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Kootenay Gold's President & CEO, Jim McDonald, Talks to Harry Norman of Proactiveinvestors

by [Proactiveinvestors](#)



What is Kootenay Gold's focus and business strategy, Jim?

Kootenay Gold's focus here is in mineral exploration, particularly with emphasis on precious metals. The business strategy is twofold, one we have built a very good team of generative explorationists who are extremely good at discovering brand new discoveries, that's part one of the strategy. Part two of the strategy is to look on the success of the discoveries to increase our market cap and put ourselves in a position to purchase more advanced projects which alleviates some of the risk inherent in the early stage of

discoveries. We have been very successful on both those counts. On the second part of the strategy we acquired the Promontorio project and on the first part of the strategy we have come out with quite a number of discoveries in Canada and Mexico.

Why focus on Canada and Mexico?

Canada and Mexico for two simple reasons; first, both are very good places to explore; they have high discovery potential; they are resource rich countries. Secondly they are politically, economically and socially stable places to work – both are under the NAFTA North American Free Trade Agreement.

How did you get interested in the Promontorio silver-gold project in the Sierra Madre?

Well the Sierra Madre is a very prolific part of Mexico in terms of resource wealth. The area in which Promontorio is situated has very good discovery potential best stated by the simple fact that six years ago there were no producing mines in the area we are working in. Today there are six mines producing where there were none just a few years ago. That's why we are in the region. Why Promontorio? It's simply because the historic work there, which goes back to the 1920's, indicated some very good grades; high grades of silver mineralization were reported in breccia bodies. So we liked the grade potential there and the fact that there were breccias and/or stockworks, which indicated to us that you could have some real

size potential. That led us to begin testing the property with the belief that it will be hosting quite a large system. This was born out by the discovery we made last year.

In the first two months of this year you've expanded the mineralization, confirmed further high grade mineralization and identified seven new gold-silver zones at the Promontorio project. Is this project shaping up according to your expectations?

Yes, the project has delivered at each stage very promising results that matched or exceeded our expectations and met our hopes along the way. At the beginning it had the look that it could host a fairly large deposit and it currently still has that look. In fact, with all these recent results we are becoming more confident about the prospectivity of the project and the ability to be able to find and develop deposits on the project.

Kootenay has about 12 joint venture projects. How are things shaping up with these projects and are any of them affected by the current financial troubles?

The joint ventures have worked out very well for Kootenay. What we have done is taken our grassroots discovery projects and joint ventured them to other companies, because these early stage projects are higher risk and we want to alleviate some of that risk by bringing in partners. So from that aspect it's worked out very well for us. We've had a lot of money spent by partners on these projects that we didn't have to spend and it's led to some significant discoveries; namely the Jumping Josephine which is a very good, high grade gold discovery made in British Columbia and an earlier stage project called Espiritu, which is a large copper-porphry gold-silver rich system, that is returning very promising results at an early stage. So it's worked out quite well. The current financial regime we're in; some of our partners are going to have some problems financing so we may see some of our projects come back. At the same time there are junior companies and senior companies out there actively looking for new projects, particularly in the precious metals so we are confident that we will be able to replace joint venture partners that we lose on properties.

What is Kootenay Gold's financial situation?

We are pretty well financed. We had \$16.5 million at the end of December. We were able to finance in a timely manner last year after the Promontorio discovery. Since we brought the company public five years ago we've raised something in the order of \$30 million, so we have always managed to keep ahead of the curve and keep a strong treasury so that we could continue to execute our business plan.



What can investors expect from Kootenay Gold over the next 12-18 months?

We will be focusing on two things; first of all with Promontorio we are taking all of the drill data we have now - that's the physical data and the rock assay data - and integrating that into a geologic model which will lead us to the identification and design of the next drill program. The aim of the drill program will be to advance to the first resource calculation and follow up on the new Dorotea discovery. Preliminary metallurgical work is underway and will give us an initial understanding of the recoveries of the mineralization. We will also be advancing the other mineralized areas on Promontorio to advance them to drill stage. The generative properties will be advanced to drill target stage through mapping, sampling and possibly trenching. At that point we will assess whether or not we want to conduct the first stage of drilling, or seek a joint venture partner for that work. Concurrent with this activity we are looking at acquisition possibilities. With our treasury and our knowledge we are in a good position to make a strategic acquisition that will add a lot of value to the company, specifically looking at advanced projects with resources and possibly even a production-type scenario. Right now there are projects available whose costs are lower than finding costs, so it's potentially quite an opportune time for an acquisition.

What is the track record of the Kootenay team in finding and developing economic projects?

We have got a pretty good track record with our Management and our Board. Two Board members including myself were involved in acquisition of the Mulatos deposit about eight years ago with National Gold. Once we acquired that project we brought in a partner called Alamos Minerals to help us finance it's acquisition and advancement. That resulted in the merger of the two companies and the formation of what is now Alamos Gold. A very successful story in Mexico in the junior sector. Alamos is now producing something in the order of 150,000 ounces of gold per year and has a treasury after closing the last financing of about US\$117 million – so that was a nice success story. I remain active on the Board of that company and on the technical committee. We also have experience running a silver-gold operation underground mine for a couple of years, west of Mexico City called the La Guitarra mine. One of our Directors, Richard Hughes, has been involved in the discovery and building of about three different mines in Canada, the largest of which was the famous Hemlo deposit. So we've got a pretty strong team.

The Promontorio project looks like it could be big. Does this mean that you could be tempted to take it into production yourself?

That's a very good question. We may be tempted to do that. What we are doing is taking the steps necessary to define first of all an economic deposit and then secondly develop it. If during that process we are successful in defining an economic ore body and a mining company wants to make an offer to buy it from us then we'll consider it at that point. Our job in the meantime is to put all the pieces into place to get to that end goal. We have the experience on hand to bring it into production but our thinking is biased

towards selling to an existing miner because that eliminates a lot of risk associated with building a mining team. But it does not preclude us from actually taking something to production ourselves.

What is the situation with the Jumping Josephine project in British Columbia?

Well that's an exciting new gold discovery; high grades in a vein system; it is open ended and there looked to be some parallel structures with more high grade gold in them. Our partner is currently financing their end and we will then set an exploration program and continue on with the work there. It was a grassroots discovery made by our exploration team in a district that has a long mining history. One of the best gold deposits in British Columbia was the Rossland deposit that's only about 30 kilometres away and it produced almost 3 million ounces of high grade gold. It's that sort of potential the region has. We've got some other grassroots things we've discovered over the last year in the same region. At an early stage the numbers are very encouraging and one of those projects will be drill tested this season as well.

How do the community requirements, fiscal and environmental regimes compare between Canada and Mexico?

In a lot of ways they are very similar and at the same time very different because you have two different countries and two different cultures. Similarities; you are starting to see this all over the world that wherever you are exploring and/or developing in mining, there is quite a bit of work and co-operation between the companies, local surface owners, local communities and government agencies. The environmental aspects are similar; you find most western mining companies are operating to the most rigorous of standards whether those standards are required by the host country they're operating in or not. So the two regimes are pretty similar. Mexico is a little better in terms of expedited process, in getting the bureaucratic side of permitting done it gets there a little quicker. The taxation levels are pretty close, I think for both Canada and Mexico they are around 30 percent for a mining operation.

Is Mexico well understood by North American Investors, and is there anything you would like them to understand better?

I would say selectively it is well understood by North American Investors, generally speaking it is probably not that well understood. Mexico is better known as a resort destination and as a place to do other business. Mexico has received a lot of bad press in the last year to year-and-a-half because of the conflict with the illegal drug trade. That is painting a bad picture of Mexico and some more recent press has been what I would say is inaccurate. Those activities have thus far not spilled over into the general population or affected operations, that I am aware of. We certainly haven't experienced any problems. Our experience has been very positive and we have found the government to be open, supportive and proactively helpful

in improving the industry. The support of the government in Mexico is something we are pleased with and would like to highlight.

What are your thoughts on the medium to long term prospects for silver and gold?

The fundamentals with this financial crisis and the amount of money being created and pumped into the economy here, sets the conditions that should be very positive for both gold and silver. Our expectation is that gold and silver in the short and medium term will be strong.