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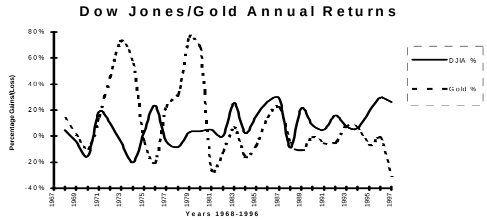

& Energy Tech Stocks

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Super Bullish on Energy & Other "Stuff"

Kevin Bambrough, President and CEO of Sprott Resource Corp. Tells Why You Must Exit Paper "Wealth"

Kevin Bambrough is the **President and Chief Executive Officer** of **Sprott Resource Corp**. (SRC) and also Market Strategist with Sprott Asset Management Inc. (SAM). Mr. Bambrough joined SAM in 2002 as a Research Analyst and became the Market Strategist in 2006. Mr. Bambrough has worked in the investment industry for more than seven years. Since 2003, Mr. Bambrough has focused his analysis for SAM on the resource sector with particular focus on coal and uranium-mining. In his role as Market Strategist, he also spends a significant portion of his time examining global economic activity, geopolitics, and commodity markets, as he strives to identify new trends and investment opportunities.

Kevin graciously granted your editor an hour of his time on February 26th to share his views on how you can not only protect yourself from the impending dollar disaster, but can in fact profit from it. We think that if you take Kevin's words seriously and act on them, you will be in a much stronger position than most Americans who continue to ignore the warning signs of a crashing dollar, $100 oil and $1,000 gold. They think Ben Bernanke's Fed will save them from any impending doom. Kevin suggests they better buy "stuff" now because for some very good reasons, he predicts commodities and precious metals are heading much, much higher.

TAYLOR: Thanks, Kevin for taking time to share your insights into the resource markets with the subscribers to Jay Taylor's Energy and Energy Tech stocks and Jay Taylor's Gold and Technology stocks. You are the President and CEO of a public company that trades on the Toronto Exchange, namely SRC. The name SAM is of course, well known among natural resource investors. That firm has been among the earliest investors at the turn of this bull market in the metals and energy sectors. Can you explain to our readers what the relationship is between Sprott Resource Corp and SAM?

BAMBROUGH: At SAM, we manage approximately Cdn $7 billion right now. We have many mutual and hedge funds that are primarily invested in energy, gold, base metals resources, technology and other special situations. Sprott Resource Corp. is a publicly traded company. It is an entirely separate entity and trades on the TSX under the ticker SCP. It has a management service agreement Sprott Consulting LP, of which SAM is the only limited partner. SRC had about $75 million in assets when we put in place this agreement back in September of 2007. The bulk of the funds came as a result of a private placement of $60 million at $1.50 per share. The main difference is that SRC is a corporation instead of a fund. John Embry and Eric Sprott are among the directors.

TAYLOR: And the purpose of the company then is sort of like a merchant banking firm where you go in and finance companies, help raise capital for companies that have good management and good projects or what precisely are you intending to do?

BAMBROUGH: Yes, we have greater flexibility and different timelines when resource investing with SRC. We are able to take direct ownership of assets and can do so in a big way when we really like a project. We can do earlier stage projects, private companies, joint ventures, things that are typically unavailable to our mutual funds and hedge funds. It provides our shareholders a different way to participate in the resource markets and get exposure to the resource commodities.

TAYLOR: Would you generally then look for some involvement in management of the company, that is, would you have a board member?

BAMBROUGH: In some cases. Another option that we have is to take a position in a private company, as we did with PBS Coal. PBS is now a very large portion of our assets and it is a private company. Unlike a mutual fund or a hedge fund that provides daily or monthly liquidity and allow investors to move money in and out, we don't have to worry about short-term valuation and liquidity. We can take a longer-term approach. Fund managers are generally unable to make these types of investments in those structures (mutual or hedge funds).

TAYLOR: I know you have made two major investments so far in SRC. I would like to get into those in 10-15 minutes, but first I would like to ask you, who are some of the major shareholders in Sprott Resource Corp?

BAMBROUGH: One of the largest shareholders is Lukas Lundin. It was the Lundin family trust that actually that participated in the private placement. Rick Rule was a shareholder from the predecessor company of Sprott Resource Corp. which was General Minerals Corporation. Rick also participated in the private placement. Myself, Eric Sprott, John Embry all participated in the private placement and have a significant holding there. Murray Sinclair and Michael Winn from Quest Capital are also on the board. It is interesting to note that Quest recently changed their mandate from merchant banking to mortgage and debt related financing instruments. We are hopeful that these gentlemen will be able to direct opportunities to us in the merchant banking area.

TAYLOR: What would you say the public float is for this company? How many shares are really in the hands of the public at this stage? It sounds like you have a pretty substantial insider ownership.

BAMBROUGH: Insider ownership is approximately 18 million shares out of just over 50 million outstanding. I'd like to think that the majority of shareholders are long term minded with a history of supporting Sprott.

TAYLOR: So, it's a fairly tight structure at this stage. That's what I like to see as an investor, people close to the company holding long term. What is your view for commodities in general given evidence of a global slow down, if not a global recession? Some fringe mainstream economists like Nouriel Roubini, a well-known professor at New York University, is suggesting that we could be facing a major global recession and possibly even a depression. What is your view on the global economy and again, what is your outlook for commodities in light of that? Perhaps you don't agree that we are heading into a very severe business down turn.

BAMBROUGH: To give you a bit of background, SAM and Eric Sprott have had extremely bearish views on the economy for quite some time. Eric has written extensively on that in his publication "Markets at a Glance." I am also the market strategist for SAM. Eric and I have the same beliefs in the potential risks, especially to the US economy, but also to the global economy in general because of the severe problems in the financial sector and the general overleveraging of the credit markets that we have seen over the last decades, leading up to what people like Doug Nolan have called the "credit bubble." With that, we are quite concerned about the volatility and the problems that are going to arise in the economy. That said, we think that the central bankers are going to use everything in their power to attempt to stem these problems. Really just continuing the same games they have been playing for the last 20 years. Print more money every time there is a problem. Print and bail. Ultimately, going forward, I think that the financial stocks and the financial weighting of banks, brokers, insurance companies and other companies in the credit business are going to suffer. Their earnings will suffer. Their balance sheets will suffer. Their weightings in the global stock market indicies are going to be reduced to an amount that you have seen in other typical bear market lows for financials, going from a high of 30-35% down to 7-10% range.

TAYLOR: We certainly saw that in the 1970's. I'm probably older that you are Kevin, but I remember vividly the bear market in equities and the bull market in commodities in the 70's. Energy companies were the most heavily weighted in the S&P 500 at that time. Energy and commodity companies, mining companies had a huge share and the financial companies were very low in terms of their total weighting. That certainly was true then. I would agree it seems that could be where we are headed.

BAMBROUGH: I think we are going to go back to a time where companies that produce real profits from commodities and energy are going to regain power and influence over the major stock markets of the world. We are probably going to see multiple expansions to where instead of having low single or high single digit P/Es, maybe they get 20 and 30 plus P/Es and we will eventually end up in a commodity bubble. But, I think we are a long ways from there. I would say that if you look at the number of constraints on the production of commodities, supply is becoming such an issue. We have seen just recently, the price of acid for example. Sulfuric acid blow out to all time highs, tripling in the past month. It is going to affect the production of copper. During this bull market, that started back in 2000 to 2002, in most commodity sectors, we have seen nothing but one problem after another, whether it is a shortage of tires, a shortage of miners, a shortage of roof bolts, a shortage of steel, a shortage of equipment, port capacity, rail capacity. As soon as you fix one problem or alleviate one problem, there's another problem. That's because the whole sector has been in a bear market. The result is that costs keep rising through the roof.

TAYLOR: I would like to get into some specific markets and maybe you can talk about those in a few minutes. I would like to ask you what you think of the deflationary argument. I think you may know my good friend Ian Gordon. Eric Sprott certainly knows Ian. Ian has this dire deflationary view, the view is the "pushing on the string" argument, that if banks won't lend and borrowers won't borrow, that you can't really inflate your way out of it. I'm not sure I agree with that because it seems to me that Bernanke's helicopter is able to get money in the hands of consumers one way or another. But I wanted to ask the question to cover that issue because I know there is that school of thought out there that suggests that we could be headed into a deflationary depression. Do you think that is possible?

BAMBROUGH: I have actually chatted with Ian a number of times and Eric talks with him regularly. His deflationary view is something that has always concerned us. If we didn't have fiat currencies, then I think that a deflationary collapse would most definitely follow a period of excessive lending. The problem this time is that the financial problems are so severe, the credit market is so leveraged and the currencies are backed by nothing. The ability to print and monetize whatever is necessary is certainly there. In some respects, when we look at a lot of the large financial institutions, if we were to correctly value their assets instead of marking them to some artificial model, they would be insolvent. They wouldn't be able to meet their debt obligations. The fact is, that if major financial institutions and banks start to go down, as they should because they are overleveraged, in that scenario, I feel that the governments and central banks of the world will have no choice but to bail and print. Although the stockholders may not be supportive and the stocks will suffer, like Japan in the 90's, the government will have to guarantee the debt of these companies. But, this time, I think what we will see is a collapse of the U.S. dollar. There is so much paper money tied up in bonds and stocks relative to commodities that enough people would just decide, "Let's play it safe and own some stuff." If you own financial stocks, bonds or any fiat currency, it is just paper. In the end, real wealth is owning real things. Bonds will be hated at the end of this cycle, as people will come to realize that you just lose to inflation when you park your money in them. I think there will be movements led by people who decide to revote against bonds and financials. Basically saying, "I wouldn't mind owning some farm land," or "I wouldn't mind owning a large oil reserve, something tangible that can't become valueless overnight."

TAYLOR: Or owning companies that own stuff. You are removed a little from the direct ownership of stuff. If you own shares of a mining company for example, that could be severely taxed or taken away. But I guess in the end, governments can do pretty much what they want to do can't they, even if you own stuff?

BAMBROUGH: That is definitely a risk and that is one of the reasons we are always very careful where we invest to make sure we are going to be able to profit long term from the investments we make.

TAYLOR: Ok Kevin, I would like to ask you about a couple of the investments you have made so far. One is PBS Coals Corporation; could you tell us a little bit about that?

BAMBROUGH: PBS Coals is a company that has been operating probably longer than I've been around. We are talking about 40+ years of mining experience in Pennsylvania, USA. They have a low cost export shipping advantage over most of the coal companies in the US, since they are close to the port of Baltimore and have two rail lines going across their property. Back in around 1998, their parent company had financial difficulties. PBS went through a management buyout. So, management went to the Bank of Scotland and took on some debt, personally and for the company. They have basically been struggling, making slight profits with a couple of decent years back in 2002, 2003 when the coal prices jumped up and have been able to pay down debt but not much else. After years of living with a strong US dollar and a relatively weak coal price environment, they have become a lean mean operator. They are actually one of the lower cost low vol (volatile) met (metallurgical) coal producers in the United States. Last year they did around 3 million tons of production, about 70% of which is low vol metallurgical coal. They are currently working a way to upgrade the washery, trying to expand production. Ultimately the goal is to get 4 and then 5 million tons of production, trying to increase the percentage of low vol metallurgical coal north of 70%. Also, most of their coal goes to the export market.

TAYLOR: Is PBS fairly close to shipping? I guess, it's in eastern Pennsylvania?

BAMBROUGH: Typically the rail costs would be in the $20 (per ton) neighborhood, which is very reasonable. The price of thermal coal in the US was only around $42-44 when we first went down and met with them and started negotiating. With high oil prices, port constraints on coal, rail problems and problems in Australia and South Africa, we were optimistic that the coal price level was going to come in well over the $125 that most analysts were forecasting, at least at the $140 level and possibly $160.

TAYLOR: Where is it now Kevin?

BAMBROUGH: We have been really surprised by the recent developments . There have been some deals of met coal reportedly north of $300 a ton just in the last week or so. There are rumors of even $330 a ton being paid by Indian steel producers in a report I read today. The price has just gone absolutely crazy. These are all time highs by a wide margin. There have been a number of significant developments in the markets, China having snowstorms and the worst power crisis in history. The South African power crisis. Record rains and floods in Queensland, Australia. It is unbelievable how much the coal supply has been affected and how tight the market is. We are hopeful that companies like PBS in which we are invested not only through SRC, but also through SAM which is invested in a number of coal companies, are going to be able to get record contract pricing for the next year and beyond. There are a number of analysts out there now forecasting that the market is going to stay tight for a number of years. We think it is a great time to be in metallurgical coal.

TAYLOR: Do you expect PBS Coals to go public sometime soon?

BAMBROUGH: I wouldn't really be able to comment on that right now. Ultimately, I'll say that the strategy of the Resource Corp. would be to invest in companies that are private. We take an approach that we will finance them to increase their production and improve their balance sheet, preparing them and giving them support to go into the public markets at the right time.

TAYLOR: Obviously the markets for coal are extremely bullish now. What about about your second investment, which I believe is Mantaro Phosphate. Is that a deposit, a private entity as well, is that right?

BAMBROUGH: I am really pleased with this transaction, and the timing of it as well. As I mentioned, it was a perfect storm for the coal market for PBS with the timing of thermal prices going from the $40's to 50's to $135 recently. The same thing has happened in the phosphate market. We actually were working with a couple of people at Integral Wealth to help tie up this Mantaro deposit back last spring. Once the resource transaction was completed, we transferred it into SRC. What we have is an option on the deposit that has a historical non 43-101 estimate of upwards of 700 million tons of phosphate rock. It is open pitable, right at surface, with a low strip ratio at outcrops. There is more detailed information available on our website and though the press releases we have put out. In summary, it is a very, very large resource. Historically, work was done back in the 60's, 70's and some work done even up into the 90's. We were able to acquire an option on it with some payments, but ultimately, we have to take it public and the geologist vendors that held the claims and partnered with us on this venture would get 20% of the company upon the liquidity event.

TAYLOR: Is there an NSR payable as well?

BAMBROUGH: Yes there is, 2%.

TAYLOR: What is the price of phosphate these days and what might be your mining cost if you can comment on that? Maybe it is too early to comment on it.

BAMBROUGH: It is quite early to comment on costs. Phosphate rock prices have risen from $50 last year to over $210 now. This is what I believe to be a fairly good grade deposit with the average grade being approximately 15%. The best grades of phosphate rock you are going to find are typically in the mid-20s. There are some very large projects in the world that even mine in the mid- to high single digits for phosphate. It is in Peru, a mining country. It is close to rail. There are power lines going across the property. There are water sources available. There is an ample supply of acid, which I mentioned is in short supply in many places. It has ideal infrastructure. And that's why this project has been worked on over the years. It was just waiting for higher phosphate prices. Due to the biofuel boom and the agricultural price rise, phosphate prices aren't just higher, they are sky high and look like they are going to stay high for some time. I think that this project should be brought on, as it is required to help meet South America's fertilizer needs.

TAYLOR: How long do you think it might take? Do you see a long time line before this gets into production?

BAMBROUGH: There is a possibility to try to fast track it and just produce a concentrate. Ultimately, our goal is to get a 43-101 resource on the project and have a liquidity event, take it public and look for a partner that would develop it and take a long-term approach. This is of a size and scope that we hope, through a drill program, to be able to prove up a significant resource and make it attractive for a major to come after.

TAYLOR: While we are talking about phosphate, this relates to fertilizers in general and the agricultural sector where prices are beginning to rise rather dramatically. If I read correctly in the Financial Times, wheat was recently up 25% in one day!

BAMBROUGH: That was at least one of the contracts. I think it was up to as much as $24 or so. It was one particular contract, something like Kansas City hard winter wheat. Apparently that exchange doesn't have limits, so that was why it was able to take off as much as it did. But we have had a number of days over the last month when some of these grains have gone limit up day after day. One of the benchmark contracts hit an all time high of $12 just yesterday or overnight.

TAYLOR: What is driving this dramatic rise in agricultural prices? We know there are tremendous amounts of liquidity created by central bankers as you pointed out. They are printing huge amounts of money to try to keep from going into a recession or depression and we have these shortages, which you mentioned. So that is part of the story, but would you attribute some of it to redistribution of wealth to the middle classes in China and India and places like that?

BAMBROUGH: Certainly, as incomes rise in emerging markets, there is about a ten-fold increase in terms of grain consumption when people go from eating grains to eating meat. At the same time, you have things like ethanol (competing for food) and also urban sprawl reducing arable land. We've also seen a lot of problems with droughts in the world. Over the last couple of years, Australia had some major droughts affecting exports. Global stocks of most of the grains have been hitting low after low after low, getting back to lows they haven't seen since the 60's. There was a report out just recently by the CEO of Potash Corporation saying that we need record production of grains year after year just to avoid a crisis and a famine. If there is ever a problem with production, there will be famines in parts of the world.

We have focused on fertilizer for both SAM and SRC. We have chosen to play the agricultural market by getting involved in fertilizers because if you want to increase yields, you need to use fertilizer in a lot of parts of the world. As prices go up, farmers can afford more fertilizer and it makes good economic sense from their perspective. We have invested in a number of fertilizer, potash and phosphate, companies through SAM. I think this deposit that we picked up for SRC has incredible "optionality" on the price of phosphate. That is sort of the approach we take and are going to continue to try to go into different parts of the world to pick up quality assets.

TAYLOR: We talked about coal a little while ago used to generate electricity. I would like to get your views on various energy markets. What about oil? Are you a buyer of the "Peak Oil" theories?

BAMBROUGH: We have actually written for a number of years on Peak Oil. Eric is a big believer in peak oil, as are many of the analysts and portfolio managers at our firm. The facts are clear that the major discoveries were made decades ago. Typically in any country, after the discoveries peak, shortly thereafter, production peaks. It is fairly mathematical in nature. Despite all the technology and all of the work that has been done in the U.S. to try and increase production, it has just gone down year after year. There is nothing that they could do about it because discoveries and then production peaked so long before. I don't think there is anything different about the other continents of the world. They'll experience the same decline rates that the U.S. has experienced and typically that any reservoir experiences as it is drilled up and brought on, they all ultimately fall in production in a predictable way.

TAYLOR: The scary thing is that they are having to take on extremely expensive projects to find any oil at all deep under the ocean. Those things can be extremely expensive in capital costs.

BAMBROUGH: That's the other thing that is very interesting. As we go to the harder to get to oil and the harder to extract oil in unconventional projects like the tar sands and oil shales, the energy that goes into producing the finished product is intense. I read back in the past, the oil industry had about a 1 to 15 ratio. One unit of energy input would yield 15 out. As you go to these alternatives, it is very, very difficult to keep up that type of rate. And there are situations like ethanol, which is debatably net negative. You are basically just switching fuel. It is amazing that people think of ethanol as being so green and yet many ethanol plants are run on coal.

TAYLOR: That's pretty incredible that it may even be negative from an environmental point of view. What about the oil sands, you mentioned the oil sands. Petrobank is one we have on our list. What do you think of that company or do you have any favorites in that industry?

BAMBROUGH: We have been investors in Petrobank for some time. Eric Nuttall works with Eric Sprott as our oil and gas analyst at SAM. He would be able to comment on that more than I would. I have just focused on the macro side and rarely dig into individual oil stocks.

TAYLOR: They have some significant improvements in extraction technology. If it works, that would be a big plus for that company.

BAMBROUGH: You had mentioned earlier about taxation. That is one of the things that have kept us out of the oil sands. One investment that we have made and stuck with is Bronco Energy. Their deal is with a native band, which is a court enforceable agreement that just cannot be changed over night by the Alberta government.

TAYLOR: What about any renewable forms of energy that you guys are involved with, solar, wind?

BAMBROUGH: SAM has had a significant investment in a company called Timminco, which manufactures metallurgical silicon used in the solar energy industry. With the growth of solar panels and production, they have an excellent growth profile and as costs rise for other types of silicon, their product is able to see growing margins.

TAYLOR: Kevin, I first became aware of you and your work when I read a paper you had written on the uranium mining industry and the nuclear power industry. We have seen a real spike in the price of uranium last year. It has come back quite a bit, but you were right. You had written that report 3-4 years ago, predicting much higher uranium prices. I think you might have even come up with a hypothetical uranium price where uranium would have to go before natural gas would be competitive with uranium. You have the high capital cost of nuclear power, but the fuel cost, even if it is much higher than it is now, uranium will still be competitive with natural gas. Is that true? Where do you see uranium prices going longer term?

BAMBROUGH: We actually got involved with uranium in late 2003 when the price was around $11. We did a lot of work here at Sprott on uranium and basically came to the conclusion that the fundamentals of this coming bull market in uranium were going to be better than it was in the 70's. We predicted that the price would rise to test the inflation-adjusted highs of the past which would have been around the $120 level and that is where it ultimately went to. We invested in a myriad of the junior uranium companies and did incredibly well with that. But, last year I did a presentation in Switzerland and in Las Vegas at conferences and the title of my presentation was the "Uranium Mania," where I stated that most of the value had been wrung out of the juniors. There were too many of them and I predicted a rollover in the market for many of these junior stocks. That has played out as we had expected and in some cases more sharply and severe that we thought. But, now with the production problems that we are seeing, for the ISL process, Uranium One's problems in South Africa; Cameco's problems; Cogema's (AREVA) problems, etc., we are starting to see that the marginal cost to bring on new production is much, much higher than people thought.

TAYLOR: You are back to the same issue that you talked about in general with the commodity markets, supply.

BAMBROUGH: I think that what we are seeing is that the market needs these prices, if not higher, in order to have a sustainable long-term uranium supply. The one issue that I keep a close eye on is the potential for new enrichment technology to come on and affect the market long term. For now, it appears as though a lot of the uranium stocks are going to bottom here and the market may tighten up in the coming months and quarters.

TAYLOR: So what about the ISL projects, are you bullish on them or are you concerned about the acid shortage?

BAMBROUGH: I think long term the acid problem will get resolved and there will be quality production and relatively low cost sustainable production for companies engaged in that technology as a way of mining uranium.

TAYLOR: I understood that about 60% of the total amount of annual uranium consumption is coming from current production and the rest is being taken down from stockpiles. Is that still the way it is?

BAMBROUGH: The stockpiles will continue to be worked off. Russia has large inventories. The down blending of weapons grade material will supply the market for some time. Over the long run, we are going to have to bring on mines to replace that stockpile supply and be able to have sustainable growth of the nuclear industry as the world grapples with peak oil. Potentially, at some point, they are going to stop building coal plants at least in their current form but at present the growth rate has been astronomical.

TAYLOR: In Texas, they decided not to build a couple of coal plants and instead decided they were going to build a couple of nuclear plants.

BAMBROUGH: I just can't believe the numbers coming out of China. There was talk the other day of 90 gigawatts of capacity being added this year through $84 billion of investments. These are just huge numbers. Consider that the total output in the U.S. is just over a terawatt, so you are looking at a 9% growth rate relative to the U.S. in China. That's just China. India is coming along with a lot of projects and really all the emerging markets are bringing on coal plants.

TAYLOR: So where is the fuel going to come from?

BAMBROUGH: What we are seeing right now is actually the start of energy trade wars. We have seen China run into problems where it was short coal. It decided to ban exports for a couple of months. Really upsetting the balance in the markets. Vietnam has talked about restricting exports because of domestic need. Indonesia is making companies write in the contracts that they can declare force majeure if the government requires the coal. South Africa may direct more coal away from the export market to keep it within the country because of its power crisis.

TAYLOR: And Putin did some things with natural gas a couple of years ago, didn't he?

BAMBROUGH: It keeps coming. Argentina has its exports reduced because Bolivia needs its gas for domestic consumption. The fact is that demand for a lot of commodities that were previously available on the international markets is being demanded domestically where consumption is on the rise. That is what was going on with Russia for a long time. Its domestic consumption is rising so much that its exports are going down. Another example is Iran cutting off Turkey's gas shipments. It got a contract to buy nearly a bcf a day. It was only getting about 560 million cubic feet a day for most of last year. Then in December it got cut down to about 150 mcf/d. It just got totally shut off at the end of January or the beginning of February. Now it is just starting to creep back on. It has been forced to go into the market to buy LNG and have been paying $17-18 a mcf.

TAYLOR: Incredible. It seems to me Kevin, that unless my friend Ian Gordon is right, you have to be extremely bullish on almost every sector of the energy market right now.

BAMBROUGH: In a sense we are already getting a Kondratieff winter, but it is playing out differently this time. Paper wealth is being destroyed. It is getting destroyed against real things, through inflation.

TAYLOR: I would like to switch to the metals markets. What about precious metals? The IMF is talking now about selling gold. Yesterday, the US Treasury came out in support of it. I know that the US Congress has to approve it. It is not just the Treasury's call. In the past, the US Congress has been hesitant to support sales of IMF gold. I don't think it is a real big issue, but I wanted to ask you, in light of the news in the last couple of days, it did drive the gold price down a bit, what is your view of the gold markets long term and give me your reasons for whatever you tell me.

BAMBROUGH: I am a huge gold bull and have been for a number of years. That's why I ended up at SAM because I was investing in gold personally before coming here and met up with Eric. We both had the same interest in gold. I think ultimately, gold will be measured in the thousands. I think this bull market is better that it was in the 70's where gold went from $35 to $850. A 25-time increase can happen again. A 25 times increase from $250, you are talking upwards of $6,000 gold. It has that potential, especially as we are breaking out to all time highs. In nominal terms, we are seeing highs, but in inflation adjusted terms, we still have a long way to go. I think inflation is going to continue on and that there will be a flight to gold for safety, for protection against destruction of financial assets. People aren't going to feel safe putting their money in bonds knowing that the creditor on the other side is potentially insolvent.

TAYLOR: And not to mention the loss of purchasing power for long-term instruments.

BAMBROUGH: The fact is that most central banks are increasing money supply at mid to high double-digit rates, yet they are offering these very low single digit interest rates. It makes no sense why people would want to park wealth in bonds or in paper currencies when they are backed by nothing. As far as the IMF goes, I wish the IMF would sell all its gold and sell it quickly…all the central banks would sell it quickly. Then it would be obvious to every one that there is no gold left. It will finally have all moved into strong hands and then you would see that there is no other gold inventory to supply the market demand every year. Demand has outstripped production for years and years, for decades the central banks have sold gold and filled the gap. The illusion, this overhang of, "What are the central banks going to do?" keeps investors out of the market and keeps people from buying. The reality is that demand can and will, at some point, completely overwhelm central bank selling.

TAYLOR: It keeps the common people out. If I were to walk down the streets of New York here and ask people if they were buying gold and gold shares, probably 95% of them would say no and they have no intention of it. That, to me Kevin, is very, very bullish.

BAMBROUGH: That's extremely bullish. Try to find someone who owns physical silver in a large way. Barely anybody does.

TAYLOR: Owning silver in a large way is pretty cumbersome. What about silver now that you mention it?

BAMBROUGH: That's why nobody owns it. It is such a pain in the neck. There are a lot of silver bulls out there. At some point, people will start going to silver and gold and decide to hold it in large quantities as protection. The fact is, there are energy costs in silver and gold. There are capex costs to build mines. They have been a store of value for as long as human civilization has been around. They are going to continue to be a store of value for the long run. I feel extremely comfortable having large physical holdings of silver. It is just crazy the number of paper millionaires and billionaires there are in the world. If you take just a small amount of money and decide to move into physical gold and silver, it will completely change the balance in the markets.

TAYLOR: I agree. Copper, is doing pretty darn well, in spite of the fact that we have had some sort of a business slow down. I mean copper is mid $3 range right now. The other day, a major investment bank was predicting $6 copper next year or this year perhaps.

BAMBROUGH: Anything can happen in that market. One of the things Eric Sprott always says is that a one-pound shortage in the world can affect the price so much. Once you get into a shortage situation, people will pay whatever they have to get what they need.

TAYLOR: What we saw with wheat the other day…

BAMBROUGH: Exactly, what price would you pay to do without it? You no longer look at what the marginal cost of supply is, that's irrelevant. What will buyers pay, period, before they stop buying? That is why we see copper prices hold up so well. The fact is, there are major infrastructure projects. As I mentioned, 90 gigawatts of power supply being added this year, north of 70 gigs last year, and 60 gigs the year before in China. These are huge power projects. We have aging infrastructure throughout North America and Europe. They are talking about upgrading power equipment. If you look at what's starting to happen with some switching to aluminum. Let's see what happens to aluminum production in a world with wickedly high-energy prices. You have already seen what is happening in South Africa. When a country gets into a power crisis, what do they restrict? They restrict very, very energy intensive industries in order to try to keep enough of the economy still functioning. Aluminum is the highest percentage in electricity cost of production of any of the metals

TAYLOR: What about some of the industrial metals? Maybe you could comment on zinc and lead and some of the other base metals. Would you just lump them all together in terms of what you just said about copper?

BAMBROUGH: I haven't spent a lot of time on the various base metals. I have sort of dabbled around the edges and tried to find some specialty metals at unique times, when there is an opportunity to buy and sell. I am more of an investor who looks at things that have appeared to have bottomed and I hope to find things that will turn up and go up by multiples. Although I think the bullish case is still a better argument than the bearish case at this point in the cycle. I don't think the risk reward in base metals in general is attractive enough to pull me in as an investor.

TAYLOR: If you found a special situation, a company or a project, you might invest in it?

BAMBROUGH: On a project by project basis, there are always going to be opportunities. Typically, for the Resource Corp. we still have a relatively small amount of assets, so I can sit and be very patient and look for something that meets all of my criteria. With coal and phosphate, these are two things that are somewhat recession proof right now, and clearly very hot markets. We see improving margins, good jurisdictions, good management, etc. I like it when I see an investment that meets five or six of the criteria I like to see in a company. I'm on the fence with it comes to base metals.

TAYLOR: So you are extremely bullish on gold and silver, extremely bullish on uranium.

BAMBROUGH: I wouldn't say I am extremely bullish on uranium. I am extremely bullish on energy. I think long term uranium can do well. I wouldn't say I am extremely bullish now, not like we were when uranium was under $20 and we thought it was on the way to $100 plus.

TAYLOR: I am seeing here on my screen that oil is at $100.91 today. That says something when this is a business slowdown and we have $100 oil. We've had a number of years in this bull market for commodities, how much longer can it last Kevin?

BAMBROUGH: I think that I'd point to commentary made by very wise people like Marc Faber, Don Cox and Jim Rogers, who all believe that typically 15-20 years is possible for these markets. I think we are only about halfway into it. Again, I think there will be multiple expansion near the end, potentially with panic buying by people as they are fleeing other dwindling asset classes. We will see a NASDAQ type mania hit the resource sector. We have actually seen a little bit of that in China. It is much more clear to them with the inflation issues that they have had there. They are much more in tune with the cost of raw goods as they make up a much larger percentage of their CPI.

TAYLOR: Kevin, what do we do then when we see that mania? I remember the $850 blow off in gold and then everybody in New York was buying gold. I think it is going to be obvious, but where do you do when the commodity markets go exponential? You will have to sell some stuff but what do you put the proceeds of your sales into?

BAMBROUGH: I think we are still a long way off from that. As we get to the prices that I anticipate, and the many thousands for gold, there will be those lineups in the street again, just like we have seen lineups out in front of Northern Rock. People lined up trying to get their money out of the bank despite the guarantees of the central bank. At some point, I think people will be lining up to buy gold again because they just don't feel comfortable watching their assets lose value against gold. They will decide they just have to have some (gold). Just like people lined up in Hong Kong to buy shares in the Tom.com IPO at the peak of the NASDAQ bubble, it will be the same thing again, everyone will line up to buy. That's when you should be selling and looking at what's cheap relative to gold. There will be a lot of opportunity. It may be in financial assets at that time because some things will have bottomed out. It might be the bonds or some stocks with underlying assets and high yields.

TAYLOR: When you have Fortune 500 companies selling at P/Es of under 10 and giving you yields of 8-10%. Good solid companies. Obviously, it would be a good time to get back into companies that actually do some things.

BAMBROUGH: It might also be a good time to start buying real estate down the road. The bear market in real estate is not going to bottom for quite some time, but there will be unique pockets where you will be able to get into and convert some of your gold and silver into property. The prices of properties will be depressed because of the inability to get loans on those properties. Those with cash will be able to accumulate vast real wealth.

TAYLOR: I am telling my subscribers to take the money off the table when they make a nice profit in the gold shares and put some into gold which is the ultimate money determined by markets over thousands of years. Maybe, there will be some sort of revamped paper currency that is hopefully backed by gold at some point. I don't know what your thoughts are on that.

BAMBROUGH: I actually have thought a lot about what the currency market will end up looking like. There is the potential that many currencies will be completely destroyed like we have seen in Zimbabwe through the irresponsible nature of central bankers. That said, central bankers in charge of a country or Government ministries in charge of trade like we see in China, can really control (export) policy. These types of countries will be very influential on how things get set doing forward. We are starting to see the signs of what is going to happen. It is really going to be more BTU or energy based trading. A country will decide to restrict the export of a commodity because it is like exporting energy. I gave the example of aluminum. If you have an energy shortage, you should ban aluminum exports sales. Just as if you have a water shortage, you should ban the export of grain.

TAYLOR: Sure, because it takes so much water to grow crops.

BAMBROUGH: A lot of people will start looking at things in that nature, value goods based on their energy equivalency. How much energy goes into this and what is the value of it? If you are going to sell that much aluminum, you better buy a lot of oil to replace it and build a strategic petroleum reserve. Stop looking on a year-to-year basis and stop worrying about trying to get elected. Countries will start worrying more about long term energy needs in order to make sure that they have proper policies for sustainable development.

TAYLOR: These kinds of problems don't sound like me that they are doing to be conducive to peaceful relations between various nations.

BAMBROUGH: Marc Faber has commented a number of times about the unfortunate correlation between rising commodity prices and conflict. He has mentioned a quote in his newsletter that states when commodities stop crossing borders, tanks do.

TAYLOR: That is too bad, but better to be aware of it and ready for it than not to be. Kevin, we have spent almost an hour here and I want to thank you for sharing your precious time with our readers. When I interview companies for possible inclusion in my letters, I like to ask them why I should consider recommending their companies as opposed to the other 1500-2000 that are out there in the market. Before we conclude our conversation, could you tell our readers why they should spend some time to study SRC and learn more about you?

BAMBROUGH: I think we have a very strong balance sheet. We have strong management and resources. Our affiliation with SAM provides access to some of the best deal flow or investment potential that you could find anywhere in the Canadian marketplace. We are very committed to try to make profit, not just promote. We are going to get involved in real projects that can achieve strong cash flow. That is the main goal of the Resource Corp. Finally, we have invested personally and will continue to do so.

TAYLOR: Thanks so much Kevin, for sharing your wisdom. I look forward to passing this along to our subscribers. Maybe we can visit again some time and see where we are at a year from now. Thank you very much.