some extremely high-profile investors are buying NovaGold Resources right now. Wall Street icons like John Paulson and George Soros together have more than \$175 million in the stock. You don't have to be a mine financier to see that NovaGold's ounces are cheap. They trade for about \$38 per ounce, while the industry average for resources is around \$150 per ounce.

The reason is simple: **Electricity is coming to the Golden Triangle, and it could send these stocks up hundreds of percent.**

The British Columbia and Canadian governments are running a new power line along the Highway 37 corridor through the heart of the Golden Triangle. Canadian politicians believe the line will spur the development of 11 new mines that, in turn, will generate \$15 billion in private investment, create as many as 11,000 jobs, and produce \$300 million in annual tax revenues

British Columbia is an excellent jurisdiction in which to build a mine. It's mine-friendly – five mines have opened there in the last three years. Another 50 projects are in the engineering stage (called "pre-feasibility"), and 100 more projects show encouraging exploration results.

The new power line will pass within 20 miles of Galore Creek. That will improve capital costs and boost NovaGold's price-per-ounce ratio. So you can speculate on what the market is willing to pay for those ounces in the ground, without really worrying about the mine's economics.



The British Columbia government has identified these 11 projects as ones that will become mines thanks to the new Highway 37 power line:

<u>Mine</u>	<u>Company</u>	<u>Symbol</u>	<u>Market Value</u>
Red Chris	Imperial Metals	TSX: III	\$880 million
Galore Creek	NovaGold	AMEX: NG	\$3.0 billion
Schaft Creek	Copper Fox Metals	TSX V: CUU	\$363 million
Turnagain	Hard Creek Nickel	TSX: HNC	\$35 million
Mount Klappan	Fortune Minerals	TSX: FT	\$180 million
Kutcho	Capstone Mining	TSX: CS	\$938 million
GJ/Kinaskan	NGEx	TSX: NGQ	\$202 million
Snowfields	Silver Standard Res.	NASDAQ: SSRI	\$509 million
KSM	Seabridge Gold	AMEX: SA	\$1.1 billion
Bronson Slope	Skyline Gold	TSX V: SK	\$31 million
Storie	Columbia Yukon	TSX V: CYU	\$8.2 million

We can speculate on these, but I've narrowed the field down to the two best investments.

Our Golden Catalyst

As we discussed earlier, the region above Stewart, British Columbia is wilderness. That's why mining projects up there get little credit... that and the implosion of Galore Creek.

The market discounts giant gold deposits in British Columbia's Golden Triangle by as much as *70% below the average price of gold resources in the industry*. That's a curious thing because British Columbia committed millions of dollars to build that new power line and help convert those assets into mines.

The market seems to be overreacting. We can buy enormous gold projects for between \$13 per and \$22 per ounce that will become mines in the next 10 years. Other investors are spending \$40 an ounce to buy gold deposits that may never become mines and sit in far uglier political jurisdictions.

The only reason I can see for such a huge discount is infrastructure problems.

If the market will pay about \$40 per ounce for resources elsewhere, it will pay that much for resources in the Golden Triangle, once the power line comes through. That's why I believe we're going to make a whole lot of money in British Columbia. Since the Galore Creek debacle, the market treats mining projects in British Columbia as if they were in Venezuela. They get little credit, compared with mines in other jurisdictions... like Africa for example.

Why would anyone pay more money for African or Romanian gold than Canadian gold? It simply doesn't make sense. That's a market inefficiency, and we're going to jump on it.

Over the next two years, we should see our investment skyrocket by 400% as the new power line evolves from blueprint to reality. That will do two things... First, it will show the world the gold in British Columbia can and will be mined. Second, with the new power line, our gold will go from low-priced resources to full-priced reserves.

Reserves are the part of the resource mining engineers say can be mined right now. The market values reserves at \$500 per ounce today. That's an enormous increase in value from reserves to resources.

We're getting a huge discount on politically safe gold deposits in a mining-friendly region. The only problem with these projects is infrastructure... and that's changing rapidly.

We're going to buy two companies with near-term assets that will soon become mines: **Seabridge Gold (AMEX: SA)** and **Pretium Resources (TSX: PVG)**. These companies, more than any others in the area, will soar when the new power line comes in and they announce plans to mine.

Seabridge Gold – Sleeping Giant

Seabridge Gold is a \$1.3 billion gold explorer that owns the Kerr-Sulphurets-Mitchell (KSM) project, the second-largest undeveloped gold deposit in North America. Its proven and probable reserves are 30.2 million ounces of gold, 7 billion pounds of copper, 133 million ounces of silver, and 209 million pounds of molybdenum.

That's roughly 60% of the total resources found on the site. We're paying just \$43 per reserve ounce for KSM... and getting the rest of Seabridge for free.

KSM is the Golden Triangle site I visited in 2007. I was impressed then, but I'm far more impressed today – it's 276% larger than when I saw it.

The Mitchell portion of the KSM project was discovered in 2006. When I went out, the resource was a remarkable 13 million ounces. The crew was excited – the guys knew Mitchell was a once-in-a-lifetime discovery. They had no idea it would grow to its present size.

Mitchell continues to grow. One area, called Iron Cap, was undrilled when I visited. However, the rocks were stained green from all the copper leaching out. The rocks weren't geologically the same as those in KSM proper, so the company didn't originally target Iron Cap for exploration.

Seabridge finally drilled it in 2010... and hit some excellent mineralization.

Why Investors Pay More for 'Resources' Than 'Reserves'

When valuing gold companies, you have to look at how much of the precious metal they hold. And those assets are described in terms of resources and reserves.

I've only talked about the resource of KSM so far. That's just the volume of the rock that holds the good stuff. The resource categories (measured, indicated, and inferred), in decreasing order, refer to the accuracy of the volume measurement. Engineers calculate the resource from assays (which tell us the amount of gold and other metals) along drill cores. The more drill holes, the higher the accuracy.

More valuable than resources are reserves. A reserve is the portion of the resource that a mining engineer says can be mined economically. That requires a whole lot of study and expense to figure out.

It's important to understand the difference, because the market values the two assets differently. The average price for resources is about \$40 per ounce. The average price for reserves is \$500 per ounce.

Today, Seabridge trades for just \$43 per reserve ounce at KSM. That's ridiculously low...which is our opportunity.

The company drilled 46 holes in Iron Cap. Every one hit higher-grade rocks than those in KSM. If the rocks at Iron Cap run the same grade as KSM, it could grow the resource by 1% or 2%.

Seabridge is what's known in the mining industry as a "hoarder." Seabridge's management doesn't want to operate a mine. Its goal is to buy promising assets, add value through exploration, and sell the projects. Even though KSM is close to mine construction, Seabridge doesn't want to be in that business – it will find a partner or buyer to build and operate a mine. The final deal will be whatever brings the most shareholder value for the asset.

The company owns 100% of KSM, along with the 10.2 million-ounce Courageous Lake (located north of Yellowknife in the Northwest Territories) and a handful of other, smaller projects. If you just consider the resources at KSM and Courageous Lake, we're buying 60 million ounces of gold for just \$18.33 per ounce. That number is going to get a whole lot more expensive soon, so we need to buy now.

We're mainly interested in KSM because it sits at the southern end of the Golden Triangle. This giant project is just 18 months away from the start of mine construction.

The company has \$53.5 million in cash and securities, which means it has plenty of money to do its work and keep the lights on for at least two years. It has 40.5 million shares outstanding, 42.3 million fully diluted. That means the company owns more than an ounce of gold for every outstanding share.

This year will be pivotal for Seabridge. It plans more drilling at both KSM and Courageous Lake this summer. The goal is to increase both the reserves at KSM and the quality of the resource at Courageous Lake.

Both are important, but let's focus on KSM, because that's where our immediate gains will come from. Let's do a quick comparison to Kinross Gold's Cerro Casale project in Chile. Cerro Casale is a similar low-grade gold and copper deposit. Here are the details of the two, side by side:

	Cerro Casale	KSM
M&I Gold Resource (Oz)	25.4 million	49.4 million
M&I Copper Resource (Pounds)	6.4 billion	12.7 billion
Gold Reserves (Oz)	21 million	30.2 million
Gold Grade (grams per ton)	0.59	0.59
Copper Grade (%)	0.22%	0.20%

KSM is nearly twice the size of Cerro Casale. Barrick Gold paid \$475 million for 25% of the project. That implies a \$1.9 billion value for Cerro Casale. That puts KSM's value around \$3.4 billion. That's 188% larger than Seabridge's current market value.

At the minimum, KSM is worth \$3.4 billion, thanks in part to the feasibility study that upgraded 60% of the resources to reserves. Here's the way Seabridge's net asset value breaks down right now:

Asset	Value
KSM	\$3.4 billion
Courageous Lake	\$400 million
Other Projects	\$15 million
Cash	\$13.5 million
Total	\$3.8 billion

As you can see, at \$1.3 billion market cap, Seabridge trades for a fraction of its asset value. That will change with the advancement of the new power line. Whether Seabridge needs it or not (it claims it doesn't), the line will bring investor awareness to the region.

When the market realizes how cheaply it can buy Seabridge's gold, shares of this company will run higher. **Action to take: Buy Seabridge Gold (AMEX: SA) up to \$35 per share and use a 50% trailing stop.**

The Golden Triangle's Game Changer... Snowfields

There's a new company with an old hand at the helm in the Golden Triangle... Robert Quartermain.

In 1998, then CEO of Silver Standard Quartermain realized silver projects were more valuable in the ground than as mines. So he stopped mining and became a resource hoarder. He decided to hold great silver projects and wait until the market would pay what he thought they were worth.

It was a risky plan. It required faith the value of silver would rise and a team of expert geologists to continue scouting out the best deposits (plus the cash to buy them). Quartermain and his team excelled at the task.

By 2005, silver traded for \$10 an ounce... Quartermain's investors made 9,900% from 1998 to 2005. Then, the company began to change direction. The company decided to get back into mining. But that posed a problem. Quartermain was a geologist, not an engineer. In early 2010, he stepped down as CEO of Silver Standard.

"Stepped down"... not retired...

By the end of 2010, he was back with a brand new company... **Pretium Resources (TSX: PVG)**. The C\$520 million company bought the two neighboring projects to KSM: Snowfields and Bruce Jack from Silver Standard.

Pretium paid Silver Standard \$215 million in cash and gave it 39% of the shares issued. That was a good deal for all parties. Silver Standard received money for a project that wasn't high on its priority list. Quartermain got back one of his best prospects... and as investors, we're happy to see him back in the game.

Snowfields lies directly up the mountain above the Mitchell project. In total, its main zones are about

six miles from KSM. The deposits are genetically similar to KSM, probably formed from the same geologic source.

	KSM	Snowfields	Bruce Jack
Total* Gold Resource (Oz)	49.4 million	33 million	8.9 million
Total* Copper Resource (Lbs)	12.7 billion	1.4 billion	None
Total* Silver Resource (Oz)	133 million	103 million	137 million
Gold Grade (Grams per Ton)	0.59	0.63	0.95
Copper Grade (%)	0.20%	0.11%	None
Silver Grade (Grams per Ton)	2.6	1.8	16.9

**Includes Measured, Indicated, and Inferred Resource*

Snowfields and Bruce Jack are still early-stage, that's why the deal between Silver Standard and Pretium is so great. We get Bob Quartermain back doing what he does best on a project that he knows well. The resources need much more drilling.

It's clear these two projects are enormous.

Based on our earlier discussion of Cerro Casale and KSM's value, we can conservatively estimate Snowfields and Bruce Jack's value around \$1.3 billion. That's more than twice Pretium's current market value. With Seabridge's recent feasibility study and the new power line coming through, these two projects should increase in value even further.

When you add Pretium's C\$50 million in cash, the company should be worth about C\$1.35 billion... much more than double its current market cap.

Snowfields and Bruce Jack add an important extra dimension to KSM. They tell us the mineral system here is absolutely enormous AND more deposits likely await discovery. When I visited KSM, Bruce Jack wasn't even drilled yet. Now it's an enormous deposit in its own right.

Taken all together, this part of the Golden Triangle must be on every major mining company's hot list. With gold prices hitting record highs, these assets will continue to increase in value.

Action to take: Buy Pretium Resources (TSX: PVG) up to \$6.50 and use a 50% trailing stop.

Pretium has 82 million shares out and no warrants. Pretium is so new, we don't have a good gauge of its burn rate... But that \$50 million of cash in the bank is plenty to support exploration and development work this year (and into next year).

Please note, shares of Pretium Resources are volatile. If by the time you go to buy shares, the stock is trading for more than our buy-up-to limit... Please be patient. Wait for shares to trade back in our buy-up-to range.

The risk here is mostly commodity. If silver/gold/copper prices fall, the market could sell down these shares. The other risk here is time. Little significant drilling news will come out over the next few months – it's all frozen up there. It will be interesting to see if Quartermain can keep up the news flow without

drilling. I suspect he can. He just has to get through February. Then, he can go big at the big Prospectors and Developers Association of Canada conference mining show March 6-9 in Toronto. I bet people will be lined up three-deep at his booth.

Finally, this stock trades in Canada. Many investors dislike foreign stocks. They want to stick with the New York exchanges. But if you're going to invest in resources, you must get comfortable with the Canadian exchanges. They're big, liquid, and safe... just like their U.S. counterparts. And many of the world's best resource companies trade there. If your new to Canadian stocks, I've written a how-to guide on the Toronto exchanges. Read "Canadian Stocks: Selecting a Broker Who's Right for You," posted under Special Reports on the *S&A Resource Report* web page.

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