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Gold Will Continue to Glitter Despite Market Turbulence



Victor Gonçalves

Equities and Economics Report writer *Victor Gonçalves*, in this exclusive interview with *The Gold Report*, says the yellow metal will generally see more strength than weakness this year, hovering around \$1,500. He's enthusiastic about some undervalued juniors and the prospects for rare earths, saying "a lot of projects are looking very economic and attractive."

The Gold Report: Victor, when we last spoke in October you predicted gold would see more strength through the end of the year and we'd see another market rally before a correction. Gold has indeed strengthened and we saw a market rally, but not a correction yet. Does it mean we are due for a correction and, if so, in what time frame and by how much?

Victor Gonçalves: I think we are due for a correction, yes. By how much and when, it's a little difficult to tell. One thing I can say is the market is rolling over now. We're seeing a bit of a top in the sense that the TSX has seen 12,000 for the first time in a long time. The TSX Ventures rallied very strongly. The Dow is kind of trending. We are in an anomalous situation, and could see one of the two things. We could see a sideways market and then a correction or a bit of a correction now, another rally, and then probably a bigger correction.

If you look economic fundamentals, they're not stellar. They haven't warranted the market doubling in price, basically. The TSX has gone from 7,000 to 12,000 in a year where the market hasn't strengthened a whole lot. On the Dow, for example, which has gone from 6,000 to 11,000, we've got a doubling in equity prices with a stagnated economy. Something's got to give.

TGR: Were some of the lows more fear-based and not based on economic fundamentals?

VG: I don't think the lows were more fear-based; I think the lows were a little more realistic, quite frankly. I don't think they were going to stay there forever. For example, the Dow went to somewhere in the mid-6,000 range. I think that was too low based on everything, but I don't think that at 11,000

the Dow is realistic. I would wager a guess somewhere between 7,000 and 8,000 is probably where the Dow should have landed due to economic fundamentals. All this growth we've had is not employment-based. It was credit driven and debt driven. The run we had in the equity markets, particularly in the U.S.—I don't like using the word because everyone else uses it—but it's a bit of a bubble. So 11,000 on the Dow is a little rich. The market doesn't think so and, based on that, I think the Dow could see a bit of strength or at least stagnation at this level for a little while.

TGR: You mentioned earlier that we're in somewhat of an anomaly because we have gold and equities both doing well. To what do you attribute that anomaly and how long will that last?

VG: Basically, what I attribute that anomaly to is the market really doesn't want to go down and people don't want the market to go down. It hurts; it doesn't feel very nice. So what has happened here is we've had an unusually high amount of money and liquidity injected into the system. All the institutions that receive this liquidity have actually used it more in the equity markets. For example, in a market that goes down like this, we should have seen the interest rates rise a little and they've stayed down, so money stayed cheap. So we have capital injections, cheap money.

We've got every government around the world trying to avoid a major recession, so all this money is in the system. Well, when the crash happened, the good stocks and a lot of the equities got hammered, so we're seeing a lot of people going to the equity markets because they're getting good returns. When you can just buy the Dow and double your money, people are going to do that.

So we've seen a lot of liquidity, but the price of gold has gone up because the fundamentals of the market are not good and anyone who understands the flight to safety would be buying gold. Additionally, as we discussed last time, the Chinese buying of gold is also very important. Up until the Chinese as a population started buying gold, we've had only 80% of the world's population participates in the gold market because 1.5 billion were not allowed to buy gold. So now we've got the Chinese buying as well. Obviously, there are other groups buying too, and buying on the premise that the U.S. is not in a good situation and that gold is a good investment. So you've got a bit of both.

Now, to answer your question, how long will this last? It'll last as long as liquidity is in the market, quite frankly. Now I suspect liquidity in the markets could go on a pretty long time. Those printing presses can print a lot of money, but that will at some point come to an end and that may be soon. I don't think we'll see equity prices continue on a strong rally much longer. Again, there are a lot of variables that go into determining exactly how long that is, but I do expect a decline in the equity markets, if not a small decline now, then a pretty major decline in several months.

TGR: Gold is now trading pretty firmly above \$1,000. A lot of people are starting to say that \$1,000 is a base now. Some say gold is going to take off to several thousand dollars and others think it's going to trade somewhere plus or minus \$200 around \$1,200 an ounce. What's your feeling on the gold price?

VG: Plus or minus \$200 from \$1,200 to \$1,300 is probably a fair number over this year. Interest rates and monetary injections are already priced into the gold price and those will play out as well, but unless something changes I don't see having anything much more than \$1,500.

Now we also have to understand that we're going into a seasonally weak period for gold in February or March. So we should see the price of gold actually drop off a good 15% to 20% between now and April before the base \$1,000 comes back again. Any appreciation in price probably won't happen until about June when we get back into the seasonally stronger period for gold. So we do have a headwind right now on the price of gold. I'm not keen on it going up from here during the early half of the year, but the latter half of the year we could see a similar rally to what we saw late last year.

TGR: Gold equities have had, in many cases, a huge run up, even better than the general market performance. If gold's going to be trading in a range of plus or minus \$200, what should we expect the gold equities to do?

VG: When we saw gold start to run up, it took some time for the equities to start moving up. Now because of the liquidity in the market and the fact that gold is over \$1,000, a lot of projects are looking very economic and attractive. So a lot of people on the equity side are interested in gold because of the viability of \$1,000 gold.

TGR: Are there other metals? A lot of people look at gold and they say if gold's going to really go up based on the fear factor, silver will go up as well. Are you looking at other metals along with gold?

VG: Silver certainly is going to track gold to some degree. I see silver as a poor man's gold. It has more industrial uses than precious metals per se. So for silver to do well, it's going to have to get that monetary value, that investment value. For that to happen, the price of gold is going to have to go up appreciably because it's still reasonably affordable to buy an ounce of gold for \$1,000. It's obviously a lot more than it was, but it's still something in that price range where you can buy it and make some money on it.

Once gold really starts trending up, let's say \$1,500-plus, the price of silver is going to have to catch up and actually continue going higher because silver is, at the end of the day, a precious metal and will become the precious metal of choice probably. We've seen a little bit of that in India. When gold started breaking \$700-\$750 in '06 or '07, the price of silver ran up quite heavily because silver was trading between 70 and 65 ounces per one ounce of gold and it traded as much as 50:1. So we can see that happen, but only when the price of gold starts moving away from people's ability to purchase it or wanting to purchase it.

TGR: You mentioned earlier that some of the equities still are undervalued and they need to catch up, even ones that have had some good appreciation in 2009. Can you share with us some of those companies that represent some good investment opportunities?

One other on my radar is [Mexoro Minerals \(OTCBB:MXOM\)](#). They've been progressing quite nicely over the past little while here. They are changing their name from Mexoro Minerals to Pan American Goldfields. They're on the verge of listing on the TSX Venture, which should be accomplished in the next month or so and I think that's one of the key things they need to do. The OTC is not quite as a recognized exchange as the TSX, especially for a resource company. So for a company to go on and list on an exchange where people can see it and buy it, it's going to make a lot of difference. So right now trading at 40 to 45 cents; just moving on to the TSX Venture alone should put a lot more visibility on the company.

They're also updating their 43-101 on their Cieneguita Project, which could turn out as much as 1.6 to 1.8 million ounces of gold from where it is now and they're producing already. They're upping their production. Their gold production target is upward to 100,000 ounces of gold per year and that would involve upgrading their mills and so on. But that is their goal. At 45 cents a share, that's a valuation of \$22 million on a company that's already producing 30,000 ounces of gold. That's very, very undervalued and I think the reason is that people don't know about it yet. Those are the companies I like. Nobody knew about Kent, for example, eight months ago and, quite frankly, very few people still know about it. These are the companies I like because the less people know about them, the cheaper they are to buy. Now people do know about them and they have made my readers and me a bunch of money.

A proud and avowed Keynesian, Victor Gonçalves developed a strong background in economics at the University of Winnipeg, where he served as a Professor's Assistant as well as earning his degree. His [Equities and Economics Report](#) has been accurately picking winners and calling market direction. In 2007, for instance, he correctly predicted the Dow Jones topping 14,000 points and pegged uranium reaching \$136 per pound and many more. In addition to EER, Victor also produces the [Green Dollar Report](#), as well as writes for a number of print and electronic publications including CIM Magazine (Canadian Institute of Mining), Western Standard, Barron's and Kitco. He also has been featured on BNN, Mining Industry TV and at numerous industry events and conferences.



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