HRA Journal

HARD ROCK ANALYST JOURNAL • VOLUME 11, NUMBER 05 • MAY 2011

Our paramount concern right now is for the growing number of food inflation related disturbances in different parts of the world. This sometimes gets less general press focus than the political doings that surround it, which in its own way speaks to the scale of concern it is becoming. If there is a good point in the current commodities retreat is that it may help elevate these food related issues, somewhat. Relief on that front is needed, but will require some cooperation from nature to be sustained. We speak to this concern in the editorial.

The current downshift is feeling all the more nasty for having taken so long to get underway. This isn't a market in which trying to fight the tape makes sense, so we won't. The updates do outline a number of specs that are approaching the start of drill testing and we suggest you focus on some of those. More advanced stories will recover as the commodities sell-off abates. Here too politics will be having an impact in some cases.

Down usually happens faster than up in most markets. We are still too close to the market near-death of 2008, and too many of the debt issues that caused that are still unresolved, to suggest a bottom will be easy to see. For now opportunities will come from patience and a medium term outlook.

David Coffin & Eric Coffin

NASTY WEATHER

US equity markets had continued to benefit from export driven bottom line growth, but are now sagging on hesitancy about the US domestic economy ahead of QEII buoyancy drying up in June. The Dollar decline that allowed export strength has also boosted US import costs. This could mean a modest US summer driving season unless recent declines in oil prices continue.

China's inflation concern has taken up more of its policy. The tighter Yuan policy isn't showing up in the inflation rate but it will have some impact and mean that growth engine downshifts. On top of that the vagaries of nature and street crowds continue to add uncertainty.

We began the year with an "expect the unexpected" stance. May began with the death of bin Laden, which caused only the barest ripple of market applause. We stir entrails this time of year on whether to look for bargains early in the northern summer, or not — a tough call this year.

The sector we focus on has been consolidating after doing very well. This downward move accelerated recently, which could hasten the start of a buying period. The recovery of the broader equity market after March events seems to be stalling after new highs again in the past couple of weeks. Its not looking comfortable though, and volumes are low. Are the market's about to repeat last summer's pause?

"Events" have been hard on the algorithmic. The muddle of just-in-time manufacturing waylaid by tsunami wasn't expected, but adjustments can be made for it. It's possible to program varied responses to currency and bond or inflation related policy shifts. However, aging powers having to choose between the old buddy system or newly emboldened Arabic Street is quite variable rich.

Despite these weakening events, inflationary pressure would be the most likely cause for a pause. Its not the G7 economies that are the big concern for us. The real pressure is in the growth economies that the high income economies still need for

Editorial:

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After Profits Taking:

HRA Journal is published by Stockwork Consulting Ltd. (Box 84909, Phoenix, AZ, 85071) **1-800-528-0559.**
http://www.hardrockanalyst.com
Subscription Rates for the HRA Journal:
One year (12 issues), $199. Two years (24 issues), $380.

export support. This pressure comes from resource price gains, and most worryingly from high food prices and simple demand growth across many local markets. This again is event related.

Weather events have been getting a lot of ink lately, the most recent being the unusually heavy and deadly North American storm season. Our sympathy goes out to the victims of the southern US tornado onslaught, but it is slower motion events that concern markets. Weak crops and high food inflation are becoming a plague. Those still looking for a second market collapse and double dip recession will remind us the '30s dust bowl deepened the Depression. Markets run on perception so analogies like this can have an impact.

Perception aside, the problem is a real and serious one. The chart above, courtesy of the Food and Agriculture Organization of the UN, shows their food price index hitting new all time highs, in both nominal and real terms. The price measure is already well above the levels reached in 2008. The one cause for optimism is that the commodity rout going on the past few sessions is driving speculative money out of grain and other "soft" markets too. This helps, but speculators aren't the main cause of price run ups. Its supply and demand, and there is no obvious easy fix.

Brazil has temporarily halted rice exports. Drought in China's wheat region may have the country importing grain for the first time this century. There is also news that China wants to import more sugar due to declining domestic supply and because *imported sugar is cheaper*. The need to import food may finally be pushing aside the weak Yuan policy. Not the best reason admittedly, but still better for overall balance in the exchange rate system.

A stronger Yuan won't stave off rural unrest in China by itself. It would however help with broader inflation and increase purchasing power for imported goods which could ease the transition for the poorer regions of China.

Talk about a stronger Yuan comes on top of a concerted tightening policy that is finally impacting oil and metal prices. The most recent statistics out of China include weaker Purchasing Manager Indices and inflation numbers that appear to be peaking. The move out of commodities based on these is now fully underway.

Weakening metals and energy prices are a necessary consolidation that we have been looking for, which offers some relief for weak economies. It doesn't help other, poorer economies deal with their food issues though. These keep piling up. Whatever the direct political causes might be, the rash of street protests in the world have an underlying concern about soaring food costs.

Certainly there are some dire predictions for this year's weather, but we won't wade in on them. Rather, we will point out that changing crop conditions have had as much impact on history as kings or bishops. Early signals over the next few months of crop potential in the north may have a larger than usual impact on equity markets. We add that watch to the waiting game on QEII's end.

Rising food costs could (and should) hasten a reduction in the global farm subsidy system. This may be wishful thinking politically, but higher market prices and demand suggest the time is ripe to try. The subsidy system in wealthy economies has hurt capital input elsewhere and closed some markets to developing world farmers. Now that shortage is on the table and prices are high across the board this will be a talking point. It should be kept track of.

The currency mix will also be important to this. Liquidity created to hold the Yen *down* for 20 years was combined with protected high-cost food producers. Japan could take advantage of Yen strength that liquidity and low external debt now bring to rethink that food subsidy system. Tokyo certainly has better places to spend the money after the tsunami.

The EU has always had a transfers system around agriculture. It's a smaller fraction of the budget than it used to be and is being reformed, but is still there. The will to push reform further as part of a global realignment may be in place. It would need to recognize the debt realities of EU members, but the ECB focus on inflation positions the Eurozone to refocus trade.

The US situation is similar but arguably tougher to deal with right now. Reducing direct subsidies would be small change against the Federal deficit. Like most industrialized democracies the rural vote has a large impact. The Fed's loose money policy is making US export of all commodities more viable, and sensible. It should be taking this export gain, but it shouldn't need to subsidize to do that.

The subsidy system has been such that other big, wealthy exporters like Canada and Australia compete, but not too heavily. In the low income world subsidy tends to be for inputs like power and soil additives, which have also moved up in price. The problem with that has been a skewing of capital allocation to farming. Sound familiar?

Some blame global warming for shortage, while others say the Malthusian equation is simply setting in. We think its another case of a century of technological based cost reductions working through to their end. Food has rejoined metals and energy in reverting to a larger slice of a global economy that has been prosperous enough to add hugely to the population base.

Investment from the Mid East and East Asia in Africa is changing that. How well that feeds locals is now the issue. There will be more unrest in more places if some solutions don't get found. Food is not an issue that can be put off.

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Eric Coffin and David Coffin

Another issue shared by the US and China is income disparity. In the US this is taking a back seat to debt. China has been trying to work through that by creating non-rural payrolls, with great success so far. But now urban workers are demanding higher wages to better inflation and that is eating up the country's competitive advantage.

China is one country where higher food prices (if they are allowed) could be an added boon for a very large rural population hoping for better living standards. The export of low wage manufacturing from China means the next Wal-Mart will do its shopping in places like Viet Nam, Indonesia, Pakistan and Nigeria. How does the US compete with that?

Strictly speaking, it can't. There is no point trying to outdo developing countries on low wage manufacturing. Quality, innovation and productivity are the only realistic competitive advantage for a country like the US. This worked for Germany after all, and no one would classify it as a low wage country.

That means the US accepts that it needs to resume the hard goods export model it had before it became a global investor. That has been happening, with last month's exports reaching an all-time high. Its one more reason why strong dollar talk in Washington is just that. Export sectors have been the real wealth and job creators lately and no one in Washington will mess with that.

Upcoming Speaking Engagements:

MoneyTalks Resource Investment Conference:
May 14, 2011
Radisson Hotel, Edmonton
http://www.moneytalks.net/money-talks-events.html

World Resource Investment Conference:
June 5&6, 2011
Vancouver Conference Centre E
http://www.cambridgehouse.com

That notwithstanding, last month we laid out what may eventually turn the US$ back up as a cautionary tale on when precious metal prices could top. At the same time we have been reordering the list a bit to reduce exposure in silver relative to gold.

Silver continued its strong price run until the end of April and came just shy of making a new notional high. It was a very short lived spike and the metal has been falling since. Silver has now given back all the move that began in March. Margin requirements for futures traders were raised several times during the move up which silver bugs are pointing to as the cause of the fall. Futures markets attract speculators that use maximum leverage and may have sold rather than put up more margin. Similar steep down moves were seen in the oil market when margin requirements were upped there in recent sessions.

However, the margin changes mainly reflected increased contract size as prices rose. Traders with sufficient conviction could have put up more margin. The fact they chose to sell rather than do that indicated there was plenty of short term money in these markets. Momentum traders that had taken over the tape in some trades cut and ran when the trend changed.

Similar moves have been seen across the commodity space during the past couple of weeks. We want to be clear here. We are not saying that internal market issues like margin requirements are the reason for the price pull backs. They might have hastened the moves in a couple of the most overdone markets, but only because traders had already decided it was time to take profits.

We don't think the US$ bear has left the woods yet, nor do we think the longer term commodity bull cycle has suddenly evaporated. We do think that growth economy central bankers are starting to succeed in slowing their economies. That success, plus ongoing concerns like QEII, European debt squabbles and US debt ceiling smack downs has traders blowing the froth off metal and other commodity markets. It's what they do.

Copper has finally made the move back below the $4 mark we have been expecting for months. Copper's move can be more directly attributed to signs of slowing in China, though it too had a speculative component that needed to be dented. Now that the spell has been broken there may be a bit more downside left before the red metal is again ready to base and provide another sustained up leg in price again.

We are still focused on market warehouse stocks to time the red metal, and so far they are not suggesting its time to go long. The Shanghai total is down some, so we may be approaching the "right" price soon.

Similar moves have been seen across the base metal space. For the most part, the scale of the current pull backs has been in direct relationship to earlier upward price moves. In short, the larger the late 2010-early 2011 price increase in a particular metal the bigger the resulting correction. This is what would be expected in a market where prices were being reset to match lowered expectations or greater concerns.

Gold has been an exception so far. In percentage terms the pullback has been small. This reflects gold's status as a quasi currency and its insurance value. We expect that to continue and gold to be one of the stronger metals as the markets settle.

During silver's 1980 run many wondered where the buying came from and lined up with grandma's silverware to cash in. No such line ups are seen this time even though the recent run up looked pretty bubbly by the time it peaked. Again, this points to the current price moves in commodities being corrective, not a "sky is falling" scenario.

Now that traders are lightening commodity positions and markets are easing, the question is when and where to we find a bottom. At a macro level, the big risks are growth economies slowing too much, QEII ending with a bang not a whimper and politicians in Europe and the US letting gridlock keep them from negotiating debt deals.

China has proven adept at managing growth so far. Likewise, for all the handwringing about QEII the bond markets are acting a lot less worried than people who *talk* about bond markets. Both of these situations may end well, but it will be at least a couple of months before that is known. That points to a bottoming during mid summer and charts that may yet look a lot like last year's. We plan to position accordingly.

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Updates

Heavy selling came a little later than we had expected, but the last week or so has made up for the late start. Unease can be seen particularly in the relative weakness at the speculative end of the market that we focus on. "May" selling this year really started in April and if you're a stickler for going back to the high you could argue it really started in March. That month's high in the Venture index hasn't been exceeded and it doesn't appear that it will be any time soon. As already noted in the editorial its too soon to be picking the bottom.

We've been hesitant about the speculative end of the market for a few months now. That was based on how well it had done for the preceding eight months. There really hasn't been anywhere to hide in the past month with the possible exception of active explorers that were generating very strong news. That won't change right away, but it isn't too soon recognize oversold assets. In a number of cases politics and unrest have added to downshifts and it will be a matter of watching general news flow to find bottoms on particularly beaten up stocks.

That would apply to **Candente Copper** (not updated) and Bear Creek which are looking for metal price bottoms and the outcome of the Peru elections, and to **Riverstone** that got knocked back from its discovery lift by unrest in Burkina Faso. Market related damage to **Cap-Ex** (not updated), **Columbus Gold** and **Ethiopian Potash** should be viewed as buying opportunities ahead of their drill starts. The same holds for the lower priced Yukon explorers **SilverQuest** which is already drilling in BC and **Northern Tiger.**

Producers have been leading indicators of the metal price declines, and can similarly lift ahead of metal prices if the market is sensing improved conditions have gotten underway. That is most likely to start in the gold sector. However, right now we are still seeing capitulation selling and any buying opportunity wont show up till volumes thin on downside.

Argentex (ATX-V, AGXM-Qbb; $1.16 on V) ended the month pretty much where is started but did benefit from the spike in silver prices with heavy share turnover that helped clear out some of the longer standing cheap share holdings. ATX reported two sets of drill results during the month from the Marta Centro, Norte, Este and Sur veins. Results continue to display a pattern of widespread moderate silver grades through the veins, with high grade shoots that contain much higher grade x width numbers. Argentex's task with this program is to complete a very large number of shallow holes and get a handle on just what all these shoots add up to across the project. There were a number of higher grade gold numbers from Marta Centro, something that hasn't been seen a lot at Pinguino but, here too, the higher grades are in shoots. Drilling continues to build resources and ATX is definitely getting more respect from the market. It should continue trading in line with silver prices and could perform better if a particularly large shoot or a vein that has widespread higher grades is discovered during this program. Every set of results has included some very good intersections but we would only accumulate it on silver price weakness unless we see a set of results where most, rather than some, of the intersections have high grade x thickness numbers.
http://www.argentexmining.com/

Cadan Exploration (CDX-V; $0.41) was hit harder than most with the market and metal price pull backs this month. The selling was particularly heavy after the company released its financials for December 31, 2010 including a Management Discussion and Analysis that that contained a number of new and not very exciting drill results from the Batoto gold prospect on the ComVal project. All holes intersected gold but the results were generally either low in grade or narrow in width. We think the selling was not just the result of the less than stellar results but also the fact these results never made it into a formal news release. It's also not helpful that they are described in a manner that makes it all but impossible to judge their overall significance.

Cadan has undergone substantial management changes in the past two months. We think the new management on the ground in the Philippines is taking a more rational approach that we're happy to see. Work this quarter will include things like airborne surveys over all of the T'Boli and ComVal projects. This is a return to first principles that can prioritize targets and work them more effectively. These are quality projects that should benefit from this approach but the lack of useful and timely disclosure is getting more than a little annoying. We're hoping new management gets the reporting situation fixed quickly but would like to see that straightened out. If CXD begins a flow of meaningful updates on plans for future work that will advance the company's projects and some assurance of timely reporting it will be time to accumulate it further as the market would then be ready give its assets better value.
http://www.cadanresources.com/

Candente Gold (CDG-T; $0.67) reported drill results from its EL Oro gold project this month. Two holes drilled to intersect the main San Raphael vein at depth returned **2 metres grading 30.66 g/t gold and 0.4 metres grading 18.14 g/t gold and 137 g/t silver** from two veins (Angelica and Nolan, respectively) that are located 320 and 250 metres above the level of the San Raphael vein. Only one of these two holes reached its intended target depth. The other intersected 14 metres of quartz vein/breccia material. This deep intersection yielded grades of **13.7 g/t gold and 6.5 g/t silver over 3 metres**. Deep drilling conditions have been difficult and a number of holes were abandoned. The company will continue the rehabilitation of the underground access to provide underground drill stations for future drilling efforts in this area. The results above are good ones, given these were secondary targets and the main vein intersection extends the zone to depth. The technically challenging nature of the project will require patience but CDG is well funded and has enough market support that it should hold these levels while more results are awaited.
http://www.candente.com/

Capstone Mining (CS-T; $3.56) which was widely viewed as a takeover candidate, ended up doing some buying of its own instead. CS announced it has entered a friendly, three way deal to acquire Far West Mining (FMW-T) for a marquee $725 million (based on pricing on the day of the announcement), 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 FMW's Santo Domingo copper-iron project 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 also 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 exiting port facilities.

On a copper only basis the acquisition cost is about US 16 cents per pound, which is quite 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 relative to its peers since the announcement even though the project is still a long way from production. We were expecting a different end game but we do like iron, so for the time being we will stay with the story for now.
http://www.capstonemining.com/

Columbus Gold (CGT-V: $0.80) has mailed the information circular for a May 25th meeting for shareholders to approve the Paul Isnard acquisition. We assume the measure will pass easily given the effect adding the project has had on the stock. Rainy season has begun however, so the planned 14,000 metre drill program won't begin until July. Drilling by CGT at its Eastside project and drilling by a JV partner at the Stevens project, both in Nevada, should help fill the gap in news flow until work begins at Paul Isnard. Our accumulate outlook remains while CGT completes approvals for and gets ready to drill Paul Isnard.
http://www.columbusgoldcorp.com/

Donnybrook Energy (DEI-V; $0.56) was able to complete and frac the Resthaven well but road bans were imposed before well clean up and testing could be accomplished. The well flowed at 3.5 mmcfd with approximately 30% of the frac fluids removed. That result is positive enough that DEI and its partner plan to tie in the well as soon as road bans are lifted and then complete the well clean up and re-test the flow rates. The well is widely expected to test well which stabilized the share price while testing is awaited. Donnybrook and partners plan to spud at least two wells in July. The Montney play should continue to attract attention and DEI is worth hanging onto while test results are awaited.
http://donnybrookenergy.ca/

East Asia Minerals (EAS-V; $3.94) did have a surprise in store when it released the initial resource estimate for Miwah but it wasn't the positive variety. EAS was punished for a generally disappointing initial resource number. The initial calculation gave an Inferred Resource of **103.9 million tonnes grading 0.98 g/t gold & 2.68 g/t silver** yielding a **gold equivalent 3.28 million ounces** at a 0.2 g/t cut off and gold and silver prices of $1185 & $20/oz respectively.

This is obviously less than we, and the market had hoped for. The news release did not detail the "top cuts" of 20 g/t on the high grade areas and 1.7 g/t on the low grade areas that came out of the resource estimation algorithm (inverse Kriging). The average gold grade is lower than we would have expected and the data available to Kriging algorithm might account for some of this. That's purely speculation however, that would only be borne out with more in fill drilling. We expect the company will focus on step out rather than infill drilling in order to show Miwah can keep growing.

Management noted that Miwah is still open in most directions and that there are already holes outside the resource block in several of these areas. Two drills are currently working north of the resource area to push the zone closer to Moon River. While it's quite possible infill drilling alone can have a positive impact the market will be in a "show me" mood after this resource estimate.

The current valuation of sub $300 million for a company with 4 million plus ounces (between Miwah and Sangihe) is not high. The negative surprise clearly generated some selling in anger, including a few large market orders. Once the market settles it will take some strong holes outside the current resource block or settlement of the forestry tenure issue to really lift the stock. The timing of the latter in particular is unknowable so we'll have to wait for the dust to settle and volumes to drop off as disappointed traders exit. Work towards the creation of the spin out companies continues and we expect to see further news and some indication on the timing later this month.

We won't pretend we're pleased by the resource number. It was an unpleasant surprise but it doesn't and shouldn't take away from management's achievement in the finding the ounces they have to date on a project that is still likely to grow. The stock will likely settle in at its current range, and can lift with strong extension results or an end to the forestry concerns.
http://www.eastasiaminerals.com/

Ethiopian Potash (FED-V; $0.70) trended down with general commodity weakness which was then exacerbated by traders getting impatient about seeing a drill start in Ethiopia. FED announced in late April that the camp and facilities were close to complete and drills and crews should be moving to the property now. We expect a drill start in a week or two which should generate more speculative interest in company. Our speculative buy outlook on the stock is unchanged.
http://www.ethiopianpotash.com

Evolving Gold (EVG-T; $0.71) announced it has reached a JV agreement with Agnico-Eagle (AEM) on its Rattlesnake Hills project in Wyoming. AEM can earn 70% of Rattlesnake over seven years by making payments totaling $12 million, purchasing $23 million in EVG stock and expending $41 million on the project including completion of a feasibility study. This is a strong sounding agreement though most of the terms are not spelled out, other than this year's minimum exploration expenditure of $3 million. It makes sense at this stage to bring in a company with Agnico's development and mine building experience.

This deal allows EVG to concentrate on its Nevada projects that are clearly management's main focus. It also means Nevada will have to carry the bulk of the company's valuation and provide the upside potential going forward. The Nevada projects can do this if they are successful, but Evolving will have to deliver good results to add to its current market value. The company has made two discoveries there and continues to drill. Given good early results and the high value placed on exploration success in Nevada we think it's worth staying around for the next sets of drill results from Humboldt and Carlin or accumulating below this price for same. More assays are expected during the next 4-6 weeks.
http://www.evolvinggold.com

Everton (EVR-V; $0.33) reported a large set of drill results from the La Lechoza prospect on the Ampliacion Pueblo Viejo project. There were a couple of high grade holes though most of the holes, which were drilled at several different target areas, returned moderate results. Most of EVR's price swings have been market following and the drill results themselves did not have a huge impact. Most traders are waiting for the main event, deeper holes targeting extensions to the adjacent Pueblo Viejo deposit beneath barren lithocap, as are we.

At this stage, we consider Everton a straight

up binary bet on this targeting. Given how close some of Barrick's drill holes are the program 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 for those who can accept the potential for a large percentage move in either direction based on the first few holes.
http://www.evertonresources.com

GoldQuest (GQC-V; $0.225) released 17 holes from Escandalosa, which confirmed the known 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. Earlier work by GQC and former partner Goldfields did return some good grades from this area.

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. The mineralized material at both Escandalosa and Hondo Valle contains several percent sulphides and should respond well to IP. IP should help determine if there are faulted extensions to Escandalosa but also if there appears to be mineralization between the two areas where there is little or no outcrop. The market sold off after the last results and the stock is now priced to existing resource with no discovery premium. GQC is worth accumulating in this range in advance of results from the Hondo Valle holes. http://www.goldquestcorp.com/

Mirasol (MRZ-V; $4.77) 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 of 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 untested Naty vein (parallel and 200 metres west of Julia North). Naty returned wide intervals including a highlight hole VG-41 with **44.6 metres of 142 g/t silver** including **8.1 m of 521 g/t silve**r.

Though there is pinch and swell in the veins there are enough broad intersections to demonstrate Virginia will host a significant 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.

These results were followed up with the release of an initial resource estimate for the Joaquin project where Coeur D'Alene has earned a 51% interest and elected to move to a 61% interest by taking the project to feasibility stage. Coeur estimated silver resources of almost 48 million silver oz in the oxide portion within 6.78 Mt @ 77.7 g/t silver Indicated plus 11.12 Mt @ 88.6 g/t silver Inferred. There is nearly 20 million more oz in the sulphide part of the system at about 200 g/t silver. The estimate banks about 20 million oz to the MRZ account dependant on how the deal moves forward. The calculation was based on the two main veins, La Negra and La Morocha, where Coeur is continuing to test. Coeur is also testing a new target area 3 km away. The market initially reacted positively before pulling back in the face of renewed selling in the silver market.

Traders may have been hoping for more high grade focus at Joaquin but, at this stage, its not going the be the value driver for MRZ. 100% owned Virginia will be the main determinant of Mirasol's value.

We still want to see what happens to grades below the oxide boundary at Virginia, 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. In either case, Mirasol's work indicates enough shallow resource potential to make it a solid holding for silver price gains and as a speculation on expansion of the Virginia project's silver resource potential.
http://www.mirasolresources.com/

Paragon Minerals (PGR-V; $0.12) released a follow up drilling report that did not include any new significant drill intersections. The drilling has paused for spring break up and should restart towards month end when the roads in the area dry out. Roughly two thirds of the drilling remains to be done. Notwithstanding the expansion of the Lemarchant zone in a couple of holes the results have not been consistent enough to hold the market's interest. The airborne survey that was conducted concurrent with the drill program has been received and it indicates a couple of new target areas. PGR will be integrating that data and using it to help direct its targeting in the second half of the drill campaign. We expect at least one or two new areas will be tested.

Lemarchant still has room to grow but the structural complexity has made chasing it difficult. Testing new targets in conjunction with main zone testing is a good idea. Other target areas are higher risk but they could provide a wide open expansion potential if the drilling returns good results. The market is not going to warm to this project again unless exploration generates several good holes in a row. The stock is cheap but at this point we'll would wait for a discovery hole or a series of good step out holes before adding to a position.
http://www.paragonminerals.com/

Riverstone Resources (RVS-V; $0.55) has been a victim of politics and bad timing. Soon after releasing drill results that took the stock to new highs the political situation in Burkina Faso deteriorated. There have been several demonstrations and unruly actions by military personnel and police officers. The military and police personnel are seeking back wages and promised housing allowances or in some cases simply a raise. There have also been student demonstrations but, by and large, these seem to be neither large nor well organized. Some of these actions were accompanied by calls for resignation of the President who was recently re-elected in an election that was widely viewed as fair by outside observers. Most of the political calls emanate from youthful protesters who want a better chance at improving their lives. In no small measure this results from the just ended civil war in Côte d'Ivoire, the major food source for the region, having reduced food supplies on top of inflation boosting prices.

President Blaise Compaore sacked the government, paid the back wages owed to the Guard and replaced the heads of the military and security forces. He has since reconstituted the cabinet, replacing some less popular figures but generally giving ministers that have a reputation for competency their old jobs back. There seems to be little unrest since May 1st when what was supposed to be a major demonstration fizzled and most of the armed forces and security personnel that were agitating have apologised to the populace and offered to pay for damages they caused.

There are no sure things when politics get agitated but most of the issues do appear to be economic ones. The President has a good reputation for running an efficient government on a small budget and does appear to want to leave a legacy of democracy after this, his last term in office. All of this is fine but markets tend to "shoot first and ask questions later" when any sort of unrest erupts and all the companies involved in Burkina have been hit hard. We've talked to several of them and all insist they haven't had problems on the ground and that the Burkinabe are still friendly and appreciative of the money foreign miners provide. However, IAMGOLD, whom we hadn't talked to has just announced a halt at its Essakane mine due to labour unrest, which could hurt all the companies in country if it drags on.

In the meantime, RVS has announced a $15 million prospectus financing which is not priced at the time this is written. We'd rather see this getting done in a better market but it speaks to the intent to accelerate development at Karma. Current pricing for RVS well below what it should be given what is already proved up. It's good value and should be a buy in this range as long as you can accept the higher country risk, though at this point it makes sense to wait for the financing terms and reaction to them. "http://www.riverstoneresources.com/

SilverCrest Mines (SVL-V; $1.48) announced a large bought deal financing that annoyed traders when it was announced but may be looking like a smarter move now. SVL is raising $30 million with a sale of shares priced at $1.60. Production is continuing to increase at Santa Elena and the company should have been cash flow positive for the past couple of months. The real reason for the raise is to provide the company with cash to help fund the addition of a mill to the Santa Elena mine. Prefeasibility on this option is still ongoing but the company is hoping to get a good deal on equipment by purchasing an existing plant and wanted to have the money on hand if a good deal is found.

Work is also ongoing at La Joya. We're expecting to see a large set of new drill holes from that project soon. Management indicates they will proceed with the earn in agreement so they must like what they are seeing so far. SilverCrest is one of a long list of companies that are completing bought deal financings at above market levels. Renewed strength in the stock will probably have to wait for the financing to close and for the silver price to stabilize but Santa Elena has a big gold component which should help. Commercial production should be announced before the end of the quarter which would also add some stability.
http://www.silvercrestmines.com/

Yukon Gold Play Companies:

The busiest field season in the history of the Yukon Territory is about to begin. Early reports indicate this is an above average winter for snowfall, and that the snow won't be off the ground in a number of areas until two or three weeks later than last year. Nonetheless, most companies are still targeting early June starts because of the heavy workloads most crews have in front of them. The bottom line is that we are not expected to see results of even preliminary work until July, with the possible exception of a couple of overachievers like Kaminak. That may be for the best since its looking like the markets will be soggy themselves until then.

Kaminak Gold (KAM-V; $3.40) was good to its word, getting the Coffee project drill program under way in April even though its been a lousy weather year. KAM is likely to be one of the few exceptions to the comments above about no results before July, though Kaminak has the luxury of waiting until it has a good batch of holes together before it would feel the need to release anything. The stock continues to hold up very well. With the uncertainties surrounding the overall market we wouldn't go further than stink bids that might get hit on a very bad market day until actual drill results arrive.
http://www.kaminak.com/

Northern Tiger Exploration (NTR-V; $0.42) outlined its plans for an aggressive 2011 exploration season this month. NTR

plans to drill 10,000 metres at the 3Ace and Sprogge projects and another 2000 metres at the Sonora Gulch project. This work will be accompanied by early stage work on the larger regional claim holdings around 3Ace and Sprogge that may generate more targets. The tentative plans call for drilling of 7-8 target areas, with the bulk planned for the Main and Green zones and for known targets on Sprogge. The drilling at Sonora Gulch will focus on the Gold Vein zone where a single drill hole returned good gold/silver grades last year. Overall, NTR plans to spend $7 million this summer, which is fully financed. The stock has been quiet through the winter months but we would expect to start seeing some anticipatory buying as we move into June and crews get into the field. Those that missed last summer's move now have an opportunity to accumulate at a fair price for a company that has already delivered strong results from two projects.
http://www.northerntigerresources.ca

SilverQuest (SQI-V; $0.77) and **Richfield (RVC-V; $8.31)** are actively drilling at Blackwater, focused on the Davidson claims that SQI retains a 25% interest in. Several holes from the current program have intersected strong grades, notably **82 metres grading 3.29 g/t gold and 163 metres of 1 g/t gold** in separate extension holes. These holes are located 77 and 177 metres west of high grade hole 59 reported last year and indicate the partners should be able to build tonnage in this higher grade section. Most of the current 20,000 metre program is devoted to the Davidson block so there should be many more holes reported over the next few months. SQI has just revised its royalty agreement at the nearby 3T project and indicated it will test there this season. It is also readying for this year's field season in the Yukon but it's central BC area that will be the determining factor its valuation short of a large discovery on its White Gold area projects. SilverQuest remains a speculative buy at these levels for its involvement in two strong areas plays.
http://www.silverquest.ca/

After Profit Taking

Bear Creek Mining (BCM-V; $7.67) has been getting whipsawed by the silver price and by political events in Peru. Both of the leading candidates in the Peruvian election, and particularly Ollanta Humala who is viewed as frontrunner, are espousing higher resource royalties. While this may not be ideal its not a surprise and most of Humala's comments seem reasonable. In addition to the national issues, BCM has been meeting some resistance from locals near its Santa Ana project. This could be a drag on the stock unless and until agreements are reached to allow development to proceed. That said, the Corani project does not seem to have similar issues and it is the much larger resource. The combination of political and silver price volatility could go on for a while longer and there's no point chase it for now.
http://www.bearcreekmining.com

Nevsun Resources (NSU-T, Amex; $5.36 on T) has reported its first financial results since it declared commercial production at the Bisha mine in February. For the period from February 22 to March 31 Bisha produced 40,000 ounces at a cash cost of $299 per ounce, generating cash flow of $29 million and net earnings after tax of $21.9 million. Earnings at this scale imply a P/E in the 12 range which is not high. The main question mark remains the price that the Eritrean government will be paying for its interest in Bisha. This number is scheduled to be released before the end of Q2. We already know it will be paid for out of cash flow so NSU will retain the bulk of the net revenue from Bisha until that amount is paid off. NSU is relatively cheap at the current price but whether its actually cheap won't be known until the government's price tag is announced. We would consider it a hold at least until that number is announced.
http://www.nevsun.com

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