

20 April 2011

The uncertainty of politics....

Political uncertainty is spreading, at least from the market's perspective. All uncertainty riles markets. The political sort falls into three categories and distinguishing them is helpful to sorting out market reactions. One is electoral uncertainty, which at the political level most HRA readers would consider a good thing. But markets are more Darwinian and can treat election results as random events. A related category is the politics of crowds such as has gripped the Arabic world, and other places, this year. While elections may dish out pro of anti change, crowds usually gather in protest and it isn't always clear what new rule they may generate. Sometimes it greases change through the third category, the politics of elites, which is usually closer to Darwin's model. Markets may or may not like changes driven from the top, but do at least tend to be decisive in reaction to them. In this skittish market the one common theme is that initial reactions will usually be negative.

Peru's first round of Presidential voting put left leaning populist Ollanta Humala in first place to run-off against right leaning Keiko Fujimori who's father had a love/hate Presidency in the early '90s. In the last election Humala garnered endorsement from Venezuela's Chavez, so markets tumbled this time over concern he may nationalize if elected. Humala didn't seek Hugo's favor and has stated he wants continued liberal foreign investment rules. He wants higher resource royalties, aimed partly at natural gas exports, which will need some accounting for. We have said before higher royalties have to be expected with high commodity prices, so it will be the details that matter. Concerns around Fujimori centre on whether she might pardon her father or emulate some of his strong arm rule. This could raise rule of law issues.

After assurances from both candidates that they want to further the status quo the Peruvian market that had been slashed by

Uncertain politics, unfriendly S&P.....1

UPDATES: 3

Amanta Resources (AMH-V); Cadan Resources (CXD-V); Everton Resources (EVR-V); Kaminak Gold (KAM-V) Mirasol (MRZ-V); Nautilus Minerals (NUS-T); Silver Quest (SQI-V)

the results has picked back up. On Friday mining companies working in-country bounced from their sympathetic trouncing. Peru's economy is anything but broken and there's general agreement foreign investment in mining has been important to growth. Democracy is functioning in Peru, so elected officials should note the need for balanced royalty changes per Australia's example last year when the issue broke a government. A more local example of imbalance shaking government is playing out right next door.

Unrest continues in Bolivia where workers in the country's omnibus union are refusing the 10% pay gain offered by socialist President Evo Morales. This government has been most firmly in the Hugo Chavez camp, which may have garnered some Hugo largess but has cost potential mining investment that has aided growth in the surrounding region. This is a mining country where sticks of explosive are used to make a point, though almost always as noise rather than to damage. Food protests have taken place here sporadically, and seem to be increasing. Socialist chest thumping isn't feeding the masses. Nor have nationalistic tendencies that have come with seeking a better lot for indigenous Americano that also helped elect Morales. We sympathize with wanting a better deal for indigenous groups, as do most foreign investors these days. But, can Morales refocus to an investment model now that his leftist support is disintegrating?

...HRA Dispatch...HRA Dispatch...

20 April 2011

We don't know, but we do know that similar unrest is building in Venezuela where Chavez has managed to turn a resource rich economy into a basket case. Arguments are being made that global conditions have forced costs higher. They ring hollow, and pride is giving way to anger in recognition that this near bankrupt movement wasted the best opportunity in centuries to trade hard goods for plenty.

We doubt either country can effectively bring funding in while crowds continue to gather in opposition to the current leadership that, yes, was elected. The crowds will eventually get change of some sort, but mending will wait until that change has taken shape. And, we doubt either candidate in Peru's election will miss this point and move too far away from the balance that has been created in their country. At this point we expect companies in Peru to grind through electoral concern and regain pre-election valuations.

Last Friday markets were tossing companies working in one of our favored African growth areas for gold despite a good day for the yellow metal. News from Burkina Faso of security forces looting in the capital caused the trouncing. Specifically, the presidential guard was running amuck because it was due wages and promised food and housing subsidies. Burkina Faso, and some of its neighbors, is dependant on Côte d'Ivoire for deliveries of food and some migrant wages. The basic complaint therefore rings true since Côte d'Ivoire being in a civil war for months has stymied food shipments. Though Burkina's police sometimes get tapped for having hands out, we haven't heard that about the military.

Merchants in Ouagadougou have rioted in protest of their shops being looted, and the head of the military has been replaced. We are told that the soldiers have been given their back pay and have returned to their barracks. We haven't heard whether merchants are to be compensated, and assume that could be the next demand. We

have heard nothing to indicate mining operations has been disrupted.

There had been broader protests about rising food prices, but that has become a general theme in poor parts of the world and is something markets have to live with. Burkina President Blaise Compaore has dissolved the government he formed after his recent reelection, which is in his job description and sounds like a normal response to this sort of unrest. Compaore came to power in a 1987 coup, and though his party does dominate in elections the last several have been considered fairly transparent and open by third party observers. Despite ruling in one of the world's poorest economies he has become a regional power broker and arbiter, a status he probably wants to keep and might lose by becoming more authoritarian.

The risk ranking for the Burkina Faso has without question been hurt by this unrest. However, gold mine development has become important to the country's growth and we assume any serious politico would want to maintain it. Markets will want Compaore to form a new government from the National Assembly fairly quickly, but we have heard nothing to suggest this won't be the case. Compaore has already installed a new Prime Minister, the former ambassador to France who is apparently charismatic and well liked through the country. Hopefully, equally popular choices will be made quickly to fill other major cabinet posts.

There was a bounce in most BF focused stocks on the news of the new PM and reports a Guard representative apologized on national TV. That, plus hopefully a relatively quick gain to food imports now that Côte d'Ivoire is forming the government it elected, would help quell concerns. If these come into place we think the trouncing companies working in-country took, which even included IAMGOLD, will be a bargain hunting opportunity.

...HRA Dispatch...HRA Dispatch...

20 April 2011

Rising food costs are outstripping budgets in much of the developing world. Unfortunately, that means more incidents of this sort have to be expected. Where the market is unsure of how government will react, that will mean pressure on companies working in countries where unrest is taking place. It would be nice to report there will be falling food prices everywhere but it's going to take strong harvests in several regions to bring that to pass. Even then, agricultural commodities will continue to have higher than average prices so we simply have to accept that tempers will flare, or worse, on occasion. High food prices are the dark side of this secular commodity bull market.

With friends like these....

Closer to home, the US government got its own comeuppance of a sort on Monday. S&P reduced its outlook on US sovereign debt from stable to negative, a move the rating agency had threatened in the past. Based on the sea of red ink that generated in world equity markets many apparently believed it would never follow through with the change in outlook.

This is a second serious push-back from Washington's low interest rate policy after PIMCO revealed it was shorting the US

Treasury market. An S&P rep suggested this is similar to the downgrade Britain got ahead of its austerity program being put in place that brought its rating outlook back up to "stable". The same won't happen in the US unless its government manages to sort out the difference between tax reduction and deficit reduction. We join S&P in exhaling.

Notwithstanding the *potential* for higher US interest rates, *actual* higher rates elsewhere continue to pressure the dollar. This has further boosted **Gold** and **Silver**, which have now breached the \$1500 and \$44 mark, respectively.

Higher prices have mainly benefited producers and strong exploration stories thanks to market uncertainties. This has kept the juniors as typified by the Venture index range bound and trading near its start of year level, notwithstanding high levels of volatility. The good news is continued high trading volumes. Overall volume is one of the best indicators of underlying strength in the Venture market. If the high volumes continue a string of good results from active explorers could lift the broader juniors market out of its funk in due course.

Ω

Updates...

Amanta Resources (AMH-V; even on 1k share at \$0.09) released results from a second hole on its moly-gold target at Pakieng. The results were interesting but not strong enough to affect the share price, and being released on a horrible day for the markets didn't help. There is a third drillhole coming and a bigger rig that can drill larger core to greater depths is being moved to the project. The target scale is good, but we still haven't seen the sort of long intercepts that would indicate large tonnage potential

for the moly target. We'll leave AMH on hold pending results from the next hole, and the timing and plans for the bigger rig. <http://www.amantaresources.com>

Cadan Resources (CXD-V; off 3 cents on 24k shares at \$0.54) released XRF (semi-quantitative) results for a drill hole testing the Tagpura copper-gold skarn that is part of the ComVal project. Assays are needed to get definitive results but the XRF readings are in keeping with past sampling at Tagpura, which was partially mined in the past. This program is apparently intended to move 10-15 million tonnes in the

...HRA Dispatch...HRA Dispatch...

20 April 2011

previously mined area to Measured resource status. The preliminary grades for the first hole are 0.65% copper from surface to a depth of 106 metres, including 31 metres of 1.21% copper from a depth of 33 metres.

That is a pretty good copper hole, though the target scale of the skarn itself probably didn't excite traders. We're more interested in the plans for the broader project, including porphyry targets adjacent to Tagpura. As with the recent gold results from T'Boli, the best news is that there are results. Some more comprehensive news releases that lay out specific plans, goals and timelines would go a long way to getting the market more interested, and we hope to start seeing those soon.

<http://www.cadanresources.com>

Capstone Mining (CS-T; up 3 cents on 2.9 M share at \$3.95) has announced a friendly, three way deal to acquire Far West Mining (FMW-T; \$7.68) for a marquee \$725 million, consisting of 1.825 CS shares plus \$1 for each of the 78.9 million fully diluted FMW shares. Capstone will then sell 30% of the Santo Domingo copper-iron project owned by FMW to state owned Korea Resources Corp (KORES) for \$210 million and KORES will purchase 39 million CS shares at price of \$4.409 (the previous 5 days average price). KORES will also hold 50% of the project's off-take, and arrange the debt required to develop the project.

Santo Domingo is an IOC (iron-oxide, copper) deposit in northern Chile. In mid 2010 FMW reported an **Indicated resource of 486 Mt @ 0.33% copper & 27.2% iron plus an Inferred 61 Mt @ 0.19% copper & 25.7% iron** in three deposits, **plus a global 34 Mt @ 0.526% copper and minor gold** in a fourth deposit. Metallurgical testing has indicated strong copper recoveries near 90% to a concentrate of good grade, and weaker iron recovery of 30-35% but to a concentrate of good grade. An initial economic assessment based on about half

the current resource suggested an average output of 65 Kt (143 M pounds) copper and 4 Mt of iron per annum. The one major advantage the project has is strong infrastructure within 60 km of existing port facilities.

On a copper only basis the acquisition cost is about US 16 cents per pound, which is high. Allowing for iron revenue brings this closer to market, but whether there are other takers for a copper deposit of this scale that has an iron co-product we don't know. The upshot is that Capstone will own 70% of a project that will increase its output by 2-3 times current in 3-4 years, for which it should have most of the cash portion of required capital in hand. The cost is an 84% gain to its fully diluted shares total.

In a weakening copper market CS has held its own since the announcement. We do like iron, so for the time being we will stay with the story.

<http://www.capstonemining.com/>

Everton Resources (EVR-V; up 1 cent on 307K shares at \$0.41) has reported drill results from the La Lechoza prospect on the Amplication Pueblo Viejo project. There were a couple of high grade holes though most of the holes returned more moderate results. The results didn't have a huge impact. Most traders are waiting for the main event, deeper holes targeting extensions to the adjacent Pueblo Viejo deposit, as are we. At this stage, we consider Everton a straight up bet on this targeting, which has good odds of succeeding in locating some sort of extension to that system. Only the drill can answer questions on quality, quantity, and depth. It's still a worthwhile target for accumulation as a drill speculation.

<http://www.evertonresources.com>

GoldQuest (GQC-V; even on 146K shares at \$0.26) released 17 holes from Escandalosa, which confirmed the known

...HRA Dispatch...HRA Dispatch...

20 April 2011

mineralization but did not extend it much, though the drill pattern still appears to leave it open to the north. The highlight hole from this set was LPT-62 which intersected **36.5 metre grading 2.74 g/t gold**. GQC also drilled a couple of holes at the Hondo Valle area 1.2 km to the north which has displayed similar mineralization at surface. Those drill results are expected soon. We felt that area had as much or more potential that Escandalosa itself so we await those results with interest.

In the meantime GoldQuest is completing IP surveys in both areas and along the trend between them. The current interpretation is that there is block faulting that may have dropped the mineralized zone downward in a couple of areas, including directly south of Escandalosa. IP should help determine this and tighten up the targeting for follow up drilling. GQC is worth accumulating in this range in advance of results from the Hondo Valle holes.

<http://www.goldquestcorp.com>

Kaminak Gold (KAM-V; up 16 cents on 272k shares at \$3.87) kept its promise and started drilling in April, which is no mean feat in the White Gold area. We already know KAM will have a sizable resource. It's up to the truth machine to determine how sizable it will be and what the grade and geometry look like. We plan to meet with management to get detail on the program and the new target areas and will update further once we've done that.

<http://www.kaminak.com>

Mirasol Resources (MRZ-V; up 25 cents on 62K at \$6.10) released a large set of drill results from its phase II drilling at the Virginia project in Argentina. All of the holes intersected silver values and several of them, returned the sort of very high grade x width numbers the market was expecting. The highlight hole was drilled at Julia North, where VG-036 intersected **36.5 metres**

grading 312 g/t silver including 5.34 metres grading 1,843 g/t silver. Very good results were also returned by drilling at Julia Central, including hole VG-043 that intersected 40.8 metres grading 172 g/t including 10 metres grading 485 g/t silver, and the previously drilled Naty vein (parallel and 200 metres west of Julia North). Naty returned wide intervals including a highlight hole VG-41 which intersected **44.6 metres grading 142 g/t silver including 8.1 metres grading 521 g/t silver**.

Though there is pinch and swell in the veins there are enough broad intersections to demonstrate Virginia will host a large silver resource. MRZ noted all of the intersections were oxidized, down to 100 metres of dip length. This is a good sign, though drilling still hasn't been done below the oxide/sulphide boundary. This release adds enough additional depth and strike potential at Virginia that, combined with the retained Joaquin interest, has the strength to underpin Mirasol's elevated share price.

We still want to see what happens to grades below the oxide boundary, or more confirmation that oxidation is persistent to depth. Either demonstration that silver grades hold up at depth or a significant extension of the strike with good grades, could provide the next leg up for MRZ. This release adds enough to the picture that we are ticking up our outlook. MRZ is again a solid holding at for silver price gains and as speculation for expansion of the Virginia silver resource potential.

<http://www.mirasolresources.com/>

Nautilus Minerals (NUS-T, AIM; off 10 cents on 181K shares at \$3.10) announced last Thursday that it has penned a deal with Germany's Harren and Partner to build a vessel for the deep sea operation that will be sold to a ship JV in which Harren owns 50.1% and the NUS-PNG joint venture holds the balance. The ship JV will lease the vessel to the mining operation for

...HRA Dispatch...HRA Dispatch...

20 April 2011

\$70k per day over eight years. Boiled down, the deal means NUS can be in production by mid 2013 with limited strain on its bank account. The one wrinkle is the eight year lease-back period is larger than current resources would need, but that of course is until and if new resources are added. NUS gained in a weak market on evidence that it is going forward.

<http://www.nautilusminerals.com/>

Silver Quest Resources (SQI-V; up 4 cents on 1MM shares at \$0.82) and partner **Richfield Ventures (RVC-V)** reported initial drill results from the current program at the Blackwater project, focused on the Davison claims SQI holds a 25% interest in. The best of the five holes was

BW135 that returned **82 metres grading 3.29 g/t gold including 15 metres grading 14.5 g/t gold**. This hole opens up the area northeast of previous drilling and indicates the resource should expand in this direction. Drill productivity is reportedly very high and we expect the partners to drill as fast as possible in order to maximize the mineralized envelope at Davison while the merger between Richfield and New Gold is being advanced. Whether this prompts a new bid for RVC we don't know, but a string of high grade drill results won't do SQI any harm. SQI remains a spec buy for more reporting from Blackwater and programs this summer on its Yukon holdings and other projects in the Black Water area.

<http://www.silverquest.ca>

Ω Ω Ω

Regards for now, David Coffin and Eric Coffin

HRA Dispatch is part of the "**HRA Subscriber's Service**" a set of interrelated independent publications committed to providing timely and factual analysis of junior mining and other venture capital companies. Companies are chosen on the basis of a speculative potential for significant upside gains resulting from asset-base expansion and/or exploration discovery. These are generally high-risk securities, and opinions contained herein are time and market sensitive. No statement or expression of opinion, or any other matter herein, directly or indirectly, is an offer, solicitation or recommendation to buy or sell any securities mentioned. While we believe all sources of information to be factual and reliable, we in no way represent or guarantee the accuracy thereof, nor of the statements made herein. We do not receive or request compensation in any form in order to feature companies in this publication. We may, or may not, own securities and/or options to acquire securities of the companies mentioned herein. This document is protected by the copyright laws of Canada and the U.S. and may not be reproduced in any form for other than for personal use without the prior written consent of the publisher. This document may be quoted, in context, provided that proper credit is given.

Published by Stockwork Consulting, Phoenix AZ

<http://www.hraadvisory.com/contact.html> **Subscriptions/Customer Service 1-877-528-3958**