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Investment Commentary

Generational Buying Opportunity in the Juniors

May 2012

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Since 2009, I have consistently maintained that the junior Canadian mining/exploration issues were trading at levels which were historically low. Today I will include a graphic illustration of the past ten years.

Over the past thirty-five years of covering the juniors, there has always been a direct relationship between the price of gold ($1662.30) and the level of the TSX Venture Exchange (1,412.76). We therefore start with a look at the trend of gold prices going back ten years to 2002. There have been numerous corrections along this path but the underlying trend of gold, when viewed in the Monthly context, could not be construed as anything but ragingly bullish.

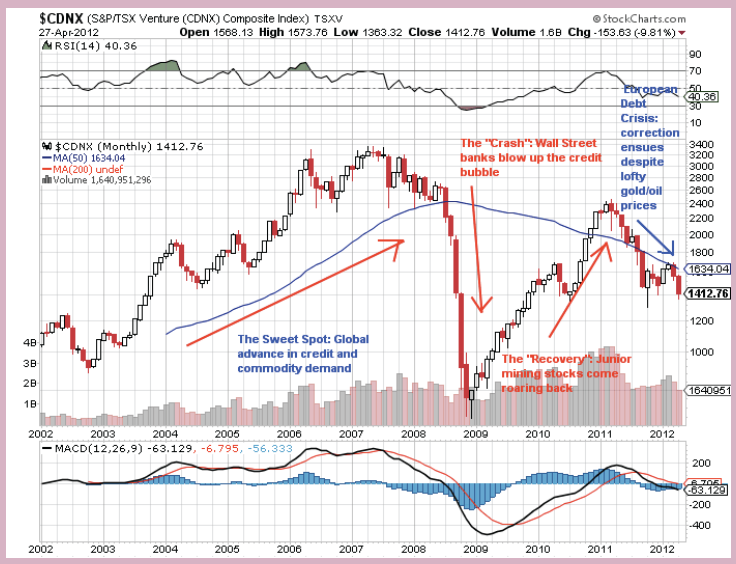
However, when one looks at the events of the past three years, one observes a much different picture. The Mainstream Media (MSM) would have us all believe that there is a wondrous "recovery" developing in the global economy and that the reasons for owning precious metals are now dissipating. To that assumption, I refer to a terrific piece recently compiled by Eric Sprott and David Baker entitled "When Fundamentals No Longer Apply, Review the Fundamentals" which can be accessed here: www.sprott.com/markets-at-a-glance/when-fundamentals-no-longer-apply,-review-the-fundamentals/. When one reviews the fundamental reasons for owning gold and silver, the reality remains that NOTHING has changed since 2002. If anything, the reasons for precious metals ownership is even greater, as you will read from the Sprott link.

With this as a backdrop, observe the chart of the TSX Venture Exchange during the same time frame. It is a chilling graphic of the effects of Fear and Greed.

The 10-year chart of the TSX Venture Exchange shows the effect of the Crash on the paper markets and since

Gold Spot Price

TSX Venture Exchange



the TSXV is the speculative proxy for precious metals ownership, it has not come anywhere close to recovering the losses incurred during the 2008 Crash. Despite its long controversial history as a "gunslinger's market", the fact remains that it has been proven to be an incubator for some of the most successful mining companies in the world. (Barrick Gold, Silver Wheaton, Diamondfields, DiaMet etc.). The current period is almost a clone to the post Bre-X period of 1997-2002 during which there were countless proclamations of "Juniors are dead forever". It can also be likened to the period of 1987-1991 after the Great Crash of '87 when investors shunned the juniors like the plague. The current period has had neither a fraud nor a crash in gold prices as the excuse and it is for this reason that I maintain that we are currently experiencing a GENERATIONAL BUYING OPPORTUNITY in well-funded, well-managed juniors.

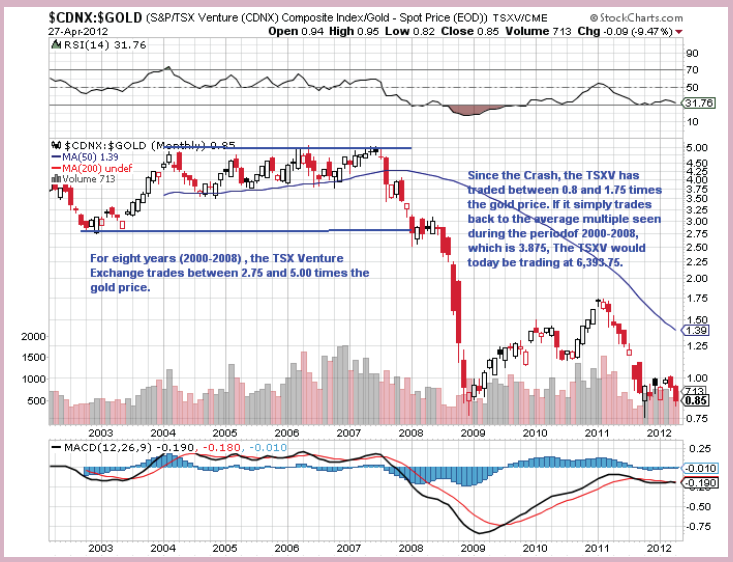
We then turn to yet a final and very compelling graphic. Look at the 8-year history of the TSXV as it tracks against the price of gold. You will note that from 2000 until 2008, the TSXV traded between 2.75 and 5.00 times the gold price, with the average multiple being 3.875. Taking the current gold price ($1,662.30) and assuming an average multiple of the 2000-2008 period of 3.875, it would imply a TSX Venture Exchange value of 6,393.75 versus the current level around 1,412.

Three times during the past three years, the TSXV:Gold ratio has bottomed in the .80 to .90 range after a brief bounce to 1.75 times the gold price in March of 2011. The three events were in late 2008 during the Sub-Prime Meltdown, October 2011 during the European Debt Crisis and during the past month of March during the - what? Was it the institutional community "selling the PDAC"? Was it the horrid first quarter performances of the Funds that triggered redemptions? There is no doubt that the dismal performance of the Senior Gold Producers was a factor. Here is a quote from U.S. Global Advisors' CEO Frank Holmes:

"We believe in thinking contrarian and keeping a close eye on historical trends to discover inflection points, as stocks tend to eventually revert to their means. For example, in March 2009, we noted significant changes signaling the market had hit rock bottom; following that time through the end of the first quarter, the S&P 500 Index rose more than 100 percent.

Today's extreme divergence in oil and gold stocks and their underlying commodities presents a rare

TSX Venture vs. Gold



opportunity: what these stocks need now are investors to take advantage of it " The full article can be accessed here: www.usfunds.com/media/files/advisors-library/2012/12-279-IAComm_Oil_Gold_Stocks.pdf?CFID=35915&CFTOKEN=85197677.

Other Bottoming Signs:

1. Iamgold last week made a $600mm takeover bid for Ontario-based Trelawney Mining and Exploration Ltd. for around $3.30 per share, a level representing 55% of the 2011-high for TRR.V. This was a significant development for the junior Canadian miners.

2. Numerous proposed financings in the junior space have been either postponed or cancelled.

3. Massive redemptions in the Resource Fund Industry.

4. In the silver developer space, a recent report from Canaccord confirms that the in-situ average value-per-ounce for these juniors has declined from over $5.00/ounce in February 2011 to under $1.50/ounce as of March 31/2012. With silver trading at $31.87, this represents a "capitulation-type" event.

Conclusions:

The TSX Venture Exchange is trading at valuation levels not seen since the dark days following the infamous Bre-X fiasco of 1997-2000. The junior miners were completely ignored for a three-year period after which the market embarked upon six years of uptrend comprising a tenfold advance off the bottom. It took great courage to buy the juniors in 2000 but those investors that did benefitted greatly. Stock selection is critical in today's junior market. Observe the charts to the right. [For disclosure purposes, Union acted as agent for an offering of Tinka Resources within the past 12 months and may hold Tinka shares and/or warrants.]

The opportunity described above is compelling. It is not without risk; these are junior mining/exploration companies. However, if the junior has an undervalued asset (ore body) that is growing and is well-financed, it will get absorbed by a larger company that needs ounces (or pounds) in order to maintain its own growth profile. I favour companies that have already established either an inferred or a measured/indicated resource. There will be ample time to acquire the exploration-only deals that are suffering in this financing-starved world (Think "Yukon").

Finally, refer back to the ten-year chart of gold. That trendline tells us that physical demand for gold (and silver) is strong and growing – in due course, that demand will trickle down to the companies that are finding and developing new deposits. Owning these little jewels at these major inflection points has always proven to be an extremely profitable venture – and those that have the courage and tenacity will prosper.

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