

HRA - Special Delivery

#367- 29 July 2009, pre market

Deal Flow

Yesterday's market was clear evidence that US\$ dollar moves are now the lead element in pricing precious metals, but we don't expect the Dollar bounce to last too long. Smaller gold producers that have been focused on looking at, rather than acting on, acquisitions are of necessity shifting quickly into higher gear. Any announcement of a smaller merger or take-over seems to bring another bidder to the market, which we take as an advance notice bigger deals are coming. This helps support the market for Evolving Gold (EVG-V, EVGOF-Qbb; up 0.21 on 1.9 million at \$1.49 on V) that closed yesterday at a new 12-month high, and we expect it to help others. One of our favourite "others" put out the first hole from its main project this morning.

East Asia (EAS; closed off 10 cents on 442,500 at \$1.20) has delivered results from the first 2 holes at its Miwah project in north Sumatra that test several hundred metres of the western end of its main target. The two holes returned **57.1 metres at 1.97 g/t gold, including 38.3 metres at 2.78 g/t gold; and 158.0 metres at 1.71 g/t gold, including 66.0 metres at 3.29 g/t gold** – confirming the zone and that it has large near surface areas of strong grade with which to kick off a development. Now that the flow of drill results is underway we expect the EAS market progress to continue. Drilling is being planned to also test the new Miwah South discovery area that is several hundred meters lower in elevation than the original 1,200 metre long showings being tested by these drill holes. Miwah South may well be outcropping at the "sweet spot" for bonanza grades on a system wide basis, but at any rate its strong surface grades are important additions to the project. Miwah project is very likely to move into the "big deposit" category as drilling proceeds to test the targets. With this in mind and stronger news flow getting underway we are shifting our outlook for EAS up a notch to **strong speculative buy**.

We have couple of points that we will fill out further in the Journal. **Selkirk Minerals (SLK-V; even on 590,800 at \$0.12)** has announced a take-over bid by Imperial Metals (III-T; off 5 cents on 35,000 at \$4.02) at 12 cents in either cash for equivalent shares. We are obviously disappointed by this and after some thought on the subject think taking the cash and the loss that comes with it makes the most sense. On the other hand **First Quantum (FM-T; off \$1.76 on 845,200 at \$66.40)** has had a very impressive recovery from its lows and after our December '07 profits taking we feel the post-Crunch recovery has been strong enough to now drop what has been our most successful pick this cycle to make room for new stories to come.

In terms of exposure to base metal exploration, It makes better sense to us to put funds into **Constantine Minerals (CEM-V; up 1 cent on 29,500 at \$0.24)** that announced yesterday that it had begun its Palmer drill program that has a larger potential and, the large dilution notwithstanding, a lot upside potential from good drill results. **With drilling underway we are shifting CEM back up to speculative buy.**

Regards for now – David Coffin and Eric Coffin

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