

The Gold Report



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Jim Mustard: Is the Yukon Gold Rush Over-Hyped?

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Yukon explorers are just getting started, says Jim Mustard, vice president of investment banking, mining, at Vancouver-based PI Financial. In this exclusive interview with *The Gold Report*, he shares several of the Yukon companies he believes have the potential to produce significant returns for investors.

Companies Mentioned: Alexco Resource Corp. ATAC Resources Ltd. [Ethos Capital Corp.](#) [Golden Predator Corp.](#) Kaminak Gold Corporation Kinross Gold Corp. [Pacific Ridge Exploration Ltd.](#) Ryan Gold Corp. Silver Quest Resources Ltd. Smash Minerals Corp. Strategic Metals, Ltd. Taku Gold Corp. Victoria Gold Corp. [Wolverine Minerals Corp.](#)

The Gold Report: A feature titled "Gold Mania in the Yukon" was published recently in *The New York Times Magazine*. Is this a sign that the recent Yukon gold rush is over-hyped?

Jim Mustard: I don't believe that article was hyping the Yukon as it was really a human interest story about Shawn Ryan, who came to the Yukon as a mushroom picker. Mushroom pickers can make an awful lot of money over short periods of time and for most of the year they are idle. He was bitten by the mining bug and ended up, through perseverance and being mentored, developing a particular skill in taking and interpreting early-stage soil geochemical data. He has now capitalized on this several times over and is a significant shareholder in [Ryan Gold Corp. \(TSX.V:RYG\)](#). The article talked about his life, his living conditions, his family and his success. While his success and his very specific exploration ideas have spawned market interest in what is going on in the Yukon, the area is not over-hyped, in my opinion.

TGR: We've all heard about the Yukon being the first area play in Canada since the Lac de Gras diamond rush in the Northwest Territories during the early-to-mid '90s. You've been in this business longer than most people in your position. Do you believe the Yukon is a true area play?

JM: The Yukon is, literally, a very large area play, but not necessarily focused on one type of commodity or geologic setting the way it was at Lac de Gras. During the Lac de Gras rush, we were all looking for kimberlites and only one commodity, or, if we went to Labrador, nickel was the primary focus within a somewhat narrowly-defined district. In those cases, we were looking for a fairly specific type of geologic

setting that hosted only one key commodity. In the Yukon, we have a vast array of geologic domains that are permissive for a range of deposit types and commodities: from large copper-gold porphyry systems to high-grade veins. There are also copper deposits that are very unique, such as the Minto deposits, which is not porphyry copper, but are more structurally controlled in south-central Yukon.

At the other end of the spectrum, we have a brand-new and exciting exploration model. Carlin-style gold replacement occurrences have been discovered that, until last year, were previously unrecognized in the Yukon. Also present, and sometimes forgotten, are world-class SEDEX (Pb/Zn) deposits and high-grade meso-thermal silver-rich veins. The Yukon also hosts significant intrusion-related gold deposits in the Dublin Gulch-Mayo area (and perhaps in the Dawson range south of the White Gold area). Nickel and PGM deposits are present as well as a past-producing gold heap leach mine. Yukon has the hallmarks of a very large area of interest that's woefully underexplored. The activity underway by a multitude of companies is sustainable for several years to come—likely much longer than Lac de Gras.

TGR: Before we started the interview, you mentioned that if you were still an analyst, you'd be all over the Yukon. Why would you be so excited?

JM: We've had technical success with discovery. We've had corporate success in terms of one company being bought out by a major company at a very early stage. We've also had a tremendous number of companies and individuals moving into the territory, acquiring ground, doing basic prospecting. These developments have led to rapid advancement. I believe there will be additional exploration success and additional M&A activity—this all equates to multiple opportunities, given that combined exploration budgets this year are likely to be close to \$200M compared to an estimated \$160M spent on exploration in 2010.

An analyst has an opportunity to follow and recommend companies based on strong technical data or the presence of "nearest neighbors" within one common jurisdiction with similar geological settings.

TGR: What is going to take us to the next level? Is it another major discovery?

JM: At the moment, we have two key areas in the [Yukon](#): The White Gold Area (where Underworld Resources was focused) about halfway between Dawson and Whitehorse, and a carbonate inlier of the Selwyn Basin, where [ATAC Resources Ltd. \(TSX.V:ATC\)](#) has made a couple of Carlin-style discoveries on the Rackla Project, NE of Keno City.

Market sustainability is going to come from continuing success for companies such as ATAC or [Kaminak Gold Corp. \(TSX.V:KAM\)](#), which probably have the two most advanced exploration stage projects because of their success last year.

Along the way, if we have another discovery by another company that is not on people's radar screens, it will further add to the interest.

TGR: You mentioned that these are very risky plays at the moment. What are some investing strategies you could offer our readers?

JM: One of the best strategies here is to look at a map. Out of some 100 companies operating in the area,

find out which ones are at the mapping or prospecting or soil sampling stage and which ones are going to have a drill program this year. That's one way to play the game. Invest in companies that will have a drill bit turning in the next several months because otherwise you might have to wait a full year before you see any progress given the seasonality in most of these areas.

You can also pick one or two companies that have a fairly large position in any one of the areas—companies that may be just starting out, but have successful neighbors. The market will generally add value because of the area play concept since there is still a fair amount of mystery about the geological setting—this is a key factor that will not last, but is likely to stay in place for at least two to three years.

The other way to choose a company is to review the technical data and talk to management. It's always a challenge to pick out one soil anomaly from another soil anomaly. A basket approach can help mitigate the risk.

TGR: Are some Yukon companies employing management that has made significant discoveries in the past? Do some companies have more experience and, therefore, a bit less risk?

JM: Management that has made discoveries in the past and capitalized on those discoveries by either putting them into production, joint venturing them out or selling the company outright, bring an advantage because they have been through it before. In a technical sense, however, it's always the luck of the draw.

TGR: Any specific names of companies with experienced teams?

JM: The one that comes to mind immediately is the ATAC/ [Strategic Metals Ltd. \(TSX.V:SMD\)](#) (the Strategic Exploration Group) because their history in the Yukon flows out of the consulting group Archer Cathro & Associates, which still exists. Archer Cathro has operated a consulting practice in the Yukon since the late '60s. He has a legacy file of information on many early-stage projects that he managed on behalf of others over the years. That access to historic information allowed the company to acquire a tremendous number of properties.

Another one would be the technical group that came out of Underworld that made the discovery on the Golden Saddle area, which was taken over by [Kinross Gold Corp. \(TSX:K; NYSE:KGC\)](#). That management group is now behind [Smash Minerals Corp. \(TSX.V:SSH\)](#). Kaminak Gold, which I mentioned before, is strongly managed by Rob Carpenter.

[Golden Predator Corp. \(TSX:GPD\)](#) is another one that has a similar advantage because they recently hired a geologist away from the Yukon Geologic Survey. This individual, for probably 15 or 20 years, liaised with industry and visited many projects throughout the territory. He knows the Yukon geology better than most. That provides a lot of intelligence in managing that company and acquiring new properties or exploring existing properties.

TGR: And that individual would be [Mike Burke](#).

JM: Mike Burke, yes.

TGR: You're based in Vancouver. What projects in the White Gold district interest you?

JM: The one property that is probably the most advanced in the White Gold area is Kaminak's Coffee Project, which has had a lot of drilling success. They anticipate operating four drills very shortly and a possible fifth one sometime later this summer. The company did a lot of soil sampling, prospecting and drilling last year. It is following up this year. So that's one property that is going to see a lot of drilling and is probably going to lead the pack in that area.

Another company that is not that far away is [Pacific Ridge Exploration Ltd. \(TSX.V:PEX\)](#). John Brock is a seasoned Yukon veteran. The company did some trenching and a lot of soil sampling last year on its Mariposa Project. It recently flew an airborne mag survey and is now back in the field, preparing to drill an area where they had a trench show about 30m of 1.25 g/t Au. This trench is within a soil geochemical anomaly (1100 x 600 meters) called Skookum Jim. Historically in the Yukon, anomaly recognition followed by some trenching has led to some early-stage drill bit discoveries. I would say Pacific Ridge is embarking on that pathway.

Early-stage companies in that area that are a bit more at the project generator or target generation stage include [Ethos Capital Corp. \(TSX.V:ECC; OTCQX:ETHOF\)](#), which has a fair amount of ground distributed in that same area, and Smash Minerals Corp. Smash Minerals has a very large land package on which they plan a program of grid soil sampling. The company has identified six high-priority areas to detail sample. Management intends to have a small drill program out of the gate later this summer or early fall.

TGR: Do any of these companies have projects directly related to Shawn Ryan's work?

JM: A lot of these companies are taking more consistent soil samples at a deeper level and at a consistent horizon because of the success of his methods and his proven methodology. Because this part of the Yukon was not glaciated, we can correlate soil results as being in place—directly over bedrock sources. You don't have to be concerned about a dispersal train that would occur in a glaciated area.

TGR: What are some companies you expect to see some influential drill results from this summer?

JM: [Taku Gold Corp. \(TSX.V:TAK; OTCBB:TAKUF\)](#) has a number of projects, some of which will see some drilling. I believe [Silver Quest Resources Ltd. \(TSX.V:SQI\)](#) will have one or two drill programs in that area as well. [Wolverine Minerals Corp. \(TSX.V:WLV\)](#) will be drilling a number of targets in the Dawson Range, south of the White Gold area.

TGR: When was the last time you saw something like this? Was it Lac de Gras?

JM: I think the Yukon play overshadows some of these other area plays because this is not just about one target or one commodity. There have been two successes in the near term: We've had Underworld taken over by Kinross, and then we had ATAC come out of the gate with a brand new geologic model that's clearly captured the market's attention.

The other reason this is sustainable is that there's a lot of technical success here—many of these companies are very well managed technically, and they have gone to great lengths to educate investors. I could allude to Strategic and ATAC because of the newness and the time they have spent profiling their

discoveries.

So, two discoveries and one takeover already. What's going to sustain the area is more discoveries, or an expansion of those areas that have already seen a drill bit. We will, I believe, see more discoveries because the sustainability takes money, and the market has shown a lot of interest in the Yukon. With upwards of CAD\$200M of expenditures this year on exploration alone, good things should happen. Come the fall, hopefully, we can table another discovery or two. A lot of fresh ideas and capital have come into the marketplace—this will sustain the interest—there's no question in my mind.

TGR: As vice president of investment banking, are institutions coming to you saying that they want a stake in some of these plays in the Yukon?

JM: Yes, there continues to be a very healthy appetite for financing these companies. They're in Canada, so there's a lot of geopolitical security. Land claims have largely been settled. The government is supportive of mining. The area has a high degree of visibility and has had a lot of success in the past with several operating mines. There is a real opportunity and a real comfort for institutions.

TGR: What about new companies? Are people getting some properties, sending them into a shell company or doing an RTO, and then coming to you and saying "We need some cash?"

JM: The rate of company creation has been high over the last six months, as a lot of staking took place in the fall and winter. That has now translated to new companies. I think that will increase as we have additional discoveries, and as long as the capital market is there to finance these companies—new company creation will continue.

TGR: If there were a red flag anywhere in all of this, what would that be?

JM: The capital markets and the ability to raise money is one. But that does not impact the fundamentals near term as most companies are financed for their 2011 programs. Perhaps something out of the blue could impact markets—an environmental concern, a permitting concern or maybe, in some cases, exploration resources get overwhelmed.

TGR: If you were a betting man, Mr. Mustard, who would you give the best odds in terms of the first one to develop a mine?

JM: I tend to go to the companies that have led out of the pack, and I've mentioned Kaminak being one of them. In the White Gold area, they are the go-to company at the moment because they've got the largest budget and the most well-developed targets.

Beyond that, moving further northeast, you have ATAC Resources, which will have the largest exploration activity in the Yukon, a tremendous amount of drilling, a lot of heightened expectation, a lot of resources and a lot of expertise. So I would certainly rank them very high, however, they are a ways off from mine building. [Alexco Resource Corp. \(TSX:AXR; NYSE.A:AXU\)](#) has already built a mine at Keno Hill and, given some exploration success, could expand their operation.

Strategic Metals is another one because of the nature of that company; it has been an incubator of a

number of other companies and has a large shareholding in several others. They also have significant properties that they'll be drilling on, particularly a silver-lead-zinc property that is just northwest of Faro, where there's very good infrastructure. That's a fairly new discovery, and that project will see a tremendous amount of drilling.

Pacific Ridge is perhaps a bit of a high-risk company because the property has not been drilled before, whereas ATAC, Kaminak and Strategic all have had a fair amount of drilling last summer. Golden Predator is another one because they've got Brewery Creek, where we saw some phenomenal drill intercepts already this year. They've got that project and they've got Clear Creek and Grew Creek as well, which is another asset that has had some recent successful drilling.

As far as the first new mine to be developed, it could be [Victoria Gold Corp.'s \(TSX.V:VIT\)](#) Eagle Gold Project where feasibility work is underway and they are targeting a production start-up during 2013.

TGR: What does the geology look like in the Yukon?

JM: We're still at an early stage and haven't identified all of the environments. Clearly there's a lot of exploration left to do over the next few decades. But the Yukon is part of a regional geologic setting where world-class discoveries have been made. Exploration has been cyclical and it will likely continue that way to a certain degree. Now it has a lot of money being thrown at it on a sustained basis. That's really, I suppose, what separates where we are now from where we were in the past. In the White Gold area, we have what I would call intrusive-related or breccia-related gold targets. We also have evidence of large bulk tonnage copper systems nearby. Casino is a billion-plus ton deposit with copper and gold that has been through a number of phases of exploration. Its challenge has been the fact that it's a large bulk tonnage system and it needs good infrastructure. Infrastructure is one thing that is not that well developed in the Yukon. That's why gold deposits have more attraction—because you can fly the gold bricks out—whereas copper concentrates require a bulk tonnage system.

There is a brand-new area being prospected for Nevada-style Carlin replacement gold deposits. A whole range of deposit types are clearly on the horizon for exploration and potential discovery.

The take away—our metallogenic (ore deposit formation) understanding of the Yukon is still very much in evolution.

TGR: Thank you so much for speaking with us.

[Jim Mustard](#) joined PI in October 2009 and brings an extensive range of capital-market and industry experience that spans multiple commodities in a global context of exploration, development and operations. Immediately prior to joining PI, Jim was at Canada Zinc Metals Corporation for two years and prior to that was a vice president and senior mining analyst at Haywood Securities for 11 years. Previous work periods also include several years in Latin America, two years with the Canadian federal government and five years of exploration in Yukon. Jim's core strengths are his ability to recognize early to advanced-stage opportunities in a broad-based context of geological and economic factors and his extensive professional and financial network. "I believe the resource industry will continue its recent momentum over an even wider range of commodities than before, as global growth regains its former pace of expansion," he says. Jim has a bachelor of applied science in geological engineering from Queen.

University, Kingston. He is a registered professional engineer with the Association of Professional Engineers and Geoscientists of BC.

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- 2) The following companies mentioned in the interview are sponsors of *The Gold Report*: Golden Predator, Pacific Ridge Exploration, Ethos Capital and Wolverine Minerals.
- 3) Jim Mustard: I personally and/or my family own shares of the following companies mentioned in this interview: Pacific Ridge and Golden Predator. I personally and/or my family am paid by the following companies mentioned in this interview: None.

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