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HD **What's going to bring upward pressure to Gold prices in 2015?**

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India, Nov. 25 -- head of precious metals and mining investments with Zurich-based AgaNola says there are small signs fewer equities participating in the recent rally greater spreads in the high-yield market that the sentiment toward gold is changing. But we will have to wait to see if a trend forms. In the meantime Siegfried believes all-paper M A will gain pace with a focus on companies that are making money at current gold prices while still trading at multiyear lows. In this interview with The Gold Report Siegfried suggests playing it safe with some small producers and tiny developers.The Gold Report: When we talked in the summer gold had found a floor at around $1 280 ounce ($1 280 oz). Where is the new floor?

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Florian Siegfried: With a floor of $1 280 oz in August the question was will it hold or not. Obviously it did not. There could be even more downward pressure. The support level could be around $1 070 oz especially given that the U.S. dollar has more upside. It could take a couple of months before we clear out the weak hands here.

TGR: What's going to bring upward pressure to gold prices in 2015?

FS: We need to see a change in sentiment in the overall markets. In September equities were going up and the high-yield market was running wild. That was followed by a mini-panic in both equities and the high-yield market in October. Then we had a springboard rally in the equities which was really substantial but the high-yield market stopped reaching new highs.

There is a divergence happening now. Not all equities are participating in the uptrend and there are rising spreads in the yield market. Things are not as robust as they were which could also support the gold price at these levels. It doesn't confirm a trend yet but gold is basically an investment that you want to have when liquidity is seeking a safe harbor. There are some small signs in the market that the sentiment is changing.

TGR: In late October U.S. Federal Reserve Chairman Janet Yellen announced the end of quantitative easing (QE). Did the gold price react the way you thought it would? Could it have been worse?

FS: The Fed officially announced the end of QE but when we look into the Treasury International Capital (TIC) report there is a large sovereign entity in Belgium that has become the third-largest holder of U.S. Treasury securities after China and Japan. We don't know who the buyer is but obviously Russia is dumping Treasurybonds and with current oil prices the Organization of the Petroleum Exporting Countries (OPEC) has much less capital to recycle into U.S. Treasuries.

It's puzzling to know how ending QE is going to work. Officially it worked: the dollar went up and gold tanked. The problem is that the Fed is tapering into economic weakness. As a result my suspicion is that the zero interest rate policy is going to stay and we will see yet another round of QE. One of these days gold will react to this central-planning recklessness. So far the market has perceived the Fed's move as a rising-dollar scenario probably a rising interest rate scenario too but I don't see interest rates rising any time soon.

TGR: What's a realistic trading range for gold in 2015?

FS: In a really bearish scenario gold could hit $970 oz. I would say that's the floor. We could see some more downward pressure before the end of the year but it's difficult to make predictions because basically every market is somehow manipulated and managed. I wouldn't be surprised to see gold at $1 400 1 500 oz in 2015 but if central banks step in and keep pushing equities higher as they did this year then $970 oz is more likely. But when this price-fixing scheme comes to an end there will be some kind of a reversion to the mean for all asset prices.

TGR: In August you talked about the continued rotation out of broad market equities into precious metals. Would you suggest that the process has stalled?

FS: We had a severe break in equities in October but the rebound has been impressive. That rebound has pushed money back into **equity** markets and has taken some air out of precious metals. **Gold** is down in U.S. dollars but in most other currencies it's up. In Swiss francs euros and yen **gold** is up year-to-date. Should deflationary pressure mount I think we could see a continued rotation out of the **equity** and high yield markets into liquidity namely short-term government **bonds** and **gold**. I think this process has not stalled.

TGR: Do you expect mergers and acquisitions (**M** A) to be a major theme in the **gold** space in 2015?

FS: Yes definitely. We just saw a "stink bid" from New **Gold** Inc. (NGD:TSX NGD:NYSE.MKT) for Bayfield Ventures Corp. (BYV:TSX.V) and the merger between Scorpio **Mining** Corp. (SPM:TSX) and U.S. **Gold** and Silver Corp. (USA:TSX USSIF:OTCQX) in an all-paper deal. I think two types of deals will dominate **M** A over the next while. First midtier producers will buy cheaply valued advanced exploration or development companies at roughly a 50% premium in all-share deals. These deals will not be material to the larger companies they are essentially buying optionality for their project portfolio which is smart. This is the time to do so.

The other kind of transaction will be mergers among equals mostly as acts of desperation. How else will these companies get to the critical mass that excites more shareholders? I doubt most of these deals will create value over time because there will be little operational synergies among these companies.

TGR: Are these all-paper deals the blueprint for future deals?

FS: Yes. Every **company** that has a decent share price can use shares as a currency without spending valuable cash. Every CEO who is prudent will not use cash for **M** A at these prices. As for the target companies those CEOs are executing a takeover bid from a solid producer so they get something. They would probably prefer quality shares to cash. That way there is a chance to benefit from the upside once the cycle turns.

TGR: What are some likely takeover targets?

FS: At current valuations Alacer **Gold** Corp. (ASR:TSX: AQG:ASX) has a depressed multiple. The **company** is a low-cost producer with solid margins. In Q3 14 the **company** produced 63 356 oz at all-in costs of $763 oz at its 80%-owned &Ccedil &ouml pler mine in Turkey. What could attract the **company** to any acquirer is the sulfide portion of the mine that has yet to be built. The sulfide project has a preproduction capital expenditure (capex) of $633 **million** ($633M) but has a 17-year mine life with all-in costs of $810 oz. That is the kind of project companies are looking for relatively low capital costs leading to a low-cost long-life operation. On top of that Alacer has about $350M cash and no debt. An acquirer could use that cash to build the mine.

TGR: Are companies with polymetallic assets more likely to be targets?

FS: Probably not in the current environment because base metals and **iron** prices are all down. The trend is down and that is likely to continue. If you are positive on base metals the dance would be different. But selling those kinds of assets in this market is rather tricky.

TGR: Other targets?

FS: Another one is Amara **Mining** Plc (AMA:LSE). It has a 5 **million** ounce (5 Moz) resource called Yaoure in Ivory Coast West Africa. It's a junior **company** but with the right ingredients a solid resource with decent **gold** grades a long mine life and low production costs. The projected all-in costs are $624 oz. There are few projects of this kind that can withstand a $1 000 **gold** price and in this kind of economy Amara is clearly a takeout candidate.

TGR: Amara used to be known as Cluff **Gold** Plc. What did you make of the recent Yaoure drill results?

FS: The **company** continues to demonstrate that the project is growing and that the high-grade mineralization has continuity. It will enter the feasibility stage later next year. It's all about derisking the project. At its current market cap ($70M) Amara cannot raise the $500 600M necessary to build this mine.

TGR: Any others?

FS: We discussed Romarco Minerals Inc. (R:TSX) in the last interview. It received a mine-operating permit and the debt terms for $200M in project finance are in place. The grade is OK. It's in South Carolina which is fine. Do we see a strategic partner buying into Romarco or Romarco being taken out? Both are possibilities. The project is derisked to a level where it should become an M A target.

TGR: Romarco just got a loan for $200M but it needs another $120M to build the mine. Where is that going to come from?

FS: That is still subject to equity financing which is probably holding back the stock because there was a negative reaction when it published the permitting news. Everybody knows an equity deal is coming. So from an acquirer's standpoint is it the optimum time to buy? Probably. It's either that or Romarco goes the route of self-financing. But at $0.50 or $0.60 per share it would be quite dilutive.

TGR: When the permitting news reached the market casual observers like myself thought the price would bump up but the opposite happened. Please explain that further.

FS: If people want to sell in this market they sell on good news when there is liquidity in the stock. It's puzzling for the average investor but that is how the market is right now. It provides opportunities if you can buy on the dips because you still get a high-quality asset in a safe jurisdiction trading at $0.55 share.

TGR: Are there other likely takeover targets?

FS: There is another AIM-listed company called Condor Gold Plc (CNR:LSE). It just released a prefeasibility study (PFS) and updated preliminary economic assessment (PEA) for its La India project in Nicaragua. It has 2.33 Moz at 3.9 grams per ton (3.9 g t) and that includes 1.14 Moz at 3.1 g t in an open pit which is very high these days. Management has skin in the game and holds 9% of the company and it is leanly managed.

With the recent financing the International Financial Corp. (IFC) entered the picture as a strategic partner. That's a commitment that should help to further reduce political risk. In its PFS Condor looks at a 0.8 million tons per year (0.8 Mtpa) open-pit mine with an annual production of 79 300 oz gold over seven years considering a front load capex of $110M and all-in sustaining costs of $690 oz. Then in the updated PEA there are two options to build La India. One is to include additional feeder pits for a 1.2 Mtpa plant with a capital requirement of $127M and an annual production of 96 800 oz over a 8-year mine life at similar all-in costs. The other option would include the underground resource a $170M capex and an annual production of 137 000 oz over a 12-year mine life.

Is it going to be a higher capital cost higher-production scenario or a lower-capital cost lower-production scenario? The company wants to be viewed as positively as possible. It is basically saying "This project has all kinds of optionality it has strong financing backed by the IFC and it's close to infrastructure." Management gives me the impression that this project is for sale but not at the current share price.

TGR: Is grade a key theme for you in these takeover deals?

FS: Grade is king at the moment. In the end you want to own quality companies that can make money at current prices or even if we touch $900 oz gold. Because the market has almost no visibility on where gold prices are heading everything is concentrated on grade because it protects your margins. Should we move into a higher gold price environment the best leverage is probably with the current marginal producers. They have no room for error so their valuations remain extremely depressed. Grade is king at least for the moment.

TGR: What are some producers that could offset a lower gold price with gains from a weak Canadian or Australian dollar versus the greenback?

FS: I would watch Detour Gold Corp. (DGC:TSX) for two reasons. First probably 80% of its operating and capital expenses are directly linked to the Canadian dollar. So you benefit from a weaker Canadian dollar. Second is leverage to the oil price in the form of lower diesel costs. Oil is down 20% YTD and you can take advantage by investing in big-scale open-pit high-tonnage low-grade operations because those mines are energy and diesel sensitive. You essentially get a "double whammy" with the lower oil prices and the lower Canadian dollar.

TGR: Will takeover rumors resume on that name in 2015?

FS: Detour is still fine-tuning its operations. The company is not cash flow positive at current prices. But it should be in 2015 assuming gold prices stay where they are or move higher and tonnage increases. If that happens and you're looking for a world-class project in a safe jurisdiction then Detour should be on the list.

TGR: Any other producers that fit that bill?

FS: Down the food chain is Claude Resources Inc. (CRJ:TSX) a junior trading at about $0.26 share. Its Q3 14 financials were amazing. Its net income of CA$6.9M in Q3 14 was up from CA$3.3M in Q2 14. That's the function of increasing production higher head grades and a weak Canadian dollar. All three have helped the **company** remain very profitable even at these depressed prices.

A third one with a slightly higher production profile compared to Claude is Richmont Mines Inc. (RIC:TSX RIC:NYSE.MKT). As with Claude it also increased its production guidance for 2014 and in Q3 14 it earned CA$4.6M and was also free cash flow positive. It has CA$39M in cash and very little debt. It has the grade which is around 6.0 g t at its Island and Beaufor mines and most of the costs are in Canadian dollars. It's a similar situation to Claude's.

TGR: Are there some development-stage **gold** projects that haven't seen share prices respond to positive news?

FS: One that really has been beaten down and we discussed in our last interview is Victoria **Gold** Corp. (VIT:TSX.V). The share price is down to $0.10. Nevertheless its strategy is the right one. The Eagle project in the Yukon is permitted to mine but Victoria is not willing to accept any kind of financing from let's say hungry private **equity** groups at disadvantageous terms. So the **company** continues to drill and find new zones like Olive and it has the cash to do just that. It's not in a rush to develop Eagle in this market. From a valuation standpoint Victoria is trading almost at cash. It's in the Yukon so that's a safe jurisdiction too.

TGR: Is Olive enough to bring investors back?

FS: The grade at Olive is almost double that of Eagle. In my opinion Victoria should define a resource at Olive. Then when Eagle is three to five years into production and the grade in the mine plan drops Victoria fills that gap with higher-grade **ore** from Olive. That would increase the internal rate of return (IRR) because the **company** would likely need limited additional capital to bring Olive on-line. If Victoria demonstrates it can go that route Olive could bring investors back. Victoria is like an option on **gold** without an expiry date.

TGR: Does the **company** have the right management in place for the current wait-it-out strategy?

FS: Yes I think so. The management and board have experience in building mines. The other question is: Does Victoria have the operating team in place? It doesn't yet but it doesn't need to. If it came to a production decision which I don't see any time soon given its share price and the market conditions it would have to beef up the operational team.

TGR: Any other updates on companies you mentioned in your last interview?

FS: We discussed Asanko **Gold** Inc. (AKG:TSX AKG:NYSE.MKT). Since then it released what it calls the Definitive Project Plan for phase 1 of the Asanko **gold** mine project in Ghana.

The market did not get really excited about it. Basically Asanko reconfirmed the mine's economics but a base-case price assumption of $1 300 oz **gold** is too high. If the assumed **gold** price drops to $1 150 oz the net present value shrinks by more than 30%. That also means that it has a lot of leverage to the **gold** price. The market's reaction to the stock is more a function of the **gold** price right now.

TGR: Any other companies?

FS: I'**m** a director of GoldQuest **Mining** Corp. (GQC:TSX.V). GoldQuest's Romero project has an Indicated resource of 2.38 Moz **gold** equivalent in the Dominican Republic but the **company** isn't getting much love from the market. Basically there are two issues. One is the $333M it will need to build the mine which is quite high. And that resulted in a relatively low IRR for Romero. We will have to come up with a strategy to improve the PEA numbers. Can we reduce the upfront capital or is there an opportunity to more quickly mine a high-grade portion of the **ore** in order to increase the IRR? Some optimization work will have to be done.

Romero is a high-grade deposit with all-in sustaining costs including byproduct credits of $350 oz which is very robust. Otherwise the 100%-owned Tireo is a big district. It's not cheap to drill and the mineralization appears in clusters. We have money in the bank and the **company** will drill test more targets.

TGR: Without naming names have you signed confidentiality agreements (CAs) with some of the neighboring companies in the Dominican Republic?

FS: Yes we signed some CAs but that was done upon the discovery of Romero.

TGR: What are some of the other players in the Dominican Republic?

FS: Barrick Gold Corp. (ABX:TSX ABX:NYSE) is clearly No. 1. Glencore International Plc (GLEN:LSE) Xstrata is on the island too and then it's mostly juniors like Precipitate Gold Corp. (PRG:TSX.V) and Unigold Inc. (UGD:TSX.V). Newmont Mining Corp. (NEM:NYSE) and Eurasian Minerals Inc. (EMX:TSX.V EMXX:NYSE) are close to the Dominican border in Haiti but it is unclear how the efforts to reform the county's mining code will eventually turn out.

TGR: Are there other companies that you're following?

FS: In the silver space First Majestic Silver Corp. (FR:TSX AG:NYSE FMV:FSE) is back to its 2008 levels. It should produce 11.5 Moz silver in 2014 but requires a higher silver price to be profitable. If you expect higher silver prices I think First Majestic offers a good leverage.

Falco Resources Ltd. (FPC:TSX.V) controls the former producing Horne mining camp in Quebec. The company targets a multimillion ounce gold resource and has cash in the bank. Osisko Gold Royalties Ltd. (OR:TSX) which just announced a friendly business combination with project generator Virginia Mines Inc. (VGQ:TSX) holds 12% of Falco Resources.

Dalradian Resources Inc. (DNA:TSX) is developing its high-grade Curraghinalt gold project in Northern Ireland. The project has a robust PEA based on $1 200 oz gold and the company has $37M in the bank.

Then there is a junior named East Africa Metals Inc. (EAM:TSX.V). The market cap is $8M but it has $16M in working capital. The market probably expects that the money will disappear. Exploration is all about value creation through drilling and if East Africa could demonstrate that it will use the cash to drill then it's worth having a look at. Its main asset is in Ethiopia in East Africa. Interestingly Qatar-backed QKR Corp. is said to be close to making a $1 billion bid for miner Nevsun Resources Ltd. (NSU:TSX NSU:NYSE.MKT) which is operating in Eritrea just north of Ethiopia. Probably this will bring back the whole region to the mining and M A landscape.

TGR: What words of wisdom do you have for investors in the gold space?

FS: I would still play it safe here. Look for producers that make money at these prices to protect your downside risk as long as those companies have little chance of issuing new shares. Also have a look at selective exploration and development stocks that have done well this year. A few stocks are up 20 60% YTD based on progress on fundamentals.

I would be reluctant to buy into any company that is high grading at these prices to survive. If companies mine their best deposit at current gold prices at small margins those firms are basically giving away their upside when the cycle starts to turn upward. I would rather see those companies shut down and wait for better prices.

TGR: Thank you for your insights Florian.

Florian Siegfried is head of precious metals and mining investments at AgaNola Ltd. an asset management boutique based in Switzerland. Previously Siegfried was the CEO of Precious Capital AG a Zurich-based fund specializing in global mining investments. Prior to this Siegfried was CEO of shaPE Capital a SIX Swiss Exchange-listed private equity company that was founded by Bank Julius Baer Co. Siegfried holds a masters degree in finance and economics from the University of Zurich.

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