Volume 17 | Issue 1 . February 1, 2013

LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

Barkerville Gold Mines Ltd. (BGM/V)

The BCSC has encouraged Barkerville to use Snowden to audit Mr. George's NI 43-101 report relating to the Barkerville Gold Mines gold deposit. It is anticipated that the Snowden report should be completed shortly, whereupon it will be submitted to the BCSC for approval. It is anticipated that upon receipt of Snowden's report, the BCSC will approve the report with a minimum of delay, whereupon Barkerville shares should be cleared for trading shortly thereafter.

From my perspective, and this is simply conjecture on my part, I can't see how Snowden can make any substantial reductions to Peter George's numbers. Why? Because any meaningful reduction would mean that Snowden had discovered a fundamental flaw in Mr. George's analysis and interpretation of the data submitted to the 'amine' resource estimate programme. I have confidence that Peter George has done a proper and thorough job with regards to his analysis and the resource numbers that he has submitted are essentially correct.

There is a good chance that the NI 43-101 verified resource is going to prove one of the most significant gold discoveries made in recent times. This likely means that Barkerville will soon become an acquisition target.

There are several additional factors, beyond the resource itself, that enhance Barkerville's take-over prospects.

1. **Size potential:** Mr. George has outlined a potential of up to 90 million ounces. Mr. Stewart Jackson, a consulting geologist who visited the property at the behest of interested shareholders, believes that the ultimate resource could be two to two and a half times larger – up to 225 million ounces.

2. **Grade:** Mr. George's grade estimate for the Cow Mountain deposit is 4 grams, which is about four times larger than the Detour gold deposit in Ontario, and 8 times larger than Grasberg in Indonesia owned by Freeport McMoran, which at 88 million ounces is the largest gold producing mine in the world.

3. **Political Risk:** Barkerville is located in Canada, one of the most mine-friendly countries in the world.

4. **Location:** central British Columbia, which is an area facing high unemployment due to a decline in the forestry industry and needs jobs.

5. **Accessibility:** the property is reached by paved highway from Quesnel and can be traversed by roads that the company has built and maintains.

6. **Infrastructure:** the nearby town of Wells could host a new mining camp. The Town has modern infrastructure including power, water, electricity, and sewage.

So, what's it worth? Below, I show my estimates of takeover values, based on different estimates of the size of the resource.

BARKERVILLE GOLD TAKEOVER VALUES?															
137 mil shares Fully dil	$40.00/ share	$37.50/ share	$35.00/ share	$32.50/ share	$30.00/ share	$27.50/ share	$25.00/ share	$22.50/ share	$20.00/ share	$17.50/ share	$15.00/ share	$12.50/ share	$10.00/ share	$7.50/ share	$5.00/ share
Total Buyout Value	$5.48 bil	$5.1375 bil	$4.8 bil	$4.45 bil	$4.11 bil	$3.7675 bil	$3.425 bil	$3.0825 bil	$2.74 bil	$2.4 bil	$2.055 bil	$1.71 bil	$1.37 bil	$1.0275 bil	$685 mil
Cost/oz 13 mil	$422	$395	$369	$342	$316	$290	$263	$237	$211	$184	$158	$132	$105	$79	$53
Cost/oz 11 mil	$498	$467	$436	$405	$374	$342	$311	$280	$249	$218	$187	$156	$137	$93	$62
Cost/oz 9 mil	$609	$571	$533	$495	$457	$419	$381	$342	$304	$266	$228	$190	$152	$114	$76
Cost/oz 7 mil	$783	$734	$685	$636	$587	$538	$489	$440	$391	$342	$294	$245	$196	$147	$98
Cost/oz 5 mil	$1,100	$1,030	$959	$890	$822	$754	$685	$617	$548	$478	$411	$342	$274	$206	$137

Pink: Valuation too high or too low

Green: In a similar price range to past buyouts in the gold mining sector.

Hang on, it looks like that someone wants to substantially reduce our ownership in Barkerville.

In a petition submitted to the Supreme Court of British Columbia by Rex Harbour versus Barkerville Gold Mines and J. Frank Callaghan, Mr. Harbour is seeking to initiate a Private Placement of up to 50 million units priced at $1.00 with a three year full warrant exchangeable in Barkerville shares at $1.35. Up to 40 million units of this financing would be reserved for Peter Tomsett and his affiliate. In his petition, Mr. Harbour states that such a financing is conditional on Mr.Tomsett and two associates nominated by him being elected to the Board of Directors at the proposed special shareholders' meeting. Such a condition is understandable given that it is highly unlikely that the current Barkerville Board would ever acquiesce to such a dilutive financing that would effectively give Mr. Tomsett and or his 'Affiliate' 35% control of the Company's shares. I have been told that this 'Affiliate' is Barclay's Bank.

Knowing that present management will not countenance such dilution Mr. Tomsett must foist a new Board of Directors on shareholders; one that will do his bidding. Indeed, the Petitioner (Mr. Harbour) "supports the Private Placement and the election of Mr. Tomsett and his nominees as directors of the company and wishes to have the proposed transaction and the election of directors put to a shareholders' vote at the Meeting." It is for this reason that **ALL** shareholders, who will be effectively sidelined and massively diluted, rise up and strongly oppose Mr. Harbour's motion.

Under the terms of the proposed financing "Peter Tomsett (directly or through his affiliates) would be entitled to acquire up to 40 million units as part of and on the terms of the placement".

"Other existing qualified shareholders would be entitled to acquire not less than an aggregate of 10 million units at the same price." Some large shareholders have been contacted by Peter Tomsett and the proposed underwriter, D & D Securities, and have been promised that they will be able to maintain their current equity position through their participation in this proposed financing.

Should the proposed financing proceed, not more than 5 shareholders will own more than 50% of Barkerville shares in a surreptitious takeover of the Company. Why do they want it so badly? Obviously, they know that the gold is there.

Currently, there are approximately 137 million fully-diluted Barkerville shares. Adding the proposed financing would increase the shares by 100 million (50 million shares and 50 million warrants). This number would likely be increased by a further 15 million shares comprised of broker warrants as part of the financing fee, and options that no doubt the new Board would award themselves for grabbing so many of the company's shares. So, if we allow this financing to happen we will be diluted by up to 115,000,000 additional shares. This is 85% of the existing fully diluted number of shares.

Earlier in this letter I suggested some Barkerville take over values based on ounces in the ground. For the sake of simplicity, let's conservatively assume that the amended NI 43-101 demonstrates a 5 million ounce resource (about 55% less than Peter George's uncut NI 43-101 resource) and that a major gold company offers $300 per ounce of gold in the ground or $1.5 billion total dollars. This would equate to $10.95 per share under the existing fully-diluted share structure (137 mil shares) but only $6.33 per share for the post-financing shares. We can see just how badly existing shareholders will be hurt by this proposed financing in the following table:

Number of Shares Owned	Take Over Value Pre-Financing $10.95 per Share	Take Over Value Post-Financing $6.33 per Share	Dollar % Loss
1,000,000	$10,950,000	$6,330,000	-$4,620,000 85%
750,000	$8,212,500	$4,747,500	-$3,465,000 85%
500,000	$5,475,000	$3,165,000	-$2,310,000 85%
250,000	$2,737,500	$1,582,500	-$1,155,000 85%
100,000	$1,095,000	$633,000	-$462,000 85%
50,000	$547,500	$316,500	-$231,000 85%
25,000	$237,750	$158,250	-$79,500 85%
10,000	$109,500	$63,300	-$46,200 85%

As you can see, this proposed financing is devastatingly dilutive to all shareholders and reduces their potential gains on a buyout by 85%. The dilutive number of 85% is the same whatever the takeover price. Do you really want to give up on such potential gains?

Mr. Harbour has come out in support of the financing. He purports to own 7,131,000 shares of Barkerville, which equates to about 5.2% of the current fully diluted number of Barkerville shares outstanding. If he wants to retain that percentage he will have to purchase 85%, which is the amount of dilution, of his current share position in the proposed financing. This he can do by subscribing to 3,030,675 units (3,030,675 shares and 3,030,675 warrants) of the proposed financing. The cost to him to purchase 3,030,675 units would be $3,030,675. Thereafter, to maintain his current equity standing he will have to exercise his 3,030,675 warrants at $1.35. This will cost him a further $4,091,411. Thus, his total cost to retain his percentage ownership position will be $3,030,675 for the unit shares plus $4,091,411 to exercise his warrants, a total of $7,122,086.

Pre-financing, and assuming the same hypothetical buyout of $1.5 billion or $10.95 per share, Mr. Harbour would receive $78,084,450 for his 7,131,000 shares. Post-financing and after exercising his warrants, Mr. Harbour would own 13,192,350 shares, which would effectively maintain his equity position in Barkerville. But, post financing the $1.5 billion buyout would equate to $6.33 per share, which would give Mr. Harbour essentially the same $78,084,450 value that his 7,131,000 shares would have been worth pre-financing. But his cost to maintain that equal pre-financing/post financing value is $7.1 million, effectively reducing his post financing payout to $70,984,450.

All other shareholders similarly retaining their equity position in the proposed $10 million financing will have lost in any share takeover, regardless of the takeover price, by the cost of their participation plus the cost of exercising their warrants.

The only winner in this proposed financing is Peter Tomsett and his affiliate. Let me show you why:

- 40 million units at a cost $1.00 per unit = $40 million
- Exercise of 40 million warrants X $1.35 = $54 million
- Total cost to own 80,000,000 shares = $94 million
- Value of 80,000,000 shares at a post financing $1.5 billion buy-out at $6.33 per share = $506,400,000
- Less original purchase cost of $ 94,000,000
- Profit on a $1.5 billion buy-out at $6.33 per share = $412,400,000

Of course, there is no guarantee that post BCSC acceptance of the NI 43-101 report, that a major precious metals producing company will make a bid for Barkerville shares. And, if there is to be a takeover offer, it will only happen following due diligence on the part of prospective purchasers. In the meantime, Barkerville's share's should trade at a price reflecting the size of the resource, its potential size and the resource grade. For example, let's assume a 5 million ounce resource trading at a value of $80 per ounce for a total value of $400,000,000. Dividing $400,000,000 by the 108 million Barkerville shares implies a per share price of $3.70. Under the same assumptions, if the proposed financing was completed to render 158,000,000 Barkerville shares (current 108 million shares plus 50 million shares added through the financing), the implied value of the share price would be reduced to $2.53.

In Mr. Harbour's case, using the above share price examples, pre and post financing his total dollar value for his Barkerville shares would be essentially the same at about $26,384,700. But, because he must pay $7.1 million in the financing, his overall value post financing total value is reduced by that amount.

In the price examples that I have used above it would be impossible to finance at $1.00. Under Venture Exchange rules, stocks trading between $0.50 and $2.00 can be discounted by up to 20% when setting the financing price; above $2.00, the discount financing price is limited to 10%.

Is Mr. Harbour merely supporting the financing as a means to entice Mr. Tomsett and his nominees to the Barkerville board of directors? If so, why is he prepared to spend so much to achieve this objective?

What is so special about Mr. Tomsett's management skills and mining experience that they have to be purchased at a cost of 85% dilution of shareholder value?

Norm Anderson, a current Barkerville director, has a more extensive mining background and mining management experience than Peter Tomsett, and that comes essentially for free. He was Chairman and Director of International Corona when that company was acquired by Homestake Mining Company. He was Chairman and Director of Hudbay Minerals. He served on the Board of Directors of Cia de Minas Buenaventura in Peru. He spent 35 years with Cominco, ending his career there as Chairman and CEO. He has served on the Boards of Homestake Mining Company, Gulf Canada Resources Limited, Finning International Inc. and the Toronto Dominion Bank.

As I have demonstrated, Mr. Harbour's total share value after the proposed financing is reduced by the $7 million it costs him to participate in the financing, either in the event of a Barkerville takeover or in implied value of a Barkerville share based on the NI 43-101 resource. Why then would he support such a dilutive financing? Why would he support Mr. Tomsett owning 80 million shares against his post-financing share ownership of 13,074,000 shares which would be approximately only 16% of Mr. Tomsett's ownership? Why is he very likely handing Mr. Tomsett the potential for significant capital gains at the expense of all current shareholders including himself?

I know there is a great deal of frustration on the part of many shareholders with regard to the Cease Trade Order issued by the BCSC. But this has nothing to do with Frank Callaghan and the Barkerville Board of Directors; neither should he or they be held accountable for the BCSC directive. Nor should the Board be deemed responsible for the length of time that the CTO has been in effect. The BCSC essentially mandated that Peter George's NI 43-101 be verified by Snowden and we have to wait for Snowden to finish the job.

Thereafter, following the revised issue of the NI 43-101 report and the lifting of the BCSC Cease Trading Order, Barkerville's shares will resume trading at a value which should reflect the designated gold resource.

All shareholders owe Frank Callaghan a debt of gratitude for his foresight, persistence and vision, over the past twenty years, which has enabled him to amass the huge land position that encompasses 7 past producing mines and now hosts a significant gold deposit with the potential to host one of the largest gold deposits in the world. After all his effort and single-minded dedication to achieving this fantastic result, Peter Thomsett and his allies are trying to take it away from him and from us. Don't let it happen.

It is planned that Barkerville will produce approximately 30,000 ounces of gold this year. Production costs are estimated to be approximately $800 per ounce. At $1,650 per ounce Barkerville should realize $25,000,000 cash from production during 2013. It is likely that the company will require a financing once the Cease Trade Order is lifted, but the amount will be miniscule in comparison to the massively dilutionary financing proposed by D & D Securities. Using my example above of a 5 million ounce resource valued at $80 per ounce equating to a $3.70 per share value, Barkerville could likely undertake a 'bought deal financing,' at let us say, $3.25 per share to raise $16.25 million. This would amount to only a 5 million or 3.65% share dilution to existing shareholders. I could certainly live with that.

Money from production and a small financing would be more than sufficient to maintain Barkerville's overhead expenses and allow for extensive continued exploration on each of the three mountains (grassy and treed hills).

In conclusion, I urge you not to be frightened into diluting your share position through a monstrous financing, merely undertaken to position Peter Tomsett as a major Barkerville shareholder.

Top 5 Producing Mines by Global In-Situ Resources

Deposit Name	Tonnes (m/t)	Grade (gms)	Contained Oz	Location	Ownership
Grasberg	4,909	0.56	88,106,000	Indonesia	Freeport McMoran
Lihir	830	2.10	56,000,000	Papua New Guinea	Newcrest
Murantau	625	2.49	50,000,000	Uzbekistan	Government of Uzbekistan
Mponeng	122	12.60	49,550,000	South Africa	Anglogold/Ashanti
Olimpiada	459	3.22	47,500,000	Russia	Polyus Gold

National Resource Holding, July 2012

Compare these deposits with Barkerville's potential deposit - Tonnes, Grade, Ozs and Location.

<u>NB</u>

The number of ounces that I have used to project Barkerville's share values are what I consider to be reasonable assumptions. Until we receive Snowden's report, all projections are uncertain. The only thing that is certain is that Peter Tomsett wants to buy a significant shareholding in the company, which would result in a massive dilution of current shareholders.

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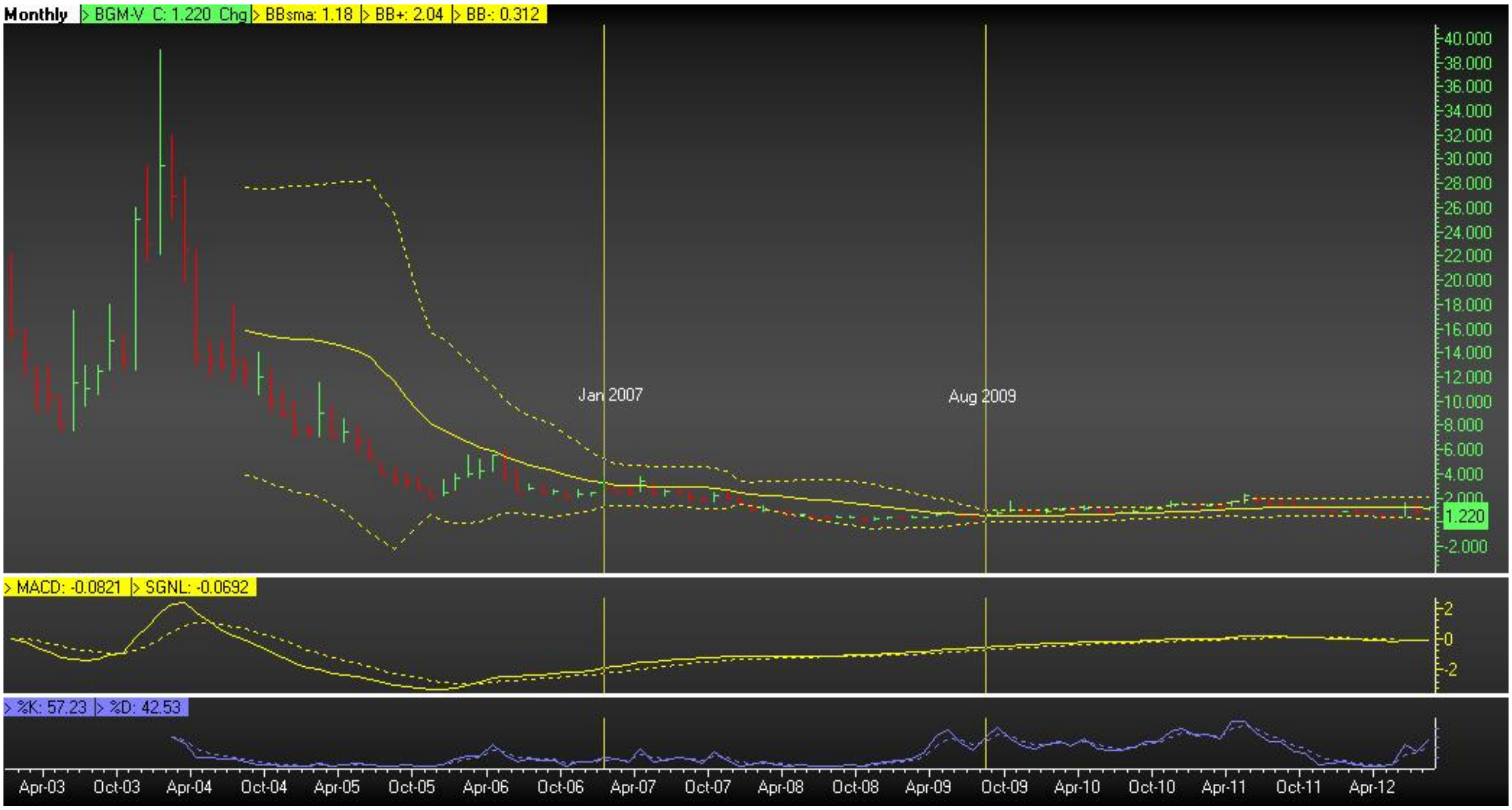
You might remember that in **Ian's Investment Insights of January 3, 2013,** http://www.longwavegroup.com/investment-tips I drew your attention to the pinching Bollinger bands on the chart of Golden Cariboo, and I wrote that this phenomenon was almost always indicative of a big price break out. I then showed you a price chart of Freegold Ventures to prove the point. I also wrote that the monthly price chart of Barkerville Gold Mines was displaying similar Bollinger band characteristics. Here's that chart:

Barkerville Gold Mines (BGM/V) Monthly chart



Source: Thomson Reuters

Prices reflect previous price splits. Since 2007 the Bollinger bands have started pinching and since September 2009 the pinching bands have become tight. All of which suggests a significant price breakout is in the offing.

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"Those who cannot remember the past are condemned to repeat it." Santayana