

# GOLD STOCK NEWS

Analysis of Gold Stocks and Precious Metals Trends • Nov. 2016

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By John Ing,  
President & CEO  
Maison Placements  
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For almost two decades, these institutions manipulated rates for their own benefit. Is this the latest hedge fund rigging scandal? No, it's the world's leading central banks, including the Bank of Japan (BOJ) manipulating interest rates, after rounds and rounds of large scale quantitative easing (QE) that saw them buy up almost half of the Japanese ETFs. Yet despite manipulating the yield curve and creating money to buy assets like government debt and ETFs, there is growing concern they've reached their limit. In amassing securities through quantitative easing programs, the central banks of Japan, US and UK balance sheets make up 40 percent of global GDP. Just as King Canute could not control the seas, setting interest rates underscores the central banks' limitation. Now their ultra-low policies and even their existence are under attack. QE infinity has ended.

Even so, Japan had not one, but two lost decades and the unconventional policies have yet to revive their economy or inflation.



Investors are increasingly skeptical over Japan's multiple forms of easing and rather than go down, the yen gained 20 percent. Having exhausted other policy options, the BOJ promised to keep ten-year government bond yields at zero. The Japanese were among the first to introduce quantitative easing with huge increases in bond purchases by its post office. For a time, this worked yet somehow, the two percent inflation target was missed. So each time, a new inflation target was created and subsequently, negative rates was tried and each time, the Japanese government bought more paper the yield curve became flatter with bonds yielding much the same regardless of maturity or creditworthiness. Money became

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# Is Now the Right Time to Buy Gold?

By Tony Daltorio  
Wyatt Investment Research

It's not often that I find myself agreeing with anything Goldman Sachs says.

But earlier this month, a report from the investment bank said, "We would view a gold sell-off substantially below \$1,250 as a strategic buying opportunity."

I would go even further than Goldman and consider it a gift from the investment "gods" if gold goes much below its current level of around \$1,260 an ounce.

My view is the recent sell-off in gold is, to quote a title of a Shakespeare play, "Much Ado About Nothing."

## Countering a Wall Street Myth

Much of the current weakness in gold can be directly attributed to investors believing in a popular Wall Street myth. That myth is that rising interest rates are bad news for gold prices.

First off, what will the uber-dovish Janet Yellen do? Raise rates by her annual quarter-percent in December?

Let's ignore my thoughts about the Fed though and just look at history.

Interest rates were rising in the late 1970s. But that didn't stop gold from rising to a then-record \$850 an ounce. And the Fed raised rates from 1% in 2006 to 5.25% in 2006. Yet, gold prices kept climbing.

And last July, HSBC published research showing that the price of gold actually increased after the previous four Fed interest rate hikes. And now, with the hike last December and the subsequent rise in gold, we can make that five.

In other words, a rise in rates from these ultra-low levels will not make gold prices go down, myth notwithstanding.

## A Look at Gold Fundamentals

Instead, gold will be pushed higher in price by other factors.

For starters, the gold market is



in a far different place than say the oil market. The capital expenditure slashing cycle is still in the early innings with oil. In fact, U.S. oil production is starting to rise again.

But deep cuts in capital expenditures have been underway for years in the gold industry.

That translates to "peak gold" production, at least for this cycle. Forecasts from Thomson Reuters GFMS and others are that gold output from mines will actually decline by 3% in 2016.

This trend will continue for the foreseeable future. Speaking to the *Financial Times* earlier this year, the CEO of Russian gold miner **Polymetal** (OTC: AUCOY), Vitaly Nesis, said "I think supply will drop by 15 to 20 percent over the next three to four years."

The president of **Barrick Gold** (NYSE: ABX), Kelvin Dushinsky agrees. He also spoke to the *Financial Times* earlier this year: "Falling grades and production levels, a lack of new discoveries, and extended project development timelines are bullish for the medium and long-term gold price outlook." Barrick is the world's biggest miner of the yellow metal.

Very long-term, the outlook may be extremely bullish. In 2015, Goldman Sachs analyst Eugene King estimated that there are only "20 years of known mineable reserves of gold [left]."

## Canada Misses the Mark on Gold

The final factor is more psychological.

Gold investors' remember back to the turn of the century. When the Bank of England sold more than half of its gold reserves between 1999 and 2002, it marked the start of gold's bull run. Since 2000, gold is up about 350%. That outpaces the S&P 500's return of about 108% with dividends reinvested.

Several months we saw a similar move from the Bank of Canada. The official report issued on Feb. 23, 2016, showed Canada's gold reserves at zero.

The Bank of Canada said in a statement it was diversifying its portfolio "by selling physical commodities (such as gold) and instead investing in financial assets that are easily tradeable and that have deep markets of buyers and sellers."

That statement is so wrong it is so many ways. Gold is not a commodity – it's a currency and one that has been around for centuries. But that's a story for another day.

As a contrarian, I join with the gold traders that call it the "Poloz's Bottom," in honor of the Bank of Canada's Governor Stephen Poloz.

## How to Buy Gold Now

With both fundamental and other factors lining up positively for gold, how should investors play it?

If you want to actually own physical gold long-term, a good choice is the **Merk Gold Trust** (NYSE: OUNZ). By simply filling out a form with your broker, you can convert your holdings in OUNZ into gold bullion or coins.

My second choice is one I've mentioned before – the world's biggest and most successful gold royalty and streaming company, **Franco-Nevada** (NYSE: FNV). It is the premier mining royalty and streaming company in the world.

And it is safer than buying an individual gold mining company.

That's because all Franco-Nevada does is provide funding, for projects it has done its due diligence on, to miners in exchange for royalties on future metals

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# Gold: Too Bad There Must Be A Winner

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not only too abundant, but worthless. Consumer spending has fallen and despite the largesse, the economy remains in a funk. Investors too became accustomed to this printing policy and “gamed” the money flows generated by central bank policy. As a consequence, Japanese government debt has increased to a whopping 248 percent of gross domestic product and today, the Bank of Japan is among the biggest debtors in the world.

## Central Banks, Trust Me

Central banks in Europe and the United States also followed Japan’s path. The Bank of England cut its rate to 0.25 percent, the lowest in its 300 year history and after Brexit, sterling has lost 17 percent of its value. By targeting rates instead of base money, central banks have printed trillions of liquidity that have yet to boost growth or even prices, leaving their credibility in question. Government deficits have become chronic and nowhere are the bail-out provisions prevalent in the private sector. Venezuela might be one of the early casualties.

Today, almost a third of global government debt now yields negative rates. Markets have been skewed by our central banks’ heavy intervention. Savers have been accumulating assets for centuries but now are penalized because of their governments’ overreliance on zero or negative rates. The evidence is mounting that the pension liabilities of both the private and government have exploded because it costs more to fund future promises. By squeezing credit, the business models of banks, pension and insurance companies are put at risk, as is their lending. In principle these institutions are ob-

ligated to pay back cash sometime in the future. This promise to pay is often backed by debt securities but when the promise to payback is less than borrowed, the model becomes unsustainable. Central banks’ balance sheets hold up to a third of their own government bonds. Canada’s fifth largest bank, National Bank recently borrowed about €50 million (\$1.1 billion) with a 0.00% coupon at 99.72, yielding to maturity 0.04% over 7 years. That investors are willing to accept this return is mind boggling reflecting the artificial topsy turvy environment created by the central banks. Recently the Italian government sold bonds yielding a paltry 2.8 percent implying a negative return to buyers for the next half century.

Who would buy these? Why, the central banks of course.

## Dueling Regulators

Desperate for revenues, a new twist has emerged. The one percenters are under attack. Governments are anti-business. The United States government has closed or forced the closure of multiple tax havens, loopholes and are now pursuing global players outside its borders. The truth is that governments, led by the United States face a chronic debt problem. The European Union has taken this quest for revenues, one step further as the Commission ruled that Apple owes a whopping €4.5 billion in back taxes because they believe that Ireland’s 12-1/2 percent tax rate is too low and against European guidelines. McDonald’s too faces \$500 million payment in back taxes. That the Commission does not have jurisdiction will likely be tested by the courts but this “tit for tat” move nonetheless comes at a time when Brexit supporters

criticized EU’s overreaching interventionist moves. Other countries, concerned that this super tax grab is a desperate move for revenues are also concerned because it violates their sovereignty and are looking at alternatives. The EU’s political capital is being eroded, threatening its very existence already buffeted by Brexit concerns. Belgium dysfunctionality (Wallonia) and the Italian referendum.

To be sure the Apple judgment creates new uncertainties since Washington itself has been usurped by Brussels’ overreach and at a minimum, the interventionist regulator has changed the financial landscape significantly over the next few years. Importantly, while this will likely be fought in the courts for years, the tax grab drew attention to America’s dysfunctional tax system and the need for reform. Mr. Trump has already suggested a much reduced tax rate in order to repatriate those funds. Nonetheless whether you are an Apple or Deutsche Bank shareholder, business is under siege.

There is a growing political backlash against the eight years of unorthodox monetary policies that were seen to benefit debtors at the expense of savers, causing the banking sector to suffer slow growth, ultra-low rates and a deeper malaise. With their banking industry’s profits flatlined, German and Italian regulators have balked at the recent Basel Committee on Banking Supervision’s proposed bank capital rule overhaul. Greece’s problems are now overshadowed by Italy’s heavily indebted banks raising concerns that the EU’s sick banking system is beginning to unravel. Ironically it was the Germans who pushed the EU

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to prohibit states from “bailing out” their banks, forcing “bail in” provisions foisting the liabilities onto depositors. While Greece’s problems were kicked down the road, Germany’s flagship Deutsche Bank’s capital problems erupted on capital concerns following a threatened \$14 billion fine. Eight years ago Lehman Brothers failed because panicky investors pulled money out. Today, hedge funds are panicky after the US Justice Department sought a \$14 billion fine whose capital is less than \$70 billion against almost \$2 trillion of assets. This fine, could easily trigger a systemic financial collapse. However, since Merkel’s German government faces an election next year, she has so far refused to use state funds to bail-out Germany’s only global bank. Of course, Deutsche Bank’s travails is not a Lehman moment, nor a Herstatt failure, but can history repeat itself? Deja vu.

Central banks became the main actors because their governments evaded their fiscal responsibilities leaving their central banks to rely on unprecedented policies to keep their economies afloat. In rigging or artificially creating markets they produced major distortions or bubbles, with a growing chorus of critics condemning the move. UK Prime Minister, Theresa May has even criticized her own Bank of England’s moves. She said “...we have to acknowledge there have been some bad side effects. People with assets got richer, People without them have suffered. People with mortgages have found their debt cheaper. People with savings have found themselves poorer. A change has to come.”

### Electile Dysfunction

After adding \$1.4 trillion to the national debt, President Obama

will leave his predecessor a gross national debt of \$20 trillion or an increase of 100 percent when he assumed office, setting up deficits and debt to soar even after he leaves office. A key plank of Mr. Obama’s Affordable Care Act (ACH) was the introduction of government run insurance exchanges. But given that many companies lost money on these exchanges, many have withdrawn since their only option was to raise premiums or depart. Three-years later, the number of people without health insurance has shrunk from 16 percent to 9 percent and not surprisingly, the inflation in healthcare spending increased. Moreover with almost 80 percent of Americans on the exchanges currently subsidized, healthcare spending is 25 percent higher than before the recession began in 2007. According to the Aurum Institute, a health research group, US medical costs jumped one percent in August, the sharpest one month gain in 32 years. The rising tide of costs has caused healthcare spending to reach 18.2 percent of GDP up from 13.3 percent. Significantly middle-class families are spending about 25 percent on healthcare in contrast to other expenditures such as transportation, housing etc. Demographics are part of the reason and while the introduction of ObamaCare was to broaden public assistance, it came at the expense of so many. Of concern is that to defray the cost, people are opting for higher deductibles. However, soaring drug prices are eating into these deductibles increasing the overall costs (\$10,000 for an acne cream?). Rising costs are part of the public frustration and for that neither Clinton nor Trump have introduced a cure.



### Sex, Lies and Politics

The third of three debates was held in the presidential race for the White House. Too bad there must be a winner. Mrs. Clinton is the second most disliked American candidate in history, after the first, Donald Trump. At this time, Hillary Clinton has a lead in the polls and the Street’s consensus is that she will win. However, we believe just as Brexit showed that the smart money looked pretty dumb in not expecting a Brexit, so does the Street consensus that Clinton will win. As happened in Britain, too many have underestimated the depth of populist discontent and frustration that fuels a Brexit, or a Bernie Sanders and of course, a Mr. Trump. This deep alienation has allowed Trump to win his party’s nomination and he could surprise. After all, this election is Mrs. Clinton’s to lose and the baggage she carries may well cause that loss.

To be sure, a Trump win would shock the mainstream media, Hilary Clinton, Wall Street’s establishment, and even his own party. However, Mr. Trump would be an agent of change. Trade, climate change, the global order, Middle East and China, all would undergo transformation. America’s military spending, would increase as well as its deficits. In making America great, the world nor its financial markets are not ready for this.

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## Gold, A Hedge Against Capriciousness

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Meantime, the Fed is in a quandary, and in failing to follow through on any rate increases has lost credibility with every false threat. Despite threatening, the Fed has yet to take away the punch bowl but instead keeps on filling it with more and more potent liquidity. It seems any addition to the punch bowl just boosts asset prices encouraging consumption, share buybacks, or debt placements with no increase in investment. Cheap money boosted valuations, giving rise to leverage such that there is an artificial illusion that markets are liquid.

The Fed and its colleagues have become creators of money, debasing money, rather than stewards of our money. Our liquid markets are actually illiquid. No wonder the concern. Central bankers simply became their politician's handmaidens or enablers damaging confidence in the financial system. What damages trust in our central bankers, damages the world.

Investors are left wondering whom they could trust. Today pensioners, savers, pension funds and banks are damaged by the central banks' policies. Gold has risen lately. We expect a major realignment between gold and the dollar. Gold remains an alternative investment and hedge which will cause it, in our opinion, to continue to outperform stock markets, as it has for the past 10 months.

Sterling's plunge in the wake of Brexit is of concern. Suppose an investor decided to clear out of the United Kingdom and bought gold. Such a person would now have a gold holding worth 43 percent more year to date. There are two ways of describing this movement of the price of gold. One can say gold has risen in terms of sterling or one can equally say that sterling has fallen 43 percent in terms of gold. Gold is a hedge against paper currencies.

In the 42 years since the collapse of Bretton Woods, the postwar monetary system has been anchored to the US dollar. In 1971, President Nixon took the dollar off the gold standard to end a currency war that would have destroyed the US dollar.

Today, as a result of the creation of trillions of liquidity, a new currency war has emerged. Again paper currencies are collapsing in a stealth currency war testing the dollar, an artifact of the fiat currency world of four decades ago. Today's floating currency system is being crushed by the weight of our central bankers' liquidity. Once a creditor, Saudi Arabia needs funding with a fiscal deficit at 13.5 percent of GDP this year. However, Congress' move to veto 9/11 sovereign immunity risks backfiring. A Saudi threat to unload billions of dollars in US assets may be empty but this violation of extraterritorial enforcement of US laws is chipping away at America's hegemony. The supply of dollars is backed by the "good faith" in the United States, and we are awash in dollars. Should that good faith be tested, as it has twice before, there is only one direction in value, down.

Then there are the creditors that have subsidized or financed America's hegemony. Debt was monetized. A train crash is unfolding slowly. Complacency is too common. One can detect the

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### Puma Exploration to acquire 100% of Murray Brook Deposit and significant land package in the Brunswick Belt in New Brunswick



Puma Exploration (PUM-TSXV) is a Canadian mineral exploration company with advanced precious and base metals projects in Canada. The Company's major assets are the Turgeon Zinc-Copper Project and the Nicholas-Denys Project in New Brunswick and their equity interest in BWR as related to the Little Stull Lake Gold Project in Manitoba. Puma is focusing its exploration efforts in

New Brunswick, Canada, announce that it has executed an asset purchase agreement with Votorantim Metals Canada Inc. and signed a letter of intent with El Nino Ventures (ELN-V) to acquire, respectively, approximately 67.9% and 32.1% beneficial interest in the Murray Brook Zn-Pb-Cu-Ag Volcanogenic Massive Sulphide ("VMS") deposit located in the famous Bathurst Mining Camp ("BMC") of northern New Brunswick. The Murray Brook property consists of Mining Lease 252 and contiguous Mineral Claim Block 4925 (245 claims) located 4 km west of the producing Caribou Mine, which is owned and operated by Trevali Mining Corporation. The Murray Brook deposit contains historical resources of 1 billion pounds (lbs) of zinc, 183 million lbs of copper, 390 million lbs of lead, 23.9 million ounces ("oz") silver and 338,000 oz. of gold within historical Measured and indicated Resources of 17,884,000 tons @ 2.73% Zn, 0.47% Cu, 0.99% Pb, 41.7 grams per ton ("g/t Ag") and 0.59 g/T Au. Preliminary metallurgical tests indicated recoveries of up to 88% zinc. Gravity and soil geochemical targets exist along strike from the Murray Brook deposit and there are high priority drill-ready targets in favorable stratigraphy and along strike from the nearby Caribou Mine within Mineral Claim Block 4925. The Murray Brook VMS deposit shows a strong gravity anomaly coincident with strong lead and zinc in-soil values. The acquisition is another step in Puma becoming a leader in Zinc Exploration in New Brunswick and it is a substantial addition to its portfolio of base metals projects in New Brunswick, which include the Turgeon, Nicholas-Denys and the newly acquired Red Brook projects.

#### PUMA EXPLORATION

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decline of confidence in every part of the world. America's rising debt, dysfunctional governance, looming election and political gridlock have prompted concern of a looming dollar decline. In the wake of the global financial crisis eight years ago, overseas investors financed much of America's debt in the aftermath of the financial crisis. However, tellingly this year, China, Japan and Russia have reduced their Treasuries stakes for three quarters in a row. Any further reduction could push up rates, whether Yellen moves in December or not.

### Golden Outlook

Meanwhile, China and Russia have been building gold reserves because of their reluctance on keeping their reserve holdings largely in dollars. For them, the metal is a hedge against the Fed. According to the Seven Ages of Gold authored by OMFIF, between 1870 and 1970, central banks accumulated the yellow metal and took a four-decade hiatus experimenting with paper

currencies. However, since 2008, central banks have added more than 2,800 tonnes, noting that in the past, each accumulation period lasted thirty years. Gold's bull market then still has legs. Unlike the history of paper money, it has long term stability.

One of the reasons is that China has been buying gold, increasing its gold reserves from 300 tonnes in 2003 to 1,833 tonnes making it the fifth largest holder in the world. Although the holding is only 2.3 percent of total Chinese international reserves, China has purchased gold every month and today some fifteen Chinese banks hold on their books almost 3,200 tonnes or one year's world's mining production for their clients, no doubt including the PBOC. Instead of holding US Treasuries, China's gold purchases move away from the dollar-centric system, requiring fewer dollars. China successfully has pushed to make the renminbi a reserve currency when the renminbi was added to the four currency basket backing the IMF's Special Drawing Rights (SDR). China has also loosened

capital restrictions setting up Shanghai and Shenzhen Connect links to outside investors. As part of the internationalization of the renminbi, there are now multiple currency hubs, a gold fix denominated in renminbi and the Shanghai Gold Exchange (SGE) has become the largest physical market in the world.

Mr. Trump blames the Fed for creating a "false stock market", believing that the low interest rate policies engineered by the Fed has not revived real growth but instead created a "false economy" which could lead to the next global meltdown. He is right, this time. America's position as the world's largest debtor is its Achilles' heel and despite flexing its financial hegemonic powers, America must rely on others to finance its deficits. America's overwhelming national debt has already reached a peacetime record at levels where other countries have spiraled into default. Twice America has lost its sovereignty to creditors and today it depends again upon foreign investors such as China, Russia and

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## Fairmont Resources Consolidates Historic Quartzite Resource at Baie-Comeau



Fairmont Resources Inc. (TSX: FMR) is a rapidly growing industrial mineral and dimensional stone company. Fairmont's Quebec properties cover numerous occurrences of high-grade titaniferous magnetite with vanadium, with the Buttercup property having a permit to quarry dense aggregate. Where these occurrences have been tested they have display exceptional uniformity with respect to grade. Fairmont also controls three quartz/quartzite properties, with the Forestville property having independent end user testing

confirming the suitability of quartzite from Forestville for Ferro Silicon production. Fairmont is also in the process of acquiring the assets of Granites de Badajoz (GRABASA) in Spain which includes 23 quarries and a 40,000 square metre granite finishing facility that has produced finished granite installed across Europe. The company has annual production capacity of over 250,000 square meters and has produced finished granite installed in buildings across Europe. Grabasa averaged over 6 million Euros in annual sales in the last 5 years of its operation. These mine licenses and processing facility would make Fairmont one of the largest granite producers in Europe. Several months ago, Fairmont also consolidated a historic resource of 12.3 million short tons (11.2 million tonnes) of 99.20% SiO<sub>2</sub>, 0.41% Al<sub>2</sub>O<sub>3</sub>, and 0.36% Fe<sub>2</sub>O<sub>3</sub> (from GM Report 39387, 1982, page 6) by staking. The two additional claims staked which contain the historic resource and are contiguous to the original Baie- Comeau Quartzite claims. Test work by Union Carbide Canada demonstrated that the quartzite from Baie-Comeau was acceptable for ferro-silicon production. Ferrosilicon (FeSi) is used to remove oxygen from the steel and as alloying element to improve the final quality of the steel. Silicon increases namely strength and wear resistance, elasticity (spring steels), scale resistance (heat resistant steels), and lowers electrical conductivity and magnetostriction (electrical steels). Special FeSi like low Al, High Purity and low C ferrosilicon are used in the production of special steel qualities for transformers/motors, ball bearings and shock absorbers, tire cord steel and in stainless steel.

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# Barrick Earnings Climb but Miner Keeps Lid on Costs

Reuters – Barrick Gold Corp, the world's largest producer of bullion, recently reported a bigger quarterly profit, reflecting higher gold prices and lower costs, while cutting its 2016 production costs and lifting its output.

Toronto-based Barrick, which has been selling off non-core assets and using cash flow to pay down debt, said profits were lifted by lower fuel and energy costs, smaller exploration and project spending, foreign exchange gains and the sale of higher-cost mines.

Debt has been reduced by \$1.4 billion year-to-date and the company said it is on track to meet its 2016 reduction target of \$2 billion. In three to five years, it wants to reduce its \$8.5 billion debt to below \$5 billion.

Barrick reported adjusted earnings of 24 cents per share in the three months to end-September compared with 11 cents per share

in the same period last year. Analysts on average expected earnings of 20 cents a share, according to Thomson Reuters I/B/E/S.

With mines in the Americas, Australia and Africa, Barrick increased its 2016 production forecast to a range of 5.25 million to 5.55 million ounces of gold, from a previous target of 5.00-5.50 million.

Barrick also lowered its estimate of all-in sustaining costs to produce an ounce of gold to a range of \$740 to \$775 from a previous target of \$750-\$790. Capital spending for 2016 is also forecast lower, at \$1.2 billion to \$1.3 billion, down from \$1.25-\$1.4 billion in the second quarter.

Third-quarter gold production declined to 1.38 million ounces from 1.66 million ounces, while all-in sustaining costs improved to \$704 an ounce from \$771. Copper output fell to 100 million pounds

from 140 million pounds.

Revenue dipped to \$2.3 billion from \$2.32 billion, while free cash flow fell to \$674 million from \$866 million.

Barrick cut its 2016 production forecast for its Veladero mine in Argentina to 530,000 to 580,000 ounces of gold, from 580,000 to 640,000 ounces, citing severe weather and a near three-week suspension.

All-in sustaining costs at the site were increased to \$800 to \$870 per ounce from \$790 to \$860.

Veladero operations were suspended in September after falling ice damaged a pipe and some crushed ore saturated with a process solution containing cyanide spilled over a barrier.

It was the second cyanide spill at the mine in just over a year. The suspension was lifted after Barrick completed measures, such as increasing the height of perimeter banks surrounding the leach pad.

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# Gold: Too Bad There Must Be A Winner

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Saudis. Whether Trump likes it or not, America's greatness is already in the pawnshop. Ironically, our view is that a Trump presidency would likely spark a massive run on the greenback in a reversal of the biggest carry trade on earth caused by those fund managers who borrowed big time to juice their investment returns in a world of low yields. We believe a Trump victory would likely translate into a \$100 per ounce spike overnight. Gold will be a good thing to have.

## Recommendations

Despite the recent correction, gold is up almost 18 percent since yearend reflecting negative interest rates, concerns about the global economy, growing geopolitical tensions, Brexit and of course the American election uncertainties. We also believe gold's underpinning is supported by the central banks' massive money printing exercise. Gold shares continue to outperform bullion in part due to margin improvements, takeover speculation and organic growth prospects.

For a time, the mining industry had lost its way by developing ounces at the expense of profitability. Institutions themselves supported the growth profile of many miners, discovering much later that when the price of gold collapsed, the

heavy debt load crushed those best intentions. For now, the industry is still paying down debt.

The dilemma for the industry is that today's profitable mines are generally higher grade deposits and over the years, the lack of spending, debt hangovers, together with the fact that the low hanging fruit had been plucked, means that there are fewer high-grade deposits left to be developed. The Bay Street merger between **Newmarket and Kirkland Lake Gold** is a made in Bay Street deal by Bay Streeters, for Bay Streeters reflecting the need to bulk up to attract institutional investment but the deal actually more reflects the lack of profitable reserves. The reality for the mining industry is that ore bodies are finite and for many, reserves will be exhausted by the end of the decade. In fact, the number of million ounce per year mines still to be developed can be counted on one hand. This lack of high quality mineral deposits mean that the price of the commodity can only go up, ironically breeding its own scarcity. Barrick's move into a partnership in technology with Cisco is a brilliant move as a means of squeezing productivity from a technologically lacking business. Developing new technologies is a key.

Exploiting Barrick's large reserve base together with new technology makes sense and will no doubt be copied by the industry.

In the latest quarter, results were in line with expectations with slightly improved margins. As such the lessons learned was to concentrate on profitable ounces resulting in all-in costs dropping from \$1,200 in 2012 to under \$900 an ounce this year. Noteworthy while costs continue to decline, last year of a dozen major producers, only two showed an increase in in-situ reserves. Thus in a "back to basics" move, the mining industry is growing organically instead of through expensive acquisitions, spending money on profitable ounces versus growing ounces. Capital allocation is a priority particularly when capital is rationed. Balance sheets have improved and thus companies are spending excess cash flow on organic growth and developing in situ reserves. **Barrick Gold** and **Agnico Eagle** are emphasizing their organic growth opportunities. Goldcorp is still cleaning up and a decentralized model is likely. **Eldorado Gold** on the other hand is looking to replace its Chinese assets but with a strong balance sheet is able to finance its problem plagued Greek expansion. And then some of the weaker companies such as, **Iamgold** or **Primero** are left to harvest assets with **Yamana** still to fix its balance sheet. Selectively will be important.

- **Barrick Gold Corp. (ABX)** – Among the world's lowest cost producers, Barrick inked a deal with Cisco Systems for a digital reinvention of its mining operations. Typically, the Street was confused but Barrick expects to use technology in both underground and above ground operations in order to extract efficiencies, lower costs and innovate their business. Meantime Barrick has reduced its debt more than 40 percent from the 2013 peak and will easily meet its target this year. Barrick still has to sell 50 percent owned Kalgoorlie in Australia which is on Barrick's books at half a billion dollars. However there is heavy competition for those assets so Barrick will likely net a handsome price. Barrick derives 70 percent of its production from

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# Gold Shares Outperforming Bullion

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five core mines and despite asset sales maintains the largest in-situ gold reserves at 92 million ounces ensuring a long life and profitability. *Buy.*

- **Detour Gold Corp. (DGC)** – Ontario based Detour surprised the Street and reduced its guidance due in part to pit flooding which caused limited access to the higher grades zone in the Campbell pit. The reduction was disappointing yet Detour is on track to generate positive cash flow this year, important because the company will need to refinance its \$400 million convertibles next year. While Detour has the financial wherewithal to refinance its debt, near term there is still a balancing act. Also there is a new dispute with government officials, a year after settling a \$10 million fine last year. While all in costs were reduced, next year's guidance was suspended pending the dewatering and timing of access to the higher grade materials. *Nonetheless, we like the shares down here particularly for the upside exploration potential on its vast land position.*

- **Eldorado Gold Corp. (ELD)** will net \$900 million from its sale of Chinese assets. Eldorado plans to develop its Greek assets with Olympias II coming on stream and tabled a revised two phased development plan at Skouries to produce some 1.4 million ounces between 2019-2027. At Eldorado's flagship base in Turkey, Kisladag is set to expand from 12.5 mtpa to 20

mtpa by 2018 at only \$63 million capex which will produce 320,000 ounces at an average cash cost below \$500 an ounce.

Eldorado also plans to develop Brazilian Tocantinzinho development which could produce 170,000 ounces in 2019 at \$535 per ounce for total capex of \$464 million. Eldorado trades at net asset value and with a strong balance sheet, a track record for execution and pipeline portfolio, *the shares are a buy here.*

- **Goldcorp Inc. (G)** shares fell on a disappointing quarter. David Garofalo, the newly minted CEO has trimmed management and put in place a team that will focus more on operations but maintain a production profile of 3 to 4 million ounces a year. Disappointing was flagship, Penasquito in Mexico which only produced a paltry 36,000 ounces in the last quarter at an all in cost of \$3,000 per ounce. Goldcorp will go-ahead with the pyrite leach project which could add about 100,000 ounces of gold and 4 million ounces of silver but at a whopping \$420 million price tag with first production not until 2019. Meantime, Ontario remains a problem with the need for more development to salvage the \$2 billion spent on Cochenour and Borden. *We would sell Goldcorp or switch into Barrick here.*

- **Kinross Gold Corp.** has resumed normal operations at problem-prone Tasiast mine in Mauritania after a short suspension caused by labor problems. Most likely now are plans for a phased approach given the difficulties, but phase one won't be completed until Q2, 2018. Maricunga in Chile was suspended and Kinross will likely review or unload this mine because of chronic disputes with

the government. Paracatu in Brazil processed higher ore, producing 126,000 ounces in the first half. Kinross is a senior producer with eight operating mines located in the US, Brazil, Chile, West Africa and Russia. The company will produce almost 2.8 million gold equivalent ounces, up from 2.6 million ounces yet Russia at 25 percent still remains a major part of its total production. *We like Agnico instead for its superior growth profile.*

- **New Gold Inc. (NGD)** reported another cost overrun at Rainy River project in Ontario and the budget is now up 11 percent to almost \$1.1 billion. We can recall the original price tag at \$850 million and note the steady escalation. So far, 55 percent of the project has been completed with major components in place. While New Gold reports that funding is in place, importantly they will need to spend almost half a billion dollars for a mid-2017 start. Management expects that the project will be 70 percent completed by yearend. Underground development however has been delayed due to a focus on cash flowing next year. We are concerned about the steady escalation of costs and while the balance sheet is solid, it leaves a very tight timeline. Cash and equivalents are at \$145 million leaving little wiggle room. *Given the new revised increase, we prefer to wait on the sidelines.*

**Editor's Note:** John Ing is President, CEO and gold analyst at Maison Placements Canada Inc. Mr. Ing has 45 years of experience as a portfolio manager, mining analyst and investment banker.

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# New Gold's Rainy River Nears Completion On Track for Low-Cost Production in a Few Months

By Kuen Chan  
[The Complete Investor](#)

In 2013, the World Gold Council introduced the metric "all-in sustaining costs", or AISC. It's a more useful measure of the true costs of mining gold than the old reliance on cash costs, which typically understated miners' overall outlays and thus overestimated profit margins.

Mid-tier miner **New Gold** (TSX: NGD; NYSE Mkt: NGD) is blessed with AISC across its four producing mines that average below \$800 an ounce, well below the 2015 industry average of \$1,225. Recently the company issued an update on its Rainy River project in northwestern Ontario, which when completed and fully producing should have comparably modest AISC. The company reported that construction is 45 percent complete, with the concrete and steelwork foundations 85 percent done. What's left is largely the installation of mechanical, piping, electrical, and instrumentation in processing facilities. Construction remains on schedule, with production expected to begin by mid-2017.

[On Oct. 27, *New Gold* announced its 2016 third quarter results and provided an update on the company's Rainy River project. [Click here to read report.](#)]

At full capacity, the project should yield about 325,000 gold ounces per year. This would nearly double New Gold's 2016 production, which is expected to come in at 360,000 to 400,000 ounces.

On the negative side, New Gold reported it must redesign its system for managing tailings, the materials left over after extracting gold from ore. This will require

about twice the amount of concrete previously estimated, and the company will need to purchase 11 transportation and excavation vehicles sooner than expected. In all, alterations to the original construction plans will raise costs by \$105 million, pushing total capital expenditures on the project above \$1 billion. Of that amount, some \$565 million already has been spent as of the end of August.

As with other precious metals miners, the higher price of gold and silver this year has been a godsend. At \$1,100 gold, the Rainy River project would look a lot less attractive than it does now with gold around \$1,300. Furthermore, higher gold sales generate more cash flow from the producing mines that can fund the development of Rainy River.

While we're disappointed by the

late-date run-up in construction costs, cost overruns for mining projects aren't unusual, and once online, Rainy River will contribute significantly to New Gold's overall results. While admittedly the project doesn't approach the world-class potential of a mine like NovaGold (NG)'s Donlin Gold project, at least commercial production for Rainy River is mere months away.

New Gold remains a buy, but in light of the cost overrun that may portend future hiccups at Rainy River, we lower the buy-up-to price to \$6.

**Editor's Note:** Kuen Chan manages the FundFinds Portfolio in *The Complete Investor*, P.O. Box 248, Williamsport, PA 17703, 1 year 12 issues, \$199, and serves as a regular contributor and portfolio editor to several of the Leeb Group's publications. For more information visit [www.completeinvestor.com](http://www.completeinvestor.com).

## Is Now the Right Time to Buy Gold?

[Continued from page 3](#)

production. It's probably the reason FNV has no long-term debt.

Despite its very conservative business model, Franco-Nevada's stock outperformed both gold and the S&P/TSX global gold mining index since 2008. And it is a dividend champion, having raised its annual payout eight years in a row!

For investors banking on the "Poloz bottom," these two choices will do nicely.

**Editor's Note:** Tony Daltorio writing for

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# Higher Prices for Gold & Silver by Year-End

By David Morgan  
[The Morgan Report](#)

Gold and silver continue to consolidate and have sold off their highs of this year. Some of the faster and best movers on the way up have taken a fall. It is actually healthy for markets to take a breather from time to time to digest the gains and set a level where the market can build a base before moving higher.

No one likes a sideways movement or what is commonly known as a trading range, but again this is normal behavior in “normal” markets. We all know the markets are not truly free, but even in managed markets the ebb and flow does take place and markets can become oversold or overbought.

It needs to be stated that most surprises for the precious metals will be to the upside now that the bottom has been firmly confirmed.

Also, the managed “sell-offs” are not working nearly as well as they have in the past and this gives us the impression that there could be a chance of a short-squeeze to the upside. This is not a likely event, but the strength of the precious metals this year cannot be denied.

At the present time we still see gold and silver at higher prices by the end of the year. The key areas we emphasize are \$26 silver and \$1500 for gold. These levels are where we expect the general public to begin noticing gold and silver again. However it is doubtful these levels will be achieved this year. However, we cannot rule out the “one day unlike any other day” that Jim Puplava wrote about so long ago. As of this report it is best to keep buying on dips and over time, always keeping a core position with stops on your winners.

**Editor’s Note:** Highly recommended is *The Silver Manifesto* book by David Morgan and Chris Marchese. It’s the most important “hard money” book to be published in years. Fortunes have been made by those who bought silver around the \$5.00 level and paid attention to the call of the top at over \$48 by David Morgan. Yet the big money lies ahead, according to the authors, as perhaps as much as 90 percent of the move occurs within the last 10 percent of the time. How to pick a mining company – this information is priceless. Most who are taught this methodology have a degree in finance, but Morgan and Marchese break it down for the average investor. This fantastic book also lays out the silver manipulation story – the facts, more facts, and the irrefutable facts. Now available in paperback, digital and audio format. To order or for more information visit [www.TheSilverManifesto.com](http://www.TheSilverManifesto.com).

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